

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

SYSCAN IMAGING INC
Form 10QSB
April 19, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

For the quarter ended February 29, 2004

or

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

Commission file number 000-27773

SYSCAN IMAGING, INC.
(Exact name of registrant as specified in its charter)

DELAWARE

(State of incorporation)

59-3134518

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

1754 TECHNOLOGY DRIVE
SAN JOSE, CA 95110
(Address of principal executive offices, including zip code)

(408) 436-9888
(Registrant's telephone number, including area code)

BANKENGINE TECHNOLOGIES, INC.
425 Broadhollow Road
Melville, New York 11747
(Former name and address)

Check whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

The number of shares outstanding of the registrant's Common Stock, \$.001 Par Value, on April 14, 2004, was 23,110,510 shares.

BANKENGINE TECHNOLOGIES, INC.

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

TABLE OF CONTENTS

PART I		FINANCIAL INFORMATION	Page Number
Item 1.	Financial Statements.....		1
Item 2.	Management's Discussion and Analysis of Financial Condition and Plan of Operation.....		13
Item 3.	Controls and Procedures.....		16
PART II		OTHER INFORMATION	
Item 1.	Legal Proceedings.....		17
Item 2.	Changes in Securities and Use of Proceeds.....		17
Item 3.	Defaults Upon Senior Securities.....		17
Item 4.	Submission of Matters to a Vote of Security Holders.....		17
Item 5.	Other Information.....		17
Item 6.	Exhibits and Reports on Form 8-K.....		17
	Signatures.....		18

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other statements of historical facts. These statements are subject to uncertainties and risks including, but not limited to, product and service demand and acceptance, changes in technology, economic conditions, the impact of competition and pricing, government regulation, and other risks defined in this document and in statements filed from time to time with the Securities and Exchange Commission. All such forward-looking statements are expressly qualified by these cautionary statements and any other cautionary statements that may accompany the forward-looking statements. In addition, Syscan Imaging, Inc. disclaims any obligations to update any forward-looking statements to reflect events of circumstances after the date hereof.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

SYSCAN IMAGING, INC.
(PREVIOUSLY BANKENGINE TECHNOLOGIES INC.)
CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS

	February 29, 2004 Unaudited	August 31, 2003
Current Assets:		
Cash and cash equivalents	\$ 28,288	\$ 850
Loan receivable	11,976	
	-----	-----
	40,264	850
	-----	-----

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

Current Liabilities:		
Accounts payable and accrued expenses	33,002	55,000
Loans payable	23,476	--
	-----	-----
	56,478	55,000
	-----	-----
Commitments and Contingencies		
Stockholders' Deficiency		
Common stock \$0.001 par value - authorized 50,000,000 shares; 20,275,753 and 19,115,893 shares issued and outstanding at February 28, 2004 and August 31, 2003, respectively	20,276	19,116
Additional paid-in-capital	631,888	484,556
Accumulated deficit	(668,378)	(489,544)
Accumulated other comprehensive loss	--	(65,778)
Treasury stock, 100,000 shares at cost	--	(2,500)
	-----	-----
Total Stockholders' Deficiency	(16,214)	(54,150)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$ 40,264	\$ 850
	=====	=====

See Notes to Consolidated Financial Statements

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

SYSCAN IMAGING, INC.
(PREVIOUSLY BANKENGINE TECHNOLOGIES INC)
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended February 29,		Six months ended February 29,	
	2004	2003	2004	2003
Income from continuing operations	\$ --	\$ --	\$ --	\$ --
Discontinued operations				
Loss from telecommunications and software development segments	105,708	187,386	113,056	195,507
Loss from discontinued operations	105,708	187,386	113,056	195,507
Net loss	\$ 105,708	\$ 187,386	\$ 113,056	\$ 195,507
Net loss per common share- basic and diluted	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Weighted average number of common shares outstanding- basic and diluted	19,719,890	19,112,560	19,392,786	19,063,959

