SIGN MEDIA SYSTEMS INC
Form 10-Q/A
September 29, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

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 March 31, 2006

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

For the transition period from ________________ to _________________

Commission file number 0-50742

SIGN MEDIA SYSTEMS, INC.

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

FLORIDA	02-0555904
(State or other jurisdiction of incorporation or organization)	(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)

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) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

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 March 31, 2006

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

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

SIGN MEDIA SYSTEMS, INC.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(UNAUDITED)

SIGN MEDIA SYSTEMS, INC.

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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SIGN MEDIA SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
MARCH 31, 2006

ASSET

		2006
CURRENT ASSETS		
Cash and cash equivalents	$	3,103
Accounts receivable, net		700,632
Inventory, net		17,464
		721,199
PROPERTY AND EQUIPMENT - Net		167,565
OTHER ASSETS		
Due from related parties		727,952
		727,952
TOTAL ASSETS	$	1,616,716

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES		
Current portion of long-term debt	$	13,815
Accounts payable and accrued expenses		234,426
Current portion of debt - related parties		2,485
Deferred revenue		400,000
Liability for stock to be issued		224,900
		875,626
LONG-TERM DEBT - Net of Current Portion		32,765
TOTAL LIABILITIES		908,391
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, no par value, 100,000,000 shares authorized at March 31, 2006; 8,460,000 shares issued and outstanding at March 31 2006		5,000
Additional paid-in capital		671,700
Retained Earnings		31,625
		708,325
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$	1,616,716

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

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SIGN MEDIA SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005

	2006	2005
REVENUE - SALES, net	$ 302,252	$ 22,271
COSTS OF GOODS SOLD	9,351	2,507
GROSS PROFIT	292,901	19,764
OPERATING EXPENSES		
Professional fees and administrative payroll	79,383	111,884
General and administrative expenses	40,551	65,989
Depreciation	9,000	11,892
	128,934	189,765
NET INCOME (LOSS) BEFORE OTHER INCOME (EXPENSE)	163,967	(170,001)
OTHER INCOME (EXPENSE)		
Interest income and other	10,704	2
Interest (expense)	(267)	(303)
	10,437	(301)
NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	174,404	(170,302)
Provision for income taxes	(5,600)	-
NET INCOME (LOSS) APPLICABLE TO COMMON SHARES	$ 168,804	$ (170,302)
NET INCOME (LOSS) PER BASIC AND DILUTED SHARES	$ 0.02	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	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 (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 168,804	$ (170,302)
Adjustments to reconcile net income (loss) to net cash (used in) operating activities:		
Depreciation	9,000	11,892
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(700,632)	7,340
Decrease in inventory	7,536	-
Increase in accounts payable and accrued expenses	18,156	90,711
Increase in deferred revenue	400,000	-
Total adjustments	(265,940)	109,943
Net cash (used in) operating activities	(97,136)	(60,359)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(1,772)	(17,461)
Increase in interest receivable - related party	(10,300)	-
Proceeds from related parties	120,498	-
Net cash provided by (used in) investing activities	108,426	(17,461)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in liability for stock to be issued	-	24,900
(Payments) on long-term debt	(4,605)	(4,605)
Proceeds (Payments) on debt-related party	(5,834)	62,046
Net cash provided by (used in) financing activities	(10,439)	82,341
NET INCREASE IN CASH AND CASH EQUIVALENTS	851	4,521
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	2,252	6,352
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 3,103	$ 10,873
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 267	$ -

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

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NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION

The condensed consolidated unaudited interim financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The condensed consolidated unaudited financial statements and notes are presented as permitted on Form 10-QSB and do not contain information included in the Company's annual condensed consolidated unaudited statements and notes. 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 pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed consolidated unaudited financial statements be read in conjunction with the December 31, 2005 audited consolidated financial statements and the accompanying notes thereto. While management believes the procedures followed in preparing these condensed consolidated unaudited 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 in the year.

