

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

NORTH AMERICAN LIABILITY GROUP INC
Form 10QSB
November 19, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 2004

Commission File Number: 000-25947

NORTH AMERICAN LIABILITY GROUP, INC.

(Name of Small Business issuer in its Charter)

Florida

65-0386286

(State or Other Jurisdiction of
Incorporation or Organization)

(IRS Employer
Identification No.)

2929 East Commercial Boulevard, Suite 610, Ft. Lauderdale, FL 33308

(Address of Principal Executive Offices)

(Zip Code)

954-771-5500

(Issuer's Telephone Number)

Securities registered under Section 12(b) of the Exchange Act:

NONE

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, no par value

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

Check if there is no disclosure of delinquent filers in response
to Item 405 of Regulation S-B is contained in this form, and no
disclosure will be contained, to the best of registrant's
knowledge, in definitive proxy or information statements
incorporated by reference or any amendment to this Form 10-QSB. []

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

The issuer is a developmental stage company, and as such has yet to generate any substantial revenues.

As of November 15, 2004 the issuer had 280,954,860 shares of common stock outstanding.

Documents incorporated by reference: NONE

Transition Small Business Disclosure Format (check one):

YES []

NO [X]

NORTH AMERICAN LIABILITY GROUP, INC.

Form 10-QSB Index

Page

Part I:	Financial Information	1
Item 1.	Financial Statements	1
	Condensed Consolidated Balance Sheet - September 30, 2004	1
	Condensed Consolidated Statements of Operations - Three and nine months ended September 30, 2004 and 2003 And cumulative for the period from March 23, 1999 (inception) through September 30, 2004	2
	Condensed Consolidated Statements of Cash Flows - Three and nine months ended September 30, 2004 and 2003 and cumulative for the period from March 23, 1999 (inception) through September 30, 2004	3
	Notes to Financial Statements	6
Item 2.	Management's Discussion and Analysis or Plan of Operation	14
Part II:	Other Information	
Item 1.	Legal Proceedings	16
Item 2.	Change in Securities	17
Item 3.	Defaults Upon Senior Securities	17
Item 4.	Submission of Matters to a Vote of Security Holders	18
Item 5.	Other Information	18
Item 6.	Exhibits and Reports on Form 8-K	18
	SIGNATURES	18

PART I. - FINANCIAL INFORMATION

Item 1. Financial Statements

NORTH AMERICAN LIABILITY GROUP, INC.
AND SUBSIDIARY
(A Development Stage Company)

Condensed Consolidated Balance Sheet
(Unaudited)
September 30, 2004

Assets	

Current assets:	
Cash	\$ 13,869
Undeposited Checks	171
Prepaid rent	1,415

Total current assets	15,455
Property and equipment, net	10,152
Other assets	
Deposits	174,400
Due from related parties	48,866

Total other assets	223,266

Total assets	\$ 248,873
	=====
Liabilities and Stockholders' Deficiency	

Current liabilities:	
Accounts payable	\$ 183,512
Accrued expenses	573,588
Due to related parties	264,164
Notes payable	226,466

Total current liabilities	1,247,729
Stockholders' deficiency:	
Series 2001 convertible preferred stock	42,470
Series 2001A convertible preferred stock	-
Series 2001B convertible preferred stock	-
Class B preferred stock	-
Common stock	3,605,783
Accumulated deficit	(4,647,109)

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

Total stockholders' deficiency	(998,856)
Total liabilities and stockholders' deficiency	\$ 248,873

See accompanying notes to the consolidated financial statements.

1

NORTH AMERICAN LIABILITY GROUP, INC.
AND SUBSIDIARY
(A Development Stage Company)

Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003
Gross revenues	\$ -	\$ -
Cost of sales	-	-
Net revenue	-	-
Operating Expenses	52,086	-
Other income (expenses):		
Other income	2,122	-
Interest expense	(8,846)	(31,467)
Total other income (expense)	(6,723)	(31,467)
Net Loss	\$ (58,809)	\$ (31,467)
Loss per common share:		
Basic	(0.02)	(0.01)
Diluted	(0.02)	(0.01)
Weighted average common shares outstanding:		
Basic	2,723,806	4,808,844
Diluted	2,723,806	4,808,844

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

See accompanying notes to the consolidated financial statements.