See Notes to Consolidated Financial Statements

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

SYSCAN IMAGING, INC.
(PREVIOUSLY BANKENGINE TECHNOLOGIES, INC.)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIENCY)
(Unaudited)

	Compre- hensive Income (loss) -----	Common Stock		Treasury Sto
		Shares -----	Amount -----	-----
Balance,				
September 1, 2002		19,015,893	\$ 19,016	(100,000) \$
Shares issued for reduction in accounts payable		100,000	100	
Reduction in shareholder loan as a contribution of capital				
Net income	\$ 201,458			
Foreign currency translation	(50,732)			
Comprehensive income	\$ 150,726 =====			
Balance,				
August 31, 2003		19,115,893	19,116	(100,000)
Treasury stock cancelled		(100,000)	(100)	100,000
Shares issued for reduction in accounts payable		60,000	60	
Shares issued as consideration to directors for services		200,000	200	
Shares issued as consideration for services rendered	500,000	500		
Stock options granted				
Shares issued for cash	500,000	500		
Foreign currency translation				
Net income for the period	\$ (113,056)			
Foreign currency translation	--			
Comprehensive loss	\$ (113,056) =====			
Balance,				
February 29, 2004		20,275,753	\$ 20,276	-- \$

Cumulative
Other

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

	Retained Earnings -----	Compre- hensive Income (loss) -----	Total -----
Balance,			
September 1, 2002	\$ (691,002)	\$ (15,046)	\$ (234,742)
Shares issued for reduction in accounts payable			22,500
Reduction in shareholder loan as a contribution of capital			7,366
Net income		201,458	201,458
Foreign currency translation		(50,732)	(50,732)
Comprehensive income			
	-----	-----	-----
Balance,			
August 31, 2003	(489,544)	(65,778)	(54,150)
Treasury stock cancelled			--
Shares issued for reduction in accounts payable			1,260
Shares issued as consideration to directors for services			6,000
Shares issued as consideration for services rendered			50,000
Stock options granted			43,732
Shares issued for cash			50,000
Foreign currency translation	(65,778)	65,778	--
Net income for the period	(113,056)		(113,056)
Foreign currency translation			--
Comprehensive loss			
	-----	-----	-----
Balance,			
February 29, 2004	\$ (668,378)	\$ --	\$ (16,214)
	=====	=====	=====

See Notes to Consolidated Financial Statements

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

-3-

SYSCAN IMAGING, INC.
(PREVIOUSLY BANKENGINE TECHNOLOGIES, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended February	
	2004	2003
Cash flows from operating activities:		
Net cash provided by operating activities of continuing operations	\$ --	\$ --
Net loss	(113,056)	(195,507)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	--	15,612
Impairment of long term assets	46,116	
Loss on disposal of fixed assets	13,520	
Reserve for bad debts	--	112,425
Shares and stock options issued for services rendered	93,732	
Shares issued to directors as compensation	6,000	--
Changes in operating assets and liabilities		
(Increase) decrease in accounts receivable	--	(114,123)
Decrease in funds held in escrow	--	31,990
(Increase) decrease in prepaid expenses and other assets	--	11,673
Decrease in accounts payable	(20,738)	54,740
Net cash used in operating activities of discontinued operations	(34,062)	(23,554)
Net Cash Used in Operating Activities	(34,062)	(23,554)
Cash flows from investing activities:		
Loans advanced	(11,976)	--
Proceeds on disposition of property, plant and equipment	--	40,000
Acquisition of property, plant and equipment	--	(59,349)
Net Cash Used in Investing Activities	(11,976)	(19,349)
Cash flows from financing activities:		
Proceeds from sale of capital stock	50,000	--
Loans advanced	23,476	--
Loan advances from stockholders	--	(1,530)
Repayment of loan payable	--	(6,124)
Net Cash Provided by (Used in) Financing Activities	73,476	(7,654)
Effect of change in foreign currency rate	--	1,301
Net increase (decrease) in cash	27,438	(49,256)
Cash - beginning of year	850	59,065
	28,288	9,809

