

SKYLYNX COMMUNICATIONS INC
Form 10KSB/A
December 02, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-KSB/A-1

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(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the period ended June 30, 2004

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number: 0-27635

SKYLYNX COMMUNICATIONS, INC.

(Name of registrant as specified in its charter)

Delaware 37-1465836

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

500 John Ringling Boulevard
Sarasota, Florida 34236
(Address of principal executive offices, including zip code)

Registrant's Telephone No., including area code: (941) 388-2882

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

Title of each class Name of each exchange on which registered

None.

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

Common Stock, \$.0001 par value

(Title of Class)

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.

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not 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 in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year. \$336,787

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.)

At November 11, 2004, based upon the quoted closing price of \$.18 per share, as quoted on the OTC Electronic Bulletin Board, the aggregate market value of the voting stock held by non-affiliates is \$1,459,258.

Note: If determining whether a person is an affiliate will involve an unreasonable effort and expense, the issuer may calculate the aggregate market value of the common equity held by non-affiliates on the basis of reasonable assumptions, if the assumptions are stated.

ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS

Check whether the issuer has 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 No

APPLICABLE ONLY TO CORPORATE REGISTRANTS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. As of November 11, 2004 the Issuer had 16,626,161 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 ("Securities Act"). The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1990).

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The following documents are incorporated herein by reference:

1. Certificate of Incorporation of StarCom Wireless Networks, Inc. (Incorporated by reference from Current Report on Form 8-K filed May 7, 2003).
2. ByLaws of StarCom Wireless Networks, Inc. (Incorporated by reference from Current Report on Form 8-K filed May 7, 2003).
3. Certificate of Amendment to Certificate of Incorporation changing the name of the Company to SkyLynx Communications, Inc. (Incorporated by reference from Current Report on Form 8-K filed September 29, 2003).
4. Letter of Understanding dated December 13, 2001 (Incorporated by reference from Current Report on Form 8-K filed May 15, 2002).
5. Option Agreement dated December 13, 2001 (Incorporate by reference from Current Report on Form 8-K filed May 15, 2002).
6. Trust Agreement dated June 15, 2002 (Incorporated by reference from Annual Report on Form 10-KSB dated June 30, 2002 filed on October 15, 2002).
7. Agreement and Plan of Reorganization between Rover Telcom Corporation, Shareholders of Rover Telcom Corporation and Basic Technologies, Inc. (Incorporated by reference from Current Report on Form 8-K filed September 9, 2002).
8. Articles of Incorporation of Rover Telcom Corporation (Incorporated by reference from Current Report on Form 8-K filed September 9, 2002).
9. By-Laws of Rover Telcom Corporation (Incorporated by reference from Current Report on Form 8-K Filed September 9, 2002)
10. Asset Purchase and Lock-Up Agreement by and Between Rover Group, Inc. and Inforum Communications, Inc. (Incorporated by reference from Current Report on Form 8-K Filed September 9, 2002)
11. Agreement and Plan of Merger between Basic Technologies, Inc. and StarCom Wireless Networks, Inc. (Incorporated by reference from Current Report on Form 8-K Filed May 7, 2003)
12. Press Release dated July 17, 2003 Announces Termination Of Letter Of Intent And New Strategic Direction (Incorporated by reference from Current Report on Form 8-K filed July 17,2003)
13. SkyLynx Communications, Inc. 2002 Equity Incentive Plan (Incorporated by reference from Registration Statement on Form S-8 filed December 8, 2003)
14. Consultation and Securities Compensation Agreement between the Company and Carl Dilley dated November 4, 2003 (Incorporated by reference from Registration Statement on Form S-8 filed December 8, 2003)
- 15.

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Consultation and Securities Compensation Agreement between the Company and Clifford L. Neuman dated November 4, 2003 (Incorporated by reference from Registration Statement on Form S-8 filed December 8, 2003)

16. Agreement And Plan Of Reorganization by and Among SkyLynx Communications, Inc. Interim Corporate Resources LLC (Incorporated by reference from Current Report on Form 8-K filed December 23, 2003)
17. Common Stock Purchase Agreement between Gus Yepes and SkyLynx Communications, Inc. (Incorporated by reference from Current Report on Form 8-K filed May 14, 2004)
18. Joint Venture Agreement between Inversiones Sinalco, S.A., IdNet, S.A., and SkyLynx Communications Inc. . (Incorporated by reference from Current Report on Form 8-K filed May 14, 2004)
19. Escrow Agreement between Gus Yepes and SkyLynx Communications, Inc. . (Incorporated by reference from Current Report on Form 8-K filed May 14, 2004)
20. AVL Business Brochure (Incorporated by reference from Current Report on Form 8-K filed June 29, 2004)
21. Resignation letter From Steven S. Jesson dated September 2, 2004 (Incorporated by reference from Current Report on Form 8-K filed September 3, 2004)

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

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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

(a) Business Development

SkyLynx Communications, Inc. (the "Company") was formally known as StarCom Wireless Networks, Inc. from May 2003 through September 2003 and Basic Technologies, Inc. from inception through May 2003. The Company was organized under the laws of the State of Colorado on January 21, 1998. The Company was initially organized for the purpose of pursuing and completing a business combination with Yankee Development Corporation ("Yankee Development"), a Texas corporation engaged in the business of the acquisition and development of oil and gas ventures and related interests.

