

SIMEX TECHNOLOGIES INC

Form 10QSB

August 23, 2004

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**U.S. SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-QSB**

- x        **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2004**

- o        **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES  
EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 0-26599

**SIMEX Technologies, Inc.**

(Exact name of registrant as specified in its charter)

|   |   |
|---|---|
| Delaware<br>(State or other jurisdiction of<br>incorporation or organization)                                 | 58-2465647<br>(I.R.S. Employer<br>Identification No.) |
| 4940 Peachtree Industrial Blvd.,<br>Suite 360<br>Atlanta, Georgia<br>(Address of principal executive offices) | 30071<br>(Zip Code)                                   |

**Registrant's telephone number, including area code (770) 447-9373**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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 o

**Applicable only to issuers involved in bankruptcy proceedings during the preceding five years**

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes o No o

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**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. As of June 30, 2004, there were 33,340,303 shares of common stock, par value \$.001 per share, outstanding.

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SIMEX Technologies, Inc.

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**PART I**

This Quarterly Report includes forward-looking statements within the meaning of the Securities Exchange Act of 1934 (the Exchange Act ). These statements are based on management s beliefs and assumptions, and on information currently available to management. Forward-looking statements include the information concerning possible or assumed future results of operations of the Company set forth under the heading Management s Discussion and Analysis of Financial Condition or Plan of Operation. Forward-looking statements also include statements in which words such as expect, anticipate, intend, plan, believe, estimate, consider or similar expressions are used.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. The Company s future results and shareholder values may differ materially from those expressed in these forward-looking statements. Readers are cautioned not to put undue reliance on any forward-looking statements.

Table of Contents**Item 1. Financial Statements**

SIMEX TECHNOLOGIES INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEET  
 (unaudited)  
 (In thousands)

|   | <u>June 30, 2004</u>                       |
|---|--|
| <b>ASSETS</b>   |  |
| Current assets:   |  |
| Cash and cash equivalents   | \$ 23                                      |
| Accounts receivable   | 226  |
| Inventories   | 422  |
| Notes and loans receivable  | 114  |
|   | <hr/>                                      |
| Total assets  | \$ 785                                     |
|   | <hr style="border-top: 3px solid black;"/> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |  |
| Current liabilities:  |  |
| Accounts payable  | \$ 194                                     |
| Accrued expenses  | 2  |
|   | <hr/>                                      |
| Total current liabilities   | 196  |
| Shareholders equity:  |  |
| Series B Convertible Preferred stock, \$.001 par value, 1,496 shares authorized and issued with no shares outstanding |  |
| Common stock, \$.001 par value. Authorized 50,000 shares; 33,340 shares issued and outstanding                        | 33   |
| Additional paid-in capital  | 10,253                                     |
| Accumulated deficit   | (9,667)                                    |
| Treasury stock, 10 shares at cost   | (30)                                       |
|   | <hr/>                                      |
| Total shareholders equity   | 589  |
|   | <hr/>                                      |
| Total liabilities and shareholders equity   | \$ 785                                     |
|   | <hr style="border-top: 3px solid black;"/> |

*See accompanying notes to condensed consolidated financial statements.*



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**SIMEX TECHNOLOGIES INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**  
**(In thousands except per share data)**

|  | <b>Three months ended<br/>June 30</b> |             | <b>Six months ended<br/>June 30</b> |             |
|--|---------------------------------------|-------------|-------------------------------------|-------------|
|  | <b>2004</b>                           | <b>2003</b> | <b>2004</b>                         | <b>2003</b> |
| Revenues                                     | \$ 716                                | \$          | \$1,684                             | \$          |
| Cost of goods sold                           | 526                                   | —           | 1,278                               | —           |
| Gross Profit                                 | 190                                   | —           | 406                                 | —           |
| Selling, general and administrative expenses | 266                                   | 115         | 582                                 | 210         |
| Interest (income) expense net                | —                                     | (1)         | —                                   | (3)         |
| Net loss                                     | \$ (76)                               | \$ (114)    | \$ (176)                            | \$ (207)    |
| Loss per share                               |                                       |             |                                     |             |
| Basic and diluted loss per share             | \$(0.01)                              | \$(0.01)    | \$ (0.01)                           | \$(0.01)    |

