

Edgar Filing: CENUCO INC - Form 10-Q

CENUCO INC
Form 10-Q
October 17, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the fiscal thirteen weeks ended August 27, 2005

Commission File Number: 033-25900

CENUCO, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	75-2228820
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2000 LENOX DRIVE, SUITE 202
LAWRENCEVILLE, NEW JERSEY 08648
(Address of principal executive offices)
(Zip Code)

(609) 219-0930
(Registrant's Telephone Number, Including Area Code)

(Former Address , If Changed Since Last Report.)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 ___ No X

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES ___ NO X

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

On August 27, 2005, the issuer had outstanding 13,826,556 shares of common stock, \$.001 par value per share.

CENUCO, INC. AND SUBSIDIARIES
FORM 10-Q

Edgar Filing: CENUCO INC - Form 10-Q

THIRTEEN WEEKS ENDED AUGUST 27, 2005

INDEX

	PAGE
PART I. Financial Information	
Item 1 - Financial Statements	3
Consolidated Balance Sheets	
As of August 27, 2005 (Unaudited) and February 28, 2005	3
Consolidated Statements of Operations (Unaudited)	
For the Thirteen and Twenty-Six Weeks ended	
August 27, 2005 and August 28, 2004	4
Consolidated Statement of Stockholders'/Members' Equity (Deficit)	
(Unaudited) For the Twenty-Six Weeks ended August 27, 2005	5
Consolidated Statements of Cash Flows (Unaudited) For the	
Twenty-Six Weeks ended August 27, 2005 and August 28, 2004	6
Notes to Consolidated Financial Statements	7
Item 2 - Management's Discussion and Analysis And	
Results of Operations	8
Item 3 - Quantitative and Qualitative Disclosures	
About Market Risk	27
PART II. OTHER INFORMATION	
Item 1 - Legal Proceedings	41
Item 2 - Exhibits	41
Signatures	42

2

Part I. Financial Information

ITEM 1. FINANCIAL STATEMENTS

CENUCO, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	August 27, 2005	February 28, 2005
	-----	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 431,078	\$ 31,763
Trade receivables, net of allowance for		
doubtful accounts of \$593,880 at August 27,		
2005 and \$547,306 at February 28, 2005	8,313,036	8,002,867
Notes receivable, current portion	118,954	-
Inventories	7,385,019	8,725,952

Edgar Filing: CENUCO INC - Form 10-Q

Prepaid expenses and other	1,069,973	564,617
	-----	-----
Total current assets	17,318,060	17,325,199
Property, plant and equipment - net	5,799,308	6,017,533
Goodwill	36,501,655	-
Intangibles - net	2,355,979	-
Notes receivable, less current portion	559,655	-
Other assets, net	1,159,601	692,817
	-----	-----
Total assets	\$ 63,694,258	\$ 24,035,549
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable	\$ 10,667,927	\$ 10,541,956
Accrued expenses	3,009,803	2,845,485
Current portion of long-term debt	7,315,945	8,929,540
	-----	-----
Total current liabilities	20,993,675	22,316,981
Long-term debt, less current portion	6,509,982	6,875,296
Long-term pension obligation	731,361	673,328
Other liabilities	224,601	-
	-----	-----
Total liabilities	28,459,619	29,865,605

Stockholders' equity:

Preferred stock, par value \$.001 per share; Authorized 1,000,000 shares; issued 2,553.6746 shares at August 27, 2005; no shares issued at February 28, 2005	3	-
Common stock, par value \$.001 per share; Authorized 25,000,000 shares; issued 13,826,556 shares at August 27, 2005; no shares issued at February 28, 2005	13,827	-
Additional paid in capital	37,851,653	-
Accumulated deficit	(2,479,506)	-
Members' contribution	-	2,000
Accumulated members' loss	-	(5,707,597)
Accumulated comprehensive loss	(151,338)	(124,459)
	-----	-----
Total stockholders' equity (deficit)	35,234,639	(5,830,056)
	-----	-----
Total liabilities and stockholders' equity .	\$ 63,694,258	\$ 24,035,549
	=====	=====

See accompanying notes to consolidated financial statements

CENUCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Thirteen weeks ended		Twenty-six wee
	Aug 27, 2005	Aug 28, 2004	Aug 27, 2005
	-----	-----	-----

Edgar Filing: CENUCO INC - Form 10-Q

Net Sales	\$ 16,840,788	\$ 16,472,447	\$ 34,191,849	\$
Costs of Sales	15,600,019	14,768,475	31,899,543	
	-----	-----	-----	-----
Gross Profit	1,240,769	1,703,972	2,292,306	
Operating Expenses:				
Selling and Marketing	876,963	965,829	1,843,865	
General and Administrative	2,332,610	1,454,188	4,068,493	
	-----	-----	-----	-----
Total Operating Expenses	3,209,573	2,420,017	5,912,358	
Loss from operations	(1,968,804)	(716,045)	(3,620,052)	
Other income, net	152,655	112,894	72,173	
Interest expense, net	(368,861)	(326,378)	(765,621)	
	-----	-----	-----	-----
Total other/interest expense	(216,206)	(213,484)	(693,448)	
	-----	-----	-----	-----
Loss before Income Taxes	(2,185,010)	(929,529)	(4,313,500)	
Income taxes	-	-	-	
	-----	-----	-----	-----
Net loss	\$ (2,185,010)	\$ (929,529)	\$ (4,313,500)	\$
	=====	=====	=====	=====

Basic and diluted net loss per share - common ..	\$ (0.16)	\$ -	\$ (0.18)	\$
Basic and diluted net loss per share - preferred	\$ -	\$ (364)	\$ (718)	\$

(see Note 10)

Shares used in computing net loss per share:

Basic and diluted - common	13,768,930	-	13,734,420
Basic and diluted - preferred	2,554	2,554	2,554

(see Note 10)

See accompanying notes to consolidated financial statements.

Cenuco, Inc. and Subsidiaries
Consolidated Statements of Stockholders' / Members' Equity (Deficit)
For the twenty-six weeks ended August 27, 2005

	Series A Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Stockholders' Deficit
	Shares	\$	Shares	\$		
	-----	--	-----	-----	-----	-----
BALANCE AT FEBRUARY 28, 2005	-	\$-	-	\$ -	\$ -	\$ -
Other Comprehensive						

Edgar Filing: CENUCO INC - Form 10-Q

Loss:

Foreign currency translation	-	-	-	-	-	-
Net loss to date of recapitalization and Merger	-	-	-	-	-	-
Net loss subsequent to Merger	-	-	-	-	-	(2,479,506)
Total Comprehensive Loss:						
Conversion from LLC to Corporation ...	2,553.7	3	-	-	(7,541,591)	-
Exercise of warrants .	-	-	76,000	76	75,924	
Reverse acquisition of Cenuco, Inc.	-	-	13,750,556	13,751	45,317,320	-
	-----	--	-----	-----	-----	-----
BALANCE AT AUGUST 27, 2005	2,553.7	\$3	13,826,556	\$13,827	\$37,851,653	\$(2,479,506)
	=====	==	=====	=====	=====	=====

continued

See accompanying notes to consolidated financial statements.

5A

Cenuco, Inc. and Subsidiaries
 Consolidated Statements of Stockholders' / Members' Equity (Deficit)
 For the twenty-six weeks ended August 27, 2005
 continued

	Members' Contributions	Accumulated Members' Loss	Accumulated Other Comprehensive Loss	Total Stockholders' / Members' Equity (Deficit)
	-----	-----	-----	-----
BALANCE AT FEBRUARY 28, 2005	\$ 2,000	\$(5,707,597)	\$(124,459)	\$(5,830,056)

Other Comprehensive Loss:				
Foreign currency translation	-	-	(26,879)	(26,879)
Net loss to date of recapitalization and Merger	-	(1,833,994)	-	(1,833,994)
Net loss subsequent				

Edgar Filing: CENUCO INC - Form 10-Q

to Merger	-	-	-	(2,479,506)

Total Comprehensive Loss:				(4,340,379)

Conversion from LLC to Corporation ...	-	7,541,591	-	3
Exercise of warrants .	-	-	-	76,000
Reverse acquisition of Cenuco, Inc.	(2,000)	-	-	45,329,071

BALANCE AT AUGUST 27, 2005	\$ -	\$ -	\$ (151,338)	\$ 35,234,639
=====				

See accompanying notes to consolidated financial statements.

5B

CENUCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Twenty-six weeks ended	
	Aug 27, 2005	Aug 28, 2004
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	(\$4,313,500)	(\$1,252,171)
ADJUSTMENTS TO RECONCILE NET LOSS		
TO NET CASH USED IN OPERATING ACTIVITIES:		
Depreciation and amortization	590,947	493,243
Provision for bad debts	160,647	145,745
Amortization of deferred financing costs	109,132	73,488
Changes in operating assets and liabilities:		
Accounts receivable	(330,705)	(718,288)
Inventories	1,340,933	83,374
Prepaid expenses and other	(642,470)	(340,281)
Other assets	(535,815)	(8,927)
Accounts payable	(14,140)	1,325,616
Accrued expenses	164,317	(176,166)
Long-term pension obligations	58,033	9,713

NET CASH USED IN OPERATING ACTIVITIES	(3,412,621)	(364,654)

CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in cash from reverse acquisition of Cenuco	6,235,441	-
Proceeds from note receivable	200,000	-
Deferred acquisition costs	(343,041)	-
Purchase of property, plant and equipment	(255,676)	(343,016)

NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	5,836,724	(343,016)

CASH FLOWS FROM FINANCING ACTIVITIES:		

Edgar Filing: CENUCO INC - Form 10-Q

Net (repayments) borrowings under line of credit	(1,607,348)	1,117,931
Deferred financing costs	(95,000)	(43,750)
Repayments of long-term debt	(338,426)	(338,426)
Repayments of capital leases	(33,135)	(30,703)
Proceeds from exercise of warrants	76,000	-
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(1,997,909)	705,052
	-----	-----
Effect of exchange rates on cash	(26,879)	2,618
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	399,315	-
Cash and cash equivalents at beginning of period	31,763	1,828
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 431,078	\$ 1,828
	=====	=====

Supplemental disclosures of cash flow information:

Cash paid for interest	\$ 444,777	\$ 572,612
Reverse merger, excluding cash acquired (see Note 1):		
Estimated fair value of tangible assets acquired	\$ 1,199,715	-
Goodwill and identifiable intangible assets acquired	38,974,680	-
Liabilities assumed	(473,590)	-
	-----	-----
Net assets obtained in reverse merger transaction	\$39,700,805	-
	=====	=====

See accompanying notes to consolidated financial statements.

