

Edgar Filing: CITY NETWORK INC - Form 10QSB

CITY NETWORK INC
Form 10QSB
January 20, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended: November 30, 2003

or

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

For the transition period from _____ to _____

Commission File Number: 333-61286

CITY NETWORK, INC.

(Exact name of small business issuer as specified in its charter)

NEVADA

88-0467944

(State or other jurisdiction of incorporation
or organization)

(I.R.S. Employer
Identification No)

#13F., NO. 77, HSIN TAI WU ROAD
SEC. HIS-CHIH, TAIPEI COUNTY
TAIWAN, REPUBLIC OF CHINA

(Address of principal executive offices) (Zip Code)

011-886-2-2698-8588

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since
last report)

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

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 issuer's
classes of common equity, as of the latest practicable date: 25,000,000

Edgar Filing: CITY NETWORK INC - Form 10QSB

Transitional Small Business Disclosure Format (check one):

Yes [] No [X]

2

TABLE OF CONTENTS

	PAGE

PART I. FINANCIAL INFORMATION.....	1
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED).....	1
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)...	1
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED).....	2
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED).....	3
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED).....	4
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED).....	5
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS.....	15
ITEM 3. CONTROLS AND PROCEDURES.....	17
PART II. OTHER INFORMATION.....	18
ITEM 1. LEGAL PROCEEDINGS.....	18
ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.....	18
ITEM 3. DEFAULTS UPON SENIOR SECURITIES.....	18
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....	18
ITEM 5. OTHER INFORMATION.....	18
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.....	18

i

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

Edgar Filing: CITY NETWORK INC - Form 10QSB

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	November 30, 2003 (Unaudited) -----
Current Assets	
Cash and cash equivalents	\$ 579,153
Accounts receivable, net	6,405,491
Inventory	129,219
Investments	710,917
Other receivables	411,889
Prepaid expenses	840,357
Total Current Assets	9,077,026 -----
Fixed Assets, net	2,442,528 -----
Total Fixed Assets	2,442,528 -----
Other Assets	
Deposits	19,495
Trademarks	1,957
Deferred charges	30,201
Equity in net assets of affiliated company	322,324
Intangible assets	1,000,000
Other current assets	0
Total Other Assets	1,373,977 -----
Total Assets	\$12,893,531 =====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities	
Accounts payable and accrued expenses	\$ 3,947,307
Due to related party	2,808,952
Payable to investee	127,898
Current portion, debt	1,258,741
Total Current Liabilities	8,142,898 -----
Long-term debt, net of current portion	264,421 -----
Total Liabilities	8,407,319 -----
Stockholders' Equity	
Common stock, \$.001 par value, 100,000,000 and 25,000,000 shares authorized, 25,000,000 and 24,500,000 issued and outstanding, respectively	25,000
Additional paid in capital	4,260,117
Cumulative foreign-exchange translation adjustment	95,545
Retained earnings	105,550 -----

Edgar Filing: CITY NETWORK INC - Form 10QSB

Total Stockholders' Equity	4,486,212

Total Liabilities and Stockholders' Equity	\$12,893,531
	=====

See accompanying notes.

-1-

CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Nine Mon
	November 30, 2003	November 30, 2002	November 30, 2003
	-----	-----	-----
Sales, net	\$ 4,914,720	\$ 0	\$ 14,581,408
Cost of sales	4,324,280	225	13,289,646
	-----	-----	-----
Gross profit	590,440	(225)	1,291,762
General and administrative expenses	395,968	2,034	859,502
	-----	-----	-----
Income (loss) from operations	194,472	(2,259)	432,260
	-----	-----	-----
Other (Income) Expense			
Interest income	(4,907)	0	(19,451)
Other income	(4,835)	0	(22,193)
(Gain) loss on currency exchange	(7,085)	0	(6,387)
Equity in earnings of investee	(7,312)	0	2,676
Bad debt expense	305,491	0	362,075
Interest expense	16,991	0	42,393
	-----	-----	-----
Total Other (Income) Expense	298,343	0	359,113
	-----	-----	-----
Income (loss) before income taxes	(103,871)	(2,259)	73,147
Provision for income taxes	24,930	0	43,679
	-----	-----	-----
Income (loss)	(\$ 128,801)	(\$ 2,259)	\$ 29,468
	=====	=====	=====

Net income (loss) per share (basic and diluted)

Edgar Filing: CITY NETWORK INC - Form 10QSB

Basic	(\$ 0.005)	(\$ 0.001)	\$ 0.001
Diluted	(\$ 0.005)	(\$ 0.001)	\$ 0.001
Weighted average number of shares			
Basic	24,944,444	1,970,000	24,777,778
Diluted	24,944,444	1,970,000	24,777,778

See accompanying notes.