2

NORTH AMERICAN LIABILITY GROUP, INC.
AND SUBSIDIARY
(A Development Stage Company)

Condensed Consolidated Statements of Operations
(Unaudited)

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003	Cumulative fo the period fro March 23,199 (inception) t September 30,2
	-----	-----	-----
Gross revenues	\$ -	\$ -	\$ 45,
Cost of sales	-	-	-
	-----	-----	-----
Net revenue	-	-	45,
Operating Expenses	275,136	-	3,827,
Other income(expenses):			
Other income	56,366	-	115,
Interest expense	(123,074)	(91,170)	(440,
Impairment of assets	-	-	(315,
Provision for loss on non-cancelable leases	-	-	(225,
	-----	-----	-----
Total other income(expense)	(66,708)	(91,170)	(864,
	-----	-----	-----
Net income(loss)	\$ (341,844)	\$ (91,170)	\$ (4,647,
	=====	=====	=====
Income(loss) per common share:			
Basic	(0.09)	(0.01)	
Diluted	(0.09)	(0.01)	
	=====	=====	
Weighted average common shares outstanding:			
Basic	4,044,122	6,309,261	
Diluted	4,044,122	6,309,261	
	=====	=====	

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

See accompanying notes to the consolidated financial statements.

3

NORTH AMERICAN LIABILITY GROUP, INC.
AND SUBSIDIARY
(A Development Stage Company)

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003	Cumulative through March 31, 2004 (in thousands)
	-----	-----	-----
Cashflows from operating activities			
Net Loss	\$ (341,844)	\$ (91,170)	\$
Adjustments to reconcile net loss to net cash provided by (used in) operating activities			
Forgiveness of related party note payable	-		
Depreciation and amortization	1,704		
Loss on impairment of assets	-		
Provision for loss on non-cancelable leases	-		
Common stock issued for services	-		
Increase(decrease) in cash caused by changes in:			
Other current assets	(171)		
Other assets	80,000		
Accounts payable	(8,644)		
Accrued expenses	150,980	38,233	
Due from related parties	(48,866)	52,937	
	-----	-----	-----
Net cash used in operating activities	(166,841)	-	
Cashflows from investing activities:			
Acquisition of property and equipment	(9,359)		
Cashflows from financing activities			
Repayment of note payable to related party	-		
Proceeds from issuance of preferred stock	-		
Proceeds from issuance of capital stock	160,174		
Due to related parties	2,247		
Repayment/proceeds of notes payable	-		
	-----	-----	-----
Net cash from provided by financing activities	153,062	-	
Net increase(decrease) in cash	(13,779)		
Cash at beginning of period	27,648		
Cash at end of period	\$ 13,869	\$	\$
	=====	=====	=====

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

See accompanying notes to the consolidated financial statements.

4

NORTH AMERICAN LIABILITY GROUP, INC.
AND SUBSIDIARY
(A Development Stage Company)

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2004	Cum the Ma (in Ju
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ -	\$ -	\$
Non-cash activity:			
Purchase of intangible assets from related party	\$ -	\$ -	\$
Reduction of capital lease obligation upon abandonment of assets	\$ -	\$ -	\$

See accompanying notes to the consolidated financial statements.

5

NORTH AMERICAN LIABILITY GROUP, INC.
AND SUBSIDIARY
(A Development Stage Company)

Notes to Consolidated Financial Statements
(Unaudited)

(1) Statement of Information Furnished

The accompanying unaudited condensed consolidated financial statements as of September 30, 2004 and for nine months ended September 30, 2004 and 2003 and the cumulative period from March 23, 1999 (Inception) to September 30, 2004 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant with the rules and regulations of the Securities and Exchange Commission for Form 10-QSB. Accordingly, the condensed consolidated financial statements do not include all the information and notes to the financial statements required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation of North American Liability Group, Inc. and Subsidiary's financial position, results of operations, and cash flows for the periods presented. These results have been determined on the basis of accounting principles generally accepted in the United States of America and applied consistently with those used in the preparation of the Company's 2003 financial statements.