Cenuco, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
August 27, 2005 (Unaudited)

NOTE 1 - DESCRIPTION OF BUSINESS AND REORGANIZATION

On May 20, 2005, Hermes Holding Company, Inc., a newly formed wholly owned subsidiary of Cenuco, Inc., ("Cenuco", a public company traded on the American Stock Exchange under the symbol, "ICU") merged (the "Merger") with Hermes Acquisition Company I LLC (HACI), a limited liability company organized on April 25, 2003 in the State of Delaware.

The Merger was completed through the issuance of 2,553.7 shares of Cenuco's Series A Junior Participating Preferred Stock (representing 65% of the outstanding voting power of Cenuco capital stock) in exchange for all the outstanding membership units of HACI. As a consequence of the Merger, HACI, together with its wholly owned subsidiaries Lander Co., Inc., a Delaware corporation ("Lander US"), Hermes Real Estate I LLC, a New York limited liability company ("HREI"), and Lander Co. Canada Limited, an Ontario corporation ("Lander Canada" and together with Lander US and HREI, "Lander") became wholly owned subsidiaries of Cenuco.

For financial reporting purposes, the Merger was treated as a recapitalization of HACI followed by the reverse acquisition of Cenuco by HACI for a purchase price equivalent to the total market value of Cenuco stock outstanding prior to the Merger, plus the fair value of the options that automatically vested on the

Edgar Filing: CENUCO INC - Form 10-Q

date of the Merger (approximately \$45.3 million). Consistent with the accounting and presentation for reverse acquisitions, the historical financial statements of Cenuco prior to the date of the Merger reflect the financial position and results of operations of HACI and HREI, with the results of operations of Cenuco being included commencing on May 20, 2005. Effective with the completion of the Merger Cenuco changed its fiscal year end to be the last day of February, consistent with HACI's prior fiscal year.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, the Company has determined the estimated fair value of the assets acquired and liabilities assumed in the reverse acquisition of Cenuco. The estimated value of the assets acquired less liabilities has been allocated as shown below:

The allocation of Purchase Price is as follows:

Cash and cash equivalents	\$ 6,002,887
Other current assets	496,526

Total current assets	6,499,413
Property, plant, and equipment	111,382
Goodwill	36,501,655
Intangibles	2,473,025
Other Assets	591,807

Total assets acquired	46,177,282

Total liabilities assumed	(473,590)

Estimated fair value of net assets acquired ...	\$ 45,703,692
	=====

Following the Merger, the Company's business consists of the Health and Beauty Care ("HBC") Division and the Wireless Application Development ("WAD") Division. The HBC Division is doing business as Lander Co., Inc. ("Lander"). Lander's principal business activity is the manufacture and distribution of health, beauty and oral-care products, primarily throughout the United States and Canada. The WAD Division is doing business as Cenuco, Inc. and has primary focus on wireless application development. WAD is engaged in the wireless application technology business, primarily related to the transmission of secure and non-secured video onto cellular platforms via proprietary technologies. This is also known as remote video monitoring via cellular device. In this wireless segment, WAD provides cellular carriers, Internet Service Providers, resellers, and distributors a host of wireless video streaming products that can generate an increase in subscriber adoption of wireless data services, as well as broadband Internet services.

HACI was formed to acquire the business activities of Lander US and Lander Canada. Effective May 31, 2003, HACI purchased certain assets and assumed certain liabilities associated with the Lander US business operations and acquired 100% of the outstanding stock of Lander Canada for an aggregate purchase price of \$11,091,456, including acquisition costs of \$1,160,456. In addition, HREI purchased the Lander US production plant located in Binghamton, New York for a purchase price of \$3,304,864, including acquisition costs of \$254,864, on October 15, 2003 (collectively the "Acquisitions"). Property, plant and equipment was recorded at fair value reduced by the excess of fair value of net assets acquired over the purchase price of \$1,095,813. In accounting for these acquisitions, the Company followed the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations". This Statement requires the purchase method of accounting be used for all business combinations and provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill. On March 1, 2005, HREI

Edgar Filing: CENUCO INC - Form 10-Q

became a wholly owned subsidiary of HACI. Prior thereto, HACI an HREI had the same ownership.

The Company is subject to various risks, including, but not limited to, (i) the ability to obtain adequate financing to fund operations, (ii) a limited operating history, (iii) reliance on certain markets, and (iv) reliance on key personnel.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The accompanying unaudited financial statements of Cenuco as of and for the thirteen and twenty-six weeks ended August 27, 2005 and August 28, 2004 have been prepared in accordance with generally accepted accounting principles. The financial information furnished reflects all adjustments, consisting only of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. The results of operations for the respective interim periods are not necessarily indicative of results to be expected for the full year.

A summary of the Cenuco's significant accounting policies follows:

Basis of Consolidation: The accompanying consolidated financial statements include the accounts of Cenuco, Inc. and subsidiaries. All intercompany accounts have been eliminated in consolidation.

Cash Equivalents: The Company considers all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents.

Accounts Receivable: Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which would increase our operating costs.

Inventories: Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method. Inventories consist of raw materials used to manufacture the Company's health, beauty and oral care products, as well as, finished goods that consist of the Company's product lines sold to its customers. The Company writes down inventory for estimated excess and discontinued products equal to the difference between cost and estimated market value based upon assumptions about future demand and market conditions. Excess and discontinued product inventory could arise due to numerous factors, including but not limited to, the competitive nature of the market and product demand by consumers. If market conditions are less favorable than those anticipated by management, additional write-downs may be required, including provisions to reduce inventory to net realizable value.

Property, Plant and Equipment: Property, plant and equipment are stated at cost less accumulated depreciation and amortization. The costs of major additions and improvements are capitalized and maintenance and repairs that do not improve or extend the life of the respective assets are charged to operations as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to twenty-five years. Leasehold improvements are amortized over the shorter of the term of the lease or their estimated useful lives. If the Company determines that a change is required in the useful life of an asset, future depreciation/amortization is adjusted accordingly.

Edgar Filing: CENUCO INC - Form 10-Q

Impairment of Long-Lived Assets: Accounting for the impairment of long-lived assets, including property, plant and equipment, requires that long-lived assets and certain identifiable intangibles to be held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Under such circumstances, the accounting principles require that such assets be reported at the lower of their carrying amount or fair value less cost to sell. Accordingly, when events or circumstances indicate that long-lived assets may be impaired, the Company estimates the assets' future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the asset.

Goodwill and Other Intangibles: As a result of the Merger (see Note 1), the Company recorded goodwill of \$36,501,655, customer lists of \$2,000,000 and a brand name of \$473,025. Goodwill represents the excess of cost over the fair value of net assets acquired. SFAS 142, "Goodwill and Other Intangible Assets", requires goodwill and other intangibles that have indefinite lives to not be amortized but to be reviewed annually for impairment or more frequently if impairment indicators arise. SFAS 142 also requires that intangible assets with finite useful lives be amortized over their respective estimated useful lives and reviewed for impairment. The Company's preliminary estimate of the useful lives of the customer lists and brand name is five and fifteen years, respectively. Amortization expense of the Company's customer list and brand name totaled \$117,046 for the thirteen and twenty-six weeks ended August 27, 2005. There was no amortization expense on these intangible assets in prior periods.

Other Assets, Net: Other assets, net consist of deferred costs for specific acquisitions expected to close in the near term and deferred financing costs that are being amortized using the straight-line method over the expected term of the revolving line of credit. Amortization expense related to deferred financing costs was \$58,586 and \$109,132, respectively, for the thirteen and twenty-six weeks ended August 27, 2005 and \$58,586 and \$109,132, respectively, for the thirteen and twenty-six weeks ended August 28, 2004.

Fair Value of Financial Instruments: The carrying amounts reported in the accompanying balance sheets for accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term nature of these accounts. Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions.

Revenue Recognition: For the Health & Beauty Care (HBC) division, revenue from product sales is recognized when the related goods are shipped, all significant obligations of the Company have been satisfied, persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable and collection is reasonably assured or probable.

Amounts billed to customers related to shipping and handling are included in net sales. The cost of shipping products to the customer is recognized at the time the products are shipped and included in cost of sales.

In connection with the development and sale of wireless solutions and web services, which include the development of business-to-business and business-to-consumer wireless applications, and state of the art wireless technology and services, the Wireless Application Development (WAD) division recognizes revenue as services are performed on a pro-rata basis over the

Edgar Filing: CENUCO INC - Form 10-Q

contract term or when products are delivered. WAD periodically enters into agreements whereby the customer or distributor may purchase wireless products on a consignment type basis. Revenues are recognized under these arrangements only when the customer or distributor has resold the product and the Company has an enforcement right to its sales price.

Revenues are earned from licensing arrangements pursuant to the terms of those agreements.

Foreign Currency Translation: In accordance with SFAS No. 52, Foreign Currency Translation, the financial statements are measured using local currency as the functional currency. Assets and liabilities of Lander Canada have been translated at U.S. dollars at the fiscal period-end exchange rates. Revenues and expenses have been translated at average exchange rates for the related period. Net translation gains and losses are reflected as a separate component of stockholders' equity until there is a sale or liquidation of the underlying foreign investment.

Foreign currency gains and losses resulting from transactions are included in the consolidated statements of operations.

Estimates: The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates the estimates and may adjust them based upon the latest information available. These estimates generally include those related to product returns, bad debts, inventory reserves for excess and discontinued products, income taxes and contingencies. The Company bases the estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

Concentration of Credit Risk: Cenuco provides credit to its customers in the normal course of business and does not require collateral. To reduce credit risk, Cenuco performs ongoing credit evaluations of its customers.

Five trade customers comprised 51% and 48% respectively of Cenuco's net sales, (with two customers comprising approximately 42% and 40% respectively) for the thirteen and twenty-six weeks ended August 27, 2005. At August 27, 2005 the same five trade customers represented 56% of receivables, with one customers comprising 43%.

Five trade customers comprised 42% and 44% respectively of Cenuco's net sales, (with two customers comprising approximately 33% and 37% respectively) for the thirteen and twenty-six weeks ended August 28, 2004. At August 28, 2004 the same five trade customers represented 44% of receivables, with one customer comprising 29%.

Income Taxes: Income taxes are accounted for under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In accessing the realizability of deferred tax assets, management considers

Edgar Filing: CENUCO INC - Form 10-Q

whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. A full valuation allowance at August 27, 2005 and February 28, 2005 has been recorded by management due to the uncertainty that future income will be realized.