-2-

CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months E November 30, 2003	No
	-----	---
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (loss)	\$ 29,468	(\$
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	29,326	
Bad debt	362,075	
Equity in earning of investee	2,676	
Decrease (Increase) in receivables	(4,885,150)	
Decrease (Increase) in inventory	237,787	
Decrease (Increase) in other receivables	(400,429)	
Decrease (Increase) in prepaid expenses	(630,400)	
Decrease (Increase) in deferred charges	6,635	
Decrease (Increase) in deposit	(18,526)	
Decrease (Increase) in other current assets	72,758	
(Decrease) Increase in accounts payable and accrued expenses	3,406,381	
(Decrease) Increase in payables to investee	127,898	
Total Adjustments	(1,688,969)	
Net cash used in operations	(1,659,501)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investment	108,594	
Purchase of investments	(710,917)	
Purchase of trademarks	(817)	
Purchase of net assets of affiliated company	(325,000)	
Purchase of furniture and equipment	(126,238)	
Net cash provided by investing activities	(1,054,378)	

Edgar Filing: CITY NETWORK INC - Form 10QSB

CASH FLOWS FROM FINANCING ACTIVITIES

Payment on current portion debt	(1,612,860)
Loans from related party	1,537,197
Issuance of short-term debt	2,123,976
Issuance of common stock	720,000

Net cash provided by financing activities 2,768,313

Effect of exchange rate change on cash (95,545)
 Net change in cash and cash equivalents (41,111)

Cash and cash equivalents at beginning of year 620,264

Cash and cash equivalents at end of period \$ 579,153

Supplemental cash flows disclosures:

Income tax payments \$ 0

Interest payments \$ 42,393

See accompanying notes.

-3-

CITY NETWORK, INC. AND SUBSIDIARIES
 (FORMERLY INVESTMENT AGENTS, INC.)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	November 30, (Unaudited)	February 28, 2003
Retained Earnings (Deficits)		
Balance at beginning of year	\$ 76,082	(\$ 33,085)
Issuance of stock dividend	0	(11,910)
Net income (loss)	29,468	121,077
	-----	-----
Balance at end of period	105,550	76,082
	-----	-----
Common stock, par value \$.001 (thousands of shares)		
Balance at beginning of year	24,500	1,970
Stock cancellation	0	(1,380)
Stock split	0	(11,910)
Common stock issued	500	12,000
	-----	-----

Edgar Filing: CITY NETWORK INC - Form 10QSB

Balance at end of period	25,000	24,500
	-----	-----
Additional paid in capital		
Balance at beginning of year	3,540,617	13,500
Issuance of stock	719,500	3,527,117
	-----	-----
Balance at end of period	4,260,117	3,540,617
	-----	-----
Cumulative foreign-exchange translation adjustment		
Balance at beginning of year	0	0
Foreign currency translation	95,545	0
	-----	-----
Balance at end of period	95,545	0
	-----	-----
Total stockholders' equity at end of period	\$ 4,486,212	\$ 3,641,199
	=====	=====

See accompanying notes.

-4-

CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2003

NOTE 1 - NATURE OF OPERATIONS

City Network, Inc., formerly Investment Agents, Inc., was incorporated on August 8, 1996 under the laws of the State of Nevada. City Network Technology, Inc., formerly Gelcrest Investments Limited, was incorporated under the laws of the British Virgin Islands on March 1, 2002. City Network, Inc - Taiwan, formerly City Engineering, Inc., was incorporated under the laws of the People's Republic of China on September 6, 1994. City Network, Inc. owns 100% of the capital stock of City Network Technology, Inc., and City Network Technology, Inc. owns 100% of the capital stock of City Network, Inc. - Taiwan. Collectively the three corporations are referred to herein as the "Company". When used in these notes, the terms "Company," "we," "our," or "us" mean City Network, Inc. and its subsidiaries.

On November 14, 2002, City Network Technology, Inc. became a wholly owned subsidiary of City Network, Inc. through an Exchange Agreement, which was amended on December 4, 2002 whereby City Network, Inc. acquired all of the issued and outstanding capital stock of City Network Technology, Inc. in exchange for 12,000,000 shares of City Network, Inc.

