

Edgar Filing: SMI PRODUCTS INC - Form 10QSB

SMI PRODUCTS INC  
Form 10QSB  
November 19, 2004

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-QSB  
QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the Quarter ended September 30, 2004

Commission File Number: 333-55166

SMI PRODUCTS, INC.

-----  
(Exact name of registrant as specified in its charter)

Nevada

88-0363465

-----  
(State of organization)

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

3503 Cedar Locust  
Sugarland, TX 77479

-----  
(Address of principal executive offices)

(713) 265-8660

-----  
Registrants telephone number, including area code

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes [x]

Securities registered under Section 12(g) of the Exchange Act:

There are 7,551,000 shares of common stock outstanding as of September 30, 2004

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ITEM 1 FINANCIAL STATEMENTS

SMI PRODUCTS, INC.  
(A Development Stage Company)  
INTERIM FINANCIAL STATEMENTS  
September 30, 2004  
(Stated in US Dollars)  
(UNAUDITED)

SMI PRODUCTS, INC.  
(A Development Stage Company)  
INTERIM BALANCE SHEETS  
September 30, 2004 and December 31, 2003  
(Stated in US Dollars)  
(UNAUDITED)

	ASSETS	September 30, 2004	
		----	
Current			
Cash		\$	875 \$

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		=====	=====
LIABILITIES			
Current			
Accounts payable		\$ 2,710	\$
Loans payable		47,651	
		-----	-----
		50,361	
		-----	-----
STOCKHOLDERS' DEFICIENCY			
Common stock, \$0.001 par value			
100,000,000 shares authorized			
7,551,000 shares issued (December 31, 2003: 7,551,000)		7,551	
Additional paid-in capital		43,049	
Deficit accumulated during the development stage		(100,086)	
		-----	-----
		(49,486)	
		-----	-----
		\$ 875	\$
		=====	=====

SEE ACCOMPANYING NOTES

SMI PRODUCTS, INC.  
(A Development Stage Company)  
INTERIM STATEMENTS OF OPERATIONS  
for the three and nine month periods ended September 30, 2004 and 2003  
and June 17, 1996 (Date of Inception) to September 30, 2004  
(Stated in US Dollars)  
(UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	----	----	----	----
Revenue	\$ -	\$ 2,184	\$ -	\$ 2,184
	-----	-----	-----	-----
Expenses				
Amortization	-	-	-	-
Audit and accounting fees	1,330	1,115	4,023	4,023
Business plan	-	-	-	-

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Consulting fees	-	-	-	3
Filing and legal fees	379	481	1,512	2
Marketing	-	-	-	
Office and miscellaneous	1,429	21	2,156	
Promotion and entertainment	-	-	-	
Transfer agent fees	380	650	1,109	2
Travel	-	-	-	
Website costs	-	-	-	
	-----	-----	-----	-----
	3,518	2,267	8,800	12
	-----	-----	-----	-----
Loss before the following	(3,518)	(83)	(8,800)	(10)
Write-off of accounts payable	-	-	-	
	-----	-----	-----	-----
Net loss for the period	\$ (3,518)	\$ (83)	\$ (8,800)	\$ (10)
	=====	=====	=====	=====
Net loss per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0
	=====	=====	=====	=====
Weighted average shares outstanding	7,551,000	7,551,000	7,551,000	7,551
	=====	=====	=====	=====

SEE ACCOMPANYING NOTES

SMI PRODUCTS, INC.  
(A Development Stage Company)  
INTERIM STATEMENTS OF CASH FLOWS  
for the nine month periods ended September 30, 2004 and 2003  
and June 17, 1996 (Date of Inception) to September 30, 2004  
(Stated in US Dollars)  
(UNAUDITED)

	Nine months ended September 30,	
	2004	2003
	----	----
Cash flows used in Operating Activities		
Net loss	\$ (8,800)	\$ (10,76
Non-cash item		
Amortization	-	
Changes in non-cash working capital items related to operations		
Accounts payable	(2,092)	(6,64
	-----	-----
Net cash used in operating activities	(10,892)	(17,41

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Cash flow used in investing activity		
Organization costs	-	
Net cash used in investing activity	-	
Cash flows provided by financing activities		
Common stock issued for cash	-	
Due to related party	-	(6,530)
Loan payable	10,688	23,930
Net cash provided by financing activities	10,688	17,400
Net increase (decrease) in cash	(204)	(1,079)
Cash, beginning of period	1,079	2,158
Cash, end of period	\$ 875	\$ 1,079
Supplemental disclosure of cash flow information Cash paid for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -

SEE ACCOMPANYING NOTES

SMI PRODUCTS, INC.  
(A Development Stage Company)  
INTERIM STATEMENT OF STOCKHOLDER'S EQUITY  
from the period June 17, 1996 (Date of Inception) to September 30, 2004  
(Stated in US Dollars)  
(UNAUDITED)

	Number of Shares	Amount	Contributed Surplus	Defi Accumu During Develop Sta
	-----	-----	-----	-----
Issued for services - at \$0.00002	5,000,000	\$ 1	\$ 99	
Net loss for the period	-	-	-	

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Balance, December 31, 1996	5,000,000	1	99
Net loss for the year	-	-	-
Balance, December 31, 1997	5,000,000	1	99
Net loss for the year	-	-	-
Balance, December 31, 1998	5,000,000	1	99
Net loss for the year	-	-	-
Balance, December 31, 1999	5,000,000	1	99
Stock split	-	4,999	(4,999)
Issued for cash - at \$0.01	2,500,000	2,500	22,500
- at \$0.50	51,000	51	25,449
Net loss for the year	-	-	-
Balance, December 31, 2000	7,551,000	7,551	43,049
Net loss for the year	-	-	-
Balance, December 31, 2001	7,551,000	7,551	43,049
Net loss for the year	-	-	-
Balance, December 31, 2002	7,551,000	7,551	43,049
Net loss for the year	-	-	-
Balance, December 31, 2003	7,551,000	7,551	43,049
Net loss for the period	-	-	-
Balance, September 30, 2004	7,551,000	\$ 7,551	\$ 43,049

The number of shares issued and outstanding has been restated to give retroactive effect for a forward stock split on a five thousand for one basis approved by the shareholders on January 15, 2000. The par value and contributed surplus were adjusted during the year ended December 31, 2000 to adjust the par value amount in conformity with the number of shares then issued.

SEE ACCOMPANYING NOTES

SMI PRODUCTS, INC.  
(A Development Stage Company)  
NOTES TO THE INTERIM FINANCIAL STATEMENTS  
September 30, 2004  
(Stated in US Dollars)  
(UNAUDITED)

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### Note 1 NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated in the State of Nevada on June 17, 1996.

The Company is in the development stage and is in the business of internet real estate mortgage services. The Company has developed a website and is in the pre-operating stage. The Company has earned revenue from website advertising and is continuing to develop its revenue model.

These financial statements have been prepared on a going concern basis. The Company has accumulated losses of \$100,086 since inception, has yet to achieve profitable operations and has a working capital deficiency of \$49,486 at September 30, 2004. Its ability to continue as a going concern is dependent upon the ability of the Company to generate profitable operations in the future and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. The outcome of these matters cannot be predicted, with any certainty, at this time. Management plans to continue to provide for its capital needs during the year ended December 31, 2004 by the continued development of its internet real estate mortgage services. In addition, the Company's capital requirements during the year ended December 31, 2004 will be supplemented by issuing equity securities. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to continue as a going concern.

### Note 2 BASIS OF PRESENTATION

The accompanying unaudited interim financial statements have been prepared by the SMI Products, Inc. (the "Company") pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these financial statements have been included. Such adjustments consist of normal recurring adjustments. These interim financial statements should be read in conjunction with the annual audited financial statements for the Company for the fiscal year ended December 31, 2003, as filed with the United States Securities and Exchange Commission.

The results of operations for the period ended September 30, 2004 are not indicative of the results that may be expected for the full year.

SMI PRODUCTS, INC.  
(A Development Stage Company)  
NOTES TO THE INTERIM FINANCIAL STATEMENTS  
September 30, 2004  
(Stated in US Dollars)  
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### Note 3 REVENUE RECOGNITION

Revenue from advertising is recognized upon receipt of a non-cancellable contract, once the advertising is completed and collection is reasonably assured.

### Note 4 COMMON STOCK

On April 21, 2004, the Company increased its authorized share capital from 25,000,000 common shares to 100,000,000 common shares.

## ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS

### DESCRIPTION OF BUSINESS

SMI Products Inc., the "Company" has commenced mortgage information service operations on the Internet. The Company filed and registered a domain name and has developed a website with information services related to the mortgage industry. There can be no assurance that the Company will be successful in developing its operations in this area to the point of generating revenues or profits.