Earnings per share: Emerging Issues Task Force ("EITF") 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128" ("EITF 03-6") provides guidance in determining when the two-class method, as defined in SFAS No. 128, "Earnings per Share" must be utilized in calculating earnings per share by a Company that has issued securities other than common stock that contractually entitles the holder to participate in dividends and earnings of the Company when, and if, the Company declares dividends on its common stock. Under the two-class method earnings are allocated to common stock and participating securities to the extent that each security may share in such earnings and as if such earnings for the period had been distributed. Under the two-class method losses are allocated to participating securities to the extent that such security is obligated to fund the losses of the issuing entity or the contractual principal or mandatory redemption amount of the participating security is reduced as a result of losses incurred by the issuing entity. In accordance with EITF 03-6, basic earnings per share for the Company's common stock and Series A Junior Participating Preferred Stock ("Series A Preferred") is calculated by dividing net loss allocated to common stock and Series A Preferred by the weighted average number of shares of common stock and Series A Preferred outstanding, respectively. Diluted earnings per share for the Company's common stock is calculated similarly, except that the calculation includes the effect, if dilutive, of the assumed exercise of stock options issuable under the Company's stock-based employee compensation plan and the assumption of the conversion of all of the Company's Series A Preferred stock to common stock. Basic and diluted loss per share for the Company's common stock is calculated by dividing the net loss for the period during which such shares were outstanding by the weighted average number of shares outstanding. No losses are allocated to the Series A Preferred for the period during which the Company's common stock is outstanding since the holders of the Series A Preferred are not obligated to share in the Company's losses as described above.

NOTE 3 - INVENTORIES

Inventory consists of the following:

	AUGUST 27, 2005	FEBRUARY 28, 2005
Raw materials	\$ 3,281,674	\$ 2,900,803
Finished goods	4,103,345	5,821,149
	-----	-----
	\$ 7,385,019	\$ 8,725,952
	=====	=====

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	AUGUST 27, 2005	FEBRUARY 28, 2005
Land	\$ 660,000	\$ 660,000
Computer equipment and software	917,004	890,020
Furniture and fixtures	252,797	252,717
Building	2,644,864	2,644,864

Edgar Filing: CENUCO INC - Form 10-Q

Machinery and equipment	3,178,707	2,961,469
Dies and molds	75,864	75,731
Leasehold improvements	120,472	118,571
Construction in progress	78,052	77,959
	-----	-----
	7,927,760	7,681,331
Less accumulated depreciation and amortization	(2,128,452)	(1,663,798)
	-----	-----
	\$ 5,799,308	\$ 6,017,533
	=====	=====

Depreciation and amortization expense related to property, plant and equipment totaled \$350,826 and \$590,947, respectively for the thirteen and twenty-six weeks ended August 27, 2005 and \$246,256 and \$493,243, respectively, for the thirteen and twenty-six weeks ended August 26, 2004.

As of August 27, 2005 and February 28, 2005, machinery and equipment includes assets under capital leases totaling \$153,559. Accumulated amortization on the capital leases totaled \$31,992 and \$24,314 as of August 27, 2005 and February 28, 2005, respectively. Amortization expense related to capital leases is included in depreciation and amortization expense for the thirteen and twenty-six weeks ended August 27, 2005 and August 28, 2004.

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following:

	AUGUST 27, 2005	FEBRUARY 28, 2005
Revolving line of credit loans	\$ 6,591,587	\$ 8,198,935
Machinery and equipment loans	916,875	1,039,125
Real estate term loans	1,765,441	1,981,618
Subordinated notes	4,500,000	4,500,000
Capital leases	55,752	85,158
	-----	-----
	13,829,655	15,804,836
Less current portion	7,268,440	8,929,540
	-----	-----
	\$ 6,561,215	\$ 6,875,296
	=====	=====

In connection with the Acquisitions, HACI/HREI obtained long-term financing commitments (Financing Arrangement) from a financial institution comprised of the following (collectively the Loans):

- o Revolving line of credit facility of \$11,000,000 with a three-year term expiring in June 2006. Annual renewals of the facility are available in one-year increments after the initial term. Available borrowings are determined by a borrowing base calculation using eligible receivables and inventories of Lander US and Lander Canada, which are the collateral for this facility. As of August 27, 2005, unused availability under the borrowing base calculation amounted to \$2,841,273. As of February 28, 2005 the unused availability amounted to \$567,995. Interest on outstanding balance is payable monthly. For purposes of classifying the outstanding debt in the August 27, 2005 and February 28, 2005 balance sheets, the Company has reflected the \$6,591,587 and \$8,198,935, respectively, of

Edgar Filing: CENUCO INC - Form 10-Q

borrowings under the revolving line of credit facility as a current liability, since it is subject to collection lock-box arrangements and contains a subjective acceleration clause.

- o Machinery and equipment term loans with initial principal amounts aggregating \$1,467,000 have six-year amortization terms expiring in June 2009. Such loans are subject to termination upon the expiration of the revolving line of credit and are collateralized by the machinery and equipment of Lander US and Lander Canada. Principal payments aggregating \$20,375 plus interest are payable monthly.
- o Real estate term loan with initial principal amount of \$2,450,000 has a six-year amortization term expiring in December 2009. Such loan is subject to termination upon the expiration of the revolving line of credit and is collateralized by the Lander US production plant located in Binghamton, New York. Principal payments aggregating \$36,029 plus interest are payable monthly.

The interest rates on the Loans bear an annual interest rate of a national bank's prime rate plus 1.25%. HACI/HREI has the option of converting all or a portion of the Loans outstanding to an annual interest rate of the one-, two- or three-month LIBOR rate plus 3.75%. As of August 27, 2005, the national bank prime rate was 6.50% and the one-, two- and three-month LIBOR rates were 3.67%, 3.76%, and 3.86%, respectively. The interest rate on the Loans was 7.75% at August 27, 2005. As of August 28, 2004, the national bank prime rate was 4.50% and the one-, two- and three-month LIBOR rates were 1.65%, 1.72%, and 1.79%, respectively. The interest rate on the Loans was 5.75% at August 28, 2004.

The Loans contain financial and non-financial covenants including a limitation of \$1,250,000 on capital expenditures during any fiscal year and maintaining on a monthly basis a fixed charges coverage ratio of no less than 1.0 to 1.0. The fixed charge ratio is calculated by dividing earnings before interest, depreciation and amortization less any unfunded capital expenditures and improvements by fixed charges. Fixed charges include interest expense, capital lease obligations, principal payments on indebtedness and payments for income tax obligations.

HACI/HREI was not in compliance with the fixed charges coverage ratio and the limitation on capital expenditures for fiscal 2004 and fiscal 2005 and through July 15, 2005. In June 2004, December 2004 and July 2005, the Financing Agreement was amended and the events of noncompliance were waived by the financial institution. As part of the third amendment, which was dated July 15, 2005, the fixed charge ratio covenant requirement is only triggered when availability under the revolving line of credit is less than \$2,000,000.

As part of the HACI/HREI Acquisition of the Lander US business, HACI also has long term financing from the seller in the form of a \$4,500,000 subordinated note ("Seller Note") with a three year term expiring in June 2006. The Seller Note is subordinate to the Financing Agreement. Interest is payable quarterly at an annual interest rate of 10%. Annual principal payments of \$1,166,667 are required under this Seller Note; however a provision permits the Company to defer principal payments if certain financial targets, pursuant to the Financing Arrangement are not achieved by Lander. As a result of the Company not achieving these financial targets in fiscal 2004 and 2005, principal payment due in June 2004 and June 2005 have been deferred until June 2006. Additionally, there is a provision in the Seller Note that permits the deferral of interest payments in the event of non-compliance with certain covenants contained in the Financings Arrangement. Accordingly, HACI has not paid any interest accrued on the Seller Note from July 1, 2004 to date. Accrued interest on the Seller Note totaled \$522,964 and \$297,964 as of August 27, 2005 and February 28, 2005, respectively.

On March 16, 2005, HACI and the seller entered into Settlement and Release

Edgar Filing: CENUCO INC - Form 10-Q

Agreement whereby HACI has the option to pay \$2,000,000, plus interest at 10%, to satisfy the \$4,500,000 principal amount of the Seller Note. In addition, HACI would be required to pay interest accrued on the \$4,500,000 Seller Note from July 1, 2004 through March 16, 2005 and interest on the \$2,000,000 from March 17, 2005 through the date of payment. Such option is available to HACI up to November 30, 2005. In exchange for this option, HACI has agreed to release the seller from certain claims against and indemnifications of the seller under the agreement for the purchase of Lander US and Lander Canada.

The aggregate maturities of long-term debt are as follows:

	AUGUST 27, 2005	FEBRUARY 28, 2005
2006	\$ 7,268,440	\$ 8,929,540
2007	6,561,215	6,875,296
	-----	-----
	\$ 13,825,927	\$ 15,804,836
	=====	=====

NOTE 6 - PENSION AND 401(k) PLANS

Pension Plan:

The Company has two non-contributory defined benefit pension plans (the "Plans") that cover substantially all employees in the United States ("US") and Canada. It is the Company's policy to fund, at a minimum, pension contributions as required by the Employee Retirement Income Security Act of 1974 ("ERISA") each year.

At February 28, 2005, the US Plan assets consisted of fixed return contracts. During the past year the US plan was frozen and no longer available to new employees for participation. The Canadian Plan assets consisted primarily of stocks, bonds and US Treasury Bills. The pension liabilities and their related costs are computed in accordance with the laws of the US and Canada and the appropriate actuarial practices.

Net periodic pension costs of the defined benefit pension plans covering the year ended February 28, 2005 were as follows:

	US	Canada	Total
	--	-----	-----
Service costs on benefits earned during the year	\$ 80,544	\$ 183,379	\$ 263,923
Interest cost on projected benefit obligation ..	99,262	156,446	255,708
Expected return on plan assets	(99,100)	(147,411)	(246,511)
Amortization of unrecognized net loss	34,792	-	34,792
	-----	-----	-----
Net periodic pension cost	\$ 115,498	\$ 192,414	\$ 307,912
	=====	=====	=====

During fiscal 2005, the Company contributed \$131,087 to the US Plan and \$205,732 to the Canadian Plan. Benefit payments made amounted to \$113,511 for the US Plan and \$272,623 for the Canadian Plan in fiscal 2005. The present value of benefit obligations and funded status of the Plans as computed by the actuaries as of February 28, 2005 were as follows:

US	Canada	Total
----	--------	-------

Edgar Filing: CENUCO INC - Form 10-Q

	--	-----	-----
Projected benefit obligation	\$ (1,847,272)	\$ (2,305,779)	\$ (4,153,051)
Plan assets at fair value	1,589,586	2,105,121	3,694,707
	-----	-----	-----
Funded status	(257,686)	(200,658)	(458,344)
Unrecognized net (gain) or loss	664,109	(171,638)	492,471
	-----	-----	-----
Net pension asset/(liability)	\$ 406,423	\$ (372,296)	\$ 34,127
	=====	=====	=====

As of February 28, 2005, the accumulated benefit obligation was \$1,847,272 for the US Plan and \$2,305,779 for the Canadian Plan.