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

Cash - end of year	\$ 28,288	\$ 9,809
	=====	=====
Supplementary information:		
Financing activities		
Common stock issued to liquidate accounts payable	\$ 1,260	
	=====	

See Note to Consolidated Financial Statements

-4-

SYSCAN IMAGING, INC.
(Previously BankEngine Technologies, Inc.)
Notes to Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Until April 2, 2004, the Company operated as Bankengine Technologies, Inc. On April 2, 2004, the Company acquired all of the issued and outstanding shares of Syscan, Inc. in exchange for 18,773,514 common shares in a reverse acquisition and the Company changed its name to Syscan Imaging, Inc. ("the Company")

These financial statements reflect the operations of Bankengine Technologies Inc and its subsidiaries as the acquisition by Syscan Inc did not occur until after the end of the current quarter. Prior to December 9, 2003, Bankengine Technologies, Inc. had two subsidiaries operating in the telecommunication and software development sectors. On December 9, 2003, the subsidiaries, which were at that time inactive, were purchased by a previous shareholder for an amount of \$1. As of February 29, 2004, the balance sheet reflects the assets and liabilities of Bankengine Technologies, Inc. without any subsidiaries.

BASIS OF PRESENTATION

The consolidated balance sheet as of February 29, 2004, and the consolidated statements of operations, stockholders' deficiency and cash flows for the periods presented herein have been prepared by the Company and are unaudited. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial position, results of operations, stockholders' deficiency and cash flows for all periods presented have been made. The information for the consolidated balance sheet as of August 31, 2003 was derived from audited financial statements of Bankengine Technologies Inc..

In the future, the acquisition by the shareholder of Syscan, Inc. of a

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

majority of the shares of the Company will be accounted for as a reverse acquisition and no goodwill will be reflected on this acquisition. Although the Company is the legal acquirer, Syscan, Inc. will be treated as having acquired the Company for accounting purposes and all of the operations reported will be for Syscan, Inc.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period in which they become known.

-5-

REVENUE RECOGNITION

The Company recognizes revenue in accordance with the guidance contained in SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB #101").

The Company's revenues from its telecommunications business is recognized when the earnings process is complete. This occurs when the services have been utilized, collection is probable and pricing is fixed or determinable.

The Company provides computer consulting services in a number of areas including database management, on-line transaction processing and e-mail capabilities. Revenue is recognized as pre-determined milestones are accomplished and consulting services delivered.

FOREIGN CURRENCY TRANSLATION

The Company's functional currency has been primarily the Canadian dollar. All assets and liabilities recorded in foreign currencies are translated at the current exchange rate. Translation adjustments resulting from this process are charged or credited to other comprehensive income. Revenues and expenses are translated at average rates of exchange previously during the year. Gains and losses on foreign currency transactions are included in financial expenses. Commencing December 1, 2003, the Company's functional currency is US dollars.

DEPRECIATION

Property, plant and equipment are recorded at historical cost less accumulated depreciation. Depreciation is provided using the following annual rates:

Telecommunication switch	- 25% per year on a straight line basis
Furniture and Fixture	- 20% declining balance method
Computer Equipment	- 30% - declining balance method

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

-6-

SEGMENT REPORTING

The Company applies Financial Accounting Standards Boards ("FASB") statement No. 131, "Disclosure about Segments of an Enterprise and Related Information". The Company has considered its operations and has determined that it operates in two operating segments, software development and telecom, for purposes of presenting financial information and evaluating performance. As such, the accompanying financial statements present information in a format that is consistent with the financial information used by management for internal use.