Our Company is a provider of Internet broadband and wireless infrastructure equipment and service for the rapidly expanding broadband marketplace. We intend to be an important provider of these services predicated upon our dedication to delivering user friendly, cost effective, and customer tailored, high speed internet access equipment to meet the business needs of the hospitality, residential property and telecommunication industry worldwide.

Edgar Filing: CITY NETWORK INC - Form 10QSB

Our Company operates in an industry characterized by significant competition and rapid technological changes. We will need additional investments and funding in order to complete the development and improvements necessary for our products and our planned operations.

The Company, through its acquisition of City Network Technology, Inc. and City Network, Inc. - Taiwan is no longer considered a development stage company, as it was during the fiscal year ended February 28, 2002.

-5-

CITY NETWORK, INC. AND SUBSIDIARIES (FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS NOVEMBER 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Information - The accompanying financial statements have been prepared by City Network, Inc., pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") Form 10-QSB and Item 310 of Regulation S-B, and generally accepted accounting principles for interim financial reporting. These financial statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary for a fair presentation of the statement of financial position, operations, and cash flows for the periods presented. Operating results for the nine months ended November 30, 2003 and 2002 are not necessarily indicative of the results that may be expected for the year ending February 28, 2004, or any future period, due to seasonal and other factors. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting policies have been omitted in accordance with the rules and regulations of the SEC. These financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes, included in the Company's Annual Report for the year ended February 28, 2003.

Basis of Consolidation - The consolidated financial statements for 2003 include the accounts of City Network, Inc. and its wholly owned subsidiaries, City Network Technology, Inc. - BVI, City Network, Inc. - Taiwan, and City Network Construction. All references herein to the Company are included in the consolidated results. All significant intercompany accounts and transactions have been eliminated upon consolidation.

Revenue Recognition - Revenue from sales of products to customers is recognized upon shipment or when title passes to customers based on the terms of the sales, and is recorded net of returns, discounts and allowances.

Cash and Cash Equivalents - Cash equivalents are stated at cost. Cash equivalents are highly liquid investments readily convertible into cash with an original maturity of three months or less and consist of time deposits with commercial banks.

Allowance for Doubtful Accounts - The Company establishes an allowance for doubtful accounts on a case-by-case basis when it believes the required payment of specific amounts owed is unlikely to occur after a review of historical collection experience, subsequent collections and management's evaluation of existing economic conditions.

-6-

Edgar Filing: CITY NETWORK INC - Form 10QSB

CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets - Property and equipment are stated at cost less accumulated depreciation. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. Whenever an asset is retired or disposed of, its cost and accumulated depreciation or amortization is removed from the respective accounts and the resulting gain or loss is credited or charged to income.

Depreciation is computed using the straight-line and declining-balance methods over the following estimated useful lives:

Furniture and Fixtures	5 years
Equipment	5 years
Computer Hardware and Software	3 years
Building and Improvements	50 years

Inventory - Inventory is valued at the lower of cost or market; cost is determined on the weighted average method. As of November 30, 2003, inventory consisted only of finished goods.

Contingencies - Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material would be disclosed.

Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed. As of November 30, 2003 and the date of our report, management has informed us that there are no matters that warrant disclosure in the financial statements.

-7-

CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

Edgar Filing: CITY NETWORK INC - Form 10QSB

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS NOVEMBER 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising - Advertising costs are expensed in the year incurred.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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. Significant estimates include collectibility of accounts receivable, accounts payable, sales returns and recoverability of long-term assets.

Concentration of Credit Risk - Financial instruments, which subject the Company to credit risk, consist primarily of cash equivalents and trade accounts receivable arising from its normal business activities. The Company places its cash in what it believes to be credit-worthy financial institutions, however, cash balances have exceeded the FDIC insured levels at various times during the year. Concentration of credit risk with respect to trade accounts receivable is primarily from related parties located in Asia. The Company actively evaluates the creditworthiness of the customers with which it conducts business through credit approvals, credit limits and monitoring procedures.

Stock Based Compensation - The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") 123, "Accounting for Stock-Based Compensation." Under APB 25, compensation cost is recognized over the vesting period based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock.

Impairment of Long-Lived Assets - On January 1, 2002 the Company adopted SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. There have been no such impairments to date.

