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W3 GROUP INC
Form 10QSB
August 16, 2004

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

FORM 10-QSB

(Mark One)

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

For the Quarterly Period Ended June 30, 2004.

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

For the Transaction Period from _____ to _____

Commission File Number: 0-27083

W3 GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

84-1108035

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification Number)

444 Madison Avenue, Suite 2904, New York, New York 10022

(Address of Principal Executive Offices)

(212) 750-7878

(Issuer's Telephone Number)

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 23,264,145 shares of Common Stock, \$.0001 par value, outstanding on June 30, 2004.

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

W3 GROUP, INC.

Form 10-QSB Quarterly Report
For Quarterly Period Ended June 30, 2004

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

W3 GROUP, INC.

BALANCE SHEETS

	June 30, 2004 (Unaudited)	December 31, 2003 (Audited)
	-----	-----
ASSETS		

Current assets:		
Cash	\$ 0	\$ 0
	-----	-----
Total current assets	0	0
	-----	-----
Total assets	\$ 0	\$ 0
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		

Current Liabilities:		
Accounts payable & accrued expenses	\$ 21,812	\$ 369,283
	-----	-----

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Total Current Liabilities:	\$	21,812	\$	369,283
		=====		=====
Shareholder loan payable	\$	63,454	\$	61,054
Stockholders' equity:				
Preferred stock- \$.0001 par value, authorized 10,000,000 shares; Issued and outstanding Series B Convertible Preferred, 1,498,901 shares at June 30, 2004 and at December 31, 2003	\$	531,891	\$	531,891
Common stock- \$.0001 par value, authorized 40,000,000 shares; Issued and outstanding 23,264,145 at June 30, 2004 and at December 31, 2003		2,326		1,039
Additional paid-in-capital		1,977,284		1,592,412
Accumulated deficit		(2,596,767)		(2,555,679)
		-----		-----
Total shareholders' equity		(85,266)		(430,337)
		-----		-----
Total Liabilities & Shareholders' Equity	\$	0	\$	0
		=====		=====

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

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W3 GROUP, INC.

STATEMENTS OF OPERATIONS
FOR THREE AND SIX MONTHS ENDED JUNE 30

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Revenues:	\$ 0	\$ 0	\$ 0	\$ 0
	=====	=====	=====	=====
General and Administrative Expenses:				
Consulting	\$ 36,000	\$ 0	\$ 36,000	\$ 0
Administration	2,330	0	2,688	0
	-----	-----	-----	-----
Total General and Administrative Expenses	\$ 38,330	\$ 0	\$ 38,688	\$ 0
	-----	-----	-----	-----
Loss From Operations	\$ (38,330)	\$ 0	\$ (38,688)	\$ 0
	=====	=====	=====	=====
Other Income and (Expenses):				
Interest (Expense)	\$ (1,200)	\$ (1,200)	\$ (2,400)	\$ (2,400)
	-----	-----	-----	-----
Total Other Income and (Expenses)	\$ (1,200)	\$ (1,200)	\$ (2,400)	\$ (2,400)
	-----	-----	-----	-----
Net Loss Before Provision For Income Taxes	\$ (39,530)	\$ (1,200)	\$ (41,088)	\$ (2,400)
	=====	=====	=====	=====

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Provision For Income Taxes	\$ 0	\$ 0	\$ 0	\$ 0
	-----	-----	-----	-----
Net Loss	\$ (39,530)	\$ (1,200)	\$ (41,088)	\$ (2,400)
	=====	=====	=====	=====
Net Loss Per Share				
Basic and Fully Diluted	\$ 0.0024	\$ 0.00	\$ 0.0031	\$ 0.00
	=====	=====	=====	=====
Weighted Average				
Number of Shares				
Basic and Fully Diluted	16,474,528	5,392,084	13,433,343	5,392,084
	=====	=====	=====	=====

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

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W3 GROUP, INC.