INCOME (LOSS) PER COMMON SHARE

Basic income (loss) per common share are computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are computed by dividing net earnings by the weighted average number of common shares and potential common shares outstanding during the year. Potential common shares used in computing diluted earnings per share relate to stock options and warrants which, if exercised, would have a dilutive effect on earnings per share. Options previously outstanding have been cancelled and therefore the possible potential common shares to be issued are -0- and 600,000 for the six and three months ended February 29, 2004 and 2003, respectively. During the six and three months ended February 29, 2003 potential common shares outstanding were omitted from the calculation of loss per share as the effect would be antidilutive.

GOODWILL AND OTHER INTANGIBLES

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" ("SFAS 141"), and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 changes the accounting for business combinations, requiring that all business combinations be accounted for using the purchase method and that intangible assets be recognized as assets apart from goodwill if they arise from contractual or other legal rights, or if they are separate or capable of being separated from the acquired entity and sold, transferred, licensed, rented or exchanged. SFAS 141 was effective for all business combinations initiated after June 30, 2001. SFAS 142 specifies the financial accounting and reporting for acquired goodwill and other intangible

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

assets. Goodwill and intangible assets that have indefinite useful lives are not amortized but rather they are tested at least annually for impairment unless certain impairment indicators are identified. This standard was effective for fiscal years beginning after December 15, 2001.

SFAS 142 requires that the useful lives of intangible assets acquired on or before June 30, 2001 be reassessed and the remaining amortization periods adjusted accordingly. Previously recognized intangible assets deemed to have indefinite lives are tested for impairment. Goodwill recognized on or before June 30, 2001, has been tested for impairment as of the beginning of the fiscal year in which SFAS 142 was initially applied and, after considering the results of an independent valuation and appraisal, management concluded that no impairment was indicated.

Upon adoption of this standard, the Company allocated its goodwill and other intangibles to its telecommunications unit.

-7-

Other intangibles primarily include customer lists in connection with the Company's telecommunications activity. Amounts assigned to these intangibles are based on independent appraisals. Other intangibles are being amortized over 24 months. The intangible asset was written down to \$-0- during the second quarter of fiscal 2003.

	For the Six Months Ended February 29,	
	2004	2003
Reported net loss	\$ 113,056	\$ 195,507
Addback: Goodwill amortization net of income tax)	--	--
Adjusted net loss	113,056	195,507
Basic and diluted loss per share:		
Reported net loss	\$ 0.01	\$ 0.01
Addback: Goodwill amortization	-	-
Adjusted net loss	\$ 0.01	\$ 0.01

STOCK BASED COMPENSATION

The Company accounts for equity-based compensation issued to employees in accordance with Accounting Principles Board ("APB") Opinion No. 25 "Accounting for Stock Issued to Employees". APB No. 25 requires the use of the intrinsic value method, which measures compensation cost as the excess, if any, of the quoted market price of the stock at the measurement date over the amount an employee must pay to acquire the stock. The Company makes disclosures of pro forma net earnings and earnings per share as if the fair-value-based method of accounting had been applied as required by SFAS No. 123 "Accounting for Stock-Based Compensation-Transition and Disclosure" and SFAS 148 Accounting for Stock Based Compensation - Transition and disclosures. To date no options have

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

been granted.

The Company accounts for equity-based compensation to non-employees based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. During the six months and three months ended February 29, 2004, the Company issued 700,000 shares of the Company's common stock to non-employees and directors. The Company recorded \$56,000 as compensation expense for the respective periods.

-8-

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". This statement eliminates the automatic classification of gain or loss on extinguishment of debt as an extraordinary item of income and requires that such gain or loss be evaluated for extraordinary classification under the criteria of Accounting Principles Board No. 30 "Reporting Results of Operations". This statement also requires sales-leaseback accounting for certain lease modifications that have economic effects that are similar to sales-leaseback transactions, and makes various other technical corrections to existing pronouncements. This statement did not have a material effect on the Company's results of operations or financial position.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. Management believes that adopting this statement did not have a material effect on the Company's results of operations or financial position.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, and interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34. FIN 45 clarifies the requirements of FASB Statement No. 5, Accounting for Contingencies, relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. This interpretation clarifies that a guarantor is required to recognize, at the inception of certain types of guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company adopted FIN 45 on November 1, 2003. The adoption