These condensed consolidated unaudited financial statements reflect all adjustments, including normal recurring adjustments which, in the opinion of management, are necessary to present fairly the consolidated operations and cash flows for the periods presented.

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:

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

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)	
Total	$ 55,702	

Go Agency was formed 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. 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 recorded due to the fact that there was no historic recorded value on the books of Go Agency for this asset.

On November 17, 2003, the Company entered into a merger agreement by and among American Power House, Inc., a Delaware corporation and its wholly owned subsidiary, Sign Media Systems Acquisition Company, Inc., a Florida corporation and Sign Media Systems, Inc. Pursuant to the merger agreement, Sign 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. American Powerhouse was not actively

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

engaged in any business at the time of the merger. However, sometime prior to the merger, American Power House had acquired certain technology for the manufacture of a water machine in the form of a water cooler that manufactures water from ambient air. Prior to the merger, American Power House 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 the merger. As consideration for the merger, Sign Media Systems issued 300,000 shares of its common stock to American Power House, 100,000 shares in the year ending December 31, 2003, 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. At the time of the merger the Company was in negotiations with independent dealers in Central America who sold United States products in Central and South America and who had expressed a desire to market this product in that territory. Ultimately, the Company was unable to come to a satisfactory agreement with these dealers for the sale of this product. Accordingly, the Company is not currently engaged in the business of manufacturing and sale of this product. The Company will not become engaged in the business of manufacturing and selling this product until it can identify and come to a satisfactory agreement with an independent dealer or dealers in that territory for the sale of this product. The Company cannot currently predict when or if it will identify and come to a satisfactory agreement with an independent dealer or dealers in this territory for the sale of this product. Due to these problems with the Company’s plans for marketing and distribution of the water machine subsequent to the merger, the license has no carrying or book value for the years ended December 31, 2005 and 2004 in the Company’s consolidated financial statements for December 31, 2005 and 2004. 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 $150,000 for the 100,000 shares of stock issued in 2003 and subsequently
impaired the entire amount. The Company issued the remaining 200,000 shares in 2004, and recorded a liability for stock to be issued at $300,000. There is a $450,000 charge against income reflected in the consolidated statements of income for the year ended December 31, 2003.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Use of Estimates

The preparation of condensed consolidated unaudited 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; and
(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. The Company recognizes revenue from the sale of its mounting systems and images when it completes the work and either ships or installs the products. The Company recognizes revenue from third party advertising.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Cost Recognition (continued)

only when it has the contractual right to receive such revenue. The Company does retain a liability to maintain systems and images that are installed for purposes of third party advertising. However, any damage caused by the operator of the truck is the responsibility of the lessor of the space and is not the Company's liability. To date the Company has experienced no cost for maintaining these leased systems. All deposits are non-refundable.

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 de minimus. 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 three months ended March 31, 2006 and 2005.

Warranties

The Company offers manufacturers warranties that covers all manufacturer defects. The Company accrues warranty costs based on historical experience and management's estimates. The Company has not experienced any losses in the past two years with respect to the warranties, therefore has not accrued any liability for the three months ended March 31, 2006 and 2005. The following table represents the Company's losses in the past two years with respect to warranties.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Warranties (continued)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
Three Months ended March 31, 2006	$ -	$ -	$ -	$ -
Three Months ended March 31, 2005	$ -	$ -	$ -	$ -

Provision for Bad Debt

Under SOP 01-6 "Accounting for Certain Entities (including Entities with Trade Receivables) That Lend to or Finance the Activities of Others" the Company has intent and belief that all amounts in accounts receivable are collectible. The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated credit risk by performing credit checks and actively pursuing past due accounts over 90 days. The Company's major customer at March 31, 2006 and 2005, was uncharacteristically slow in paying their outstanding invoices during March 31, 2006 and 2005.