*See accompanying notes to condensed consolidated  
financial statements.*



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**SIMEX TECHNOLOGIES INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(In thousands)**

|  | <b>Six months ended June 30</b> |             |
|--|---------------------------------|-------------|
|  | <b>2004</b>                     | <b>2003</b> |
| Cash flows from operating activities                                       |                                 |             |
| Loss from operations   | \$ (176)                        | \$ (207)    |
| Adjustments to reconcile net loss to net cash used in operating activities |                                 |             |
| Changes in operating assets and liabilities                                |                                 |             |
| Accounts receivable  | (181)                           |             |
| Inventories  | 104                             |             |
| Accounts payable and accrued expenses                                      | 150                             | 72          |
|  | (103)                           | (135)       |
| Net cash used in operating activities                                      |                                 |             |
| Cash flows from investing activities                                       |                                 |             |
| Notes receivable   | 106                             | (474)       |
|  | 106                             | (474)       |
| Net cash provided by (used in) investing activities                        |                                 |             |
| Cash flows from financing activities                                       |                                 |             |
| Net cash used in financing activities                                      | —                               | —           |
| Net change in cash and cash equivalents                                    | 3                               | (609)       |
| Cash and cash equivalents at beginning of period                           | 20                              | 681         |
|  | \$ 23                           | \$ 72       |
| Cash and cash equivalents at end of period                                 |                                 |             |

*See accompanying notes to condensed consolidated financial statements.*

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SIMEX TECHNOLOGIES INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003  
(Unaudited)  
(In thousands, except per share data)

Note 1: Basis of Presentation

On December 5, 2003, the Company acquired Remote Business, Inc. ( RBI ), a newly-formed subsidiary of Probity Investigations, Inc. ( Probity ), in exchange for 16,000,000 newly-issued shares of the Company's common stock. Immediately prior to the acquisition, Probity transferred security equipment inventory with a fair value of \$550,000 and the operations of its subsidiary, Remote Business Management, LLC ( RBMLLC ), excluding all recorded assets and liabilities of RBMLLC, to RBI. The acquisition was accounted for as a purchase. Because the Company was a non-operating company at the time of the transaction and the common shares of the Company are thinly-traded, the purchase price was deemed to be the fair value of the assets acquired. Accordingly, no goodwill was recorded in the acquisition.

Effective January 16, 2004, a wholly-owned subsidiary of the Company, Simex Digital Solutions, Inc. ( Simex Digital ) entered into a marketing agreement with Structured Data Systems, Inc. ( SDS ), a Georgia corporation. SDS is a value-added reseller of computer hardware and software. Under the marketing agreement, Simex Digital markets the products sold by SDS. Operating results for the period from the date of the marketing agreement are included in this Form 10-QSB.

Our common stock is registered with the Securities and Exchange Commission (SEC) and was quoted on the over the counter bulletin board under the symbol SMXT until September 24, 2003. The Company did not file its June 30, 2003 Form 10-QSB by the required extended filing date of August 19, 2003. As a result, the Company became delinquent, and had 30 days to file its Form 10-QSB for the period ended June 30, 2003 or the Company would be ineligible for quotation on the over-the-counter bulletin board. The Company filed its Form 10-QSB on September 23, 2003, however, the quarterly report was not reviewed by the Company's Certified Public Accountants. Therefore, the Company failed to meet its reporting requirements and the Company became ineligible for quotation on the over-the-counter bulletin board on September 24, 2003. There was no disagreement with the Company's Certified Public Accountants, which prevented their review. Their review was not performed because the Company did not provide them with a timely accounting of transactions involving the reverse acquisition with Probity Investigations, Inc., which occurred on May 20, 2003 and the subsequent rescission of the reverse acquisition, which was executed on September 18, 2003. An amended Form 10-QSB for the quarter ended June 30, 2003 was filed on October 17, 2003. The Company has subsequently filed all of its required annual, quarterly and current reports, and was reinstated for quotation on OTCBB as of June 25, 2004.

Note 2: Nature of Operations and Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and in accordance with the SEC's instructions applicable to Form 10-QSB interim financial information. In the opinion of management, such consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows as of June 30, 2004 and for all periods presented. The results of operations presented in the accompanying consolidated financial statements are not necessarily indicative of the results expected for the full fiscal year or for any future period.