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

of FIN 45 did not have a material impact on the Company's results of operations or financial position.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities," which addresses consolidation by business enterprises of variable interest entities. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. The objective of Interpretation No. 46 is not to restrict the use of variable interest entities but to improve financial reporting by companies involved with variable interest entities. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. Interpretation No. 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled

-9-

to receive a majority of the entity's residual returns or both. The consolidation requirements of Interpretation No. 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The adoption of FIN 46 did not have a material impact on the Company's results of operations or financial position.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the Company's interim period commencing July 1, 2003. SFAS 150 is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance date of SFA 150 and still existing at the beginning of the interim period of adoption. The adoption of SFAS 150 did not have a significant effect on the company's financial statement presentation or disclosures.

In December 2003, the FASB issued SFAS No. 132 (Revised) ("SFAS No. 132-R"), "Employer's Disclosure about Pensions and Other Postretirement Benefits." SFAS No. 132-R retains disclosure requirements of the original SFAS No. 132 and requires additional disclosures relating to assets, obligations, cash flows, and net periodic benefit cost for defined benefit pension plans and defined benefit post retirement plans. SFAS No. 132-R is effective for fiscal years ending after December 15, 2003, except that certain disclosures are effective for fiscal years ending after June 15, 2004. Interim period disclosures are effective for interim periods beginning after December 15, 2003. The adoption of the disclosure provisions of revised SFAS No. 132-R did not have

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

a material impact on the Company's historical disclosure.

2. CAPITAL STOCK

a) AUTHORIZED

50,000,000 common stock with a \$.001 par value

b) COMMON STOCK

During the second quarter, the Company issued 500,000 shares of common stock as payment for legal services rendered. The company has recorded an amount of \$50,000, which represents the fair market value of the shares issued.

During January 2004, the Company issued 500,000 shares of common stock for a cash consideration of \$50,000.

As part of the reorganization of the Company, on April 2, 2004, the common shares of the Company were subject to a reverse split of 1 share for each 10 shares outstanding.

-10-

3. STOCK OPTIONS

(a) On April 5, 2002, the Company issued 600,000 options exercisable at \$0.10 per share, the fair market value at the date of grant. The options have a 5 year term and were issued in consideration of consulting services to be rendered by the principal of Platinum Telecommunications Inc. and are exercisable immediately. The estimated fair value of the options on the date of grant using the Black-Scholes option pricing model is \$5,000, based on a risk free interest rate of 4.65%, an expected volatility of 200%, an expected life of 5 years and no dividend yield and has been expensed in the quarter ended May 31, 2002. The weighted - average fair value of the options issued during the year was \$.008. As of August 31, 2003, these options have been cancelled.

(b) On May 17, 2002, the shareholders of the Company approved the adoption of the Company's 2002 Stock Option Plan. The plan provides for the issuance of 2,000,000 options with the following terms and conditions.

The plans are administrated by the Board of Directors, which determine among other things, those individuals who shall receive options, the time period during which the options may be partially or fully exercised, the number of common stock to be issued upon the exercise of the options and the option exercise price.

The maximum term of the plan is ten years and options may be granted to officers, directors, consultants, employees, and similar parties who provide their skills and expertise to the Company.

Options granted under the plans have a maximum term of ten years and shall be at an exercise price that may not be less than 85% of the fair market value of the common stock on the date of the grant. Options are non-transferable and if a participant ceases affiliation with the company for a reason other than death or permanent and total disability, the participant will have 90 days to exercise the option subject to certain extensions. In the event of death or permanent and total disability, the option holder or their representative may exercise the option within 1 year.

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

Any unexercised options that expire or that terminate upon an employee's ceasing to be employed by the company become available again for issuance under the plans, subject to applicable securities regulation. The plans may be terminated or amended at any time by the Board of Directors.

