CUSTOM BRANDED NETWORKS INC
Form 10QSB
February 14, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended DECEMBER 31, 2004

[ ] Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period to

Commission File Number 000-28535

CUSTOM BRANDED NETWORKS, INC.
(Exact name of small Business Issuer as specified in its charter)

NEVADA	91-1975651
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
821 E. 29TH NORTH VANCOUVER, B.C.	V7K 1B6
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code: 604-904-6946

Not Applicable
(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 Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days [X] Yes [ ] No

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 48,272,532 SHARES OF $.001 PAR VALUE COMMON STOCK OUTSTANDING AS OF DECEMBER 31, 2004.

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying un-audited financial statements have been prepared in accordance with the instructions to Form 10-QSB and, therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, cash flows, and stockholders' deficit in conformity with generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the six months ended December 31, 2004 are not necessarily indicative of the results that can be expected for the year ending June 30, 2005.

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CUSTOM BRANDED NETWORKS, INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 30, 2004
(UNAUDITED)
(STATED IN U.S. DOLLARS)

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CUSTOM BRANDED NETWORKS, INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED BALANCE SHEET
(UNAUDITED)
(STATED IN U.S. DOLLARS)

	DECEMBER 30 2004	JUNE 30 2004
ASSETS		
CURRENT		
Cash	$ -	$ -
EQUIPMENT, net	696	774
	$ 696	$ 774
LIABILITIES		
CURRENT		

Accounts payable and accrued liabilities .	$ 315,818	$ 323,663
CONVERTIBLE NOTE PAYABLE, net of discount (Note 5)	491,280	449,306
	807,098	772,969
STOCKHOLDERS' DEFICIENCY		
SHARE CAPITAL Authorized: 50,000,000 common shares with a par value of $0.001 per share at September 30, 2004 and June 30, 2004		
Issued and outstanding: 38,372,532 common shares at December 31, 2004 and June 30, 2004 . . .	38,373	38,373
Additional paid-in capital	636,281	636,281
DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE.	(1,481,056)	(1,446,849)
OTHER.	-	-
	(806,402)	(772,195)
	$ 696	$ 774

CUSTOM BRANDED NETWORKS, INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)
(STATED IN U.S. DOLLARS)

	THREE MONTHS ENDED DECEMBER 31 2004	THREE MONTHS ENDED DECEMBER 31 2003	SIX MONTHS ENDED DECEMBER 31 2004	SIX MONTHS ENDED DECEMBER 31 2003	INCEPTION JUNE 18 1999 TO DECEMBER 31 2004
REVENUE	$ -	$ -	$ -	$ -	$ 184,162
EXPENSES					
Administrative expenses .	139	16,425	3,087	30,084	1,434,410
Interest expense.	15,560	13,581	31,120	27,162	168,364
Mineral property payment	-	-	-	-	50,000

Write down of capital assets	-	-	-	-	12,445
	15,699	30,006	34,207	57,246	1,665,219
NET LOSS FOR THE PERIOD .	(15,699)	(30,006)	(34,207)	(57,246)	$(1,481,057)
LOSS PER SHARE, Basic and diluted.	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING. .	38,372,352	38,372,352	38,372,532	38,372,532	

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CUSTOM BRANDED NETWORKS, INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)
(STATED IN U.S. DOLLARS)

	SIX MONTHS ENDED DECEMBER 31 2004	2003	INCEPTION JUNE 28 1999 TO DECEMBER 31 2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period.	$ (34,207)	$(57,246)	$(1,481,056)
ADJUSTMENTS TO RECONCILE LOSS TO NET CASH USED BY OPERATING ACTIVITIES			
Shares issued for other than cash.	-	22,500	45,000
Amortization	78	97	3,117
Amortization of interest . .	31,120	27,162	167,686
Write down of capital assets	-	-	12,445
Change in accounts payable and accrued liabilities . .	(7,845)	3,403	315,818
	(10,854)	(4,084)	(936,990)
CASH FLOWS FROM INVESTING ACTIVITY			
Purchase of capital assets .	-	-	(1,808)

CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loan payable to shareholder	-	-	16,097
Issue of common shares . . .	-	-	18,950
Convertible note payable . .	10,854	4,084	902,973
Cash acquired on acquisition of subsidiary	-	-	778
	10,854	4,084	938,798
(DECREASE) INCREASE IN CASH.	-	-	-
CASH, BEGINNING OF PERIOD. .	-	894	-
CASH, END OF PERIOD.	$ -	$ 894	$ -

CUSTOM BRANDED NETWORKS, INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY

PERIOD FROM INCEPTION ON JUNE 28, 1999 TO DECEMBER 31, 2004
(UNAUDITED)
(STATED IN U.S. DOLLARS)

	COMMON STOCK		ADDITIONAL PAID-IN		DEFICIT ACCUMULATED DURING THE DEVELOPMENT	
	SHARES	AMOUNT	CAPITAL	OTHER	STAGE	
Issuance of shares to founders	3,465	$ 3	$ 18,947	$ -	$ -	$
Net loss for the period . .	-	-	-	-	(159,909)	(
Balance, June 30, 2000. . .	3,465	3	18,947	-	(159,909)	(
Repurchase of common stock by consideration of forgiveness of loan payable to shareholder . .	(1,445)	(1)	16,098	-	-	
	2,020	2	35,045	-	(159,909)	(
Adjustment to number of shares issued and outstanding as a result of the reverse take-over transaction						
Custom Branded Networks, Inc.	(2,020)	(2)	2	-	-	
Aquistar Ventures (USA) Inc.	15,463,008	15,463	(15,463)	-	-	
	15,463,008	15,463	19,584	-	(159,909)	(
Shares allotted in connection with the						

acquisition of Custom Branded Networks, Inc. . .	25,000,000	25,000	(9,772)	-	-	
Less: Allotted and not yet issued	(8,090,476)	(8,090)	8,090	-	-	
Common stock conversion rights	-	-	421,214	-	-	
Net loss for the year . . .	-	-	-	-	(723,239)	(
Balance, June 30, 2001. . .	32,372,532	32,373	439,116	-	(883,148)	(
Additional shares issued in connection with the acquisition of Custom Branded Networks, Inc. . .	1,500,000	1,500	(1,500)	-	-	
Common stock conversion rights	-	-	109,748	-	-	
Net loss for the year . . .	-	-	-	-	(326,038)	(
Balance, June 30, 2002. . .	33,872,532	33,873	547,364	-	(1,209,186)	(

CUSTOM BRANDED NETWORKS, INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY (CONTINUED)

PERIOD FROM INCEPTION ON JUNE 28, 1999 TO DECEMBER 31, 2004
(UNAUDITED)
(STATED IN U.S. DOLLARS)

	COMMON STOCK		ADDITIONAL PAID-IN		DEFICIT ACCUMULATED DURING THE DEVELOPMENT	
	SHARES	AMOUNT	CAPITAL	OTHER	STAGE	
Balance, June 30, 2002. .	33,872,532	$ 33,873	$ 547,364	$ -	$(1,209,186)	$ (
Issue of common stock for deferred compensation expense.	4,500,000	4,500	40,500	(45,000)	-	
Amortization of deferred compensation	-	-	-	22,500	-	
Common stock conversion rights	-	-	45,116	-	-	
Net loss for the year . .	-	-	-	-	(142,233)	(
Balance, June 30, 2003. .	38,372,532	38,373	632,980	(22,500)	(1,351,419)	(
Amortization of deferred compensation	-	-	-	22,500	-	
Common stock conversion rights	-	-	3,301	-	-	
Net loss for the year . .	-	-	-	-	(95,430)	
Balance, June 30, 2004. .	38,372,532	38,373	636,281	-	(1,446,849)	(

Net loss for the period .	-		-		-		-	(34,207)	
Balance, December 31, 2004	38,372,532	$	38,373	$636,281	$	-	$(1,481,056)	$	(

CUSTOM BRANDED NETWORKS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004
(UNAUDITED)
(STATED IN U.S. DOLLARS)

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements as of December 31, 2004 included herein have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. It is suggested that these consolidated financial statements be read in conjunction with the June 30, 2004 audited consolidated financial statements and notes thereto.