The discussion of our future business is management's best estimate and analysis of the potential market, opportunities and difficulties that we face. There can be no assurances that our estimated and analysis accurately reflect our opportunities and potential for success. Competitive and economic forces make forecasting of revenue and costs difficult and unpredictable.

### BUSINESS DEVELOPMENT

The Company was incorporated in the state of Nevada on June 17, 1996, for the purpose of providing consulting services to businesses, and engaging in any other lawful activity. We were inactive from inception until January 2000, when we commenced our current operations.

### PRINCIPAL PRODUCTS AND SERVICES

The Company's website is currently under review and reconstruction. To date, the company has been unsuccessful in its business operation.

Our web site provides information to visitors about different mortgages. The site offers both free information services, as well as "subscribed for" member services. The free information services include: a daily mortgage commentary; a listing of the top online mortgage companies; and the daily top news headlines and stories for the mortgage and real estate industry.

The subscribed for services include: a glossary of terms and frequently asked questions for the mortgage and real estate industry; mortgage calculators; an interest rate survey empowering individuals to make a more informed mortgage decision; and rate alert, a feature which allows the subscriber to set the rate and points they want, then be notified when the rate and points reach the level desired.

Visitors who wish to subscribe for the member services will pay an annual



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subscription fee of \$49.95 per year, which allows them to use the member services on our site for one year from the subscription date. Each subscriber will be granted a password for entry into the member services section of our website. The Company plans to charge this fee to the subscriber's credit or debit card.

The Company plans to process all orders by on line credit card or cyber cash systems. The Company currently has developed a relationship to process online orders. In addition, The Company researched the needs of our planned website functions and the fees associated with the services needed to fulfill those needs.

Our site content will consist of information relating to the mortgage industry. In the future, the Company may plan to provide interest rate information by geographic area. A portion of the information available on our website may be available free of charge at other locations; however, The Company intends to develop more expansive information than that available free of charge.

Applying for a mortgage can be a confusing, tedious and intrusive experience for homebuyers, especially first-time homebuyers. The Company plans to demystify the mortgage loan process by providing more expansive information to familiarize persons interested in mortgages.

The Company plans to establish our market through e-mail advertising. The Company has not conducted any market testing to determine prospective advertisers on our website. Visitors will be able to obtain information twenty-four hours per day, seven days per week through the website. The Company also plans to sell advertising on our website to banks, mortgage brokers, builders, land appraisers, surveyors, inspectors, title companies and real estate brokers. The Company has not developed criteria for pricing of the advertising space; however, The Company anticipates pricing will be based upon advertisement size, web page placement, content requirements, contract duration and other factors. The Company currently has no advertisers.

The Company plans to classify lenders' advertisements by loan products they each offer.

The Company plans to seek lender advertisers that have a variety of products including full disclosure loans that require verification of income, assets, credit, source of funds, employment and residence history, based solely on the borrower's credit history and the loan to value ratios without any further documentation. The Company also plans to attract advertisers who offer programs for borrowers with previous credit blemishes and those offering sub-prime loans.

The process of applying for a mortgage may be an invasive and foreign process. The Company believes it can take the mystique out of the process by familiarizing the borrower with required steps to obtain a mortgage.

### DISTRIBUTION

The Company plans to deliver services through our website. As of this date, the Company has an Internet service provider, web site developer and a basic web site, all of which will be necessary to execute our plan of business.

### NEW PRODUCTS OR SERVICES

The Company currently has no new products or services announced or planned to be announced to the public.

### COMPETITIVE BUSINESS CONDITIONS

The conventional method of obtaining mortgage information, for at least the past

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fifty years, has been through personal contact with mortgage brokers or lenders, commercial banks, savings and loan associations, credit unions and insurance companies. The public has been reticent to try new vehicles or formats through which they would receive mortgage information. Despite the convenience of information offered over the Internet, including at our website, many consumers will view conventional methods of obtaining this information more convenient and offering better customer service. The Company believes that conventional methods will continue to be a prime source of competition, along with the many other Internet based mortgage information and service sites.

### COMPETITORS

Our main, existing and potential competitors for real estate professionals and service providers, homebuyers, homeowners, sellers and renters and related content include:

- WEB SITES offering real estate listings together with other related services, such as Apartments.com, Microsoft's HomeAdvisor, NewHomeNetwork.com, Move.com and RentNet; CyberHomes, HomeSeekers, Homes.com, Homestore.com.