Amounts recognized in the combined balance sheet as of February 28, 2005 consist of:

	US	Canada	Total
	--	-----	-----
Current portion of accrued benefit liability, included in accrued expenses	\$ (120,000)	\$ (187,543)	\$ (307,543)
Long term portion of accrued benefit liability, included in other long term liabilities	\$ (137,686)	\$ (535,642)	\$ (673,328)
	-----	-----	-----
Net amount recognized	\$ (257,686)	\$ (723,185)	\$ 980,871
	=====	=====	=====

Weighted-average assumptions used in developing the projected benefit obligation and net cost as of and for the year ended February 28, 2005 were as follows:

	US	Canada
	--	-----
Discount rate	5.75%	5.25%
Rate of increase in compensation	0%	3.00%
Rate of return on plan assets	6.50%	7.00%

The Company's expected long-term rate of return on assets is 6.50 % for the US Plan and 7.00 % for the Canadian Plan. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Plan(s) Assets

The weighted-average asset allocation of the US and Canadian pension benefits at February 28, 2005 were as follows:

	US	Canada
	--	-----
Equity Securities	0%	60%
Debt securities	100%	40%
	---	---
Total	100%	100%

The Company's investment policies and strategies for the pension benefits plans utilize target allocations for the individual asset categories. The Company's investment goals are to maximize returns subject to specific risk management

Edgar Filing: CENUCO INC - Form 10-Q

policies.

Cash Flows

For the US Plan the benefits expected to be paid in each year ending February 28 2006-2010 are \$33,695, \$39,240, \$44,444, \$60,504, and \$75,368, respectively. The aggregate benefits expected to be paid in the five years from 2011-2015 are \$509,778.

For the Canadian Plan the benefits expected to be paid in each year ending February 28, 2006-2010 are \$375,740, \$112,224, \$69,400, \$156,343 and \$209,866, respectively. The aggregate benefits to be paid in the five years from 2011-2015 are \$1,756,822.

The expected benefits are based on the same assumptions used to measure the Company's benefit obligation at February 28 and include estimated future employee service.

401(K) Plan

The Company also has a defined contribution plan under Section 401(k) of the Internal Revenue Code for all United States employees. Employees can elect to contribute up to certain maximum percentages of their weekly gross pay. The Company matches are discretionary. The Company had no discretionary matches for the fiscal year ended February 28, 2005.

NOTE 7 - INCOME TAXES

The significant components of the Company's net deferred tax assets as of February 28, 2005 are as follows:

	US Dollars

Deferred tax assets (liabilities):	Total

Accounts receivable	\$ 170,000
Inventory	183,000
Fixed asset depreciation and amortization	(212,000)
Accrued expenses and other	348,000
Net operating loss carry forward .	2,164,000

Total deferred tax assets	\$ 2,653,000
Valuation allowance	\$(2,653,000)

Net deferred tax assets	\$ -
	=====

Lander US has a net operating loss carry forward as of February 28, 2005 of approximately \$5,524,000 (\$4,928,000 for U.S. income tax purposes) which will begin to expire in 2024. The Lander Canada net operating loss carry forward of approximately U.S. \$700,000 will begin to expire in 2011.

The deferred tax asset related to the net loss of \$4.3 million for the twenty-six weeks ended August 27, 2005 will be fully reserved leading to an

Edgar Filing: CENUCO INC - Form 10-Q

increase in the valuation allowance by approximately \$1.7 million.

A reconciliation summary of the differences between the statutory federal rate and the Company's effective tax rate for fiscal 2005 as follows:

	US
	--
Statutory tax expense (benefit)	-34.00%
Abatements, credits and surtax	0.00%
State and Foreign income taxes	-5.00%
Valuation allowance	39.00%
Effective tax rate	0.0%

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Company has various noncancelable operating leases for manufacturing and office facilities. Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments for each period are as follows:

	AUGUST 27, 2005	AUGUST 27, 2005	FEBRUARY 28, 2005	FEBRUARY 28, 2005
	CAPITAL LEASES	OPERATING LEASES	CAPITAL LEASES	OPERATING LEASES
2006	\$ 25,488	\$ 366,725	\$ 59,944	\$ 762,790
2007	31,949	441,877	31,820	342,136
2008	0	342,262	0	282,940
2009	0	210,962	0	207,105
2010	0	205,746	0	204,428
2011	0	102,000	0	102,000
	-----	-----	-----	-----
Total minimum lease payments	\$ 57,437	\$ 1,669,572	\$ 91,764	\$ 1,901,399
		=====		=====
Less amounts representing Interest (at rates ranging from 5.25% to 8.31% .	(1,685)		(6,606)	
	-----		-----	
Present value of net minimum Capital lease payments	\$ 55,752		\$ 85,158	
	=====		=====	

The Company is subject to certain claims and litigation in the normal course of business. Management believes, after consulting with legal counsel, that the ultimate liability resulting from these matters will not materially affect the combined results of operations or financial position of the Company.

NOTE 9 - Stock Options and Warrants

The Company accounts for stock options issued to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25,

Edgar Filing: CENUCO INC - Form 10-Q

"Accounting for Stock Issued to Employees," and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant. The Company adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS 148, "Accounting for Stock-Based Compensation -Transition and Disclosure", which permits entities to provide pro forma net income (loss) and pro forma earnings (loss) per share disclosures for employee stock option grants as if the fair-valued based method defined in SFAS No. 123 had been applied. The Company accounts for stock options and stock issued to non-employees for goods or services in accordance with the fair value method of SFAS 123.

The exercise prices of all options granted by the Company equal the market price at the dates of grant. From the date of the Merger to August 27, 2005 no options were issued. If options had been issued, no compensation expense would have been recognized. Had compensation cost for the stock option plan been determined based on the fair value of the options at the grant dates consistent with the method of SFAS 123, "Accounting for Stock Based Compensation", the Company's net loss and loss per share would not have been changed.

With respect to vesting, as a result of the Merger on May 20, 2005, all previously issued Cenuco options that were unvested on that date became automatically vested.

A summary of the status of the Company's outstanding stock options as of August 27, 2005 and changes since May 28, 2005 is as follows:

	Shares	Weighted Average Exercise Price
	-----	-----
Outstanding at May 28, 2005	556,668	\$ 1.52
Granted	0	0.00
Exercised	(0)	(0.00)
Forfeited	(0)	(0.00)
	-----	-----
Outstanding at August 27, 2005	556,668	\$ 1.52
	=====	=====
Options exercisable at end of period	556,668	\$ 1.52
	=====	=====
Weighted-average fair value of options granted during the period		\$ 0.00

The following information applies to options outstanding at August 27, 2005:

Range of Prices	Shares	Options Outstanding		Options Exercisable	
		Weighted - Average Remaining Contractual Life (Years)	Weighted - Average Exercise Price	Shares	Weighted - Average Exercise Price
-----	-----	-----	-----	-----	-----
\$0.42	73,332	7.09	\$ 0.42	73,332	\$0.42
\$0.55	40,000	5.59	\$ 0.55	40,000	\$0.55

Edgar Filing: CENUCO INC - Form 10-Q

\$1.15	218,335	8.69	\$ 1.15	25,000	\$1.15
\$1.55	35,001	7.69	\$ 1.55	23,333	\$1.55
\$2.00	130,000	8.69	\$ 2.00	113,333	\$2.00
\$3.71	40,000	8.84	\$ 3.71	40,000	\$3.71
\$4.00	20,000	9.09	\$ 4.00	20,000	\$4.00
	-----			-----	
	556,668			556,668	
	=====			=====	

Common stock warrants

A summary of the status of the Company's outstanding stock warrants granted for services as of August 27, 2005 and changes since May 28, 2005 is as follows:

	Shares	Weighted Average Exercise Price
	-----	-----
Outstanding at May 28, 2005	2,230,044	\$ 3.96
Granted	-	-
Exercised	(76,000)	(1.00)
Forfeited	-	-
	-----	-----
Outstanding at August 27, 2005	2,154,044	\$ 4.06
	=====	=====
Warrants exercisable at August 27, 2005	2,154,044	\$ 4.06
	=====	=====

The following information applies to all warrants outstanding at August 27, 2005:

Range of Prices	Warrants Outstanding		Warrants Exercisable		
	Shares	Weighted - Average Remaining Contractual Life (Years)	Weighted - Average Exercise Price	Shares	Weighted - Average Exercise Price
-----	-----	-----	-----	-----	-----
\$1.00	325,500	3.49	\$ 1.00	325,500	1.00
\$4.00	105,784	4.09	\$ 4.00	105,784	4.00
\$4.50	1,372,760	3.97	\$ 4.50	1,372,760	4.50
\$5.00 to \$6.50	350,000	4.09	\$ 5.21	350,000	5.21

	2,154,044				
	=====				

NOTE 10 - CAPITAL STRUCTURE AND NET LOSS PER COMMON SHARE

Capital Structure:

At August 27, 2005, the outstanding share capital of the Company is comprised of: (i) 13,826,556 shares of common stock ("Common Stock"), and (ii) 2,553.7 shares of Series A Junior Participating Preferred Stock (the "Series A Preferred Stock").

Edgar Filing: CENUCO INC - Form 10-Q

The Series A Preferred Stock was issued in connection with the completion of the Merger as described in Note 1 to the consolidated financial statements. The holders of the Series A Preferred Stock are entitled to receive when, as and if declared by the Board of Directors, quarterly cumulative dividends commencing on March 31, 2006 in an amount per share equal to \$0.001. In addition to the dividends payable to the holders of Series A Preferred Stock, the Company shall declare a dividend or distribution on the Series A Preferred Stock equal to any amount declared on the Common Stock. Holders of the Series A Preferred Stock (using the number of common shares into which each share of Series A Preferred Stock is convertible) and the holders of Common Stock vote together as one class on all matters submitted to a vote of stockholders of the Company provided however that the holders of the Series A Preferred Stock are not entitled to any voting rights on any matter relating to the Merger. Upon liquidation, dissolution or winding up of the Company, the holders of the Series A Preferred Stock are entitled to liquidation preferences over all other classes of capital stock. The holders of Series A Preferred Stock shall receive an amount equal to \$1,000 per share of the Series A Preferred Stock, plus an amount equal to accrued and unpaid dividends and distributions prior to any distribution of holders of any other class of capital stock. If the assets available for distribution are sufficient to permit a full payment of the above amounts then, after such amounts have been fully distributed, holders of the Series A Preferred Stock shall share equally with holder of the Common Stock on a per share basis (using the number of common shares into which each share of Series A Preferred Stock is convertible). Each share of Series A Preferred Stock carries the voting rights on a basis such that the rights of the Series A Preferred Stock as a whole correspond to 65 percent of the aggregate rights of the Series A Preferred Stock and Common Stock outstanding as of the completion of the Merger. Upon the approval of the holders of the Common Stock and an increase in the Company's authorized share capital, each share of Series A Preferred Stock will automatically convert into shares of Common Stock on such a basis that, following conversion, the holders of the Series A Preferred Stock will hold the same proportional rights to general distributions and voting rights that they held immediately prior to such conversion. The Series A Preferred Stock is not redeemable.

