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AMARU INC
Form 10QSB
August 19, 2004

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

FORM 10-QSB

[X] Quarterly report filed under Section 13 or 15 (d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended June 30, 2004

or

[] Transitional report filed under Section 13 or 15 (d) of the Exchange Act.

Commission File No. 0-32695

Amaru, Inc.

(Name of Small Business Issuer in its Charter)

Nevada

88-0490089

State or other jurisdiction of
incorporation or organization

I.R.S. Employer Identification Number

112 Middle Road, #08-01 Middland House, Singapore 188970

(Address of principal executive office)

Issuer's telephone number: (011) (65) 6332 9287

610 Newport Center Drive, Suite 1400, Newport Beach, CA 92660

Issuer's previous address

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 (or for such shorter period that the registrant was required to file such reports), and (2) been subject to such filing requirements for the past ninety (90) days.

Yes X No
--- ---

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date: as of June 30, 2004, there were 20,000,000 shares of Common Stock, par value \$.001 per share, outstanding.

Transitional Small Business Disclosure Format (check one):

Yes No X
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AMARU, INC. AND SUBSIDIARY

FORM 10-QSB QUARTERLY REPORT
FOR THE SECOND QUARTER ENDED JUNE 30, 2004
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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-QSB contains forward-looking statements about the business, financial condition and prospects of the Company that reflect assumptions made by management and management's beliefs based on information currently available to it. We can give no assurance that the expectations indicated by such forward-looking statements will be realized. If any of management's assumptions should prove incorrect, or if any of the risks and uncertainties underlying such expectations should materialize, the Company's actual results may differ materially from those indicated by the forward-looking statements.

The key factors that are not within the Company's control and that may have a direct bearing on operating results include, but are not limited to, the acceptance by customers of the Company's products and services, the Company's ability to develop new products and services cost-effectively, the ability of the Company to raise capital in the future, the development by competitors of products or services using improved or alternative technology, the retention of key employees and general economic conditions.

There may be other risks and circumstances that management is unable to predict. When used in this Form 10-QSB, words such as, "believes," "expects," "intends," "plans," "anticipates" "estimates" and similar expressions are intended to identify forward-looking statements, although there may be certain forward-looking statements not accompanied by such expressions. All forward-looking statements are intended to be covered by the safe harbor created by Section 21E of the Securities Exchange Act of 1934.

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMARU, INC. & SUBSIDIARY
FINANCIAL STATEMENTS
JUNE 30, 2004

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AMARU, INC. AND SUBSIDIARY
BALANCE SHEETS

	JUNE 30, 2004 (CONSOLIDATED) (UNAUDITED)	DECEMBER 31, 2003
	-----	-----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 60,240	\$ 60,307
Accounts receivable	213,823	14,097
Other receivables	1,660	20,554
Prepaid expenses	4,211	33,758
	-----	-----
Total current assets	279,934	128,716
Non current assets		

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Property, equipment and software, net	2,412,097	18,866
Product development costs, net	238,458	297,402
Investment, at equity	--	1,403,493
Other	--	2,708
	-----	-----
Total non current assets	2,650,555	1,722,469
	-----	-----
Total assets	\$ 2,930,489	\$ 1,851,185
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 697,251	\$ 64,738
Accounts payable - related parties	202,982	423,444
Line of credit	52,214	58,188
Term loan - current portion	--	5,007
Income tax payable	112,835	36,994
Advances from parent	--	55,518
	-----	-----
Total current liabilities	1,065,282	643,889
Shareholders' equity		
Series A convertible preferred stock (par value \$0.001) 5,000,000 shares authorized: 143,000 and 0 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	143	--
Common stock (par value \$0.001) 200,000,000 shares authorized; 20,000,000 shares issued and outstanding at June 30, 2004 and 18,136,364 at December 31, 2003, respectively	20,000	18,136
Paid in capital	1,287,585	867,292
Subscribed common stock, 400,000 and 337,513 shares at June 30, 2004 and December 31, 2003 respectively	20,000	128,255
Retained earnings	512,792	160,696
Comprehensive gain on currency translation	24,687	32,917
	-----	-----
Total shareholders' equity	1,865,207	1,207,296
	-----	-----
Total liabilities and shareholders' equity	\$ 2,930,489	\$ 1,851,185
	=====	=====

The accompanying notes to financial statements are an integral part of these statements