CASH FLOW STATEMENTS
FOR SIX MONTHS ENDED JUNE 30

	2004 (Unaudited)	2003 (Unaudited)
	-----	-----
Operating Activities:		
Net loss	\$ 41,088	\$ (2,400)
Changes in other operating assets and liabilities:		
Accounts payable & accrued expenses	(41,088)	2,400
Net cash used by operations	\$ 0	\$ 0
Net increase (decrease) in cash during the period:		
Cash balance at beginning of the fiscal year	\$ 0	\$ 0
Cash balance at end of the fiscal year	\$ 0	\$ 0
Supplemental disclosures of cash flow information:		
Interest paid during the period	\$ 0	\$ 0
Income taxes paid during the period	\$ 0	\$ 0

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

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W3 GROUP, INC.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED JUNE 30, 2004

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The accompanying financial statements of W3 Group, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. In the opinion of management, the financial statements reflect all adjustments considered necessary for a fair presentation. For further information, refer to the financial statements and footnotes thereto included in our annual report for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on March 29, 2004.

1. Organization of the Company and Significant Accounting Principles

W3 Group, Inc. (the Company) was incorporated in the State of Colorado in February 1988. The Company has no business operations at present and its activities since inception are primarily related to its initial public offering and merger activities.

In May 2003, the Company changed its state of incorporation to Delaware.

The Company ceased to be a development stage company in 1997.

Use of Estimates- The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses at the date of the financial statements and for the period they include. Actual results may differ from these estimates.

Income taxes- The Company accounts for income taxes in accordance with the Statement of Accounting Standards No.109 (SFAS No. 109), "Accounting for Income Taxes". SFAS No. 109 requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between financial statement and income tax bases of assets and liabilities that will result in taxable income or deductible expenses in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets and liabilities to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period adjusted for the change during the period in deferred tax assets and liabilities.

Recent accounting pronouncements- In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit of Disposal Activities"(SFAS 146). This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities. Under SFAS 146 companies will recognize a cost associated with an exit or disposal activity when a liability has been incurred. SFAS 146 also introduces discounting the liability associated with the exit or disposal activity for the time between the cost being incurred and when the

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liability is ultimately settled. Management has concluded that the adoption of SFAS 146 would not have had a material impact on the Company's fiscal 2004 financial position or results of operations.

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions"(SFAS 146). The statement provides guidance on the accounting for the acquisition of a financial institution where the excess of the fair value of liabilities assumed over the fair value of tangible and intangible assets acquired represents goodwill. Management has concluded that the adoption of SFAS 147 would not have had a material impact on the Company's fiscal 2004 financial position or results of operations.

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In December 2002, The FASB issued FAS No. 148, "Accounting for Stock-Based Compensation- Transition and Disclosure, an amendment of FASB Statement No.123". This statement expands the disclosure requirements with respect to stock-based compensation. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The adoption of SFAS No. 148 did not impact the Company's financial condition or results of operations for fiscal year 2004.

2. Fair Value of Financial Instruments

The value of accounts payables and accrued expenses and shareholder loans payable are estimated to approximate fair market value at June 30, 2004 and June 30, 2003.

3. Preferred Stock

The class of preferred stock issued is as follows:

Series B Convertible Preferred Stock: Series B Convertible Preferred Stock has a par value of \$.0001 per share and is non-cumulative and non-participating. The Series B Convertible Preferred Stock is convertible into common stock at a conversion ratio of two preferred shares for one share of common stock.

On January 5, 2004, 159 shares of Series B Convertible Preferred Stock were converted to 79 shares of common stock.

4. Issuance of Stock

On January 10, 2003, the Board of Directors authorized the issuance of 1,499,999 restricted shares (the "Shares") of Common Stock to two creditors of the Company in payment of their outstanding invoices totaling \$45,000 for prior consulting services. The Shares were issued at the agreed upon rate of \$0.03 per share.

On September 30, 2003, the Board of Directors authorized the issuance of 5,000,000 shares of Common Stock and 800,000 shares of Series B Convertible Preferred Stock to a creditor owned by two Directors of the Company in payment of a \$108,000, which was a portion of the Company's outstanding debt for operating expenses, rent and administrative services since 1996. The shares of Common stock were issued at the agreed upon rate of \$0.02 per share and the shares of Series B Convertible Preferred Stock were issued at the agreed upon rate of \$0.01 per share.

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During the second quarter of 2004, the Board of Directors authorized the issuance of 5,314,216 shares of Common Stock to a creditor owned by two Directors of the Company in payment of the Company's outstanding debt for operating expenses since 1996, and the assumption of certain accounts payable. The shares were issued at the agreed upon rate of \$.03 per share.