(c) As part of an employment agreement signed in December 2003, the employee received 500,000 options to acquire shares of the company at \$.09 for a term of 2 years. Following the restructuring of the Company on April 2, 2004, the options were re-issued as 50,000 options to acquire shares at \$.90 per share. The estimated fair value of the options on the date of grant using the Black-Scholes option pricing model is \$29,526, based on a risk free interest rate of 1.91%, an expected volatility of 100%, an expected life of 2 years and no dividend yield and has been expensed in the quarter ended February 29, 2004.

(d) The company issued 250,000 options to its legal counsel in consideration of services rendered. The options are exercisable at \$.50 per share for a term expiring December 2008. These options have been re-issued following the reverse split in April 2004. The estimated fair value of the options on the date of grant using the Black-Scholes option pricing model is \$14,206, based on a risk free interest rate of 3%, an expected volatility of 100%, an expected life of 5 years and no dividend yield and has been expensed in the quarter ended February 29, 2004.

-11-

4. LOAN RECEIVABLE AND LOANS PAYABLE

Effective December 9, 2003, an arms' length individual acquired the majority of the outstanding common shares of the Company. The new shareholder advanced sums on behalf of the Company in the amount of \$11,500 to pay liabilities and \$11,976 to acquire equipment. The equipment will be utilized by Syscan Inc. and therefore the amount of \$11,976 has been reflected as a loan receivable.

The loans payable totaling \$23,476 was converted to common shares subsequent to February 29, 2004.

5. CONTINGENCIES AND COMMITMENTS

The Company has signed a lease commitment for office space in Toronto, Canada which expires on April 30, 2004 for its corporate head office. The Company is responsible for monthly rent of approximately \$1,100. The company vacated the premises during 2003 and the landlord has agreed that no rent is payable.

5. SUBSEQUENT EVENTS

As indicated in Note 1, the Company acquired all of the issued and attending shares of Syscan, Inc., a company that manufactures a new generation of CIS (CMOS - Complimentary Metal Oxide Image Servers) imaging sensor devices, on April 2, 2004 in exchange for 20,859,459 common shares of the Company.

The Company signed an employment agreement in December 2003, for a term of 2 years for a total amount of \$200,000 and 500,000 options detailed in Note 3. Upon the acquisition on April 2, 2004, the employment agreement was settled in full for 200,000 post reverse split common shares. In addition, the loan payable was settled by the issuance of 23,476 common shares.

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

6. DISCONTINUED OPERATIONS

The Company has been attempting to restructure its telecommunication and software development activities. The Company has decided that the best course of action is to cease its telecommunications and software development operations. and has been actively seeking a merger to diversify its operations.

In a contract signed December 9, 2003, the former principal shareholder of the Company agreed to sell 9,615,000 common shares to an arms' length party and also agreed to acquire the shares of Platinum Telecommunications and Cyberstation, subsidiaries for the amount of \$2. The agreement provides that liabilities are limited to \$55,000 and any excess will be funded by the vending shareholder. The impact of the sale of the shares of Platinum and Cyberstation and the settlement of debts in excess of \$55,000 resulted in a gain on divestitures which was reflected in the Company's financial statements for the year ended August 31, 2003.

-12-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

On April 2, 2004, the Company acquired 100% of the issued and outstanding capital stock of Syscan, Inc. Effective with the acquisition of Syscan, Inc., the Company changed its name to Syscan Imaging, Inc. and effected a 1-for-10 reverse split of its common stock. All of the Company's business operation are those of its wholly-owned subsidiary Syscan, Inc.

Syscan Inc. was founded in Silicon Valley in 1995 to develop and manufacture a new generation of CIS (CMOS-Complimentary Metal Oxide Silicon) imaging sensor devices. During the late 1990's, the company established many technical milestones and was granted numerous patents based on their linear imaging technology (Contact Image Sensors). Syscan's patented CIS and mobile imaging scanner technology provides very high quality images but at extremely low power consumption, allowing it to manufacture very compact scanners in a form ideally suited for the mobile computer user who needs to scan documents while away from their office.