Net loss per share:

For purposes of computing loss per share, the Company's net loss is allocated between the two classes of stock, common stock and Series A Preferred. The allocation between each class is based upon the two-class method. The following table shows how the net loss was allocated using the two-class method:

	For the thirteen weeks ended August 27, 2005	August 27, 2004	For the twenty-six weeks ended August 27, 2005	August 28, 2004
	-----	-----	-----	-----
Allocation of net loss				
Basic and Diluted:				
- Common Stock	\$(2,185,010)	\$ -	\$(2,479,506)	\$ -
- Series A Preferred	-	(929,529)	(1,833,994)	(1,252,171)
	-----	-----	-----	-----
Net loss	\$(2,185,010)	\$ (929,529)	\$(4,313,500)	\$(1,252,171)
	=====	=====	=====	=====

The following table illustrates the weighted average number of Common Stock and Series A Preferred shares outstanding during the period utilized in the calculation of loss per share:

Edgar Filing: CENUCO INC - Form 10-Q

	13 weeks ended		26 weeks ended	
	08/27/05	08/28/04	08/27/05	08/28/04
Weighted average number of Common Stock shares - basic and diluted	13,768,930	-	13,734,420	-
Weighted average number of Series A Preferred shares - basic and diluted	2,554	2,554	2,554	2,554
Basic and diluted net loss per share - common	\$ (0.16)	\$ -	\$ (0.18)	\$ -
Basic and diluted net loss per share - Series A Preferred	\$ -	\$ (364)	\$ (718)	\$ (490)

NOTE 11 - SEGMENT AND GEOGRAPHIC INFORMATION

13 WEEKS ENDED AUGUST 27, 2005

DIVISION	HBC	WAD	TOTAL
Revenues	\$16,827,000	\$ 13,788	\$16,840,788
Operating loss	(1,470,484)	(381,274)	(1,851,758)
Net loss	(1,710,064)	(474,946)	(2,185,010)

26 WEEKS ENDED AUGUST 27, 2005

DIVISION	HBC	WAD	TOTAL
Revenues	\$34,174,747	\$ 17,102	\$34,191,849
Operating loss	(3,058,503)	(561,549)	(3,620,052)
Net loss	(3,775,925)	(537,575)	(4,313,500)
Assets	\$23,237,339	\$40,456,919	\$63,694,258

GEOGRAPHIC

	REVENUES	LONG-LIVED ASSETS
Thirteen weeks ended:		
United States	\$10,750,980	\$44,069,123
Canada	4,048,763	587,819
Other foreign countries	2,041,045	-
Total	\$16,840,788	\$44,655,942
Twenty-six weeks ended:		
United States	\$22,259,799	
Canada	7,778,503	
Other foreign countries	4,153,547	
Total	\$34,191,849	

Edgar Filing: CENUCO INC - Form 10-Q

=====

NOTE 12 - TRANSACTIONS WITH RELATED PARTIES

The Hermes Group LLP (THGLLP), a certified public accounting firm, provided various professional services and facilities usage to the Company. THGLLP also paid expenses on behalf of the Company. THGLLP invoiced the Company a total of \$258,807 for professional fees, facility usage and reimbursable expenses for the twenty-six weeks ended August 27, 2005 and \$260,151 for the twenty-six weeks ended August 28, 2004. At August 27, 2005, the Company owed THGLLP \$29,568. A Managing Member of HACI (pre-Merger), is a founding Partner and is currently a non-active partner in THGLLP. THGLLP ceased providing facilities to the Company in June 2005.

Zephyr Ventures LLC (ZVLLC) provided consulting services to the Company. A member of the Board of Directors of Cenuco (effective May 20, 2005) is a Managing Member of ZVLLC. For the twenty-six weeks ended August 27, 2005, ZVLLC invoiced the Company for \$19,078. For the twenty-six weeks ended August 28, 2004, ZVLLC invoiced the Company for \$14,959. Effective May 20, 2005, the date of the Merger, ZVLLC ceased providing consulting services to the Company. The balance due ZVLLC at August 27, 2005 was \$0.

Another member of the Board of Directors of Cenuco, Inc. (effective May 20, 2005) provided consulting services to the Company. For the twenty-six weeks ended August 27, 2005, he invoiced the Company \$5,000. For the twenty-six weeks ended August 28, 2004 he did not invoice the Company. Effective May 20, 2005, the date of the Merger, he ceased providing consulting services to the Company. The balance due at August 27, 2005 was \$0.

The Company's management believes the charges for the above related party services and facilities are consistent with those that would be paid to independent third parties.

NOTE 13 - SUPPLEMENTAL PRO FORMA INFORMATION

The following discloses the results of operations (excluding discontinued operations) for the current interim period (and corresponding period in the preceding year) as though the Merger had been completed as of March 1, the beginning of the period. The combined results consist of the twenty-six weeks ended August 27, 2005 and August 28, 2004.

	26 weeks ended August 27 2005	26 weeks ended August 28 2004
	-----	-----
Net sales	\$ 34,231,886	\$ 34,026,057
Loss before extraordinary items	(5,114,306)	(3,906,446)
Amortization of intangible assets	(215,176)	(215,176)
Net loss	\$ (5,299,235)	\$ (4,121,622)
Loss per common share- basic and diluted	\$ (.39)	\$ (.32)
Weighted average shares	13,734,420	13,750,556

NOTE 14 - SUBSEQUENT EVENTS

- o On October 10, 2005 the Company entered into agreements with Prencen, LLC, Highgate House Funds and Cornell Capital Partners for equity and

Edgar Filing: CENUCO INC - Form 10-Q

convertible debt financing to be used in connection with the acquisition of a series of leading brands from a leading Consumer Products company (the "Asset Acquisition"), the refinancing of existing debt, and general working capital purposes. This financing facility (the "New Financing") includes three elements: (i) proceeds of \$25 million in connection with the sale of shares of a new series of participating preferred stock at a price of \$3.80 per share, convertible into an aggregate of 6,578,947 shares of common stock, subject to certain restrictions on conversion, along with the issuance of warrants exercisable for a period of 5 years to acquire an aggregate of 1,973,684 shares of common stock at an exercise price of \$4.37 per share, (ii) proceeds of \$40 million in connection with the issuance of a 24 month secured debenture, convertible into common stock at any time at a conversion price at \$4.56 per share, bearing interest at 12% per annum, along with warrants ("Debt Warrants") exercisable for a period of 5 years to acquire 1,052,631 shares of common stock at an exercise price of \$4.56 per share, and (iii) a standby equity subscription facility, providing for the sale of up to \$100 million in common stock of Cenuco at 98% of the then current market price (as defined). The exercise price of the Debt Warrants noted above is subject to a discount to \$0.95 per share in the event certain conditions of default are triggered under the secured debenture financing agreement. Funding under the New Financing will not be available until the completion of various corporate and securities law requirements, including a vote of the Company's shareholders to approve the issuance of the common stock and convertible securities in connection with the New Financing. Prior to that date, the Company anticipates entering into a bridge loan facility for \$65 million for purposes of closing on the Asset Acquisition and paying existing indebtedness. The Company anticipates entering into the bridge loan facility on or about October 21, 2005.

Of the \$65 million in proceeds received from the bridge loan facility, \$45 million will be used in connection with the \$60 million Asset Acquisition, with the balance of the consideration in the form of a three-year, \$15 million promissory note payable to the seller. The Asset Acquisition is expected to be signed on or about October 21, 2005. The remaining \$20 million of proceeds from the bridge facility will be used to (i) repay approximately \$10 million of existing funded debt and related interest, (ii) pay \$5 million for costs associated with the New Financing and the Asset Acquisition and (iii) provide approximately \$5 million for working capital purposes.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. Management's discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934 that involve risks and uncertainties, including but not limited to: quarterly fluctuations in results; customer demand for the Company's products; the development of new technology; domestic and international economic conditions; the achievement of lower costs and expenses; the continued availability of financing in the amounts and on the terms required to support the Company's future business; credit concerns in this industry; and other risks detailed from time to time in the Company's other Securities and Exchange Commission filings. Actual results may differ materially from management's expectations. The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely affect the Company's business and financial performance. Moreover, the

Edgar Filing: CENUCO INC - Form 10-Q

Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Investors should also be aware that while the Company does communicate with securities analysts from time to time, it is against its policy to disclose to them any material non-public information or other confidential information. Accordingly, investors should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, the Company has a policy against issuing or confirming financial forecast or projections issued by others. Therefore, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

EXECUTIVE SUMMARY

On May 20, 2005, Hermes Holding Company, Inc., a newly formed wholly owned subsidiary of Cenuco, Inc., ("Cenuco" or the "Company") merged (the "Merger") with Hermes Acquisition Company I LLC, a limited liability company organized on April 25, 2003 under the laws of the State of Delaware ("HACI"). As a consequence of the Merger, HACI, together with its wholly owned subsidiaries Lander Co., Inc., a Delaware corporation ("Lander US"), Hermes Real Estate I LLC, a New York limited liability company ("HREI"), and Lander Co. Canada Limited, an Ontario corporation ("Lander Canada") and together with Lander US and HREI, became wholly owned subsidiaries of Cenuco. HREI became a wholly owned subsidiary of HACI on March 1, 2005. Prior thereto, HACI and HREI had the same ownership.

For accounting purposes, HACI is considered the acquirer in a reverse transaction and consequently the Merger will be treated as a recapitalization of HACI. Thus, HACI's financial statements are the historical financial statements of the post-Merger entity.

Effective May 20, 2005, Cenuco, Inc will contain two business divisions, (1) Health & Beauty Care (HBC) and (2) Wireless Application Development (WAD).