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The accompanying consolidated financial statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for annual financial statements. Such interim consolidated financial statements should be read in conjunction with Simex's 2003 financial statements and notes thereto included in Simex's annual report on Form 10-KSB for the year ended December 31, 2003. Certain reclassifications have been made to the 2003 financial information to conform to the presentation in 2004. Disclosures contained in that document have been omitted. The results of operations for the periods presented are not necessarily indicative of the operating results for the full year.

**Nature of Operations**

Remote Business, Inc., a wholly-owned subsidiary of the Company, is engaged in the design, installation, servicing and monitoring of digital surveillance security systems for business and industry. The accompanying financial statements include the accounts of RBI since its formation on December 5, 2003 and the assets, liabilities, revenues and expenses applicable to the business. The acquisition of RBI included the business of its predecessor, RBM, which has operated for the past two years. Most of the customers of RBI are small to medium-sized businesses located in the southeastern U.S. The largest customer is a restaurant franchise chain headquartered in the southeast and constituted approximately 50% of the business of RBI and its predecessor, RBM, during the year ended December 31, 2003. The business with this chain was contracted with each individual franchisee and not with the franchisor. The balance of the business was spread across a number of customers.

RBI generally provides the design and installation of security systems to meet its customer's requirements. Most of the work is new systems, but on occasion old systems are upgraded with new equipment. In some instances RBI is engaged to do alarm monitoring. These monitoring contracts are, at present, fulfilled by third-party monitoring companies.

Simex Digital Solutions, Inc., a wholly-owned subsidiary of the Company, is a value-added reseller of computer hardware and software, pursuant to a marketing agreement with Structured Data Systems, Inc., effective January 16, 2004. Simex Digital's customers range from public school administrations to small and medium-sized private businesses.

**Net Loss Per Share**

The net loss per share computations for June 30, 2004 and 2003 reflect 33,340,303 and 16,554,908 shares of outstanding common stock, respectively.

Basic and diluted net loss per share is computed by dividing the net loss for the period by the weighted-average number of common shares outstanding for the period. Because there was a net loss for both periods presented, the effect of common stock equivalents was not considered in computing diluted loss per share, since the effect would have been anti-dilutive.

**Note 3: Factors Affecting Operations**

Effective January 16, 2004, a wholly-owned subsidiary of the Company, Simex Digital Solutions, Inc. ( Simex Digital ) entered into a marketing agreement with Structured Data Systems, Inc. ( SDS ), a Georgia corporation. SDS is a value-added reseller of computer hardware and software. Under the marketing agreement, Simex Digital markets the products sold by SDS. Operating results for the period from the date of the marketing agreement are included in this Form 10-QSB.

The Company incurred a net loss of \$(76), in the three month period ended June 30, 2004. Working capital and stockholders' equity as of June 30, 2004 each were \$589. The future success of the Company is contingent upon, among other things, the ability to efficiently manage its newly-acquired operations, and attract additional acquisition candidates that are strategically aligned with such operations.

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Note 4: Notes and Loans Receivable

In conjunction with the May 20, 2003, reverse acquisition agreement with Probity, the Company had advanced Probity approximately \$530 as of December 31, 2003. Included in the \$530 advances were separate notes in the amounts of \$262 and \$137, which matured as of June 25, 2003. These notes are collateralized by inventory and carry interest at 10% per annum. Additional loans in the amount of \$131, made prior to December 31, 2003 are unsecured and not subject to interest. To date no interest has been collected or accrued.

The Company subsequently exchanged its notes and loans receivable, which totaled \$560 as of the date of the exchange, for inventory of Kyros a wholly owned subsidiary of Probity. The inventory consisted of video monitoring equipment purchased by Kyros from Wooju Communications Co., Ltd. ( Wooju ), a South Korean manufacturing company and a member of Kyros LLC. At the request of Wooju, the equipment was immediately sold, on behalf of Simex, to Kjell Jagelid and Montain Sebring Generale Holding, S.A., a Luxembourg holding company related to the Company's CEO, Kjell Jagelid, for \$560, for further sale, in the amount of \$560, by Kjell Jagelid and Montain Sebring Generale Holding, S.A. to Wooju. The Company received from Kjell Jagelid and Montain Sebring Generale Holding, S.A., a partial payment on the sale of \$112 on September 11, 2003. Additional amounts totaling \$448 were paid by Wooju to Kjell Jagelid and Montain Sebring Generale Holding, S.A. between the transaction date and December 31, 2003, to be held by Kjell Jagelid and Montain Sebring Generale Holding, S.A. as agent for the Company. All of these additional proceeds have been remitted to the Company by Kjell Jagelid and Montain Sebring Generale Holding, S.A. during the fourth quarter of 2003 and the first six months of 2004.