Management's policy is to vigorously attempt to collect its receivables monthly. The Company estimated the amount of the allowance necessary based on a review of the aged receivables from the major customer. Management additionally instituted a policy for recording the recovery of the allowance if any in the period where it is recovered.

Bad debt expense for the three months ended March 31, 2006 and 2005 was $-0- and $-0-, respectively.

NOTE 2- <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)</u>

<u>Cash and Cash Equivalents</u>

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.

<u>Accounts Receivable</u>

Accounts receivable are presented at face value, net of the allowance for doubtful accounts. The allowance for doubtful accounts is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated bad debts based on current economic conditions.

<u>Property and Equipment</u>

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	3 years

<u>Advertising</u>

Costs of advertising and marketing are expensed as incurred. Advertising and marketing costs were $-0- and $1,800 for the three months ended March 31, 2006 and 2005, respectively.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Inventory

Inventory at March 31, 2006 and 2005 consists of raw materials. Included in these raw materials are top rails, side rails, floating rails, fixed pivot rails, lever rails and right and left end caps. Inventory is stated at the lower of cost or market, utilizing the first in, first out method, “FIFO”, to determine which amounts are removed from inventory.

Income Taxes

The provision for income taxes includes the tax effects of transactions reported in the financial statements. Deferred taxes would be recognized for differences between the basis for assets and liabilities for financial statement and income tax purposes. The major difference relates to the net operating loss carry forwards generated by sustaining deficits.

Reclassifications

Certain balances in the 2005 condensed consolidated unaudited financial statements have been reclassified for comparative purposes to conform to the presentation in the 2006 condensed consolidated unaudited financial statements. These reclassifications have not had any impact on net income.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-Based Compensation

Employee stock awards under the Company's compensation plans are accounted for in accordance with Accounting Principles Board Opinion No. 25 (“APB 25”), “*Accounting for Stock Issued to Employees*”, and related interpretations. The Company provides the disclosure requirements of Statement of Financial Accounting Standards No. 123, “*Accounting for Stock-Based Compensation*” (“SFAS 123”), and related interpretations. Stock-based awards to non-employees are accounted for under the provisions of SFAS 123 and has adopted the enhanced disclosure provisions of SFAS No. 148 “Accounting for Stock-Based Compensation- Transition and Disclosure, an amendment of SFAS No. 123”.

The Company measures compensation expense for its employee stock-based compensation using the intrinsic-value method. Under the intrinsic-value method of accounting for stock-based compensation, when the exercise price of options granted to employees is less than the estimated fair value of the underlying stock on the date of grant, deferred compensation is recognized and is amortized to compensation expense over the applicable vesting period. In each of the periods presented, the vesting period was the period in which the options were granted. All options were expensed to compensation in the period granted rather than the exercise date.

The Company measures compensation expense for its non-employee stock-based compensation under the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Issue No. 96-18, “*Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*”.

The fair value of the option issued is used to measure the transaction, as this is more reliable than the fair value of the services received. The fair value is measured at the value of the Company’s common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty’s performance is complete. The fair value of the equity instrument is charged directly to compensation expense and additional paid-in capital.

NOTE 2- <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)</u>

<u>Loss per Share of Common Stock</u>

Historical net (loss) 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. Common stock equivalents are not included in the computation of diluted earnings per share when the Company reports a loss because to do so would be antidilutive for the periods presented.

The following is a reconciliation of the computation for basic and diluted EPS:
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	March 31, 2006	2005
Net income (loss)	$ 168,804	$ (170,302)
Weighted-average common shares outstanding Basic	8,460,000	8,460,000
Weighted-average common stock equivalents		
Stock options	-	-
Warrants	-	-
Weighted-average common shares outstanding Diluted	8,460,000	8,460,000

<u>Recent Accounting Pronouncements</u>

In September 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, *Business Combinations,* and No. 142, *Goodwill and Other Intangible Assets,* effective for fiscal years beginning after December 15, 2001. Under the new rules, the pooling of interests method of accounting for business combinations are no longer allowed and goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company adopted these new standards effective January 1, 2002.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

On October 3, 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of,"* and portions of Accounting Principles Board Opinion 30, "Reporting the Results of Operations." This Standard provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an asset as held-for-sale. Classification as held-for-sale is an important distinction since such assets are not depreciated and are stated at the lower of fair value and carrying amount. This Standard also requires expected future operating losses from discontinued operations to be displayed in the period(s) in which the losses are incurred, rather than as of the measurement date as presently required. The Company has applied the provisions of FASB 144, with respect to the sale of Zingo Sales.