During the second quarter of 2004, the Board of Directors authorized the issuance of 6,357,766 shares of Common Stock to the Company's Acting President, in payment of the Company's outstanding obligation for business and management services rendered since 1996. The shares were issued at the agreed upon rate of \$.03 per share.

Also, during the second quarter of 2004, the Board of Directors authorized the issuance of 1,200,000 shares of Common Stock to a Director of the Company in lieu of cash payment for past services performed at the agreed upon rate of \$.03 per share.

5. Addendum to the Consolidated Statement of Cash Flows

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The stock issuance transactions occurring during the second quarter of 2004, as described in Note 4 above, were excluded from the calculation of the statement of cash flows since they did not involve transfer of cash.

6. Net Loss Per Share

The Company applies SFAS No. 128, "Earnings per Share" to calculate loss per share. In accordance with SFAS No. 128, basic net loss per share has been computed based on the weighted average of common shares outstanding during the periods. Fully diluted loss per share includes the dilutive effects of outstanding common stock equivalents.

The calculation of fully diluted loss per share excludes outstanding common stock equivalents at June 30, 2004 and June 30, 2003 because their inclusion would be anti-dilutive.

Other than the Series B Convertible Preferred stock discussed in Note 3, there are no financial instruments outstanding convertible into common stock at June 30, 2004 and June 30, 2003.

7. Related Party Transactions

Ameristar Group Incorporated, a shareholder and corporation owned by two Directors of W3 Group, Inc. is currently providing office space to the Company at no cost.

During fiscal year 2003, the Company issued 5,000,000 shares of common stock to pay \$100,000 due to a corporation owned by the two Directors of the Company.

During fiscal year 2003, the Company issued 800,000 shares of Series B Convertible Preferred stock to pay \$8,000 due to a corporation owned by the two Directors of the Company.

During the second quarter of 2004, the Board of Directors authorized the issuance of 5,314,216 shares of Common Stock to a creditor owned by two Directors of the Company in payment of the Company's outstanding debt for operating expenses since 1996, and the assumption of certain accounts payable. The shares were issued at the agreed upon rate of \$.03 per share.

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During the second quarter of 2004, the Board of Directors authorized the issuance of 6,357,766 shares of Common Stock to the Company's Acting President, in payment of the Company's outstanding obligation for business and management services rendered since 1996. The shares were issued at the agreed upon rate of \$.03 per share.

Also, during the second quarter of 2004, the Board of Directors authorized the issuance of 1,200,000 shares of Common Stock to a Director of the Company in lieu of cash payment for past services performed at the agreed upon rate of \$.03 per share.

At June 30, 2004, the Company is indebted to four shareholders, including two directors of the Company for notes payable in the amount of \$40,000. The loans are unsecured and due on demand and at 12% interest.

8. Concentration of Credit Risk

A principal shareholder of the Company has, in the past, paid expenses for the Company. A withdrawal of the financial support from the principal shareholder could have a material adverse effect on the financial condition of the company

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and its ability to operate as a going concern.

9. Income taxes

There is no provision for federal or state income taxes for the three month periods ended June 30, 2004 and 2003, since the Company incurred losses from inception.

As of June 30, 2004, the Company has a net operating loss carry forward of \$2,596,767 which expires in various years through 2023. Should the Company undergo an ownership change as defined in Section 382 of the Internal Revenue Service Code, utilization of its tax net operating loss carry forwards may be limited.

10. Going Concern Considerations

The accompanying financial statements have been presented in accordance with generally accepted accounting principals, which assume the continuity of the Company as a going concern. However, during the three months ending June 30, 2004 and in the prior several fiscal years, the Company has experienced, and continues to experience, certain going concern issues related to profitability. The Company has incurred a net loss of \$2,596,767 since its inception. Management's plans with regard to this matter include the search for an operating entity for a business combination with the Company. There can be assurance that management will be successful in finding a candidate suitable for a business combination or that such business combination could be successfully consummated.

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

The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto included in Part I - Item 1 of this report, and Management's Discussion and Analysis of Financial Conditions and Results of Operations and General Risk Factors Affecting us contained in our annual report for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on March 29, 2004.

