SIGN MEDIA SYSTEMS INC
Form 10QSB/A
October 20, 2005

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

FORM 10-QSB/A
(First Amendment)

(Mark One)

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

For the quarterly period ended June 30, 2005

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

For the transition period from ________________ to _________________

Commission file number 000-50742

SIGN MEDIA SYSTEMS, INC.
(Exact name of small business issuer as specified in its charter)

FLORIDA (State or other jurisdiction of incorporation or organization)	02-0555904 (IRS Employer Identification No.)

2100 19th Street, Sarasota FL 34234
(Address of principal executive offices)

(941) 330-0336
(Issuer's telephone number)

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

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: 8,460,000 Common Shares no par value as of June 30, 2005.

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SIGN MEDIA SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2005
(UNAUDITED)

ASSETS

		(restated)
CURRENT ASSETS		
Cash and cash equivalents	$	13,705
Accounts receivable		8,929
Inventory		78,036
Total current assets		100,670
PROPERTY AND EQUIPMENT - Net		186,527
OTHER ASSETS		
Due from related parties		1,200,000
Total other assets		1,200,000
TOTAL ASSETS	$	1,487,197
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Deferred revenue	$	250,000
Liability for stock to be issued		224,900
Accounts payable and accrued expenses		222,823
Due to related parties		19,985
Current portion of long-term debt		9,211
Total current liabilities		726,919
Long-term debt - net of current portion		51,184
TOTAL LIABILITIES	$	778,103
STOCKHOLDERS' EQUITY		
Common stock, no par value, 100,000,000 shares authorized at June 30, 2005 and 8,460,000 shares issued and outstanding at June 30, 2005	$	5,000
Additional paid-in capital		671,700
Accumulated deficit		32,394
Total stockholders' equity		709,094
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	1,487,197

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

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SIGN MEDIA SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2005 AND 2004 (UNAUDITED)

	SIX MONTHS ENDED		THREE MONTHS ENDED	
	June 30, 2005 (restated)	June 30, 2004	June 30, 2005 (restated)	June 30, 2004
REVENUE	$ 511,385	$ 654,484	$ 489,114	$ 371,884
COST OF GOODS SOLD	13,396	94,260	10,889	39,116
GROSS PROFIT	497,989	560,224	478,225	332,768
OPERATING EXPENSES				
Professional fees	33,854	28,021	13,244	6,664
General and administrative expenses	343,798	249,095	186,534	94,926
Depreciation	24,941	16,715	13,050	12,215
Total operating expenses	402,593	293,831	212,828	113,805
NET INCOME BEFORE OTHER INCOME (EXPENSE)	95,396	266,393	265,397	218,963
OTHER INCOME (EXPENSE)				
Other income	103		101	
Recovery of bad debt expense	500,000		500,000	
Interest expense	(918)	(35,132)	(615)	(35,040)
Total Other Income (Expense)	499,185	(35,132)	499,486	(35,040)
NET INCOME BEFORE PROVISION FOR INCOME TAXES	594,581	231,261	764,883	183,923
Provision for income taxes	-	-	-	-
NET INCOME APPLICABLE TO COMMON SHARES	$ 594,581	$ 231,261	$ 764,883	$ 183,923
NET INCOME PER BASIC AND DILUTED SHARES	0.070	0.028	0.090	0.022
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	8,460,000	8,256,631	8,460,000	8,460,000

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

SIGN MEDIA SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004 (UNAUDITED)