Earnings Per Share - Earnings per share are based on the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Earnings per share are computed using the treasury stock method. The options to purchase common shares are considered to be outstanding for all periods presented but are not calculated as part of the earnings per share.

-8-

CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Edgar Filing: CITY NETWORK INC - Form 10QSB

Income Taxes - Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. The income tax rates imposed by the taxing authorities vary. Taxable income may vary from pre-tax income for financial accounting purposes. There is no expected relationship between the provision for income taxes and income before income taxes because the countries have different taxation rules, which vary not only to nominal rates but also in terms of available deductions, credits and other benefits. Deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company's assets and liabilities using the applicable tax rates in effect at year end as prescribed by SFAS 109 "Accounting for Income Taxes".

Exchange Gain (Loss) - As of November 30, 2003, the transactions of City Network, Inc. - Taiwan denominated in foreign currency is recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains and losses are recognized for the different foreign exchange rates applied when the foreign currency assets and liabilities are settled.

Translation Adjustments - As of November 30, 2003, the accounts of City Network, Inc. - Taiwan and City Network Construction were maintained, and its financial statements were expressed, in New Taiwan Dollars (NTD). Such financial statements were translated into U.S. Dollars (USD) in accordance with Statement of Financial Accounts Standards ("SFAS") No. 52, "Foreign Currency Translation", with the NTD as the functional currency. According to the Statement, all assets and liabilities were translated at the current exchange rate, stockholder's equity are translated at the historical rates and income statement items are translated at the average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income".

As of November 30, 2003 the exchange rates between NTD and the USD was NTD\$1=USD\$0.0292. The weight-average rate of exchange between NTD and USD was NTD\$1 = USD\$0.02905.

New Accounting Pronouncements - In July 2001, the FASB issued SFAS 141 "Business Combinations". SFAS 141 requires that all business combinations initiated or completed after June 30, 2001 be accounted for using the purchase method of accounting. The statement provides for recognition and measurement of intangible assets separate from goodwill. The Company adopted SFAS 141 as of July 1, 2001. The adoption of the new statement had no effect on the consolidated results of operations or financial position of the Company.

-9-

CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In July 2001, the FASB issued SFAS 142, "Goodwill and Other Intangible Assets". Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to Goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to and has adopted SFAS 142 effective January 1, 2002. The adoption of this pronouncement did not have a

Edgar Filing: CITY NETWORK INC - Form 10QSB

material effect to the Company's consolidated financial position or results of operations.

In August 2001, the FASB issued SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 144 supersedes SFAS 121 and the accounting and reporting provisions of APB 30. SFAS 144 provides guidance for determining whether long-lived assets should be tested for impairment and specific criteria for classifying assets to be disposed of as held for sale. The statement is effective for fiscal years beginning after December 15, 2001, and the Company has adopted the statement as of January 1, 2002. Management does not expect the adoption of this statement to have a material effect on the Company's consolidated financial position or results of operations.

NOTE 3 - CONCENTRATION

The Company had twelve major customers during the nine months ended November 30, 2003. Of the twelve customers referred to herein, seven customers comprise 25% of the total sales during the third quarter ended November 30, 2003. Sales to these customers were approximately \$3,710,234. Included in accounts receivable is \$2,191,701 from these customers as of November 30, 2003.

Note 4 - CASH

The Company maintains its cash balances at various banks in Taiwan and Hong Kong. All balances are insured by the Central Deposit Insurance Corporation (CDIC). As of November 30, 2003, there were no uninsured portions of the balances held at the bank.

-10-

CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2003

Note 5 - FIXED ASSETS

Fixed assets consist of the following:

	November 30, 2003	February 28, 2003
	-----	-----
Land	\$ 1,966,694	\$ 1,966,694
Building	305,429	305,429
Furniture and fixtures	246,247	118,750
	-----	-----
	\$ 2,518,370	\$ 2,390,873
Accumulated depreciation	(75,842)	(51,930)
	-----	-----
	\$ 2,442,528	\$ 2,338,943
	=====	=====

Note 6 - COMPENSATED ABSENCES

Edgar Filing: CITY NETWORK INC - Form 10QSB

Employees can earn annual vacation leave at the rate of seven (7) days per year for the first three years. Upon completion of the third year of employment, employees earn annual vacation leave at the rate of ten (10) days per year for years four through five. Upon completion of the fifth year of employment, employees earn annual vacation leave at the rate of fourteen (14) days per year for years six through ten. Upon completion of the tenth year of employment, one (1) additional day for each additional year, until it reaches thirty (30) days per year. At termination, employees are paid for any accumulated annual vacation leave. As of November 30, 2003 no accumulated vacation liability exists.