The results of operations for the interim periods ended September 30, 2004 and 2003 are not necessarily indicative of the results to be expected for the full year. These interim financial statements should be read in conjunction

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

with the December 31, 2003 financial statements and related notes included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003.

(2) Loss Per Share

Basic income or loss per common share amounts are based on the weighted average shares outstanding of 2,732,806 and 4,808,844 for the three months ended September 30, 2004 and 2003, respectively. Diluted income per common share amounts reflect the potential dilution that could occur if convertible preferred shares are converted into common stock. No conversion is assumed if such conversion would have an anti-dilutive effect on diluted loss per common share amounts.

(3) Recent Financial Accounting Standards

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities," ("FIN 46"). FIN 46 clarifies the application of Accounting

6

Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 applies immediately to variable interest entities (VIE's) created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003.

The Company has not identified any VIE's for which it is the primary beneficiary or has significant involvement.

In December 2003, the FASB issued FIN No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46-R") to address certain FIN 46 implementation issues. The effective dates and impact of FIN 46 and FIN 46-R are as follows:

- (i) For special purpose entities (SPE's) created prior to February 1, 2003, the Company must apply either the provisions of FIN 46 or early adopt the provisions of FIN 46-R at the end of the first interim or annual reporting period ending after December 15, 2003.
- (ii) For non-SPE's created prior to February 1, 2003, the Company is required to adopt FIN 46-R at the end of the first interim or annual reporting period ending after March 15, 2004.

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

- (iii) For all entities, regardless of whether a SPE, that were created subsequent to January 31, 2003, the provisions of FIN 46 were applicable for variable interests in entities obtained after January 31, 2003. The Company is required to adopt FIN 46-R at the end of the first interim or annual reporting period ending after March 31, 2004.

The adoption of the provisions applicable to SPE's and all other variable interests obtained after January 31, 2003 did not have a material impact on the Company's consolidated financial statements. The Company is currently evaluating the impact of adopting FIN 46-R applicable to non-SPE's created prior to February 1, 2003, but does not expect a material impact.

(4) Capitalization

(A) COMMON STOCK

In the first half of 2003, the Company issued 6,000 shares of its common stock in voluntary conversions of 2,800 shares of its Series 2001 Convertible Preferred stock.

7

(4) Capitalization, Continued

On July 30, 2003, the Majority Shareholders and the Board of Directors approved amendments to the Articles of Incorporation which were designed to reorganize the capital structure of the Company. The Articles increased the total number of authorized common shares to 500,000,000. The stock has no par value. On September 1, 2003, the Company effected a one hundred-for-one reverse split of its outstanding common stock.

In accordance with the Plan and Agreement of Merger, as described in Note 1, the Company issued 56,625,000 shares of common stock as a result of a 75-to-1 conversion of its Series 2001A Convertible Preferred stock outstanding at the time of the merger. In addition, the Company issued 160,000,000 shares of common stock in a 16-to-1 exchange for the 10,000,000 issued and outstanding shares of North American Liability Corporation.

Following the merger, 31,125,000 shares of common stock were issued in a voluntary 1-to-1 conversion of outstanding shares of Series 2001A convertible preferred stock.

During the first quarter of 2004, shareholders were issued 35,304,000 shares of common stock in a conversion of 35,304,000 shares of Series 2001A Preferred stock.

Also during the first quarter, the Company's Chairman, Bradley Wilson, contributed capital in the amount of \$160,000 in exchange for 160,000 shares of restricted

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

common stock.

During the second quarter, the Company issued 500,000 shares of common stock, restricted under Rule 144, to an investor who contributed \$250,000 in cash. Also during the quarter, the Company cancelled 33,721,200 common shares that had been issued improperly.

In July 2004, the Company did a 1 for 30 reverse stock split on common stock. In November 2004, the Company did an additional 1 for 10 reverse split on all common shares.

At September 30, 2004 and 2003, the Company had outstanding 2,587,225 and 70,890 shares of common stock, respectively.

(B) PREFERRED STOCK

In 2001, Series 2001 Convertible Preferred stock was approved to be issued in a private offering as follows:

(i) Holders of Series 2001 Convertible Preferred Stock shall receive preference in the event of liquidation, dissolution or winding up of the corporation. Specifically, in the event of liquidation, dissolution or winding up holders of Series 2001 Preferred Stock shall be

8

(4) Capitalization, Continued

paid Five Dollars (\$5.00) per share for each Preferred Share, plus all declared and unpaid dividends.