	2005 (restated)	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 594,581	$ 231,261
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	24,941	16,715
Changes in assets and liabilities:		
(Increase) in accounts receivable	541,649	(235,582)
(Increase) decrease in inventory	7,536	2,850
Decrease in prepaid expenses and other current assets	4,000	39,666
(Increase) in miscellaneous receivable	-	(4,000)
Increase in accounts payable and accrued expenses	52,834	17,248
Increase in deferred revenue	250,000	-
Total adjustments	880,960	(163,103)
Net cash provided by operating activities	1,475,541	68,158
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(86,913)	(47,230)
Net cash (used in) investing activities	(86,913)	(47,230)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in liability for stock to be issued	24,900	-
Payments on long-term debt	(9,209)	(52,089)
Payments on debt - related parties	(1,396,966)	(183,142)
Contribution of additional paid-in capital	-	200,000
Net cash (used in) financing activities	(1,381,275)	(35,231)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,353	(14,303)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	6,352	47,068
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 13,705	$ 32,765
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest.	$ -	$ 35,132
SUPPLEMENTAL NON-CASH INVESTING ACTIVITIES:		

Conversion of liability to common stock	$ -	$ 324,000

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

SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

The condensed unaudited interim financial statements included herein have been prepared by Sign Media Systems, Inc. (the "Company") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted as allowed by such rules and regulations, and the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the December 31, 2004 audited financial statements and the accompanying notes thereto. While management believes the procedures followed in preparing these condensed financial statements are reasonable, the accuracy of the amounts are in some respects dependent upon the facts that will exist, and procedures that will be accomplished by the Company later that year.

The management of the Company believes that the accompanying unaudited condensed consolidated financial statements contain all adjustments (including normal recurring adjustments) necessary to present fairly the operations and cash flows for the periods presented.

The Company began business as Go! Agency LLC, a Florida Limited Liability Company ("Go Agency"). Go Agency was formed in April 2000, principally to pursue third party truck side advertising. The principal of Go Agency invested approximately $857,000 in Go Agency pursuing this business. It became apparent that a more advanced truck side mounting system would be required and that third party truck side advertising alone would not sustain an ongoing profitable business. Go Agency determined to develop a technologically advanced mounting system and focused on a different business plan.

SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

The Company was incorporated on January 28, 2002 as a Florida corporation. Upon incorporation, an officer of the Company contributed $5,000 and received 1,000 shares of common stock of the Company. Effective January 1, 2003, the Company issued 7,959,000 shares of common stock in exchange of $55,702 of net assets of GO! Agency, LLC, a Florida limited liability company ("Go Agency"), a company formed on June 20, 2000, as E Signs Plus.com, LLC, a Florida limited liability company. In this exchange, the Company assumed some debt of GO! Agency and the exchange qualified as a tax-free exchange under IRC Section 351. The net assets received were valued at historical cost. The net assets of Go Agency that were exchanged for the shares of stock were as follows:

Accounts receivable	$	30,668
Fixed assets, net of depreciation		112,214
Other assets		85,264
Accounts payable		(29,242)
Notes payable		(27,338)
Other payables		(115,864)
Totals	$	55,702

Go Agency was formed to pursue third party truck advertising. The principal of Go Agency invested approximately $857,000 in Go Agency pursuing this business. It became apparent that a more advanced truck side mounting system would be required and that third party truck side advertising alone would not sustain an ongoing profitable business. Go Agency determined to develop a technologically advanced mounting system and focused on a different business plan. Go Agency pre-exchange transaction was a company under common control of the major shareholder of SMS. Post-exchange transactions have not differed. Go Agency still continues to operate and is still under common control.

Go Agency and the Company developed a new and unique truck side mounting system, which utilizes a proprietary cam lever technology, which allows an advertising image to be stretched tight as a drum. Following the exchange, the Company had 7,960,000 shares of common stock issued and outstanding. The Company has developed and filed an application for a patent on its mounting systems. The cam lever technology is considered an intangible asset and has not been recorded as an asset on the Company's consolidated balance sheet. This asset was not recoded due to the fact that there was no historic recorded value on the books of Go Agency for this asset.

SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

On November 17, 2003, the Company entered into a merger agreement by and among American Powerhouse, Inc., a Delaware corporation and its wholly owned subsidiary, Sign Media Systems Acquisition Company, Inc., a Florida corporation and Signs Media Systems, Inc. Pursuant to the merger agreement, Signs Media Systems merged with Sign Media Systems Acquisition Company with Sign Media Systems being the surviving corporation. The merger was completed on December 8, 2003 with the filing of Articles of Merger with the State of Florida at which time Sign Media Systems Acquisition ceased to exist and Sign Media Systems became the surviving corporation. Some time prior to the merger, American Powerhouse had acquired certain technology for the manufacture of a water machine in the form of a water cooler that manufactures water from ambient air. However, American Powerhouse was not engaged in the business of manufacturing and distributing the water machine but was engaged in the licensing of that right to others. Prior to the merger, American Powerhouse granted a license to Sign Media Systems Acquisition to use that technology and to manufacture and sell the water machines. The acquisition of this license was the business purpose of this merger. As consideration for the merger, Sign Media Systems issued 300,000 shares of its common stock to American Powerhouse, 100,000 shares in the year ending December 31, 2002, and 200,000 shares in the year ending December 31, 2004. The 300,000 shares of stock were valued at $1.50 per share based on recent private sales of Sign Media Systems common stock. There were no other material costs of the merger. There was and is no relationship between American Powerhouse and either Sign Media Systems or GO! AGENCY. The Company recorded this license as an intangible asset for $400,000 and subsequently impaired the entire amount.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Revenue and Cost Recognition

Currently, the Company has three primary sources of revenue:

(1) The sale and installation of their mounting system
(2) The printing of advertising images to be inserted on trucks utilizing the Company’s mounting systems.
(3) Third party advertising

The Company’s revenue recognition policy for these sources of revenue is as follows. The Company relies on Staff Accounting Bulletin Topic 13, in determining when recognition of revenue occurs. There are four criteria that the Company must meet when determining when revenue is realized or realizable and earned. The Company has persuasive evidence of an arrangement existing; delivery has occurred or services rendered; the price is fixed or determinable; and collectibility is reasonably assured. Typically, the Company recognizes revenue when orders are placed and they receive deposits on those orders. In regard to the revenue recognition of third party advertising, the Company recognizes the revenue once they have completed the task for which the consumer paid.

In addition, the Company offers manufacturer’s warranties. These warranties are provided by the Company and not sold. Therefore, no income is derived from the warranty itself.

Cost is recorded on the accrual basis as well, when the services are incurred rather than when payment is made.

Costs of goods sold are separated by components consistent with the revenue categories. Mounting systems, printing and advertising costs include purchases made, and payroll costs attributable to those components. Payroll costs is included for sales, engineering and warehouse personnel in cost of goods sold. Cost of overhead is diminimus. The Company’s inventory consists of finished goods, and unassembled parts that comprise the framework for the mounting system placed on trucks for their advertising. All of these costs are included in costs of goods sold for the six months ended June 30, 2005 and 2004.

SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments and other short-term investments with an initial maturity of three months or less to be cash equivalents.

The Company maintains cash and cash equivalent balances at several financial institutions that are insured by the Federal Deposit Insurance Corporation up to $100,000.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed primarily using the straight-line method over the estimated useful life of the assets.

Furniture and fixtures	5 years
Equipment	5 years
Trucks	5 years

Accounts Receivable

Management believes that all accounts receivable as of June 30, 2005 are fully collectible. Therefore, no allowance for doubtful accounts is recorded. The Company recovered $500,000 in the quarter ended June 30, 2005 that was previously recorded as an allowance for bad debt.

Advertising

Costs of advertising and marketing are expensed as incurred. Advertising and marketing costs were $1,800 and $3,020 for the six months ended June 30, 2005 and 2004, respectively

Fair Value of Financial Instruments

The carrying amount reported in the balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments.

Earnings per Share of Common Stock

Historical net income per common share is computed using the weighted-average number of common shares outstanding. Diluted earnings per share (EPS) include additional dilution from common stock equivalents, such as stock issuable pursuant to the exercise of stock options and warrants.

SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings per Share of Common Stock (Continued)

The following is a reconciliation of the computation for basic and diluted EPS:

	June 30, 2005	2004
Net income	$ 594,581	$ 231,261
Weighted-average common shares outstanding		
Basic	8,460,000	8,256,631
Weighted-average common stock equivalents		
Stock options	-	-
Warrants	-	-
Weighted-average common shares outstanding		
Diluted	8,460,000	8,256,631

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2005 and 2004:

	2005	2004
Equipment	$ 104,234	$ 71,634
Furniture and Fixtures	112,022	41,798
Transportation Equipment	54,621	54,621
	270,877	168,053
Less: accumulated depreciation	84,350	34,484
Net Book Value	$ 186,527	$ 133,569

Depreciation expense for the six months ended June 30, 2005 and 2004 was $24,941 and $16,715, respectively.

SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

NOTE 4 - COMMITMENTS AND CONTINGENCIES

The Company entered into a lease agreement on November 1, 2002 with Hawkeye Real Estate, LLC, a related entity, to lease warehouse and office space. The lease expires on December 30, 2007, and provides that SMS pay all applicable sales and use tax, insurance and maintenance. The total minimum rental commitments at June 30, 2005 under this lease are as follows:

2005	$ 30,000
2006	30,000
2007	15,000
	$ 75,000

Rent expense for the six months ended June 30, 2005 and 2004 was $16,050, and $19,086, respectively.

NOTE 5 - RELATED PARTY TRANSACTIONS

On January 28, 2002, Sign Media Systems, Inc. was formed as a Florida Corporation but did not begin business operations until April 2002. Most of the revenue that Sign Media Systems, Inc. earned was contract work with Go! Agency, LLC., a Florida limited liability company, a related party. Sign Media Systems, Inc. would contract Go! Agency, LLC. to handle and complete jobs. There was no additional revenue or expense added from one entity to the other.

On January 3, 2003, the Company entered into a loan agreement with Olympus Leasing Company, a related party, and in connection therewith executed a promissory note with a future advance clause in favor of Olympus Leasing, whereby Olympus Leasing agreed to loan the Company up to a maximum of $1,000,000 for a period of three years, with interest accruing on the unpaid balance at 18% per annum, payable interest only monthly, with the entire unpaid balance due and payable in full on January 3, 2006. As of June 30, 2005 there was $0 due to Olympus. Other due to related party advances were $19,985. Due from related parties totaled $19,985 at June 30, 2005.

On June 28, 2005, the Company loaned to Olympus Leasing Company, a related party, $1,200,000. The loan is for a period of five years with interest accruing on the unpaid balance at 5.3% per annum payable annually, with the entire principal and unpaid interest due and payable in full on June 28, 2010.

SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

NOTE 6 - LONG-TERM DEBT

Long-term debt consists of two installment notes with GMAC Finance. As discussed in Note 1, the Company assumed debt from Go! Agency as of January 28, 2002. On June 18, 2003, the Company acquired a truck in the amount of $45,761 financed by GMAC over a period of 5 years. Monthly payments are $763. The loan carries no interest charges.

NOTE 7- PROVISION FOR INCOME TAXES

The net deferred tax assets in the accompanying condensed consolidated balance sheets include the following components at June 30, 2005:

Deferred tax assets	$	10,000
Deferred tax valuation allowance		(10,000)
	$	-

The Company will utilize its net operating losses to offset any Federal Income Tax due. The timing differences are approximately $33,000

NOTE 8 - STOCKHOLDERS' EQUITY

As of June 30, 2005 and 2004, there were 100,000,000 shares of common stock authorized.

As of June 30, 2005 and 2004, there were 8,460,000 shares of common stock issued and outstanding.

During the six months ended June 30, 2005 the Company did not have any stock transactions.