In May 2003, the FASB issued SFAS No. 150, "Accounting for certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"). SFAS 150 requires that certain financial instruments issued in the form of shares that are mandatorily redeemable as well as certain other financial instruments be classified as liabilities in the financial statements. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003. The adoption of SFAS No. 150 did not have a material affect on the Company's reported financial results.

On December 16, 2004, the Financial Accounting Standards Board ("FASB") published Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment ("SFAS 123R"). SFAS 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS 123R are effective for small business issuers as of the first interim period that begins after December 15, 2005. Accordingly, the Company will implement the revised standard in the first quarter of fiscal year 2006. Currently, the Company accounts for its share-based payment transactions under the provisions of APB 25, which does not necessarily require the recognition of compensation cost in the financial statements (note 3(d)). The adoption of SFAS No. 153 did not have a material effect on the Company's reported financial results.

NOTE 3- **ACCOUNTS RECEIVABLE**

Accounts receivable consists of the following at March 31, 2006:

	2006
Accounts receivable	$ 1,408,197
Less allownace for doubtful accounts	(707,565)
Total accounts receivable, net	$ 700,632

NOTE 4- PROPERTY AND EQUIPMENT

Property and equipment consists of the following at March 31, 2006 and 2005:

	2006
Equipment	$ 127,099
Furniture and Fixtures	112,022
Transportation Equipment	54,621
	293,742
Less: Accumulated Depreciation	126,177
Net Book Value	$ 167,565

Depreciation expense for the three months ended March 31, 2006 was $9,000.

NOTE 5- <u>RELATED PARTY TRANSACTIONS</u>

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 March 31, 2006 and 2005, there was $0 and $109,761 due to Olympus, respectively.

On September 15, 2004, the Company entered into a loan agreement with Go! Agency, LLC and in connection therewith executed a promissory note with a future advance clause in favor of Go! Agency whereby Go! Agency agreed to loan the Company up to a maximum of $100,000 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 September 24, 2005. At March 31, 2006 and 2005, the Company was indebted to Go! Agency in the amount of $0 and $96,883, respectively and interest expense on this note was $0 and $303 for the three months ended March 31, 2006 and 2005, respectively.

On June 28, 2005, the Company loaned $1,200,000 to Olympus Leasing Company, a related party. At June 28, 2005, Antonio F. Uccello, III, was, and is now the President, Chairman, a minority owner of the issued and outstanding shares of stock of Olympus Leasing and reports to its board of directors. Antonio F. Uccello, III, was and is one of the Company’s officers and directors and an indirect shareholder of Sign Media Systems, Inc. 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 principle and unpaid interest due and payable in full on June 28, 2010.

NOTE 5- RELATED PARTY TRANSACTIONS (CONTINUED)

There is no prepayment penalty. The purpose of the loan was to obtain a higher interest rate than is currently available at traditional banking institutions. Olympus Leasing's primary business is making secured loans to chiropractic physicians throughout the United States for the purchase of chiropractic adjustment tables. The loans are generally for less than $3,000 each and are secured by a first lien on each chiropractic adjustment table. The chiropractic physician personally guarantees each loan. The rate of return on the Olympus Leasing loans is between 15% and 25% per annum. To date, Olympus Leasing has suffered no loss from any loan to a chiropractic physician for the purchase of a chiropractic adjustment table. There is an excellent market for the re-sale of tables, which may be the subject of a foreclosure. Olympus Leasing currently has in excess of $1,000,000 in outstanding finance receivables from chiropractic physicians secured by a first lien on each chiropractic adjustment table.