Forward-Looking Statements

Some of the information contained in this report may constitute forward-looking statements or statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any such forward-looking statements are based on current expectations and projections about future events. The words, estimate, plan, intend, expect, anticipate and similar expressions are intended to identify forward-looking statements which involve, and are subject to, known and unknown risks, uncertainties and other factors which could cause our actual results, financial or operating performance, or achievements to differ materially from future results, financial or operating performance, or achievements expressed or implied by such forward-looking statements. Projections and assumptions contained and expressed herein were reasonably based on information available to us at the time so furnished and as of the date of this filing. All such projections and assumptions are subject to significant uncertainties and contingencies, many of which are beyond our control, and no assurance can be given that the projections will be realized. Readers are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date hereof. Careful consideration should be given to the General Risk Factors contained in our Form 10-KSB for the year ended December 31, 2003. We undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or

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to reflect the occurrence of unanticipated events.

Results of Operations

We did not have any revenue during the three month period ended June 30, 2004, or during the comparable period for the prior year, and have not had any revenue since the first quarter of 1999.

Operating expenses for the three month period ended June 30, 2004 were \$38,330, an increase of \$38,330 from the prior year's period, resulting from increased administration expenses and consulting fees.

The net loss for the three month period ended June 30, 2004 was \$39,530 compared to a net loss of \$1,200 for the comparable period in the prior year, an increase of \$38,330, resulting from the aforementioned increase in administration expenses and consulting fees.

We had no cash at June 30, 2004 and at December 31, 2003.

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During the second quarter of 2004, the Board of Directors authorized the issuance of 5,314,216 shares of Common Stock to a creditor owned by two Directors of the Company in payment of the Company's outstanding debt for operating expenses since 1996, and the assumption of certain accounts payable. The shares were issued at the agreed upon rate of \$.03 per share.

During the second quarter of 2004, the Board of Directors authorized the issuance of 6,357,766 shares of Common Stock to the Company's Acting President, in payment of the Company's outstanding obligation for business and management services rendered since 1996. The shares were issued at the agreed upon rate of \$.03 per share.

Also, during the second quarter of 2004, the Board of Directors authorized the issuance of 1,200,000 shares of Common Stock to a Director of the Company in lieu of cash payment for past services performed at the agreed upon rate of \$.03 per share.

On July 12, 2004, a Resolution was passed by the Board of Directors, which extended the conversion period of the Series B Convertible Preferred Stock from July 14, 2004 until the close of business on October 14, 2004. Each share of Series B Preferred Stock may be converted to 0.5 (one half) share of Common Stock at the election of the shareholder. (See Financial Statements, "Note 3 - Capitalization.")

We are still pursuing L'Abbigliamento, Ltd., our former operating subsidiary, in regard to obtaining payments toward the loan, which was written off in 2001. No assurance can be made regarding any such payments.

We are continuing to look for suitable acquisition candidates. As of the date of this Report, no additional acquisition candidates have been found, and there is no assurance that any additional candidates will be found.

Present Overview

We intend to acquire, finance, and restructure operating companies that are interested in a business combination. We are seeking to acquire companies that would become wholly owned, or majority owned, subsidiaries of W3 and intend to concentrate on existing companies that have proven markets, profitability, and management.

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Our approach is to develop "partnerships" with companies having exceptional management in order to improve the long-term value of a business. The participation of management through equity based compensation and stock ownership is a crucial ingredient of our plan.

Liquidity and Capital Resources

At June 30, 2004, we had no cash. We have received an audit opinion, which includes a "going concern" risk, which raises substantial doubt regarding our ability to continue as a going concern. (See Financial Statements, "Note 9-Going Concern Considerations".) Management is reevaluating business opportunities and looking for a new business direction.

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Risk Factors Affecting the Company

We have not had any business operations since the divestiture of our former operating subsidiary, L'Abbigliamento, Ltd., effective March 31, 1999. Any investment in our common stock involves a high degree of risk. You should consider carefully the following information about the risks, together with the other information contained in this report, before you decide to buy our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our operations. If any of the following risks actually occur, our business would likely suffer and our results could differ materially from those expressed in any forward-looking statements contained in this report. In such case, the trading price of our common stock could decline, and you may lose all or part of the money you paid to buy our common stock.