(ii) Shares of Series 2001 Convertible Preferred Stock shall have no voting rights.

(iii) Each share of Series 2001 Convertible Preferred Stock may, at the option of the holder, be converted into common stock of the corporation at any time after twelve months after the issuance of such shares. The conversion ratio per share of the Series 2001 Convertible Preferred Stock shall be the lesser of \$5.00 per share or 30% below the trading price of the common stock as priced the prior trading day to conversion. This conversion ratio is subject to change in the event of subdivision of common stock or issuance of a stock dividend.

During the year ended December 31, 2003, the Company cancelled 2,800 shares of its Series 2001 Convertible Preferred stock in voluntary conversions to 6,000 shares of its common stock. As of June 30, 2004, the number of shares outstanding of Series 2001 Convertible Preferred stock was 22,100.

On July 30, 2003, the Majority Shareholders and the Board of Directors approved amendments to the Articles of

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

Incorporation which were designed to reorganize the capital structure of the Company. The Articles increased the total number of authorized preferred shares to 150,000,000, of which 100,000,000 are Series 2001A Convertible Preferred stock with the following characteristics:

(i) Each share of 2001A Convertible Preferred Stock entitles the holder thereof to one vote, either in person or by proxy, at meetings of shareholders, and such vote shall be equal to the voting rights of the common stock and shall be counted with the common stock toward election of directors or such other action as the class of common stock shall be entitled.

(ii) Each share of Series 2001A Convertible Preferred Stock may, at the option of the holder, be converted into shares of common stock on one for one basis at any time after February 1, 2002.

9

(4) Capitalization, Continued

Prior to the Plan and Agreement of Merger taking effect, the Company cancelled 775,000 shares of Series 2001A Convertible Preferred shares held by the former President of the Company.

In accordance with the Plan and Agreement of Merger, the Company issued 94,375,000 shares of Series 2001A Convertible Preferred in a 125-to-1 forward stock split.

Following the merger, 31,125,000 outstanding shares of Series 2001A convertible preferred stock were cancelled in a voluntary 1-to-1 conversion to shares of common stock.

On December 15, 2003, the Company entered into a Sales Restriction Agreement with certain holders of Series 2001A Preferred stock to prohibit the holders from selling or otherwise transferring their interest in the stock between June 20, 2003 and June 19, 2004. Subject to the Agreement are 4,062,900 Common shares and 6,771,500 Series 2001A Preferred shares.

During the first quarter of 2004, shareholders converted 35,304,000 shares of Series 2001A Preferred stock one-for-one to shares of common stock.

At September 30, 2004, 27,946,000 shares of Series 2001 A Convertible Preferred stock were issued and outstanding.

In the above action of July 30, 2003, the Company voided the Series 2001 B Convertible Preferred stock and cancelled its 2,727,444 outstanding shares. It also created a new Class B Preferred stock, the main feature of which is the existence of ten votes per share for each

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

share of this series.

On February 2, 2004, the Company cancelled 158,000,000 shares of its Common stock. The cancelled shares were held by Bradley Wilson, Chairman of the Company and a non-related party, each canceling 79,000,000 shares. In consideration of canceling their shares, 30,000,000 and 20,000,000 shares of Class B Preferred stock were issued to Mr. Wilson and the non-related party, respectively. Shares of Class B Preferred stock carry 10 votes per share and cannot be converted into common stock prior to September 1, 2005.

During May 2004, the Company cancelled 33,731,200 common shares which had been issued improperly.

At September 30, 2004 there were 50,000,000 outstanding Class B Preferred shares.

10

(4) Capitalization, Continued

In July, 2004 the Company made a 1 for 30 reverse split of its common stock for shareholders of record on July 5, 2004, which it expected would leave approximately 3,000,000 shares issued and outstanding. The split was made as a necessary step towards the Company's acquisition of 100% of the stock of Grupo Industria N.K.S., S.A., de CV ("NKS"), a Mexican corporation. NKS is the owner of a steel mill foundry and other assets in Las Cardenas, Mexico. Pending

the outcome of an audit of NKS, the Company expects it will issue approximately 500,000,000 shares of NALG Convertible Preferred Stock to the shareholders of NKS.