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	FOR THE SIX MONTHS ENDED	
	JUNE 30, 2004 (CONSOLIDATED)	JUNE 30, 2003
Revenue	\$ 2,124,211	\$ 4,224
Cost of services	1,120,861	9,631
Gross profit	1,003,350	(5,407)
Operating and administrative expenses		
Distribution costs	213,416	4,605
General and administrative expenses	291,491	98,959
Total expenses	504,907	103,564
Income from operations	498,443	(108,971)
Other (income) expense		
Interest expenses	945	1,813
Income taxes	112,398	--
Net income (loss)	\$ 385,100	\$ (110,784)
Earnings (loss) per share-basic and diluted	\$ 0.02	\$ (0.01)
Weighted average number of common shares outstanding-basic and diluted	19,538,961	17,727,273

The accompanying notes to financial statements are an integral part of these

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AMARU, INC. AND SUBSIDIARY
STATEMENT OF SHAREHOLDERS' EQUITY

	Series A Convertible Preferred Stock		Common Stock			
	Number of Shares	Par Value (\$0.001)	Number of shares	Par value (\$0.001)	Additional Paid-in capital	Subscribed stock
Balance December 31, 2002	--	\$ --	17,727,273	\$17,727	\$753,701	\$82,84
Common stock issued for cash	--	--	409,091	409	113,591	--
Common stock subscribed at various dates	--	--	--	--	--	45,41

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Net income	--	--	--	--	--	--
Comprehensive gain on currency translation	--	--	--	--	--	--
Comprehensive income	-----					
Balance December 31, 2003	--	--	18,136,364	18,136	867,292	128,25
Shares issued for cash Feb. 10, 2004	--	--	1,363,636	1,364	414,636	(128,25
Reverse acquisition	143,000	143	500,000	500	5,657	--
Common Stock subscribed (400,000 shares)	--	--	--	--	--	20,00
Net income	--	--	--	--	--	--
Comprehensive loss on currency translation	--	--	--	--	--	--
Comprehensive income	-----					
Balance June 30, 2004 (consolidated) (Unaudited)	143,000	\$ 143	20,000,000	\$20,000	\$1,287,585	\$20,00
	=====					

The accompanying notes to financial statements are an integral part of the

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AMARU, INC. AND SUBSIDIARY
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(UNAUDITED)

	FOR THE SIX MONTHS ENDED	
	JUNE 30, 2004 (CONSOLIDATED)	JUNE 30, 2003
	-----	-----
CASH FLOW FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 385,100	\$ (110,784)
Adjustments to reconcile net income (loss)		
Amortization	58,944	56,073
Depreciation	5,715	15,508
Changes in operation assets and liabilities		

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Accounts receivable	(199,726)	(286)
Prepaid and other receivables	48,441	2,936
Accounts payable	209,183	(1,066)
Income tax payable	75,841	(21)
	-----	-----
Cash provided from (used in) operating activities	583,498	(37,640)
CASH USED IN INVESTING ACTIVITIES		
Acquisition of software	(988,395)	--
Acquisition of equipment	(4,350)	--
	-----	-----
Cash used in investing activities	(992,745)	--
CASH PROVIDED FROM FINANCING ACTIVITIES		
Addition (payment) to related parties	147,350	(1,568)
Addition (payment) of line of credit and loans	(10,981)	3,283
Re-capitalization of M2B World Pte. Ltd	(26,704)	--
Proceeds from sale of stock	287,745	38,368
Proceeds from stock subscriptions	20,000	--
	-----	-----
Total provided from financing activities	417,410	40,083
Comprehensive loss from translation	(8,230)	(2,757)
Cash flow from all activities	(67)	(314)
Cash balance at beginning of period	60,307	57,700
	-----	-----
Cash balance at end of period	\$ 60,240	\$ 57,386
	=====	=====

The accompanying notes to financial statements are an integral part of these statements

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AMARU, INC. & SUBSIDIARY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
 (UNAUDITED)

BASIS OF PRESENTATION

The financial information included herein is unaudited. However, such information reflects all adjustments (consisting solely of normal occurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for the interim periods. The results of operations for the six months ended June 30, 2004, are not necessarily indicative of the results to be expected for the full year.

The accompanying financial statements do not include footnotes and certain financial presentations normally required under generally accepted accounting principles; and, therefore, should be read in conjunction with the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003, and Form 8-K/A, filed on May 24, 2004.

REORGANIZATION

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As of February 25, 2004, the Company made an agreement which provides for the reorganization of M2B World Pte. Ltd., a Singapore corporation with and into Amaru, Inc. (Amaru), a Nevada corporation, with M2B World Pte. Ltd. (M2B), becoming a wholly-owned subsidiary of Amaru. The agreement is for the exchange of 100% of the outstanding Common Stock of M2B World Pte. Ltd. for 19,500,000 common shares and 143,000 Series A convertible preferred shares of Amaru, which are each convertible into 38.461538 shares of Amaru common stock.