2. NATURE OF OPERATIONS AND GOING CONCERN

Custom Branded Networks, Inc. (the "Company") was previously engaged in the business of providing turnkey private label internet services to organizations throughout the domestic United States and Canada. During the year ended June 30, 2003, the Company became an exploration staged company engaged in the acquisition and exploration of mining claims. Upon location of a commercial minable reserve, the Company expects to actively prepare the site for its extraction and enter a development stage.

Going Concern

The accompanying financial statements have been prepared assuming the Company will continue as a going concern.

As shown in the accompanying financial statements, the Company has incurred a net loss of $1,481,056 for the period from April 12, 2002 (inception) to December 31, 2004, and has no sales. The future of the Company is dependent upon its ability to obtain financing and upon future profitable operations from the development of its mineral claims. Management has plans to seek additional capital through a private placement and public offering of its common stock. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts of and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

CUSTOM BRANDED NETWORKS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004
(UNAUDITED)
(STATED IN U.S. DOLLARS)

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgment.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Consolidation

These financial statements include the accounts of the Company (a Delaware corporation), and its wholly-owned subsidiary, Custom Branded Networks, Inc. (a Nevada corporation).

b) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 management's best estimates as additional information becomes available in the future.

c) Equipment

Equipment is recorded at cost and is amortized over its useful life at a rate of 20% on a declining balance basis.

d) Income Taxes

The Company has adopted Statement of Financial Accounting Standards No. 109 - "Accounting for Income Taxes" (SFAS 109). This standard requires the use of an asset and liability approach for financial accounting and reporting on income taxes. If it is more likely than not that some portion of all of a deferred tax asset will not be realized, a valuation allowance is recognized.

CUSTOM BRANDED NETWORKS, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004
(UNAUDITED)
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Mineral Claim Payments and Exploration Costs

The Company expenses all costs related to the acquisition, maintenance and exploration of mineral claims in which it has secured exploration rights prior to establishment of proven and probable reserves. To date, the Company has not established the commercial feasibility of its exploration prospects, therefore, all costs are being expensed.

f) Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, and accounts payable.

Unless otherwise noted, it is management's opinion that this Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

g) Stock Based Compensation

The Company measures compensation cost for stock based compensation using the intrinsic value method of accounting as prescribed by A.P.B. Opinion No. 25 - "Accounting for Stock Issued to Employees". The Company has adopted those provisions of Statement of Financial Accounting Standards No. 123 - "Accounting for Stock Based Compensation", which require disclosure of the pro-forma effect on net earnings and earnings per share as if compensation cost had been recognized based upon the estimated fair value at the date of grant for options awarded.

h) Loss Per Share

The Company computes net loss per share in accordance with SFAS No. 128 - "Earnings Per Share". Under the provisions of SFAS No. 128, basic loss per share is computed using the weighted average number of common stock outstanding during the periods. Diluted loss per share is computed using the weighted average number of common and potentially dilative common stock outstanding during the period. As the Company generated net losses in each of the periods presented, the basic and diluted net loss per share is the same as any exercise of options or warrants would anti-dilutive.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

The Company reviews long-lived assets and including identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

j) New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141 - "Business Combinations". The Statement requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method of accounting. The Company believes that the adoption of FASB No. 141 will not have a significant impact on its financial statements.

In July 2001, the FASB issued Statement No. 142 - "Goodwill and Other Intangible Assets". The Statement will require discontinuing the amortization of goodwill and other intangible assets with indefinite useful lives. Instead, these assets will be tested periodically for impairment and written down to their fair market value as necessary. This Statement is effective for fiscal years beginning after December 15, 2001. The Company believes that the adoption of FASB No. 142 will not have a material impact on its financial statements.