- WEB SITES offering real estate and mortgage related content and services such as mortgage calculators and information on the home buying, selling and renting processes, such as IndyMac, Bank Home Lending, LoansDirect, Mortgagebot.com, PHH Mortgage Services, Countrywide Home Loans, InfoLoan.com, Quicken Loans, East West Mortgage, E-Loan, Alliance Mortgage, FiNet.com, MortgageIT.com, First Union, GMAC Mortgage, ditech.com, SFNB, Nexstar, Regions Mortgage, LoanSurfer.com

- General-purpose consumer WEB SITES, such as AltaVista and Yahoo! that also offer real estate-related content; and o Traditional print media such as newspapers and magazines.

### OUR COMPETITIVE POSITION

We believe competition takes place on many levels, including pricing, convenience in obtaining mortgage information and loans, specialization, breadth of product offerings and lending sources. Our intent is to brand ourselves as one of the leading online interactive mortgage/financing magazine offering an all in one "ONE STOP MORTGAGE SHOP" for consumers interested in information on financing or refinancing their home regionally and nationally. We intend to serve as a content aggregator for related information on the Internet, an unbiased comprehensive information source, as well as marketplace and facilitator for mortgage financings, loans and other services related to the home real estate industry. Our objective is to provide a service that helps the consumer cut through the often perceived clutter, confusion and noise of the marketplace and help them confidently and quickly find a loan or information that meets their goals and fits their lifestyle. We will attempt to brand mortgagecommunicator.com as the consumer's partner in his or her search for mortgages and related information. We will attempt to provide consumers with a one stop shopping destination where they can access information and decision support tools, such as mortgage calculators and finance worksheets, information concerning the home buying and selling process and features that aid users in evaluating the home mortgage decision to assist them in deciding to buy or finance a home. By attempting to provide specialized information services and tools for consumers, we will seek to differentiate ourselves from other competing service offerings. However, we have no assurance we will be successful in differentiating ourselves from our competitors, or that we will be successful in competing in the marketplace for our services. By offering a specialized mortgage information service we will be targeting those consumers that are looking for such. We believe that consumers will pay for a service that is specialized, unbiased, and comprehensive and a service that helps them cut through the perceived clutter, confusion and noise of the marketplace and help them confidently and quickly find a loan or information that meets their goals and fits their lifestyle.

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### SOURCES AND AVAILABILITY OF RAW MATERIALS

As of this date, the Company no need for raw materials or suppliers.

### CUSTOMER BASE

As of this date, the Company has no customers. It is not clear whether the Company will be able to establish a customer base in the future

### INTELLECTUAL PROPERTY

The Company does not have any trademarks, patents, licenses, royalty agreements, or other proprietary interest, except for the web domain name mortgagecommunicator.com

### GOVERNMENTAL REGULATION ISSUES

The Company is not now affected by direct government regulation. However, the Company is affected by laws, rules and regulations directly applicable to access to or commerce on the Internet generally. However, due to increasing usage of the Internet, a number of laws and regulations may be adopted relating to the Internet, covering user privacy, pricing, and characteristics and quality of products and services. Furthermore, the growth and development for Internet commerce may prompt more stringent consumer protection laws imposing additional burdens on those companies conducting business over the Internet. The adoption of any additional laws or regulations may decrease the growth of the Internet, which, in turn, could decrease the demand for Internet services and increase the cost of doing business on the Internet. These factors may have an adverse effect on our business, results of operations and financial condition.

Moreover, the interpretation of sales tax, libel and personal privacy laws applied to Internet commerce is uncertain and unresolved. The Company may be required to qualify to do business as a foreign corporation in each such state or foreign country. Our failure to qualify as a foreign corporation in a jurisdiction where The Company is required to do so could subject us to taxes and penalties. Any such existing or new legislation or regulation, including state sales tax, or the application of laws or regulations from jurisdictions whose laws do not currently apply to our business, could have a material adverse effect on our business, results of operations and financial condition.

### RESEARCH AND DEVELOPMENT

To date, the Company has not undergone any research and development, except that required to put up our website.

### ENVIRONMENTAL LAW COMPLIANCE

To the extent which environmental compliance may be necessary, the Company does not anticipate any significant compliance expense.

### EMPLOYEES

The Company currently has one employee, James Charuk, our president and a director, who works for our corporation part-time. The Company has no employment contracts and our employee is not a union member or affected by labor contracts.