In conjunction with the acquisition of Remote Business, Inc., the Company advanced \$35 to Remote Business Management, LLC to assist in meeting its short-term capital needs.

Note 5: Equity

Preferred Stock

Simex authorized the issuance of 928 shares of \$.001 par value Series A Convertible Preferred Stock. The Series A has no voting rights, but can pay a 2.5% annual dividend, when and if declared by the Company's Board of Directors. All of the authorized shares of Series A Convertible Preferred Stock were issued in conjunction with the May 20, 2003 Probity reverse acquisition agreement, and were subsequently converted into 9,280 shares of common stock on or about August 4, 2003. The common shares were returned to the Company under the terms of the September 18, 2003 Rescission Agreement.

As a result of the conversion of all of the Series A Convertible Preferred Stock, there are no longer any shares of Series A Convertible Preferred Stock authorized for issuance.

Simex is authorized to issue 1,496,042 shares of \$.001 par value Series B Convertible Preferred Stock. The Series B holders vote with common stockholders as if the Series B shares were converted to common at 10 shares of common for each share of preferred, but the Series B does not pay dividends. All of the authorized shares of Series B Convertible Preferred Stock were issued in conjunction with the May 20, 2003 Probity reverse acquisition agreement, which were subsequently returned to the Company under the terms of the September 18, 2003 Rescission Agreement.

As was previously reported, the Company entered into Stock Purchase Agreements with Wooju on May 7, 2004, which were scheduled to close on May 31, 2004. After extending the closing of the Stock Purchase Agreements, it was determined by the parties that the proposed transaction could not be closed in compliance with Korean regulations. On August 10, 2004 the companies announced their inability to complete the transaction in a press release, and on August 16, 2004, the Company reported the same in an 8-K report.



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## Common Stock

Simex is authorized to issue 50,000,000 shares of \$0.001 par value common stock, of which 33,340,303 shares were issued and outstanding as of June 30, 2004.

## Common Stock Options

On May 20, 2003, the Company entered into Stock Option Agreements with certain of its officers, directors and consultants, and issued options to purchase 6,499,287 shares in connection with the original acquisition of Probity. Options issued pursuant to these Agreements are exercisable for a period of 10 years from the date of issuance, at \$.05 per share. The Agreements were restated on July 25, 2003, and restated again on September 15, 2003, in connection with the rescission of the Probity acquisition transaction. In July 2003, the Board of Directors also approved an amendment to the stock option plan to reserve up to 20% of the total outstanding shares. These restatements resulted in the following option agreements:

| <u>Name</u>      | <u>Title</u>                         | <u>Number<br/>of Options</u> |
|------------------|--------------------------------------|------------------------------|
| C. Mickle Moye   | Chairman of the Board of Directors   | 865,557                      |
| Kjell I. Jagelid | Chief Executive Officer and Director | 1,731,115                    |
| Scott Demerau*   | Director                             | 865,557                      |
| Arnold E. Johns  | Consultant                           | 865,557                      |
|                  |                                      | <hr/>                        |
| Total            |                                      | 4,327,786                    |

\* Mr. Demerau exercised his options on December 5, 2003.

On January 10, 2004, the Board of Directors resolved to award options to its Officers, Directors and consultants, as follows:

| <u>Name</u>      | <u>Title</u>                         | <u>Number<br/>of Options</u> |
|------------------|--------------------------------------|------------------------------|
| Kjell I. Jagelid | Chief Executive Officer and Director | 1,000,000                    |
| C. Mickle Moye   | Chairman of the Board of Directors   | 500,000                      |
| Arnold E. Johns  | Consultant                           | 500,000                      |
| Fred J. Griffin  | Consultant                           | 250,000                      |
|                  |                                      | <hr/>                        |
| Total            |                                      | 2,250,000                    |

These options are exercisable for a period of 10 years, at a price equal to \$.35 per share.