HEALTH AND BEAUTY CARE (HBC)

Lander Co., Inc. (Lander) and its Canadian affiliate, Lander Canada Limited, (Lander Canada) manufacture, market and distribute a leading value brand (Lander(R)) of health and beauty care products. Additionally, through its Canadian facility, Lander produces a series of private label brands for a limited number of large Canadian retail chains.

Lander maintains a category leadership position in the marketplace for value priced health and beauty care products, which are sold in dollar stores such as Dollar Tree and value-focused retailers such as Wal-Mart and Kmart. Management presently intends that Lander will serve as a platform for Company growth through acquisitions of additional health and beauty care (HBC) brands.

The Company presently distributes on an annual basis more than 100 million units of health and beauty products (primarily liquid fill bath care, baby care, and skin care products) in North America, and another 20 million internationally.

Facilities

Edgar Filing: CENUCO INC - Form 10-Q

The Company is headquartered in Lawrenceville, NJ, and operates two manufacturing and distribution facilities in Binghamton, NY (owned) and Toronto (leased). Additionally, Lander utilizes two outside public warehouse facilities in Buena Park, CA and in Charlotte, NC. The primary core competencies of both manufacturing facilities are Health and Beauty Care liquid fill and talc powder filling. The two distribution facilities act as remote warehouses and FOB pick up locations. Both manufacturing facilities have warehouse and distribution capability supplemented by the two remote warehouses.

Lander's Binghamton facility is a 168,000 sq. ft. facility with 200 employees working 24 hours a day in three shifts, five days a week. The hourly employees are represented by the United Chemical Workers and to the Company's knowledge, labor relations are good. This plant primarily produces Health and Beauty Care products sold in the United States and internationally under the Lander(R) Brand name. Products produced in this plant include, bubble bath, lotions and creams, baby products such as shampoo, baby oil, and baby powder. Additionally, this facility is approved by the FDA (United States Food and Drug Administration) and the New York Board of Pharmacy to manufacture Over-the-Counter (OTC) drugs such as topical analgesics and vapor rubs.

Lander's Canadian facility is a 98,000 sq. ft. facility with 80 employees working 24 hours a day in three shifts, five days a week. The hourly employees are represented by the Teamsters, and to the Company's knowledge, labor relations are good. This plant produces private label Health and Beauty Care products for Canada's largest retail and drug stores as well as Lander(R) Brand products sold in the U.S. Lander Canada also produces and sells products domestically under the Lander(R) Brand. Products produced in this plant include lotions and creams, baby products such as shampoo, baby oil, baby powder, mouthwash, and nail polish remover. Additionally, this facility is approved by Health Canada and FDA to manufacture OTC drugs, including antiseptic mouthwash, topical analgesics and vapor rubs.

Both manufacturing facilities have production capacity capable of absorbing additional production requirements for projected volume increases from additional organic sales as well as additional sales from acquisitions with a modest capital investment. In addition, selected products will continue to be manufactured by third party manufacturers. The Company anticipates operating efficiencies in the areas of freight and distribution, raw material procurement, as well as, labor and overhead absorption, which would make sales derived from acquisitions extremely accretive.

Lander Customers

Approximately 65% of the Company's business is conducted in the United States, 23% in Canada and 12% outside North America. The Company's largest customer is Wal-Mart, which comprises approximately 37% of the business conducted in the U.S. and approximately 35% of the Canadian private label business. Other major customers include Dollar Tree, Family Dollar, Kmart, Bargain Wholesale and Shopper's Drug Mart. Internationally, the Lander products are distributed to 90 countries, including those located in Latin America, Africa, the Middle East, as well as, Mexico and the Philippines.

Industry

Currently, Lander competes primarily within the "extreme value" sector of several major Health and Beauty Care categories: bath additives, skin care, baby care, oral care and hair care products. The brands that management currently targets for acquisition fall within these same Health and Beauty Care categories; however they are priced as premium brands, which can be integrated within our existing infrastructure. According to Information Resources Inc.

Edgar Filing: CENUCO INC - Form 10-Q

(IRI), these product categories in aggregate account for over three billion dollars of retail sales annually in the U.S. alone.

Lander's strategy is to build upon its premium brands both organically and through brand acquisition. One of Lander's existing premium brands, Lander Essentials 3 IN 1, has now been purchased by over 18,000 stores.

WIRELESS APPLICATION DEVELOPMENT (WAD)

The Wireless Application Development ("WAD") segment is engaged in the wireless application technology business, primarily related to the transmission of secure and non-secured video onto cellular platforms via proprietary technologies. This is also known as remote video monitoring via cellular device. In this wireless segment, the Company provides cellular carriers, Internet Service Providers, resellers, and distributors a host of wireless video streaming products that can generate an increase in subscribers of wireless data services, as well as broadband Internet services.

Our wireless remote video monitoring technologies via cellular device (cellular phone, Pocket PC mobile Edition, Smart Phone, remote wireline computer, and remote cellular connected computer) have been productized to service a variety of market segments. We have been awarded the General Services Administration contract number GS-03F-0025N by the United States government, allowing the Company to sell its products, technologies, and services to every branch of the United States government, including all military agencies and the Department of Homeland Security.

The technology group's partnerships and affiliates include: Intel Corporation, Microsoft Corporation, Qualcomm, Tyco, and other leading technology organizations. These relationships allow Cenuco access to new emerging technologies provided by these organizations, as well as, co-operative marketing programs, which provides us access to significant resources in the wireless remote monitoring market.

We have the ability to license our proprietary core technology to third party organizations. We initiated discussions with a number of leading technology companies regarding direct embedding of the Company's technologies onto existing security systems, DVR's, DSL or cable modems, routers, IP cameras, and other appliance oriented hardware. Additionally, the Company has successfully licensed its technology to a specialty camera manufacturer and extensive testing continues as we upgrade this specialty camera with our proprietary core technology.

Our WAD segment, with its core proprietary (patent-pending) technology, currently addresses one primary market; security and surveillance. This segment offers software solutions but can also bundle hardware that will allow real-time mobile access to mission-critical data and live video from most Internet enabled personal digital assistants (PDA) or cellular phones, from anywhere world-wide. We have already initiated efforts into delivering content over cellular devices using our existing software.

Our wireless video monitoring solutions allows users to view real-time streaming video of security cameras at their home or place of business from anywhere they receive a cellular connection, regardless of the cellular carrier or user's location. Our systems are also delivered with a password protected PC desktop client, which allows for single click access to any remote camera, manage user accounts, and review archival video.

During fiscal 2004, we completed a full patent filing with the United States Patent and Trademark office. The Utility Patent Application entitled "Wireless Security Audio-Video Monitoring", was accepted by the USPTO during June 2004, at which time Cenuco was issued Patent pending number 10/846426. This latest

Edgar Filing: CENUCO INC - Form 10-Q

intellectual property filing also reflects the culmination of Cenuco's provisional patent application(s) for viewing live streaming wireless video transmission on cellular devices, filed during Fiscal 2003. Recently we have added additional filings regarding our new peer to peer/cell to cell live video technology.

Cenuco has completed the development of its new commercial security product line that will be sold through Security companies existing sales channels and through 7 nationwide distributors.

Several national and international cellular carriers are currently testing our mobile viewing software. Western Wireless Corporation has recently deployed MobileMonitorsm product kits and software through select carrier retail locations across nineteen western states and is now available to Western Wireless subscribers. Cenuco's Product kits and software have already been delivered to the carrier retail locations through Cenuco's distribution partner, CellStar.

Cenuco continues to develop software for Tyco's Research and Development group.

Revenue and expense for the Wireless Application Development division reflects activity from the date of the Merger (May 20, 2005) to August 27, 2005. Prior to the Merger the Wireless Application Development division's financial information and other pertinent information is contained in the 10-Q for the first quarter ended March 31, 2005 filed by Cenuco in May 2005.

THIRTEEN WEEKS ENDED AUGUST 27, 2005 COMPARED TO THE THIRTEEN WEEKS ENDED AUGUST 28, 2004

REVENUES

Net revenues for the thirteen weeks ended August 27, 2005 increased \$368,341 (2.2%) when compared to net revenues for the thirteen weeks ended August 28, 2004. This quarter's volume was favorably impacted by a substantial increase in sales on the Company's expanding line of premium value products which are typically sold at Food, Drug and Mass Merchant outlets. The U.S. sales on these premium products, grew from \$2,238,000 in Q2 FY2005 to \$4,535,000 in Q2 FY2006 or a 97.4% increase. This increase, however, was offset by a sales reduction of \$1,129,000 attributed to the termination of a prior year's marketing and administrative service agreement for the sale of licensed products and a sales decline of \$926,000 in the Company's non-focus extreme value business in the United States. Lander's extreme value products are typically sold at a one-dollar retail price point in dollar stores and other low price venues. Additionally, the Company experienced a \$300,000 increase in sales for private label products in Canada, offset by a decline in International (exports) sales of \$200,000.

GROSS PROFIT

Consolidated gross profit declined by \$0.4 million for the thirteen weeks ended August 27, 2005 from \$1.7 million for the thirteen weeks ended August 28, 2004. Inflationary increases resulting from rising oil prices impacted commodity pricing resulting in higher raw material prices for surfactants, mineral oil, plastic bottles and caps negatively impacted the quarter by \$1.0 million which was partially offset by favorable product mix \$.6 million relating to the launch of the premium value Lander Essentials products.

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses amounted to \$3.2 million for the thirteen weeks ended August 27, 2005 compared to \$2.4 million for the thirteen weeks ended August 28, 2004. This increase is primarily attributable to the Merger

Edgar Filing: CENUCO INC - Form 10-Q

with Cenuco on May 20, 2005. Selling and administrative costs of Cenuco's WAD division added \$0.4 million in total cost to the current period. Salaries and salary related expenses of \$0.2 million in conjunction with outside legal, professional and audit fees of \$0.3 million are the primary factors contributing to the increase. Sales and marketing expenses are \$0.1 million below prior year primarily due to reductions in salary and salary related expenses partially offset by higher broker commissions and promotional expenses related to the launch of the new premium product line "Lander Essentials".

TWENTY-SIX WEEKS ENDED AUGUST 27, 2005 COMPARED TO THE TWENTY-SIX WEEKS ENDED AUGUST 28, 2004

REVENUES

Net revenues for the twenty-six weeks ended August 27, 2005 increased \$180,534 (0.5%) when compared to net revenues for the twenty-six weeks ended August 28, 2004. The increase resulted from increased sales to select major retailers due to introductions of new product offerings.