The exchange was accounted for as a reverse acquisition. Accordingly, for financial statement purposes, M2B World Pte. Ltd. was considered the accounting acquirer and the related business combination was considered a recapitalization of M2B World Pte. Ltd. rather than an acquisition by the Company. The historical financial statements prior to the agreement will be those of M2B World Pte. Ltd. and the name of the consolidated Company going forward will be Amaru, Inc. and Subsidiary.

On this basis, the historical financial statements prior to February 28, 2004 have been restated to be those of the accounting acquirer M2B World Pte. Ltd. The historical stockholders' equity prior to the reverse acquisition has been retroactively restated (a recapitalization) for the equivalent number of shares received in the acquisition after giving effect to any difference in par value of the issuer's and acquirer's stock.

CAPITAL STOCK

The Company received subscriptions for 400,000 shares of common stock valued at \$20,000 pursuant to the Company's 2004 Equity Compensation Plan.

SUBSEQUENT EVENT

Subsequent to June 30, 2004 the Company issued 500,000 shares of common stock for future services valued at \$25,000.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

PRELIMINARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

ALL FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE DEEMED BY THE COMPANY TO BE COVERED BY AND TO QUALIFY FOR THE SAFE HARBOR PROTECTION PROVIDED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. PROSPECTIVE SHAREHOLDERS SHOULD UNDERSTAND THAT SEVERAL FACTORS GOVERN WHETHER ANY FORWARD - LOOKING STATEMENT CONTAINED HEREIN WILL BE OR CAN BE ACHIEVED. ANY ONE OF THOSE FACTORS COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED HEREIN. THESE FORWARD - LOOKING STATEMENTS INCLUDE PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS, INCLUDING PLANS AND OBJECTIVES RELATING TO THE PRODUCTS AND THE FUTURE ECONOMIC PERFORMANCE OF THE COMPANY. ASSUMPTIONS RELATING TO THE FOREGOING INVOLVE JUDGMENTS WITH RESPECT TO, AMONG OTHER THINGS, FUTURE ECONOMIC, COMPETITIVE AND MARKET CONDITIONS, FUTURE BUSINESS DECISIONS, AND THE TIME AND MONEY REQUIRED TO SUCCESSFULLY COMPLETE DEVELOPMENT PROJECTS, ALL OF WHICH ARE DIFFICULT OR IMPOSSIBLE TO PREDICT ACCURATELY AND MANY OF WHICH ARE

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BEYOND THE CONTROL OF THE COMPANY. ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN ARE REASONABLE, ANY OF THOSE ASSUMPTIONS COULD PROVE INACCURATE AND, THEREFORE, THERE CAN BE NO ASSURANCE THAT THE RESULTS CONTEMPLATED IN ANY OF THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN WILL BE REALIZED. BASED ON ACTUAL EXPERIENCE AND BUSINESS DEVELOPMENT, THE COMPANY MAY ALTER ITS MARKETING, CAPITAL EXPENDITURE PLANS OR OTHER BUDGETS, WHICH MAY IN TURN AFFECT THE COMPANY'S RESULTS OF OPERATIONS. IN LIGHT OF THE SIGNIFICANT UNCERTAINTIES INHERENT IN THE FORWARD - LOOKING STATEMENTS INCLUDED THEREIN, THE INCLUSION OF ANY SUCH STATEMENT SHOULD NOT BE REGARDED AS A REPRESENTATION BY THE COMPANY OR ANY OTHER PERSON THAT THE OBJECTIVES OR PLANS OF THE COMPANY WILL BE ACHIEVED.

General

As of February 25, 2004 (the "Closing Date"), Amaru, Inc. (the "Company") acquired M2B World Pte Ltd., a Singapore corporation ("M2B World") in exchange for 19,500,000 newly issued "restricted" shares of common voting stock of the Company and 143,000 "restricted" Series A Convertible Preferred Stock shares to the M2B World shareholders on a pro rata basis for the purpose of effecting a tax-free reorganization pursuant to sections 351, 354 and 368(a)(1)(B) of the Internal Revenue Code of 1986, as amended ("IRC") pursuant to the Agreement and Plan of Reorganization (the "Reorganization Agreement") by and between the Company, M2B World and M2B World shareholders. As a condition of the closing of the share exchange transaction, certain shareholders of the Company cancelled a total of 1,457,500 shares of common stock. Each one (1) ordinary share of M2B World has been exchanged for 1.3636363 shares of the Company's Common Stock and 100 shares of the Company's Series A Convertible Preferred Stock. Each share of newly issued Company's Series A Convertible Preferred Stock can be converted to 38.461538 shares of the Company's common stock. Following the Closing Date, there were 20,000,000 shares of the Company's Common Stock outstanding and 143,000 shares of the Company's Series A Convertible Preferred Stock outstanding. Immediately prior to the Closing, there were 500,000 shares issued and outstanding.