The following table presents the status of the Company's stock option plan for the years ended December 31, 2002, 2003 and the six months ended June 30, 2004.





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QUALIFIED PLANS  
Weighted Average Options Exercise Price

|                                  |           |
|----------------------------------|-----------|
| Outstanding at December 31, 2002 | _____     |
| Granted                          | 4,327,786 |
| Exercised                        | 865,557   |
| Forfeited or Cancelled           | _____     |
| Outstanding at December 31, 2003 | 3,462,229 |
| Granted                          | 2,250,000 |
| Exercised                        |           |
| Forfeited or Cancelled           | _____     |
| Outstanding at June 30, 2004     | 5,712,229 |
|                                  | _____     |

## Income Taxes

The Company has recorded no benefit for income taxes in the accompanying consolidated financial statements. A valuation allowance has been recorded to offset the recognition of any deferred tax assets due to the uncertainty of future realization.

**ITEM 2. Managements Discussion and Analysis or Plan of Operation**

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors. The following discussion should be read together with our financial statements and the notes to those financial statements included elsewhere in the Company's annual report on Form 10-KSB for the year ended December 31, 2003.

Except for historical information, the materials contained in this Management's Discussion and Analysis are forward-looking (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) and involve a number of risks and uncertainties. These include the Company's historical losses, the need to manage its growth, general economic downturns, and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission. Although forward-looking statements in this Quarterly Report reflect the good faith judgment of management, such statements can only be based on facts and factors currently known by the Company. Consequently, forward-looking statements are inherently subject to risks and uncertainties, actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. Readers are urged to carefully review and consider the various disclosures made by the Company in this Quarterly Report, as an attempt to advise interested parties of the risks and factors that may affect the

Company's business, financial condition, and results of operations and prospects.

The following analysis compares the results of operations for the three-month periods ended June 30, 2004 and 2003.

#### Results of Operations (In thousands)

##### Sales and Gross Profit

The Company, through its newly-acquired subsidiary, Remote Business, Inc., reported sales and service revenues from installations of surveillance equipment of \$168, resulting in a gross profit of \$74. The Company's newly-formed subsidiary, Simex Digital Solutions, Inc. reported sales of hardware and software of \$548, resulting in a gross profit of \$116. For the six months ended June 30, 2004, Remote Business, Inc. reported sales and service revenues of \$399, resulting in gross profit of \$181, and Simex Digital Solutions, Inc. reported sales of \$1,285, resulting in gross profit of \$225.

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### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses of Simex decreased to \$61 for the quarter ended June 30, 2004 from \$115 for the quarter ended June 30, 2003. Selling, general and administrative expenses for RBI and SDS were \$78 and \$127, respectively. These figures reflect, among other issues, some duplication of both personnel and facilities in the early stages of their operations. For the six months ended June 30, 2004, Simex selling, general and administrative expenses decreased to \$154 from \$210 for the six months ended June 30, 2003. The decrease in both the three month and six month selling, general and administrative expenses for Simex was due to reduced legal and other fees connected with the acquisition of Probity in 2003.

### **Net Loss**

During the quarter ended June 30, 2004, the Company had a net loss of \$(76) or \$(0.01) per diluted weighted-average share. During the quarter ended June 30, 2003, the Company reported a net loss of \$(114) or \$(0.01) per diluted weighted-average share. The \$38 decrease in net loss for the quarter ended June 30, 2004, was primarily due to the elimination of administrative expenses incurred in connection with the acquisition of Probity in May 2003, as well as the gross profit contributions from the Company's operating subsidiaries in 2004. For the six months ended June 30, 2004, the Company had a net loss of \$(176) or \$(0.01) per diluted weighted-average share, compared with \$(207) or \$(0.01) per diluted weighted-average share for the six months ended June 30, 2003. The improvement was due to the reduction in legal and other expenses connected with the Probity acquisition in 2003, and the gross profit contributions from the Company's operating subsidiaries in 2004.