Note 7 - COMMITMENTS

A Best Information - City Network, Inc. - Taiwan, signed an agreement with A Best Information in 2002 for the exclusive right to sell A Best Information's products. There is no expiration date in the agreement, and the Company has the right to transfer the agreement to any third party with a negotiable price. The Company paid \$1,000,000 for these rights.

Reseller Agreements - City Network, Inc. - Taiwan has several signed reseller agreements with various customers. These resellers are given special sales prices and are paid commissions for their sales orders.

-11-

CITY NETWORK, INC. AND SUBSIDIARIES (FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS NOVEMBER 30, 2003

Note 8 - DEBT

At November 30, 2003, the Company had notes payable outstanding in the aggregate amount of \$1,523,162. Payable as follows:

Note payable to individuals, no interest, due on demand	\$ 144,433
Note payable to a bank in Taiwan, interest at 7.5% per annum, due on June 16, 2004	175,200
Note payable to a bank in Taiwan, interest at 4.024% per annum, due on March 5, 2004	76,692
Notes payable to a bank in Taiwan, interest at 5.9% per annum, due on January 5, 2004	770,642
Note payable to a bank in Taiwan, interest at 3.175% per annum, due on May 29, 2016	279,225
Secured note payable to a bank in Taiwan, interest at 7.425% per annum, due on May 9, 2004	60,414

Edgar Filing: CITY NETWORK INC - Form 10QSB

Secured note payable to a bank in Taiwan, interest at 4.25% per annum, due on June 12, 2005	15,534
Note payable to a bank in Taiwan, interest at 4.25% per annum, due on June 12, 2005	1,022

	1,523,162
Current portion	1,258,741

Long-term portion	\$ 264,421
	=====

-12-

CITY NETWORK, INC. AND SUBSIDIARIES (FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS NOVEMBER 30, 2003

Note 9 - EXCHANGE AGREEMENT

On November 14, 2002, City Network Technology, Inc. became a wholly owned subsidiary of City Network, Inc. through an Exchange Agreement, which was amended on December 4, 2002. City Network, Inc. acquired all of the issued and outstanding capital stock of City Network Technology, Inc. pursuant to the Exchange Agreement, by issuing 12,000,000 shares of City Network, Inc. stock.

In connection with the exchange and change in control the name of the Company was changed from Investment Agents, Inc. to City Network, Inc. and the officers and directors of City Network, Inc. resigned and new officers and directors were appointed.

Note 10 - STOCK PURCHASE BUSINESS COMBINATION

On November 14, 2002, the Company completed the purchase of City Network Technology, Inc., a provider of internet broadband and wireless infrastructure equipment and service for the rapidly expanding broadband marketplace, by acquiring all of the outstanding capital stock of City Network Technology, Inc. in exchange for 12,000,000 shares of City Network, Inc.'s common stock. The acquisition was accounted for using the purchase method of accounting and, accordingly, City Network, Inc.'s results of operations have been included in the consolidated financial statements since the date of acquisition.

Note 11 - RELATED PARTY TRANSACTIONS

Throughout the history of the Company, certain members of the Board of Directors, and general management have made loans to the Company to cover operating expenses or operating deficiencies. As of November 30, 2003, the Company has a non interest-bearing loan from Andy Lai, the Company's President, in the amount of \$2,808,952.

Note 12 - EQUITY INVESTMENT

The Company as of August 31, 2003 acquired twenty-five percent (25%) of the common stock of another company for \$325,000. The Company is using the complete equity method to record its share of the subsidiary's net income and loss. As of

Edgar Filing: CITY NETWORK INC - Form 10QSB

November 30, 2003 the Company recognized a loss \$2,676 from their acquisition.

-13-

CITY NETWORK, INC. AND SUBSIDIARIES (FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS NOVEMBER 30, 2003

Note 13 - PRIVATE PLACEMENT SALE

In June 2003 the Company completed a private placement for the sale of 500,000 shares of its common stock. The shares were sold at a price of \$1.44 per share, for a total amount of \$720,000.