In August 2001, the FASB issued Statement No. 144 - "Accounting for the Impairment of Long-Lived Assets" which is effective for fiscal years beginning after December 15, 2001. FASB No. 144 addresses accounting and reporting of long-lived assets, except goodwill, that are either held and used or disposed of through sale or other means. The Company believes that the adoption of FASB No. 144 will not have a material impact on its financial statements.

CUSTOM BRANDED NETWORKS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004
(UNAUDITED)
(STATED IN U.S. DOLLARS)

4. CAPITAL ASSETS

	DECEMBER 31 2004			JUNE 30 2004
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Computer equipment	$ 1,808	$ 1,808	$ -	$ -
Office equipment .	3,380	2,645	735	774
	$ 5,188	$ 4,453	$ 735	$ 774

5. CONVERTIBLE NOTE PAYABLE

On January 31, 2002, the Company executed $1,000,000 aggregate principal amount of convertible notes due not earlier than January 31, 2009. The Company has received $892,402 in advances through to September 30, 2004. The notes bear no interest until the maturity date, and interest at 5% per annum on any remaining principal balance after the maturity date. The notes are convertible, at the option of the holder, at any time on or prior to maturity into shares of the Company's common stock at a conversion price of $0.05 per share, and each converted share includes a warrant to purchase an additional common stock share at an exercise price of $0.05 per share. The warrants expire three years from the grant day.

Because the market interest rate on similar types of notes was approximately 14% per annum the day the notes were issued, the Company has recorded a discount of $579,378 related to the beneficial conversion feature. The discount will be amortized as interest expense over the life of the convertible notes, or sooner upon conversion. During the period, the Company recorded interest expense of $15,560 (2003 - $13,581).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

Plan of Operations:

At December 31, 2004, the Company had no cash on hand. Expenses for the fiscal quarter covered by this report totaled $15,699.00 giving the Company a net loss for the quarter of $15,699.00 since the Company has no operating revenues at the present time. To sustain the business operations of the Company, the Company must obtain additional capital. The Company's current plans are to borrow money as needed to sustain current operations. Since inception, the Company has executed $1,000,000 in the aggregate principal amount of convertible notes. The Company has received $892,402 in advances against the notes. The Company hopes to obtain additional advances against the notes in order to sustain the business operations of the Company. However, the holder of the notes is not obligated to fund the notes further and may not be willing to do so, in which event the Company will need to obtain funding from some other source.

Since 2001, the business plan for the Company has been to provide Internet solutions to businesses and private organizations. However, since May of 2003, we have been actively looking for other business opportunities that would provide the Company with economic opportunity. Since that time, we have investigated several businesses and assets that we believed would have been excellent opportunities for the Company but as of yet have made no acquisitions. At the present time we are investigating several business opportunities that we believe have substantial economic potential. We hope we will succeed in negotiating the acquisition of one or more of these opportunities.

Forward-Looking Statements:

Many statements made in this report are forward-looking statements that are not based on historical facts. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. The forward-looking statements made in this report relate only to events as of the date on which the statements are made.

ITEM 3. CONTROLS AND PROCEDURES.

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act"), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures within the 90 days prior to the filing date of this report. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, Mr. Paul G. Carter. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting management to material information relating to us required to be included in our periodic SEC filings. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

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.

EXHIBITS

31.1 Certification by CEO and CFO pursuant to Rule 13a-14(a) or 15d-14(a) of The Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification by CEO and CFO pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

REPORTS ON FORM 8-K

None

SIGNATURES

In accordance with the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CUSTOM BRANDED NETWORKS, INC.

Date: February 14, 2005

By: /s/ Paul G. Carter

Paul G. Carter
Principal Executive Officer
Principal Financial Officer
Chief Accounting Office