1. We have no operations and no revenue.

We have no operations or revenue and therefore are subject to all the risks inherent in such a business venture, many of which are beyond our control, including the inability to implement successful operations, lack of capital to finance acquisitions and failure to achieve market acceptance. In addition, we face significant competition from many companies virtually all of which are larger, better financed and have significantly greater market recognition than us.

2. The ability to attract and retain highly qualified personnel to operate and manage our business is extremely important and our failure to do so could adversely affect us.

Presently, we are totally dependent upon the personal efforts of our current management. The loss of any of our officers or directors could have a material adverse effect upon our business and future prospects. We do not presently have key-person life insurance upon the life of any of our officers or directors. Further, all decisions with respect to management of our affairs will be made exclusively by current management. We may also employ independent consultants to provide business and marketing advice. Such consultants have no fiduciary duty to us or our stockholders, and may not perform as expected. Our success will, in significant part, depend upon the efforts and abilities of management, including such consultants as may be engaged in the future. Additionally, as we implement our planned acquisition of commercial operations, we will require the services of additional skilled personnel. There can be no assurance that we can attract persons with the requisite skills and training to meet our future needs or, even if such persons are available, that they can be hired on terms

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favorable to us.

3. Our financial statements contain a "going concern" qualification and our operations are dependent upon our ability to raise additional working capital.

We may not be able to operate as a going concern. The independent auditor's report accompanying our financial statements contains an explanation that our financial statements have been prepared assuming that we will continue as a going concern. We are in need to raise funds to implement our plans. As of June 30, 2004, we had no cash and a total stockholders' deficit of \$85,266. This condition raises substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. As a result, our ability to

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continue to operate as a going concern will depend upon our ability to raise additional working capital. Our failure to raise funds would materially and adversely affect our ability to continue as a going concern.

4. Our ability to execute our acquisition strategy will require us to obtain additional working capital.

Our business strategy will require that substantial capital investment and adequate financing be available to us for the completion of acquisitions, development and integration of operations and technology as needed. In the event that we cannot obtain the necessary capital to fund our operations as planned, we may need to limit our operations and activities. We cannot guarantee that such capital investment will be available to us at all or on terms that are acceptable to us. Our failure to obtain the necessary amount of capital to fund our operations as currently anticipated could have a material, adverse effect upon our capacity to continue operations.

5. The means by which we raise capital could cause substantial dilution to stockholders or result in significant interest expense or restrictive covenants.

Our ability to operate as a going concern and to fund our planned acquisition activities will require that we obtain substantial capital. We may raise these funds by selling additional shares of our common stock or by incurring additional debt. Depending on the terms negotiated with potential investors, such shares of common stock may be issued at a price per share less than the trading prices listed for our common stock on the OTC Bulletin Board and thus may be significantly dilutive to our current stockholders. In addition, such dilution could likely have a depressive effect on the market price of our common stock, should a public market continue for our shares of common stock. In addition, any debt financing that we are able to obtain, if any, may involve significant interest expense or restrictive covenants that may limit our activities.

6. Our business strategy depends upon our ability to acquire operating companies and our failure to successfully do so would have a material adverse affect upon our business.

Our acquisition plan depends on our ability to identify suitable acquisition candidates, effectively integrate acquired companies into our organization, retain personnel and customers in the acquired companies and obtain necessary financing on acceptable terms. There can be no assurances that any transactions will be consummated on the terms proposed. Our failure to consummate such transactions on the terms proposed could have a material, adverse effect on our business.

7. Our failure to successfully integrate any companies that we acquire would

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materially and adversely affect our business.

Any acquisition that we complete or will contemplate, is accompanied by risks which include difficulty assimilating the operations and personnel of acquired businesses, maximizing our financial and strategic position through the successful incorporation and integration of acquired personnel and customers, maintaining uniform standards and preventing the impairment of relationships with employees and customers. Additionally, as we implement our plan, there can be no assurance that there will not be substantial unanticipated costs and expenses associated with the start-up and implementation of such acquisition

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plan. Our failure to integrate these businesses satisfactorily or to consummate such transactions on the terms proposed could have a material, adverse effect on our business.