-14-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes thereto. The following discussion contains certain forward-looking statements that involve risk and uncertainties. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, risks and uncertainties related to the need for additional funds, the rapid growth of the operations and our ability to operate profitably after the initial growth period is completed.

THREE MONTHS ENDED NOVEMBER 30, 2003 AND NOVEMBER 30, 2002 FOR CITY NETWORK, INC. AND FOR CITY NETWORK-TAIWAN

SALES. Net sales for the three months ended November 30, 2003 were \$4,914,720 compared to \$0 for the three months ended November 30, 2002. The increase in sales for the three months ended November 30, 2003 was due to the acquisition of all of the issued and outstanding stock of City Network Technology, Inc. ("CNT"), who holds all of the issued and outstanding stock of City Network Inc.-Taiwan ("CNT-Taiwan") (the "Acquisition"). CNT-Taiwan's net sales for the three months ended November 30, 2003 were \$4,893,805 compared to \$2,198,717 for the three months ended November 30, 2002. The increase in sales was due to changes in business strategy, which included participation in international exhibits to increase brand awareness as well as a perceived increase in market demand.

COST OF SALES. Cost of sales for the three months ended November 30, 2003 was \$4,324,280 or 87.9% of net sales, as compared to \$225 during the three months ended November 30, 2002. The increase in cost of sales was due to the Acquisition. CNT-Taiwan's cost of sales for the three months ended November 30, 2003 was \$4,306,064, or 87.9% of net sales, as compared to \$2,007,063 or 91.3% of net sales, for the three months ended November 30, 2002. The increase in cost of sales was directly proportional to the increase in sales.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses were \$395,968, or 8.1% of net sales, for the three months ended November 30, 2003, as compared to \$2,034 for the three months ended November 30, 2002. The increase was due to the Acquisition. CNT-Taiwan's selling, general and administrative expense for the three months ended November 30, 2003 was \$277,020 or 5.6% of net sales as compared to \$157,040, or 7.1% for the three months ended November 30, 2002. The increase in general and administrative expenses was due to an increase

Edgar Filing: CITY NETWORK INC - Form 10QSB

in advertising activities, an expansion of business and increase in staff size. The decrease in general and administrative expenses as a percentage of sales was due to an expansion in volume of business. Specifically, the increase in sales exceeded the increase in general and administrative expenses.

INCOME (LOSS) FROM OPERATIONS. Income from operations for the three months ended November 30, 2003 was \$194,472, compared to net loss from operations for the three months ended November 30, 2002 of (\$2,259). The increase in income from operations was due to the Acquisition. CNT-Taiwan's income from operations for the three months ended November 30, 2003 was \$310,721 as compared to income from operations of \$34,613 for the three months ended November 30, 2002. This increase is primarily due to operating income increasing at a greater rate than expenses.

OTHER (INCOME) EXPENSE. Other (income) expense was \$298,343 for the three months ended November 30, 2003, as compared to \$0 for the three months ended November 30, 2002 as a result of the Acquisition. CNT-Taiwan's other (income) expense for the three months ended November 30, 2003 was \$362,239, as compared to \$(2,117) for the three months ended November 30, 2002. The increase in other (income) expense is attributed to the increase made in the allowance for doubtful accounts due to the large increase in sales and outstanding receivables over the prior year.

-15-

NET INCOME (LOSS). Net loss for three months ended November 30, 2003 was \$128,801 compared to net loss of (\$2,259) for the three months ended November 30, 2002. The increase in net loss is due to the Acquisition. CNT-Taiwan had a net loss for the three months ended November 30, 2003 of \$76,448 as compared to net income of \$36,731 for the three months ended November 30, 2002. The reason for the net loss is primarily due to poor economic conditions in Taiwan resulting in price reductions.

NINE MONTHS ENDED NOVEMBER 30, 2003 AND NOVEMBER 30, 2002 FOR CITY NETWORK, INC. AND FOR CITY NETWORK-TAIWAN

SALES. Net sales for the nine months ended November 30, 2003 were \$14,581,408 compared to \$0 for the nine months ended November 30, 2002. The increase in sales for the nine months ended November 30, 2003 was due to the acquisition of all of the issued and outstanding stock of City Network Technology, Inc. ("CNT"), who holds all of the issued and outstanding stock of City Network Inc.-Taiwan ("CNT-Taiwan") (the "Acquisition"). CNT-Taiwan's net sales for the nine months ended November 30, 2003 were \$14,560,493 compared to \$5,461,730 for the nine months ended November 30, 2002. The increase in sales was due to changes in business strategy, which included participation in international exhibits to increase brand awareness as well as a perceived increase in market demand.