Since the making of the loan by the Company to Olympus Leasing, Olympus Leasing has made payments to the Company of $509,000 pursuant to the note.

NOTE 6- LONG-TERM DEBT

Long-term debt consists of two installment notes with GMAC Finance. On June 18, 2003, the Company acquired a truck financed by GMAC over a period of 5 years. Monthly payments are $763. The remaining balance on this loan is $20,294. The loan carries no interest charges. Additionally on December 4, 2003, the Company entered into another truck loan in the amount of $46,860. The payments will be for a period of 5 years at $772 per month. The loan carries no interest charges. The remaining balance on this loan is $26,286.

The following represents maturities over the next five years and in the aggregate:

For the years ending December 31:

2006	$	13,815
2007		18,420
2008		14,345
	$	46,580

NOTE 7- PROVISION FOR INCOME TAXES

	2006
Current tax expense	$ 5,600
Benefit of loss carry forward	$ -
Net current expense	$ 5,600

NOTE 8- 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 March 31, 2006 under this lease are as follows:

2006	$ 21,975
2007	15,000
	$ 36,975

Rent expense for the three months ended March 31, 2006 and 2005 was $8,025, and $8,025, respectively.

NOTE 9- CONCENTRATION OF CREDIT RISK

A material part of the Company's business was dependent upon one key customer during the three months ended March 31, 2006 and 2005. Sales to this customer were approximately 96% and 89%, respectively.

Approximately 99% of the Company's accounts receivable at March 31, 2005 are due from this one customer.

NOTE 10- STOCKHOLDERS' DEFICIT

As of March 31, 2006 and 2005, there were 100,000,000 shares of common stock authorized.

As of March 31, 2006 and 2005, there were 8,460,000 shares of common stock issued and outstanding, respectively.

The Company issued 134,000 shares of common stock for $160,500. The Company pursuant to a Board resolution was to issue another 16,000 shares of common stock. This issuance did not occur until 2004. The Company recorded a $24,000 liability for stock to be issued in 2003, which was reclassified to equity upon the issuance of the shares.

The Company issued 100,000 shares of common stock but authorized 300,000 shares to be issued in connection with the merger of SMA. The Company valued this at $450,000 with $300,000 reflected as a liability for stock to be issued for 200,000 shares. These shares were issued in 2004.

The Company received $200,000 in cash in 2004 for stock that has not been issued as of December 31, 2004. The Company has recorded this as a liability for stock to be issued as of December 31, 2004.

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 CONTINUING OPERATIONS

The Following table sets forth certain of our summary selected unaudited operating and financial data. The following table should be read in conjunction with all other financial information and analysis presented herein.

	Three Months Ended March 31	
	2006	2005
Revenue-Sales, net	$ 302,252	$ 22,271
Cost of Goods Sold	9,351	2,507
Gross profit	292,901	19,764
Total Operating Expenses	128,934	189,765
Net Income (Loss) Before Other Income (Expense)	163,967	(170,001)
Total Other Income (Expense)	10,437	(301)
Net Income (Loss)Before Provision For Income Taxes	174,404	(170,302)
Provision For Income Taxes	(5,600)	-
Net Income (Loss) Applicable To Common Shares	$ 168,804	$ (170,302)
Net Income (Loss) Per Basic And Diluted Shares	$ 0.02	$ (0.02)

	Three Months Ended March 31	
	2006	2005
Weighted Average Number OF Common Shares Outstanding	8,460,000	8,460,000
Gross profit margin	97%	89%

For the three months ended March 31, 2006, the Company had Total Revenue-Sales, net of $302,252, Cost of Goods Sold of $9,351, Gross profit of $292,901, Total Operating Expenses of $128,901, Net Income Before Other Income of $163,967, Total Other Income of $10,437, Net Income Before Provision For Income Taxes of $174,404, a Provision For Income Taxes of $(5,600), Net Income Applicable To Common Shares of $168,804 and Net Income Per Basic and Diluted Shares of $0.02 based on 8,460,000 Weighted Average Number Of Common Shares Outstanding.