8. The successful implementation of our business strategy depends upon the ability of our management to monitor and control costs.

With respect to our planned operations, management cannot accurately project or give any assurance with respect to our ability to control development and operating costs and/or expenses in the future. Consequently, even if we are successful in implementing our acquisition plan, of which there can be no assurance, management still may not be able to control costs and expenses adequately, and such operations may generate losses.

9. We may become subject to governmental regulations and oversight, which could adversely affect our ability to continue or expand our business strategy.

Although our acquisition plans are currently not subject to any regulations, it is possible that, in the future, such regulations may be legislated. Although we cannot predict the extent of any such future regulations, a possibility exists that future or unforeseen changes may have an adverse impact upon our ability to continue or expand our business as presently planned.

10. We do not foresee issuing any cash dividends.

We have not paid any dividends to date nor, by reason of our present financial status and contemplated financial requirements, do we anticipate paying any dividends in the foreseeable future.

11. There is a lack of an active public market for our common stock.

Our Common Stock trades under the symbol "WWWG" and the Series B Convertible Preferred Stock trades under the symbol "WWWGP" on the OTC Electronic Bulletin Board. There can be no assurances, however, that a market will develop or continue for our common stock. Our common stock may be thinly traded, if traded at all, even if we achieve full operation and generate significant revenue. In addition, our stock is defined as a "penny stock" under Rule 3a51-1 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. In general, a "penny stock" includes securities of companies which are not listed on the principal stock exchanges or the National Association of Securities Dealers Automated Quotation System ("NASDAQ") or National Market System ("NASDAQ NMS") and have a bid price in the market of less than \$5.00; and companies with net tangible assets of less than \$2,000,000 (\$5,000,000 if the issuer has been in continuous operation for less than three years), or which have recorded revenues of less than \$6,000,000 in the last three years. "Penny stocks" are subject to rule 15c-9, which imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and "accredited investors" (generally, individuals with net worth in excess of \$1,000,000 or annual incomes exceeding

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\$200,000, or \$300,000 together with their spouses, or individuals who are officers or directors of the issuer of the securities). For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the

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transaction prior to sale. Consequently, this rule may adversely affect the ability of broker-dealers to sell our common stock, and therefore, may adversely affect the ability of our stockholders to sell common stock in the public market.

12. Sales by our existing stockholders of shares of our common stock could cause our stock price to decline.

A total of 23,264,145 shares of common stock were issued and outstanding as of June 30, 2004, of which 21,030,748 shares thereof were "restricted securities" as that term is defined under the Securities Act of 1933, as amended. All such restricted shares must be held indefinitely unless subsequently registered under the Securities Act or an exemption from registration becomes available. One exemption which may be available in the future is Rule 144 adopted under the Securities Act. Generally, under Rule 144 any person holding restricted securities for at least one year may publicly sell in ordinary brokerage transactions, within a 3 month period, the greater of one (1%) percent of the total number of a company's shares outstanding or the average weekly reported volume during the four weeks preceding the sale, if certain conditions of Rule 144 are satisfied by the company and the seller. Furthermore, with respect to sellers who are "non-affiliates" of the company, as that term is defined in Rule 144, the volume sale limitation does not apply and an unlimited number of shares may be sold, provided the seller meets a holding period of 2 years.

Item 3. Controls and Procedures

Based on his evaluation, as of a date within 90 days of the filing of this Form 10-QSB, the Company's Chief Executive Officer and Chief Financial Officer has concluded the Company's disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934) are effective.

There have been no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of his evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.	None
Item 2. Change in Securities.	None
Item 3. Defaults Upon Senior Securities.	Not Applicable
Item 4. Submission of Matters to a Vote of Security Holders.	None
Item 5. Other Information.	None
Item 6. Exhibits and Reports of Form 8-K.	None

(a) Exhibits

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Exhibit No.	Description
31	Certification Pursuant to Rule 13a-14 and 15d-14 Under the Securities Exchange Act of 1934, As Amended
32	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

None

SIGNATURE

Pursuant to the requirements of Section 13 of 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 16, 2004

By: /s/ Robert Gordon

Robert Gordon
Acting President
Principal Financial Officer