This "enabling" technology is found in a variety of applications such as documents management, ID card and passport security scanners, bank note/check verification, business card readers, scanning 2D bar codes and optical mark readers used in lottery terminals. Syscan has grown to be one of the largest OEM -- private label manufacturers of mobile scanning systems for a large number of major brands such as PENTAX, COREX, VISIONEER, DATACOLOR, DIGIMARC, SCANSOFT, NORTEK and OMRON. Syscan's vertically integrated design and manufacturing model allows rapid time-to-market for these leading companies. Syscan's manufacturing is completed at an affiliated China-based facility which provides a low-cost manufacturing base for these industrial and consumer products.

In 2002, Syscan began to design a line of innovative new products targeted toward the flat-panel display market. These products dramatically improved the video image quality on LCD displays implementing advanced digital image processing and display control techniques. Much of the technology within these display imaging products have commonality with the linear imaging devices, providing strong technical overlap of personnel and resources. This new display control technology creates a tremendous value point in the flat-panel television entertainment and video-centric markets, which Syscan intends to target.

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

The Company was previously an international solutions provider and developer of Internet-based software and various electronic commerce solutions, as well as telephony solutions.

In December 2003, the Company sold all of its interest in Platinum Telecommunications, which was its only source of revenue, as well as all of its shares of CyberStation. In connection with the sale of such shares, the purchaser assumed approximately \$384,000 in liabilities and received a minimal amount of assets from the Company. Included in the liabilities assumed by the purchaser was a loan of \$120,000 made by such purchaser to the Company. This will result in a gain on the divestitures. The impact of the divestiture has been reflected in the financial statements for the year ending August 31, 2003. The sale of the Platinum shares and the Cyberstation shares was made to Joseph J. Alves, our Chief Executive Officer. Mr. Alves agreed to sell all of his shares of common stock of the Company on December 9, 2003 to an unaffiliated third party, Michael J. Xirinachs.

-13-

Effective December 9, 2003, Michael J. Xirinachs acquired an aggregate of 10,115,000 shares of the Company's common stock, representing approximately 51.8% of the Company's issued and outstanding common stock, from Joseph J. Alves (9,615,000 shares), the Company's Chief Executive Officer and from Atlantica Marine (500,000 shares). Mr. Xirinachs paid an aggregate of \$100,000 from his personal funds to acquire such shares.

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are outlined within Note 1 to the consolidated financial statements. Some of those accounting policies require the Company to make estimates and assumptions that affect the amounts it reports. The following items require the most significant judgment and often involve complex estimation:

Revenue recognition: The Company generally recognizes a sale when the service has been provided and risk of loss has passed to the customer, collection of the resulting receivable is reasonably assured, persuasive evidence of an arrangement exists, and the fee is fixed or determinable. The assessment of whether the fee is fixed or determinable considers whether a significant portion of the fee is due after its normal payment terms. If the Company determines that the fee is not fixed or determinable, the Company recognizes revenue at the time the fee becomes due, provided that all other revenue recognition criteria have been met.

The Company assesses collectibility based on a number of factors, including general economic and market conditions, past transaction history with the customer, and the credit-worthiness of the customer. If the Company determines that collection of the fee is not probable, then we will defer the fee and recognize revenue upon receipt of payment.

Allowance for doubtful accounts: The Company continuously monitors payments from its customers and maintains allowances for doubtful accounts, if required, for estimated losses resulting from the inability of its customers to make required payments. When the Company evaluates the adequacy of its allowances for doubtful accounts, it takes into account various factors including its accounts receivable aging, customer credit-worthiness, historical bad debts, and

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

geographic and political risk. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As of February 29, 2004, the Company's net accounts receivable balance was nil.