On July 14, 2004 the Company assigned a new trading symbol to its common stock. The new symbol is OTCCB: NOAL and became effective immediately.

(5) Related Party Transactions

In February, 2004 the Company issued three notes totaling \$42,000 to a related party, FJW Pendylum, Inc., in which the majority shareholder of the Company is the majority shareholder of FJW Pendylum, Inc. The notes bear interest at 6% and are due in February 2005. At September 30, 2004, \$42,000 is due on the notes and included in due from related parties in the accompanying consolidated financial statements.

The president, current and former principal stockholders, and certain employees from time to time made advances to the Company. The advances have been made for financing and working capital purposes. At September 30, 2004 and 2003 respectively, the total of such advances and accrued interest was \$264,164 and \$504,105.

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

The Company has an agreement with KIWI Network Solutions, Inc to share space in the Company's executive offices. Under the terms of this agreement the Company receives back 50% of the rent paid under its lease agreement for the Ft. Lauderdale office space. At September 30, 2004, approximately \$6,400 is owed to the Company relating to this agreement and is included in due from related parties in the accompanying consolidated financial statements.

The Company leased an apartment for one member of its Board of Directors and the apartment served as the Company's office in the Washington, D.C. area. During the second quarter the Director resigned his position on the Board. The Company is seeking to sublet the apartment to the former Director. The lease for the apartment is non-cancelable and expires November 30, 2004. Rent and fees paid in total at September 30, 2004 amount to \$17,352. Rent paid in the quarter ended September 30, 2004 amounted to \$4,494. Rent remaining to be paid is \$2,828, all of which is due to be paid in 2004.

11

(5) Related Party Transactions (Continued)

The Company has a Consulting Agreement with James Jarboe, which pays him \$1,000 per week for his services as President of the Company. In the quarter ended September 30, 2004, the Company paid Jarboe \$16,000 (including \$1,600 accrued at June 30, 2004) and accrued an additional \$1,000. Also, through its wholly-owned subsidiary North American Liability Corporation ("the Subsidiary"), the Company has an Agreement with Jarboe to serve as Consultant and Director. Under that agreement, which is for a term of two years, Jarboe is to receive base annual compensation of \$24,000 plus a bonus to be paid in cash and stock of 10% of any debt or equity capital raised. No bonus has been paid for capital raising in the quarter ended September 30, 2004. A bonus will also be paid for the procurement of business at the Group or Policy level for a fair commercial market fee to be determined at the time the business is completed with the Subsidiary. No bonus has been paid for business procurement in the quarter ended September 30, 2004. The Subsidiary was also to grant, immediately upon execution of the Consulting Agreement, 2,000,000 Rule 144 shares of common stock. No shares have been issued by the Subsidiary under this Consulting Agreement.

The Subsidiary had an Employment Agreement with its Chairman and CEO Harold Fischer. Mr. Fischer resigned his position with the Company effective May 3, 2004, terminating the Employment Agreement.

The Subsidiary had a Consulting Agreement with David Tews as Consultant and Director. Mr. Tews resigned his position with the Company effective May 3, 2004, terminating the Consulting Agreement.

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

In December 2003, the Company settled its note payable to the former controlling shareholder. With principal and accumulated interest, the debt amounted to \$444,088. In the settlement, the Company paid \$200,000, the current controlling shareholder contributed \$185,000, and \$59,088 was forgiven.

During April 2004, common stock held as collateral against secured notes payable and accrued interest were used to repay these liabilities which totaled \$487,500.

The Company has filed suit seeking monetary damages from a current shareholder, alleging the shareholder failed to cancel certain shares of Company stock as promised.

12

(6) Accrued Expenses

Accrued expenses at September 30, 2004 consisted of the following:

	2004

Accrued lease obligations	365,181
Accrued interest	106,601
Accrued salaries	101,806

	573,588
	=====

(7) Subsequent Transactions

Effective November 2004, the Company made a 1 for 10 reverse split of its common stock for shareholders of record on November 4, 2004.