For the three months ended March 31, 2005, the Company had Total Revenue-Sales, net of $22,271, Cost of Goods Sold of $2,507, Gross profit of $19,764, Total Operating Expenses of 189,765, Net Loss Before Other Income of $(170,001), Total Other Expense of $(301), Net Income Applicable To Common Shares of $(170,302) and Net Loss Per Basic and Diluted Shares of $(0.02) based on 8,460,000 Weighted Average Number Of Common Shares Outstanding.

Revenue increased $279,981 from the same period last year. Cost of goods increased $6,844 from the same period last year. Total operating expenses decreased $60,831 from the same period last year. Net Income Before other Income (Expense) increased $333,968 from the same period last year. Total Other Income (Expense) increased $10,738 from the same period last year. Net Income (Loss) Before Provision For Income Taxes increased $344,706 from the same period last year. The Provision For Income Taxes increased $5,600 from the same period last year. Net Income (Loss) Applicable To Common Shares increased $339,106 from the same period last year. Net Income (Loss) Per Basic And Diluted Shares increased $0.04 from the same period last year.

MANAGEMENT'S DISCUSSION

The Company attributes the increases in Revenue-Sales, net, Gross Profit, Net Income Before Other Income, Net Income Before Provision For Income tax, Net Income Applicable to Common Shares and Net Income Per Basic And Diluted Shares primarily to increased sales by one key customer.

The Company attributes the increase in Cost Of Goods Sold to increased sales. However, this increase was minimized due to three primary factors. First, the Company has re-engineered the manufacture of its original mounting system resulting in lowering the cost of manufacture and resulting the ability to use existing inventories of aluminum to manufacture more mounting systems. Second, the Company has introduced several lower cost mounting systems that can be manufactured from aluminum not used because of the re-engineering of its original mounting system. Third, the Company has purchased a grand format printer resulting in a reduction in printing costs.

The Company attributes the decrease in Total Operating Expenses due to reliance on out side dealers and reduction of in side sales persons.

The Company attributes the increase in Total Other Income to the reduction of debt and an investment loan to a related party which produces interest income.

The Company attributes the increase in the Provision For Income Taxes to increased revenue from increased sales.

The Company will require significant capital to implement both its short term and long-term business strategies. However, there can be no assurance that such additional capital will be available or, if available, that the terms will be favorable to the Company. The absence of significant additional capital whether raised through a public or private offering or through other means, including either private debt or equity financings, will have a material adverse effect on the Company’s operations and prospects.

The Company’s operations have consumed and will continue to consume substantial amounts of capital, which, up until now, have been largely financed internally through cash flows, from loans from related parties, and private investors. The Company expects capital and operating expenditures to increase. Although the Company believes that it will be able to attract additional capital through private investors and as a result thereof its cash reserves and cash flows from operations will be adequate to fund its operations through the end of calendar year 2006, there can be no assurance that such sources will, in fact, be adequate or that additional funds will not be required either during or after such period. No assurance can be given that any additional financing will be available or that, if available, it will be available on terms favorable to the Company. If adequate funds are not available to satisfy either short or long-term capital requirements, the Company may be required to limit its operations significantly or discontinue its operations. The Company’s capital requirements are dependent upon many factors including, but not limited to, the rate at which it develops and introduces its products and services, the market acceptance and competitive position of such products and services, the level of promotion and advertising required to market such products and services and attain a competitive position in the marketplace, and the response of competitors to its products and services.

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.

NONE

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

NONE

INDEX TO EXHIBITS.

NONE

The Company filed no Forms 8K for the quarter ended March 31, 2006.

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 September 29, 2006

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