COST OF SALES. Cost of sales for the nine months ended November 30, 2003 was \$13,289,646 or 91.1% of net sales, as compared to \$675 during the nine months ended November 30, 2002. The increase in cost of sales was due to the Acquisition. CNT-Taiwan's cost of sales for the nine months ended November 30, 2003 was \$13,270,946, or 91.1% of net sales, as compared to \$4,843,335 or 88.67% of sales, for the nine months ended November 30, 2002. The increase in cost of sales was directly proportional to the increase in sales.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses were \$859,502, or 5.89% of net sales, for the nine months ended November 30, 2003, as compared to \$6,725 for the nine months ended November 30, 2002. The increase was due to the Acquisition. CNT-Taiwan's selling, general and administrative expense for the nine months ended November 30, 2003 was \$797,138, or 5.47% of net sales,

Edgar Filing: CITY NETWORK INC - Form 10QSB

as compared to \$421,342, or 7.7% of net sales, for the nine months ended November 30, 2002. The increase in general and administrative expenses was due to an increase in advertising activities, an expansion of business and increase in staff size. The decrease in general and administrative expenses as a percentage of sales was due to an expansion in volume of business. Specifically, the increase in sales exceeded the increase in general and administrative expenses.

INCOME (LOSS) FROM OPERATIONS. Income from operations for the nine months ended November 30, 2003 was \$432,260, compared to net loss from operations for the nine months ended November 30, 2002 of (\$7,400). The increase in income from operations was due to the Acquisition. CNT-Taiwan's income from operations for the nine months ended November 30, 2003 was \$492,409 as compared to income from operations of \$197,053. This change is primarily due to operating income increasing at a greater rate than expenses.

OTHER (INCOME) EXPENSE. Other (income) expense was \$359,113 for the nine months ended November 30, 2003, as compared to \$0 for the nine months ended November 30, 2002 as a result of the Acquisition. CNT-Taiwan's other (income) expense for the nine months ended November 30, 2003 was \$356,440, as compared to other (income) expense of \$25,032 for the nine months ended November 30, 2002. The increase in other (income) expense is attributed to the increase made in allowance for doubtful accounts due to the large increase in sales and outstanding receivable over the prior year.

NET INCOME (LOSS). Net income for nine months ended November 30, 2003 was \$29,468 compared to net loss of (\$7,400) for the nine months ended November 30, 2002. The increase in net income is due to the Acquisition. CNT-Taiwan contributed net income for the nine months ended

-16-

November 30, 2003 of \$92,290 as compared to net income of \$172,021 for the nine months ended November 30, 2002. The reason for the net loss is primarily due to poor economic conditions in Taiwan resulting in price reductions.

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended November 30, 2003, the Company had cash and cash equivalents of \$579,153. The Company used \$1,659,501 of net cash in operations, used \$1,054,378 of net cash in investing activities and had \$2,768,313 of net cash provided by financing activities. The Company's liquidity is currently dependent on its ability to strengthen its accounts receivable collection time period and its ability to continue to raise cash from financing sources to fund its expansion. The Company's short-term and long-term liquidity may be influenced by uncollected accounts receivables. If the amount of bad debt is high, it will severely effect the Company's ability to continue operations. Therefore, the Company is taking precautions to manage this risk, including diversifying its customer base and controlling credit risk through credit approvals, credit limits and monitoring procedures. There can be no assurance that these measures will prove successful. The Company's inability to manage this risk will have a material adverse effect upon its business, financial condition and results of operations.

ITEM 3. CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures

Edgar Filing: CITY NETWORK INC - Form 10QSB

include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this Form 10-QSB, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon and as of the date of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

-17-

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 31 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed during the quarter ended November 30, 2003.

-18-

SIGNATURES

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

Edgar Filing: CITY NETWORK INC - Form 10QSB

undersigned thereunto duly authorized.

Dated: January 16, 2004

CITY NETWORK, INC.

By: /s/ Tiao Tsan Lai

Tiao Tsan Lai
Chief Executive Officer
(Principal Executive Officer)

Dated: January 16, 2004

By: /s/ Hsin Nan Lin

Hsin Nan Lin
Chief Financial Officer
(Principal Financial Officer)