Sales revenue for the 26 weeks was favorably impacted by a substantial increase in sales on the Company's expanding line of premium value products which are typically sold at Food, Drug and Mass Merchant outlets. The US sales on these premium products, increased from \$4,810,000 in FY2005 to \$8,680,000 in FY2006 or an 80.5% gain. This gain, however, was offset by a reduction of \$1,100,00 attributed to the termination of a prior year's marketing and administrative service agreement for sale of licensed products along with a decline of \$3,019,000 in the Company's non-focus extreme value business in the United States. Lander's extreme value products are typically sold at a one-dollar retail price point in dollar stores and other low price venues. Additionally the company experienced a \$429,000 increase in sales for private label products in Canada.

During the first quarter, the Company launched a strategically focused new premium product line "Lander Essentials" This line is an upscale collection of bath and body lotion products. The "Lander Essentials" line has been very well received by retailers throughout the U.S., with over 16,000 stores committed purchasing the product line by the end of Q2. As planned, additional premium value "Lander Essentials" products have subsequently been developed, specifically in the Lotions and the Foam Bath categories. These new products are scheduled to begin shipping in Q3, and are expected to increase Lander's volume in the premium value category. The Company's focus and strategy is to increase its expansion for its premium, higher margin products.

GROSS PROFIT

Consolidated gross profit declined to \$2.3 million for the twenty-six weeks ended August 27, 2005 from \$4.3 million for the twenty-six weeks ended August 28, 2004. The company has implemented cost reduction programs and continues to streamline its manufacturing processes however, inflationary increases resulting from rising oil prices impacted commodity pricing. This resulted in higher raw material prices for surfactants, mineral oil, plastic bottles and caps, which negatively impacted gross profit by \$1.9 million versus prior year. An agreement with a third party manufacturer that was terminated in Q1 produced a \$0.1 million reduction to gross profit as inventories were liquidated at below market pricing.

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses amounted to \$5.9 million for the twenty-six weeks ended August 27, 2005 compared to \$5.0 million for the twenty-six weeks ended August 28, 2004. This increase is primarily attributable to the Merger with Cenuco on May 20, 2005. Selling and administrative costs of Cenuco's WAD

Edgar Filing: CENUCO INC - Form 10-Q

division added \$0.4 million to total cost in the current period. In addition, salary and salary related expenses in conjunction with outside legal, professional and audit fees amounted to \$0.4 million. In addition the increase included a one time promotional allowance to a major retailer of \$0.1 million, which is projected to positively impact revenue during the balance of the year. Furthermore, in connection with the current and future higher margin product introduction as well as brand acquisitions, a consulting firm was engaged to assist in the solidification of our strategic plan that represented an additional one-time charge to income in the amount of \$0.1 million.

OTHER FINANCIAL ITEMS

Net loss per share:

For purposes of computing loss per share, the Company's net loss is allocated between the two classes of stock, common stock and Series A Preferred. The allocation between each class is based upon the two-class method.

The following table shows how the net loss was allocated using the two-class method:

	For the thirteen weeks ended August 27, 2005 August 27, 2004		For the twenty-six weeks ended August 27, 2005 August 28, 2004	
Allocation of net loss				
Basic and Diluted:				
- Common Stock	\$ (2,185,010)	\$ -	\$ (2,479,506)	\$ -
- Series A Preferred	-	(929,529)	(1,833,994)	(1,252,171)
	-----	-----	-----	-----
Net loss	\$ (2,185,010)	\$ (929,529)	\$ (4,313,500)	\$ (1,252,171)
	=====	=====	=====	=====

The following table illustrates the weighted average number of Common Stock and Series A Preferred shares outstanding during the period utilized in the calculation of loss per share:

	13 weeks ended		26 weeks ended	
	08/27/05	08/28/04	08/27/05	08/28/04
Weighted average number of Common Stock shares - basic and diluted	13,768,930	-	13,734,420	-
Weighted average number of Series A Preferred shares - basic and diluted	2,554	2,554	2,554	2,554
Basic and diluted net loss per share				
- common	\$ (0.16)	\$ -	\$ (0.18)	\$ -
Basic and diluted net loss per share				
- Series A Preferred	\$ -	\$ (364)	\$ (718)	\$ (490)

LIQUIDITY AND CAPITAL RESOURCES

Revolver

Edgar Filing: CENUCO INC - Form 10-Q

The Company is a party to a revolving credit facility with a financial institution expiring June 30, 2006. The credit facility provides for borrowings for working capital, fixed assets and other operating requirements. See Note 5 to Financial Statements for details.

On August 27, 2005, the amount of availability was \$2,841,273. On February 28, 2005, the amount of availability was \$567,995.

CASH FLOW - TWENTY-SIX WEEKS ENDED AUGUST 27, 2005 AND AUGUST 28, 2004

Net cash used in operating activities was \$3.4 million and \$0.4 million, respectively for the twenty-six weeks ended August 27, 2005 and August 28, 2004. For the twenty-six weeks ended August 27, 2005, the items primarily contributing to negative operating cash flow consisted of the net loss of \$4.3 million less non-cash expenses of \$0.9 million, plus increases in accounts receivable of \$0.3 million, increases in other assets of \$1.1 million and a reduction in accounts payable of \$0.1 million, offset by decreases in inventory of \$1.3 million and other liabilities of \$0.2 million. For the twenty-six weeks ended August 28, 2004, the major contributors to negative operating cash flow was a net income loss of \$1.3 million, less non-cash expenses of \$0.7 million, an increase in accounts payable of \$1.3 million, offset by increases in trade receivables and prepaid assets of \$1.1 million.

Net cash provided by (used in) investing activities amounted to \$5,836,724 for the twenty-six weeks ended August 27, 2005 compared to \$(343,016) for the twenty-six weeks ended August 28, 2004. For the twenty-six weeks ended August 27, 2005, the major activity consisted of cash received of \$6,235,441 from reverse acquisition of Cenuco. Other activity includes proceeds from a note receivable less amounts expended for capital expenditures for the purchase of equipment to meet current and expected sales demand. Cash of \$343,016 was also expended for deferred expenditures related to acquisitions. For the twenty-six weeks ended August 28, 2004, cash of \$343,016 was expended for capital equipment.

Net cash provided by (used in) financing activities for the twenty-six weeks ended August 27, 2005 amounted to \$(1,997,909) compared to cash provided by financing activities for the thirteen weeks ended August 28, 2004 of \$705,052. The majority of the activity relates to borrowings and repayments under the Company's line of credit, plus other related debt payments.

AT AUGUST 27, 2005 CENUCO HAD CASH AND CASH EQUIVALENTS OF \$0.4 MILLION. MANAGEMENT BELIEVES THIS COMBINED WITH AVAILABILITY FROM THE REVOLVER OF \$2.8 MILLION AND OTHER FINANCING SOURCES AVAILABLE TO THE COMPANY PROVIDES CENUCO WITH SUFFICIENT OPERATING LIQUIDITY.

Transactions with Related and Certain Other Parties

The Hermes Group LLP (THGLLP), a certified public accounting firm, provided various professional services and facilities usage to the Company. THGLLP also paid expenses on behalf of the Company. THGLLP invoiced the Company a total of \$258,807 for professional fees, facility usage and reimbursable expenses for the twenty-six weeks ended August 27, 2005 and \$260,151 for the twenty-six weeks ended August 28, 2004. At August 27, 2005, the Company owed THGLLP \$29,568. A Managing Member of HACI (pre-Merger), is a founding Partner and is currently a non-active partner in THGLLP.

Zephyr Ventures LLC (ZVLLC) provided consulting services to the Company for fees. A member of the Board of Directors of Cenuco (effective May 20, 2005) is a Managing Member of ZVLLC. For the twenty-six weeks ended August 27, 2005, ZVLLC invoiced the Company for \$19,078. For the twenty-six weeks ended August 28, 2004, ZVLLC invoiced the Company for \$14,959. Effective May 20, 2005, the date

Edgar Filing: CENUCO INC - Form 10-Q

of the Merger, ZVLLC ceased providing consulting services to the Company. The balance due ZVLLC at August 27, 2005 was \$0.

Another member of the Board of Directors of Cenuco, Inc. (effective May 20, 2005) provided consulting services to the Company. For the twenty-six weeks ended August 27, 2005, he invoiced the Company \$5,000. For the twenty-six weeks ended August 28, 2004 he did not invoice the Company. Effective May 20, 2005, the date of the Merger, he ceased providing consulting services to the Company. The balance due at August 27, 2005 was \$0.

The Company's management believes the charges for the above related party services and facilities are consistent with those that would be paid to independent third parties.

RISK FACTORS

Cenuco's top ten customers accounted for approximately 49% of consolidated net revenues for the thirteen and twenty-six weeks ended August 27, 2005. Trade accounts receivable from these customers represented approximately 49% of net consolidated receivables at August 27, 2005. Wal-Mart Stores Inc. accounted for approximately 25% of consolidated net revenues for the thirteen and twenty-six weeks ended August 27, 2005. Dollar Tree Stores Inc accounted for approximately 10% of net consolidated revenues for the thirteen and twenty-six weeks ended August 27, 2005. A significant decrease or interruption in business from the Company's major customers could have a material adverse effect on the Company's business, financial condition and results of operations. The Company could also be adversely affected by such factors as changes in foreign currency rates and weak economic and political conditions in each of the countries in which the Company sells its products.

Financial instruments that potentially expose the Company to a concentration of credit risk principally consist of accounts receivable. The Company sells product to a large number of customers in many different geographic regions. To minimize credit concentration risk, the Company performs ongoing credit evaluations of its customers' financial condition or uses letters of credit.

Increased competition also results in continued exposure to the Company. If the Company loses market share or encounters more competition relating to its products, the Company may be unable to lower its cost structure quickly enough to offset the lost revenue. To counter these risks, the Company has initiated a cost reduction program, continues to streamline its manufacturing processes and is formulating a strategy to respond to the marketplace. However, no assurances can be given that this strategy will succeed.

The Company depends on third parties to manufacture a portion of the products that we sell. If we are unable to maintain these manufacturing relationships or enter into additional or different arrangements, we may fail to meet customer demand and our sales and profitability may suffer as a result.

Disruption in our main manufacturing/distribution center may prevent us from meeting customer demand and our sales and profitability may suffer as a result.

Efforts to acquire other companies, brands or product lines may divert our managerial resources away from our business operations, and if we complete an acquisition, we may incur or assume additional liabilities or experience integration problems.

We depend on our key personnel and the loss of the service by any of our executive officers or other key employees could harm our business and results of operations.