(8) Going Concern Matters

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Due to its past financial difficulties, the Company has accumulated debts, including judgments, and accrued interest of approximately \$1,200,000 relating to its former line of business and maintains these on its balance sheet as current liabilities. Interest on these balances is accruing at a rate of approximately \$13,000 per quarter as of September 30, 2004. The Company is continuing in its efforts to resolve these obligations and others through settlements. However, there is no assurance that the Company will be able to settle in terms agreeable to the Company and if it does not do so, this will have a material adverse affect on the ability of the Company to operate properly in the

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

future. As shown in the financial statements, the Company has incurred cumulative losses of \$4,647,109 during its development stage and has classified all of its debt as current at September 30, 2004. These factors among others may dictate that the Company will be unable to continue as a going concern for a reasonable period of time.

13

Item 2. Management Discussion and Analysis or Plan of Operation

All statements contained herein that are not historical facts, including but not limited to, statements regarding the anticipated impact of future capital requirements and future development plans are based on current expectations. These statements are forward looking in nature and involve a number of risks and uncertainties. Actual results may differ materially. Among the factors that could cause actual results to differ materially are the following: amount of revenues earned by the Company's operations; the availability of sufficient capital to finance the Company's business plan on terms satisfactory to the Company; general business and economic conditions; and other risk factors described in the Company's reports filed from time to time with the Commission. The Company wishes to caution readers not to place undue reliance on any such forward looking statements, which statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made.

Results of Operations

Nine Months Ended September 30, 2004 Compared with Nine Months Ended September 30, 2003.

We had no revenues for the nine months ended September 30, 2004 and 2003. There is no assurance that we will any have revenues in fiscal 2004. As we had no sales in this quarter, we had no cost of sales for the quarters.

Operating expenses for the nine months ended June 30, 2004 were \$275,136 as opposed to no operating expenses for the nine months ended June 30, 2003. The increase is due to the launch of our new business.

Other expense for the nine months ended September 30, 2004 was \$66,708 as compared to expense of \$91,170 for the nine months ended September 30, 2003. This improvement was due primarily to a settlement with our former CEO providing a benefit of approximately \$56,000. The income was partially offset by interest expense of \$123,074.

The Company's net loss for the nine months ended September 30, 2004 was \$341,944, as compared to a loss of \$91,170 for the nine

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

months ended September 30, 2003, an decline approximately \$250,000 or 275%. This change in performance was primarily due to identification of the acquisition target and the preparation for the company to complete the acquisition, which was announced in July 2004.

14

Item 2. Management Discussion and Analysis or Plan of Operation (continued)

Three Months Ended September 30, 2004 compared with Three Months
Ended September 30, 2003

The Company's net loss for the three months ended September 30, 2004 was \$58,809 as compared to \$31,467 for the three months ended September 30, 2003, a reduction in profitability of \$27,342 or 87%. This increase in net loss was primarily due to the increase in operating expenses associated with preparing the company for the acquisition announced in July 2004, which was partially offset by a decrease in interest expense as a result of the repayment and/or cancellation of our secured loans in April, 2004.

Liquidity and Capital Resources

On September 30, 2004, the Company had a working capital deficit of approximately \$1,200,000. Since its inception, the Company has continued to sustain losses. The Company's operations since inception have been funded by the sale of common and preferred stock, and proceeds from loans secured by the Company's common stock. These funds have been used for working capital and capital expenditures and other corporate purchases. The Company has had losses of approximately \$4,300,000 since inception. The Company is seeking financing through equity financing. There can be no assurance that the Company will be able to obtain funding at terms acceptable to the Company. These factors indicate that the Company may not be able to continue as a going concern.

Other Events

In the first quarter of 2004, we converted 35,304,000 of our Series 2001 A Preferred Stock into 35,304,000 shares of our common stock. These shares have been reduced in total as part of the 1 for 30 reverse split and the subsequent 1 for 10 reverse split, reducing the post split shares to approximately 117,680 shares. Also in February 2004, Bradley Wilson and Regency Financial Group, Inc., agreed to tender to us and we retired 158,000,000 shares of common stock. In return, they were collectively issued a total of 50,000,000 shares of the Company's Class B Preferred Stock.