NOTE 9 - LIABILITY FOR STOCK TO BE ISSUED

At June 30, 2005, the Company has recorded $224,900 for common stock to be issued at a later date. Upon the issuance of the common stock the liability will be removed.

SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

NOTE 10 - RESTATEMENT

The Company has restated its June 30, 2005 financial statements to reclassify $500,000 that was posted directly to additional paid-in capital that should have been posted as a recovery of bad debt.

The effect of this restatement did not effect total stockholders equity. The effect did increase net income from $94,581 to $594,581 and earnings per share from .011 to .070.

Item 2. Management's Discussion and Analysis or Plan of Operation.

THE FOLLOWING DISCUSSION OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND NOTES THERETO INCLUDED ELSEWHERE IN THIS REPORT.

THIS DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES, AND THE COMPANY'S ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING, BUT NOT LIMITED TO COMPETITION AND OVERALL MARKET AND ECONOMIC CONDITIONS.

RESULTS OF OPERATIONS

Six Months Ended
June 30

	2005 (restated)	2004
Revenue	$ 511,385	$ 654,484
Cost of goods sold	13,396	94,260
Gross profit	497,989	560,224
Operating and other Expenses	403,511	328,963
Other income	500,103	-
Net income (loss)	$ 594,581	$ 231,261
Gross profit margin	97%	86%
Earnings per share of common stock	$ 0.070	$ 0.028
Weighted average of common shares	8,460,000	8,256,621

The Company restated its June 30, 2005 financial statements to reclassify $500,000 that was posted directly to additional paid-in capital that should have been posted as a recovery of bad debt. The effect of this restatement did not effect total stockholders equity. The effect did increase net income from $94,581 to $594,581 and earnings per share from .011 to .070.

For the six months ended June 30, 2005, the Company generated $511,385 of revenue, $497,989 of gross profit, $500,103 in other income which included $500,000 in recovery of bad debt expense, $594,581 of net income, and $0.070 in earnings per weighted average common share based upon a weighted average of 8,460,000 common shares outstanding.

For the six months ended June 30, 2004, the Company generated $654,484 of revenue, $560,224 of gross profit, $231,261 of net income, and $0.028 of net income per weighted common share based upon a weighted average of 8,256,631 common shares outstanding.

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Revenue for the six months ended June 30, 2005, exclusive of recovery of bad debt expense, decreased $143,099 from the same period last year. Net income for the six months ended June 30, 2005, increased $363,320 from the same period last year primarily due to the recovery of bad debt expense. Earnings per share for the six months ended June 30,2005, increased $0.004 from the same period last year.

Cost of goods sold significantly decreased as a percentage of revenue during the six month ended June 30, 2005. This is primarily the result of two factors: (1) the Company has significantly reduced the cost of manufacturing its framing systems by significantly reducing the number of necessary parts and the cost of those parts, and (2) the Company acquired a grand format printer which significantly reduced the cost of its digital graphics.

Three Months Ended
June 30

	2005 (restated)	2004
Revenue	$ 489,114	$ 371,884
Cost of goods sold	10,889	39,116
Gross profit	478,225	332,768
Operating and other Expenses	213,443	148,845
Other income	500,101	-
Net income (loss)	$ 764,883	$ 183,923
Gross profit margin	98%	89%
Earnings per share of common stock	$ 0.090	$ 0.022
Weighted average of common shares	8,460,000	8,460,000

For the three months ended June 30, 2005, the Company generated $489,114 of revenue, $478,225 of gross profit, $500,101 of other income which included $500,000 in recovery of bad debt expense, $764,883 of net income, and $0.090 in earnings per weighted average common share based upon a weighted average of 8,460,000 common shares outstanding.

For the three months ended June 30, 2004, the Company generated $371,884 of revenue, $332,768 of gross profit, $183,923 of net income, and $0.022 in earnings per weighted average common share based upon a weighted average of 8,460,000 common shares outstanding.