### RISK FACTORS

The Company's business and any investment in its securities is subject to a number of risks which, in addition to ordinary business risks include the following:

### MARKET INFORMATION

In June 2002 our common stock commenced trading on the OTC Bulletin Board, N.A.S.D., under the symbol SMIP. On April 21, 2004 the Company has increased authorized stock capital to 100,000,000 with \$0.001 par value. As of September

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30, 2004, there are 7,551,000 common shares of stock outstanding.

### REPORTS TO SECURITY HOLDERS.

We are a reporting company under the requirements of the Exchange Act and file quarterly, annual and other reports with the Securities and Exchange Commission. Our annual report contains the required audited financial statements. We are not required to deliver an annual report to security holders and will not voluntarily deliver a copy of the annual report to the security holders. The reports and other information filed by us will be available for inspection and copying at the public reference facilities of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549.

Copies of the material may be obtained by mail from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the Commission maintains a World Wide Website on the Internet at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission.

### PLAN OF OPERATIONS

The discussion contained in this prospectus contains "FORWARD-LOOKING STATEMENTS" that involve risk and uncertainties. These statements may be identified by the use of terminology such as "BELIEVES," "EXPECTS," "MAY," "WILL," "SHOULD" or "ANTICIPATES" or expressing this terminology negatively or similar expressions or by discussions of strategy. The cautionary statements made in this prospectus are applicable to all related forward-looking statements wherever they appear in this prospectus. Our actual results could differ materially from those discussed in this prospectus. Important factors that could cause or contribute to these differences include those discussed under the caption entitled "RISK FACTORS," as well as those discussed elsewhere in this registration statement.

We are a development stage company. We are unable to satisfy cash requirements without management's financial support or other funding.

We generated no revenue for the nine months period ended September 30, 2004, as compared to \$2,184 for the nine months period ended September 30, 2003. We anticipate, but have no assurance, that we will meet our cash requirements for the foreseeable future through the financial support of our management. Management's capital contributions will be accomplished through interest bearing promissory notes between our company and management. No promissory notes are currently in effect. We have not determined the amount of funds that will be necessary for management to contribute at this time. Nor is there any assurance our management will have funds available to make a loan to the Company when we require funds. In this event, we will be required to seek loans and/or equity funding from third parties, and there is no assurance we will be able to do so.

Total operating expenses for the nine months ended September 30, 2004 were \$8,800. This represents a decrease of \$4,152 in total operating expenses from the comparable nine months period ended September 30, 2003, when we recorded total operating expenses of \$12,952. The principal operating expenses for the period ended September 30, 2004 were related to audit and accounting fees (\$4,023), filing fees (\$1,512) and office and miscellaneous fees (\$2,156).

Over the next twelve months, we plan to further develop our web site to provide mortgage related information. Specifically, during the next 12 months, we anticipate focusing our efforts on the following specific areas of operations:

1. Internet marketing

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2. Maintaining and enhancing content of website
3. Subscriber payment credit card processing

We will require additional funds to further develop our website. Although we plan to raise additional funds, we have not yet determined how, where or when we will obtain these funds. There is no assurance that we will be able to obtain financing for our business development. If adequate funds are not available to us, we believe that our business development will be adversely affected.

Our future capital requirements will also depend on one or more of the following factors:

- market acceptance of our services;
- the extent and progress of our research and development programs;
- competing technological and market developments; and
- the costs of commercializing our services.

There can be no assurance that funding will be available on favorable terms to permit successful commercialization of our website or be successful in our business operations.

In addition, we have no credit facility or other committed sources of capital. We may be unable to establish credit arrangements on satisfactory terms, if at all. If capital resources are insufficient to meet our future capital requirements, we may have to raise additional funds to continue development of our website. There can be no assurance that the funds will be available on favorable terms, if at all. To the extent that additional capital is raised through the sale of equity and/or convertible debt securities, the issuance of the securities will likely result in dilution to our shareholders.

Until such time as our website is fully developed, we do not expect to have any significant revenues from our operations. We anticipate that if our website becomes fully operational, we will generate revenues from the sale of subscriptions to the website and through the sale of advertisements. There is no assurance that we will be successful in selling subscriptions or advertising for our website. We have no other sources of revenue. Therefore,, if we are not successful in this regard, we will be unable to achieve revenues under our current business plan.

### PART II OTHER INFORMATION

#### ITEM 7. SIGNATURES

#### 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.

SMI PRODUCTS, INC.

Date: November 18, 2004

By:/s/ JAMES CHARUK

-----  
James Charuk,  
President, Chairman and Director