### **Financial Condition, Liquidity and Capital Resources (in thousands)**

The accompanying unaudited financial statements indicate that the Company has limited liquidity, and will require additional funds to meet its short-term working capital requirements. These additional funds are expected to be derived from distribution arrangements concerning its inventories and from the proceeds of additional financing transactions and sales of its securities. If necessary funds are not available, the Company's business and operations would be materially adversely affected and in such event, the Company would attempt to reduce costs and adjust its business plan.

### **Operating Activities**

Cash flows used in operating activities for the six months ended June 30, 2004 aggregated \$(103) compared to cash used in operating activities for the six ended June 30, 2003 of \$(135). The unfavorable impact on operating cash flows for the six months ended June 30, 2004 was primarily due to increased cash flow requirements of the Company's operating subsidiaries, especially the \$181 increase in accounts receivable. The unfavorable impact on operating cash flows for the six months ended June 30, 2003 was primarily due to the \$(207) net loss from operations.

### **Investing Activities**

Cash provided (used) by investing activities for the six months ended June 30, 2004 and 2003 aggregated \$106 and \$(474), respectively. The cash provided for the six months ended June 30, 2004 was primarily attributable to the proceeds of notes receivable, representing the retainage by Kjell Jagelid and Montain Sebring Generale, S.A. of proceeds from the sale of equipment pursuant to the exchange of notes receivable with Kyros. The cash used for the six months ended June 30, 2003 was due to a loan to Probity, Inc. pursuant to a planned acquisition of Probity, which was later rescinded.

### **Financing Activities**

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There were no cash flows provided or used by financing activities for the six months ended June 30, 2004 or 2003.

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### **Management's Plans**

The Company's resources consisted of \$23 in cash and cash equivalents as of June 30, 2004. The Company continues to seek operating companies with viable products or services strategically related to its core business that have growth potential.

Effective January 16, 2004, a wholly-owned subsidiary of the Company, Simex Digital Solutions, Inc. ( Simex Digital ) entered into a marketing agreement with Structured Data Systems, Inc. ( SDS ), a Georgia corporation. SDS is a value-added reseller of computer hardware and software. Under the marketing agreement, Simex Digital markets the products sold by SDS.

The Company has a limited amount of cash reserves, and is dependent upon the performance of its operating subsidiaries, and cash flow resulting therefrom, to meet its operating cash requirements. Since the acquisition of these subsidiaries is relatively recent and the Company's operating history with these entities is brief, the Company can give no assurances as to the ability of its operations to generate sufficient funds to meet its needs.

As was previously reported, the Company entered into Stock Purchase Agreements on May 7, 2004, which were scheduled to close on May 31, 2004. After extending the closing of the Stock Purchase Agreements, it was determined by the parties that the proposed transaction could not be closed in compliance with Korean regulations. On August 10, 2004 the companies announced their inability to complete the transaction in a press release, and on August 16, 2004, the Company reported the same in an 8-K report.

As a publicly traded company subject to ongoing reporting requirements with the Securities and Exchange Commission (SEC), the Company will continue to incur significant expenses to maintain current reporting status with the SEC. These expenses are likely to increase in coming periods based on more stringent reporting requirements and public oversight initiatives that have been or are being adopted by the SEC in response to corporate governance concerns and recent corporate scandals and abuses. Audit and professional fees will increase as a result of these changes and the increases will impact the profitability of the company in future periods.

### **Critical Accounting Policies**

The discussion and analysis of the Company's financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. 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. In consultation with its Board of Directors, the Company has identified no accounting policies that it believes are key to an understanding of its financial statements.

## **ITEM 3. Controls and Procedures**

Within ninety (90) days prior to the date of this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer ( CEO ) and the acting Chief Financial Officer ( CFO ), 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 CEO and CFO, concluded that the Company's disclosure controls and procedures were effective in bringing to their attention material information relating to the Company required to be included in the Company's periodic SEC filings. There were no significant changes in disclosure controls and procedures during the last fiscal quarter that have significantly affected, or reasonably likely to affect, internal control over financial reporting.



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**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

In the ordinary course of business, the Company is from time to time involved in various pending or threatened legal actions. The litigation process is inherently uncertain and it is possible that the resolution of such matters might have a material adverse effect upon our financial condition and/or results of operations. However, in the opinion of our management, matters currently pending or threatened against us are not expected to have a material adverse effect on our financial position or results of operations.