Revenue for the three months ended June 30, 2005, increased $117,230 from the same period last year. Net income for the three months ended June 30, 2005, increased $580,960 from the same period last year primarily due to recovery of bad debt expense. Earnings per share for the three months ended June 30,2005, increased $0.068 from the same period last year.

MANAGEMENT’S DISCUSSION

The Company is in the business of developing, manufacturing and marketing mobile billboard mounting systems which are mounted primarily on truck sides, rear panels and breaking panel roll up doors. The Company also produces digitally created outdoor, full color vinyl images which are inserted into the mounting systems and displayed primarily on trucks. The Company has developed mounting systems

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which allow the digital images to easily slide into an aluminum alloy extrusion with a cam-lever that snaps closed stretching the image tight as a drum, and that also easily opens to free the image for fast removals and change outs without damaging the truck body or the Fleet Graphics. The mounting systems' proprietary cam-lever technology is the key to their operation.

The Company's revenue comes from three primary sources; sales of the mobile billboard mounting systems, sales of digital printing, and sales of third party advertising utilizing the mobile billboard mounting systems. During the six months ended June 30, 2005, $496,904. or 97% of the Company's revenue came from the sale of its mobile billboard mounting systems, $0.00 or 00% of the Company's revenue came from the sale of third party advertising and $15,281 or 3% of the Company's revenue came from the sale of digital printing.

A material part of the Company's business is currently dependent upon one key customer, Advanced Advertising Network, LLC of Lake Mary, Florida. During the six months ended June 30, 2005, the Company's sales to this customer were approximately $485,816 or 95% of all sales. During the three months ended June 30, 2005, the Company's sales to this customer were approximately $459,768 or 94% of all sales. The Company continues to rely on this customer for the majority of its sales. However, the Company is moving forward to expand its distribution base so that it will no longer depend on this one key customer. There can be no guarantee that the Company will be able to diversify its distribution base. Advanced Advertising Network, LLC is not a related party.

For the six months ended June 30, 2005, the Company attributes the increase in revenue, net income and earnings per share to increases in sales and the elimination of bad debt expense. The Company's primary emphases is to expand sales nation wide and to also expand into Latin America by acquiring independent dealers.

On June 28, 2005, the Company loaned , $1,200,000 to Olympus Leasing Company, a related party. The loan is for a period of fives year with interest accruing on the unpaid balance at 5.3% per annum payable annually, with the entire principal and unpaid interest due and payable in full on June 28, 2010. At June 28, 2005, Antonio F. Uccello, III, was, and is today, the President, Chairman and owner of 45% of the issued and outstanding shares of stock of Olympus Leasing. Antonio F. Uccello, III, and was and is one of the Company' officers and directors and an indirect shareholder of Sign Media Systems, Inc. Olympus Leasing is engaged in the business of providing commercial financing. Olympus Leasing has outstanding financing agreements with numerous other unrelated parties. The purpose of the loan was to obtain a higher interest rate than is currently available at traditional banking institutions. The Company does not anticipate that this loan will affect its ability to conduct its business.

Item 3. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized, and reported within the required time periods. Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this annual report. They have concluded that, as of that date, our disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our reports filed under the Exchange Act.

(b) Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

There are no pending or threatened legal proceedings against the Company or any of its subsidiaries.

Item 2. Changes in Securities.

NONE

Item 3. Defaults Upon Senior Securities

NONE

Item 4. Submission of Matters to a Vote of Security Holders.

NONE

Item 5. Other Information.

Item 6. Exhibits and Reports on Form 8-K.

INDEX TO EXHIBITS.

Exhibit Number	**Description of Exhibit**
10.6	Promissory Note described in Part II, Item 5 above
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The Company filed no Forms 8K for the quarter ended June 30, 2005.

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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.

SIGN MEDIA SYSTEMS, INC.
(Registrant)

Date: October 11, 2005

/s/Antonio F. Uccello, III
Antonio F. Uccello, III
Chief Executive Officer
Chairman of the Board

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