In February 2004, in return of contributing \$160,000 to our capital, we agreed to issue Bradley Wilson 160,000 shares of our common stock. In May 2004, in return of contributing \$250,000 to our capital, we agreed to issue Terry Hunter 500,000 shares of

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

our common stock. Both of these capital infusions have been affected by the reverse splits mentioned above. These splits have reduced the above mentioned shares to approximately 533 shares and 1,667 shares respectively.

Off-Balance Sheet Arrangements

The Company does not maintain off-balance sheet arrangements nor does it participate in non-exchange traded contracts requiring fair value accounting treatment.

15

Item 3. Controls and Procedures

As of September 30, 2004, an evaluation was performed under the supervision and with the participation of the Company's management, including the Principal Executive Officer and the Principal Accounting Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Principal Executive Officer and the Principal Accounting Officer, concluded that the Company's disclosure controls and procedures were effective as of September 30, 2004. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to June 30, 2004.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Due to its financial difficulties, the Company is in default on a number of debt and lease obligations as of September 30, 2004. The Company and other parties to the obligations are in various stages of negotiations. The Company has provided accruals in its financial statements for all known contingencies. Except for any legal proceedings related to these obligations, the Company is not aware of any legal proceedings pending against it as of September 30, 2004.

The Company has filed suit seeking monetary damages from a current shareholder, alleging the shareholder failed to cancel certain shares of Company stock as promised.

Item 2. Change in Securities

During the second quarter, the Company issued 500,000 shares of common stock, restricted under Rule 144, to an investor who contributed \$250,000 in cash. Also during the quarter, the Company cancelled 1,124,040 common shares that had been issued improperly.

In February, 2004 the Company issued three notes totaling \$42,000 to a related party, FJW Pendylum, Inc., in which the majority shareholder of the Company is the majority shareholder of FJW Pendylum, Inc. The notes bear interest at 6% and are due in February 2005. At June 30, 2004, \$42,000 is due on the notes and included in due from related parties in the accompanying consolidated financial statements.

In July, 2004 the Company made a 1 for 30 reverse split of its common stock for shareholders of record on July 5, 2004, which it expected would leave approximately 3,000,000 shares issued and outstanding. The split was made as a necessary step towards the Company's acquisition of 100% of the stock of Grupo Industria N.K.S., S.A., de CV ("NKS"), a Mexican corporation. NKS is the owner of a steel mill foundry and other assets in Las Cardenas, Mexico. Pending the outcome of an audit of NKS, the Company expects it will issue approximately 500,000,000 shares of NALG Convertible Preferred Stock to the shareholders of NKS.

On July 14, 2004 the Company assigned a new trading symbol to its common stock. The new symbol is OTCBB: NOAL and became effective immediately.

In September 2004, the Company authorized an additional 30,000,000 shares to be issued at the discretion of the Board.

In October 2004, the Company made a 1 for 10 reverse split of its common shareholders for shareholders of record as of November 4, 2004.

After the 1 for 10 reverse split, the Company authorized an additional 35,000,000 shares to be issued at the discretion of the Board.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to June 30, 2004.

Item 3. Defaults Upon Senior Securities

Not applicable

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10QSB

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

On September 10, 2004, the holders of a majority of the Company' outstanding voting shares executed a written consent, amending the Company's Articles of incorporation to increase the total number of authorized shares of the Company's Common Stock from 500,000,000 to 1,000,000,000.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits and Index of Exhibits

- 31. Rule 13a-14(a)/15d-14(a) Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32. Section 1350 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

On September 16, 2004, the Company filed a current report on Form 8-K in connection with the following:

(i) as of September 10, 2004, the Company has finalized the Letter of Intent to originally acquire 100% of all classes of shares issued and outstanding of Grupo Industrial N.K.S., S.A., de CV, a Mexican corporation; and

(ii) on September 10, 2004, the holders of a majority of the Company' outstanding voting shares executed a written consent, amending the Company's Articles of incorporation to increase the total number of authorized shares of the Company's Common Stock from 500,000,000 to 1,000,000,000.

SIGNATURES

North American Liability Group, Inc.

By: /s/ Bradley Wilson

Bradley Wilson, President

Date: November 18, 2004