M2B World is in the business of broadband entertainment and education-on-demand, streaming via computers, television sets, PDAs (Personal Digital Assistant) and in the near future through third generation devices; and the provision of broadband services. Its business includes channel and program sponsorship (advertising and branding); online subscriptions, channel/portal development (digital programming services); content aggregation and syndication; broadband consulting services and E-commerce.

The restructuring and re-capitalization has been treated as a reverse acquisition with M2B World becoming the accounting acquirer. The historical financial statements prior to the closing of the transaction are those of M2B World.

The following discussion should be read in conjunction with selected financial data and the financial statements and notes to financial statements.

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Results of Operations

Results of operations for the three months and six months ended June 30, 2004 compared with three months and six months ended June 30, 2003.

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Revenues for the six months ended June 30, 2004 increased to \$2,124,211 from \$4,224 for the six months ended June 30, 2003. The increase of \$2,119,987 resulted primarily from advertising and content syndication revenues arising out of the launch of newly enhanced broadband sites. The Company's process of constructing and enhancing its broadband sites, resulted in additional advertising revenue of \$1,087,690 for the three months ended June 30, 2004 compared to \$2,603 for the three months ended June 30, 2003.

The cost of services for the six months ended June 30, 2004 increased to \$1,120,861 from \$9,631 in the six months ended June 30, 2003. The increase of \$1,111,230 resulted primarily from the acquisition of rights for the broadband sites. The cost of services incurred for the three months ended June 30, 2004 accounted for \$1,004,827 compared to \$2,884 for the three months ended June 30, 2003.

General and administrative expenses for the six months ended June 30, 2004 increased to \$291,491 from \$98,959 for the six months ended June 30, 2003. The increase of \$192,532 resulted primarily from legal and other professional fees paid in the six months ended June 30, 2004. The Company incurred additional administrative fees of \$110,629 in the three months ended June 30, 2004 compared to \$44,041 for the three months ended June 30, 2003. The high administrative expenses was due primarily to the reverse merger and reorganization of M2B World and Amaru Inc.

Distribution costs for the six months ended June 30, 2004 increased to \$213,416 from \$4,605 in the six months ended June 30, 2003. The main increase in distribution costs was incurred in the three months ended June 30, 2004 which accounted for \$204,443 compared to \$4,605 for the three months ended June 30, 2003. This was needed for the Company to market its broadband sites on an international basis.

Liquidity and Capital Resources

The Company had cash of \$60,240 at June 30, 2004, as compared to cash of \$60,307 at December 31, 2003.

The Company believes that cash generated from its operations will is able to cover its daily running cost and overheads.

Cash generated from operations will not be able to cover the Company's intended growth and expansion. The Company has plans in 2004 to expand its broadband coverage by launching new broadband sites in North America and Asia.

In North America, the Company intends to launch new broadband entertainment and business training content sites in 2004. As of June 2004, one new entertainment site and one new business training site had been launched in North America. In Asia, one new business training site had been launched in 2004. At least one new broadband entertainment site is also planned for launching streaming content on a worldwide scale in 2004. In the area of E-commerce, the Company plans to launch one new shopping mall for health and wellness products online.

The Company has completed its prototype content for 3G (third generations) mobile phones. The Company is working with mobile operators on the possibility of launching this new content in the later half of 2004 or first quarter of 2005.

To achieve its plans, the Company is seeking to fund its new growth activities through equity financing. The Company plans to use the proceeds of such financing for expansion of its operations.

ITEM 3. Controls and Procedures

Our President and Treasurer/Chief Financial Officer (the "Certifying Officer") is responsible for establishing and maintaining disclosure controls and procedures and internal controls and procedures for financial reporting for the Company. The Certifying Officer has designed such disclosure controls and procedures and internal controls and procedures for financial reporting to ensure that material information is made known to him, particularly during the period in which this report was prepared. The Certifying Officer has evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls and procedures for financial reporting as of June 30, 2004 and believes that the Company's disclosure controls and procedures and internal controls and procedures for financial reporting are effective based on the required evaluation. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 1. Legal proceedings

No disclosures are required pursuant to Item 103 of Regulation S-B, taking into account Instruction 1 to that Item.

Item 2. Changes in securities and use of proceeds NONE

Item 3. Defaults on senior securities NONE

Item 4. Submission of items to a vote NONE

Item 5. Other information NONE

Item 6.

(a) Exhibits

Exhibit No. -----	Description -----
Exhibit 31	CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT
Exhibit 32	CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT

b) Reports on 8-K during the quarter: Form 8-K\A (Items 5 and 7) filed 5/24/04.

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.

Date: August 17, 2004

AMARU, INC.

By /s/ Colin Binny

President and Chief Financial Officer