**ITEM 2. Changes in Securities and Use of Proceeds**

There have been no events that are required to be reported under this Item.

**ITEM 3. Defaults Upon Senior Securities**

There have been no events that are required to be reported under this Item.

**ITEM 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of the security holders during the quarter.

**ITEM 5. Other Information**

In conjunction with the May 20, 2003, reverse acquisition agreement with Probity, the Company had advanced Probity approximately \$530 as of December 31, 2003. Included in the \$530 advances were separate notes in the amounts of \$262 and \$137, which matured as of June 25, 2003. These notes are collateralized by inventory and carry interest at 10% per annum. Additional loans in the amount of \$131, made prior to December 31, 2003 are unsecured and not subject to interest.

The Company subsequently exchanged its notes and loans receivable, which totaled \$560 as of the date of the exchange, for inventory of Kyros, which consisted of video monitoring equipment purchased by Kyros from Wooju Communications Co., Ltd. ( Wooju ), a South Korean manufacturing company and a member of Kyros. At the request of Wooju, the equipment was immediately sold, on behalf of Simex, to Kjell Jagelid and Montain Sebring Generale Holding, S.A., a Luxembourg holding company related to the Company's CEO, Kjell Jagelid, for \$560, for further sale, in the amount of \$560, by Kjell Jagelid and Montain Sebring Generale Holding, S.A. to Wooju. The Company received from Kjell Jagelid and Montain Sebring Generale Holding, S.A., a partial payment on the sale of \$112 on September 11, 2003. Additional amounts totaling \$448 were paid by Wooju to Kjell Jagelid and Montain Sebring Generale Holding, S.A. between the transaction date and December 31, 2003, to be held by Kjell Jagelid and Montain Sebring Generale Holding, S.A. as agent for the Company. A total of \$405 of these additional proceeds have been remitted to the Company by Kjell Jagelid and Montain Sebring Generale Holding, S.A. during the fourth quarter of 2003 and the first quarter of 2004, and a balance of \$43 remains held at March 31, 2004 for the Company by Kjell Jagelid and Montain Sebring General Holding, S.A..



As was previously reported, the Company entered into Stock Purchase Agreements on May 7, 2004, which were scheduled to close on May 31, 2004. After extending the closing of the Stock Purchase Agreements, it was determined by the parties that the proposed transaction could not be closed in compliance with Korean regulations. On August 10, 2004, the companies announced their inability to complete the transaction in a press release, and on August 16, 2004, the Company reported the same in an 8-K report.

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**ITEM 6. Exhibits and Reports on Form 8-K**

**(a) Exhibits**

- 2.1 Acquisition Agreement dated May 20, 2003 with Probity, Inc. (1)
- 2.2 Mutual Rescission Agreement (2)
- 2.3 Exchange Agreement dated September 15, 2003 by and between Probity Investigations, Inc. and the Company (3)
- 2.4 First Amendment to Exchange Agreement with Probity Investigations, Inc. (4)
- 10.1 Dealer Marketing Agreement with Structured Data Systems, Inc. (5)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.1 Chief Executive Officer Certification Pursuant to 18 USC, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Chief Financial Officer Certification Pursuant to 18 USC, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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- (1) Incorporated by reference to our Current Report on Form 8-K dated May 20, 2003, and filed with the Commission on June 4, 2003.
  - (2) Incorporated by reference to our Current Report on Form 8-K dated September 19, 2003, and filed with the Commission on September 23, 2003.
  - (3) Incorporated by reference to our Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003, and filed with the Commission on November 14, 2003.
  - (4) Incorporated by reference to our Current Report on Form 8-K dated December 5, 2003, and filed with the Commission on December 5, 2003.
  - (5) Incorporated by reference to our Quarterly Report on Form 10-QSB for the quarter ended March 30, 2004, and filed with the Commission on May 24, 2004.

**(b) Reports on Form 8-K**

No 8-K reports were filed during the quarter ended June 30, 2004.

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**SIGNATURES**

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

SIMEX TECHNOLOGIES, INC.

Dated: August 23, 2004

By: /s/ Kjell I. Jagelid  
Chief Executive Officer and President

By: /s/ Fred J. Griffin  
Chief Financial Officer

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