The Company's manufacturing processes utilizes multiple sources for the purchase

Edgar Filing: CENUCO INC - Form 10-Q

of raw materials. Although the Company has not to-date experienced a significant difficulty in obtaining these raw materials, no assurance can be given that shortages will not arise in the future. The loss of any one or more of such sources could have a short-term adverse effect on the Company until alternative sources are determined. The Company believes that there are adequate alternative sources of such raw materials and components of sufficient quantity and quality.

Hedging and Trading Activities

The Company does not engage in any hedging activities, including currency-hedging activities, in connection with its foreign operations and sales. To date, except for Canada, all of the Company's international sales have been denominated in U.S. dollars.

Long-term debt (Note 5 of Financials Statements)

Long-term debt consists of the following:

	AUGUST 27, 2005	FEBRUARY 28, 2005
Revolving line of credit loans	\$ 6,591,587	\$ 8,198,935
Machinery and equipment loans	916,875	1,039,125
Real estate term loans	1,765,441	1,981,618
Subordinated notes	4,500,000	4,500,000
Capital leases	55,752	85,158
	-----	-----
	13,829,655	15,804,836
Less current portion	7,268,440	8,929,540
	-----	-----
Total	\$ 6,561,215	\$ 6,875,296
	=====	=====

In connection with the Acquisitions, HACI/HREI obtained long-term financing commitments (Financing Arrangement) from a financial institution comprised of the following (collectively the Loans):

- o Revolving line of credit facility of \$11,000,000 with a three-year term expiring in June 2006. Annual renewals of the facility are available in one-year increments after the initial term. Available borrowings are determined by a borrowing base calculation using eligible receivables and inventories of Lander US and Lander Canada, which are the collateral for this facility. As of August 27, 2005, unused availability under the borrowing base calculation amounted to \$2,841,273. As of February 28, 2005 the unused availability amounted to \$567,995. Interest on outstanding loans is payable monthly. For purposes of classifying the outstanding debt in the August 27, 2005 and February 28, 2005 balance sheets, the Company has reflected the \$6,591,587 and \$8,198,935, respectively, of borrowings under the revolving line of credit facility as a current liability, since it is subject to collection, lock-box arrangements and contains a subjective acceleration clause.
- o Machinery and equipment term loans with initial principal amounts aggregating \$1,467,000 have six-year amortization terms expiring in June 2009. Such loans are subject to termination upon the expiration of the revolving line of credit and are collateralized by the machinery and equipment of Lander US and Lander Canada. Principal payments aggregating \$20,375 plus interest are payable monthly.
- o Real estate term loan with initial principal amount of \$2,450,000 has a six-year amortization term expiring in December 2009. Such loan is subject

Edgar Filing: CENUCO INC - Form 10-Q

to termination upon the expiration of the revolving line of credit and is collateralized by the Lander US production plant located in Binghamton, New York. Principal payments aggregating \$36,029 plus interest are payable monthly.

The interest rates on the Loans bear an annual interest rate of a national bank's prime rate plus 1.25%. HACI/HREI has the option of converting all or a portion of the Loans outstanding to an annual interest rate of the one-, two- or three-month LIBOR rate plus 3.75%. As of August 27, 2005, the national bank prime rate was 6.50% and the one-, two- and three-month LIBOR rates were 3.67%, 3.76%, and 3.86%, respectively. The interest rate on the Loans was 7.75% at August 27, 2005. As of August 28, 2004, the national bank prime rate was 4.50% and the one-, two- and three-month LIBOR rates were 1.65%, 1.72%, and 1.79%, respectively. The interest rate on the Loans was 5.75% at August 28, 2004.

The Loans contained financial and non-financial covenants including a limitation of \$1,250,000 on capital expenditures during any fiscal year and maintaining on a monthly basis a fixed charges coverage ratio of no less than 1.0 to 1.0. The ratio is calculated by dividing earnings before interest, depreciation and amortization less any unfunded capital expenditures and improvements by fixed charges. Fixed charges include interest expense, capital lease obligations, principal payments on indebtedness and payments for income tax obligations.

HACI/HREI was not in compliance with the fixed charges coverage ratio and the limitation on capital expenditures for fiscal 2004 and fiscal 2005 and through July 15, 2005. In June 2004, December 2004 and July 2005, the Financing Agreement was amended and the events of noncompliance were waived by the financial institution. As part of the third amendment, which was dated July 15, 2005, the fixed charge ratio covenant requirement is only triggered when availability under the revolving line of credit is less than \$2,000,000.

As part of the HACI/HREI Acquisition of the Lander US business, HACI also has long term financing from the seller in the form of a \$4,500,000 subordinated note ("Seller Note") with a three year term expiring in June 2006. The Seller Note is subordinate to the Financing Agreement. Interest is payable quarterly at an annual interest rate of 10%. Annual principal payments of \$1,166,667 are required under this Seller Note; however a provision permits the Company to defer principal payments if certain financial targets, pursuant to the Financing Arrangement are not achieved by Lander. As a result of the Company not achieving these financial targets in fiscal 2004 and 2005, principal payment due in June 2004 and June 2005 have been deferred until June 2006. Additionally, there is a provision in the Seller Note that permits the deferral of interest payments in the event of non-compliance with certain covenants contained in the Financings Arrangement. Accordingly, HACI has not paid any interest accrued on the Seller Note from July 1, 2004 to date. Accrued interest on the Seller Note totaled \$522,964 and \$297,964 as of August 27, 2005 and February 28, 2005, respectively.

On March 16, 2005, HACI and the seller entered into Settlement and Release Agreement whereby HACI has the option to pay \$2,000,000, plus interest, to satisfy the \$4,500,000 principal amount of subordinated debt. In addition, HACI would be required to pay interest accrued on the \$4,500,000 subordinated note from July 1, 2004 through March 16, 2005 and interest on the \$2,000,000 from March 17, 2005 through the date of payment. Such option is available to HACI up to November 30, 2005. In exchange for this option, HACI has agreed to release the seller from certain claims against and indemnifications of the seller under the agreement for the purchase of Lander US and Lander Canada.

The aggregate maturities of long-term debt are as follows:

	AUGUST 27, 2005	FEBRUARY 28, 2005
2006	\$ 7,268,440	\$ 8,929,540

Edgar Filing: CENUCO INC - Form 10-Q

2007	6,561,215	6,875,296
	-----	-----
	\$ 13,829,655	\$ 15,804,836
	=====	=====

Off Balance Sheet Arrangements and Contractual Obligations

The Company's off balance sheet arrangements consist principally of leasing various assets under operating leases. The future estimated payments under these arrangements are summarized below along with the Company's other contractual obligations:

Operating leases (Note 8 of Financial Statements)

The Company has various noncancelable operating leases for manufacturing and office facilities. Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments for each period are as follows:

	AUGUST 27, 2005	AUGUST 27, 2005	FEBRUARY 28, 2005	FEBRUARY 28, 2005
	CAPITAL LEASES	OPERATING LEASES	CAPITAL LEASES	OPERATING LEASES
2006	\$ 25,488	\$ 366,725	\$ 59,944	\$ 762,790
2007	31,949	441,877	31,820	342,136
2008	0	342,262	0	282,940
2009	0	210,962	0	207,105
2010	0	205,746	0	204,428
2011	0	102,000	0	102,000
	-----	-----	-----	-----
Total minimum lease payments	\$ 57,437	\$ 1,669,572	\$ 91,764	\$ 1,901,399
		=====		=====

Less amounts representing Interest (at rates ranging from 5.25% to 8.31% .	(1,685)	
	-----	(6,606)

Present value of net minimum Capital lease payments	\$ 55,752	
	=====	\$ 85,158
		=====

The Company is subject to certain claims and litigation in the normal course of business. Management believes, after consulting with legal counsel, that the ultimate liability resulting from these matters will not materially affect the combined results of operations or financial position of the Company.

Inflation

The Company believes that the relatively moderate rates of inflation in recent years have not had a significant impact on its net revenues or profitability. The Company did experience higher than normal prices on certain raw materials during the period coupled with higher freight costs as freight companies passed on a portion of higher gas and oil costs.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company markets its products throughout the United States and the world. As

Edgar Filing: CENUCO INC - Form 10-Q

a result, the Company could be adversely affected by such factors as rising commodity costs and weak global economic conditions. Forecasted purchases during the next thirteen weeks are approximately \$15 million. An average 2% unfavorable price increase related to the price of oil and other related inflationary raw materials could cost the Company approximately \$300,000.

The Company has also evaluated its exposure to fluctuations in interest rates. If the Company would borrow up to the maximum amount available, a one percent increase in the interest rates would increase interest expense by approximately \$35,000 per quarter. \$14.0 million is currently outstanding under the revolver and other term loan credit facilities. Interest rate risks from the Company's other interest-related accounts such as its postretirement obligations are deemed to not be significant.

The Company has not historically and is not currently using derivative instruments to manage the above risks.

PART II. Other Information

Item 1. Legal Proceedings - WAD division:

Raymond Anthony Joao is the owner of United States Patents Nos. 6,587,046, 6,542,076 and 6,549,130 (the "Patents") which cover apparatuses and methods for transmitting video information to remote devices and/or over the Internet. In order to facilitate business discussions, Cenuco and Joao entered into a "Confidentiality/Non-Disclosure Agreement", dated November 4, 2004 (the "Agreement"). On February 1, 2005, Joao commenced an action against Cenuco in Federal District Court, Southern District of New York, alleging that Cenuco infringes the Patents (Joao v. Cenuco, Inc., 05 Civ. 1037 (CM) (MDF)). Cenuco timely answered the complaint denying infringement, filed a motion to dismiss complaint based on the Agreement and filed a counterclaim based on the Agreement. Subsequently, the Court denied Cenuco's motion to dismiss the complaint (376 F. Supp. 2d 380) and Cenuco's counterclaim (October 3, 2005, Order and Decision not published at this time). This matter remains open for a trial on the merits.

After consulting with counsel, management believes that the Patents are invalid and hence infringement is not possible. Management believes that Joao's action is without merit, and that the chances of Joao prevailing are remote.

There is no other pending material litigation to which Cenuco is a party or to which any of its properties are subject.

Item 2. Exhibits

Exhibit 31.1 - Certification of Joseph A. Falsetti filed herein

Exhibit 31.2 - Certification of Brian J. Geiger filed herein

Exhibit 32 - Certifications Pursuant to Rules 13a-14(b) and 15d-14(b) of the Securities Exchange Act of 1934 filed herein

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its

Edgar Filing: CENUCO INC - Form 10-Q

behalf by the undersigned, thereunto duly authorized.

CENUCO, INC.

By: Joseph A. Falsetti, President & CEO

/s/ Joseph A. Falsetti

By: Brian J. Geiger, Chief Financial Officer

/s/ Brian J. Geiger

Date: October 17, 2005