THREE MONTHS ENDED FEBRUARY 29, 2004 COMPARED TO THREE MONTHS ENDED FEBRUARY 28, 2003

Continuing Operations

As a result of the Company's divestiture of Platinum and CyberStation, the Company did not report any revenues from continued operations for the quarters ended February 29, 2004 and 2003.

-14-

Discontinued Operations

As a result of the Company's divestiture of Platinum and CyberStation, the Company reported a net loss of \$105,708 for the quarter ended February 29, 2004, as compared to a net loss of \$187,386 for the quarter ended February 28, 2003.

SIX MONTHS ENDED FEBRUARY 29, 2004 COMPARED TO SIX MONTHS ENDED FEBRUARY 28, 2003

Continuing Operations

As a result of the Company's divestiture of Platinum and CyberStation, the Company did not report any revenues from continued operations for the six months ended February 29, 2004 and 2003.

Discontinued Operations

As a result of the Company's divestiture of Platinum and CyberStation, the Company reported a net loss of \$113,056 for the six months ended February 29, 2004, as compared to a net loss of \$195,507 for the six months ended February 28, 2003.

Liquidity and Capital Resources

Operating Activities

At February 29, 2004, the Company had a working capital deficit of \$16,214 and an accumulated deficit of \$668,378. For the quarter ended February 29, 2004, net cash used in operating activities amounted to \$34,062 an increase from the net cash used in operating activities for the comparable period in 2003 of \$23,554. The increase in cash requirements for operating activities is primarily the result of the settlement and payment of accounts payable.

Financing Activities

At February 29, 2004, the Company does not have any material commitments for capital expenditures other than for those expenditures incurred in the ordinary course of business. In December 2003, the Company's former principal shareholder sold his entire stake in the Company consisting of 9,615,000 shares of common

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

stock to an unaffiliated third-party. Additional capital could be required in excess of the Company's liquidity, requiring it to raise additional capital through an equity offering or secured or unsecured debt financing. The availability of additional capital resources will depend on prevailing market conditions, interest rates, and the existing financial position and results of operations of the Company.

-15-

ITEM 3. CONTROLS AND PROCEDURES

Based on an evaluation as of the date of the end of the period covered by this Form 10-QSB, our previous Chief Executive Officer/Acting Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15. Based on that evaluation, our former Chief Executive Officer/Acting Chief Financial Officer has represented to the Company's management that he concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

Changes in Internal Controls

Based upon representation made to the Company's management by its former Chief Executive Officer/Acting Chief Financial Officer, there were no significant changes in our internal controls over financial reporting that occurred during the quarter ended February 29, 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

-16-

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
None

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS
In January 2004, we sold an aggregate of 500,000 pre-split shares of our common stock for aggregate proceeds of \$50,000. We used the proceeds from such sale for working capital and general corporate purposes, mainly for the settlement of outstanding liabilities and to fund our expenses in connection with the acquisition of Syscan, Inc.

ITEM 3. DEFAULTS IN SENIOR SECURITIES
None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
In February 2004, our majority stockholder voted to approve the change of our corporate name and a reverse split of between 1-for-3 to 1-for-20 of our common stock.

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS, LISTS AND REPORTS ON FORM 8- K

(a) Exhibits

Exhibit 31 Rule 13a-14(a)/15d-14(a) Certification.
Exhibit 32 Certification by the Acting Principal Executive Officer and Acting Principal Financial Officer.

(b) Reports on Form 8-K.

There were no reports filed on Form 8-K during the period covered by this report.

* The Exhibit attached to this Form 10-QSB shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to liability under that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

-17-

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned,

Edgar Filing: SYSCAN IMAGING INC - Form 10QSB

thereunto duly authorized.

Syscan Imaging, Inc.

Dated: April 19, 2004

By: /S/ MICHAEL J. XIRINACHS

Name: Michael Xirinachs
Title: Acting Principal Executive
Officer and Acting
Principal Financial
Officer