On April 23, 1998, the Company issued and sold an aggregate of 5,305,625 newly-issued, restricted shares, constituting approximately 90% of the then outstanding shares, of the Company's Common Stock in consideration of the exchange therefor of all 1,000 outstanding shares of common stock, no par value per share, of Yankee Development owned of record and beneficially by the Shelton Voting Trust. Immediately following the "reverse acquisition" transaction, the Shelton Voting Trust, the former owner of Yankee Development, controlled approximately 90% of the outstanding shares of Common Stock of the Company and Yankee Development became a wholly-owned subsidiary of the Company.

On October 16, 1998, the Company organized P & A Remediation, LLC (hereafter "PAR Texas"), a Texas limited liability company owned 99% and 1% by the Company and Simpco, Inc., respectively, for the purpose of engaging in the business of plugging oil wells, conducting environmental remediation of oil fields and salvaging the construction materials, pipe, steel tubulars and used oil field equipment for resale on the secondary market. Operations of this entity have been transferred to another subsidiary.

The Company, effective as of January 15, 1999, issued and sold a total of 850,000 newly-issued, restricted shares of Common Stock in consideration of the exchange therefor of all 10,000 outstanding shares of common stock, no par value per share, of Simpco. Simpco then became a wholly-owned subsidiary of the Company. Prior to its acquisition by the Company effective as of January 15, 1999, Simpco was operating and approved by the responsible regulatory agencies of the states of Texas and Oklahoma to be engaged in the business of oil well plugging, remediation and salvage activities. Operations of this entity have been transferred to another subsidiary.

On November 24, 1999, the Company organized P & A Remediation, LLC (hereafter "PAR Oklahoma"), an Oklahoma limited liability company, for the purpose of engaging in the business of plugging oil wells for industry and government in the state of Oklahoma, conducting environmental remediation of oil fields and salvaging the construction materials, pipe, steel tubulars and used oil field equipment for resale on the secondary market. Operations of this entity have ceased.

On December 31, 1999, the Company organized Cyber Cities Technologies, Inc. (hereafter CYBERTRON), a wholly-owned Hawaii corporation, for the purpose of receiving and operating the assets of an unrelated third party and thereafter to engage in the business of providing regional Internet provider services and computer consulting operations from Honolulu, Hawaii.

The Company, on March 16, 2000, issued and sold a total of 979,232 newly-issued, restricted shares of Common Stock in the company, in consideration for the conveyance and transfer of certain selected assets listed in (i) that certain Acquisition Agreement and Closing Memorandum between the Company and Cyber City Honolulu, Inc., (hereafter CCHONO) an unaffiliated third party; (ii) that certain Bill of Sale dated December 31, 1999 from Cyber City Honolulu, Inc. to Cyber Cities Technologies, Inc.; and (iii) that certain Assignment dated December 31, 1999, from Cyber City Honolulu, Inc., to Cyber Cities Technologies, Inc. The stock for assets transaction was accounted for under the purchase method. On June 14, 2002, Cyber Cities Technologies, Inc. changed its name to Cybertron, Inc. In August 2002, Cybertron, Inc. filed a voluntary petition under Chapter 11 of the Bankruptcy Code.

(b) Spin-Off and Change in Control.

Effective December 2001, the Company formed and organized a new subsidiary, Founders Industries, Inc. ("Founders") for the purpose of spinning off to its shareholders, pro rata, all of its interests in its then existing subsidiaries:

Yankee Development Corporation,

Simpco, Inc.,

P&A Remediation, LLC, a Texas limited liability company,

P&A Remediation, LLC, an Oklahoma limited liability company,

Oilfield Junk.com, LLC, a Texas limited liability company, and

Cyber Cities Technologies, Inc., a Hawaiian corporation.

When initially organized, the directors and officers of Founders Industries were the persons who served as directors and officers of Basic Technologies, to wit: Bryan L. Walker, Richard C. Smith, Michael L. Bacon, Derek T. Smith and Laura N. Walker.

Initially, Basic Technologies, Inc. held 100% of the outstanding shares of common stock of Founders Industries, which itself owns 100% of the outstanding shares of equity interest of each of the former Basic subsidiaries. Under the terms of the spin-off, Founders Industries will be spun-off to the shareholders of Basic Technologies, pro rata, in the nature of a stock dividend distribution, pursuant to which the Basic shareholders shall receive one share of Founders Industries for each share of Basic Technologies owned on the record date. The Company established February 8, 2002 as the record date for the spin-off. Only shareholders of record of Basic Technologies on the record date are entitled to participate in the spin-off distribution.

Founders Industries is in the process of preparing and filing a registration statement with the Securities and Exchange Commission registering the spin-off distribution of the shares of Founders Industries as described above. The spin-off will not occur until that registration has been declared effective by the Securities and Exchange Commission.

The formation of Founders Industries and its pending spin-off are transactions provided for under a Letter of Understanding dated as of December 13, 2001 between Basic Technologies, on the one hand, and Mr. Gary Brown, on the other. Under the terms of the Letter of Understanding, the spin-off of the existing operations and assets of Basic

Technologies would occur through the formation and organization of Founders Industries. Concurrently with the execution of the Letter of Understanding, Mr. Brown entered into an Option Agreement with the Shelton Voting Trust. At the time, the Shelton Voting Trust was the record owner of approximately 5,305,625 shares of the Company's common stock, representing 46.5% of the then outstanding 11,548,356 shares of common stock. Bryan Walker, the Company's former President, CEO and Director, serves as Trustee of the Shelton Voting Trust. The beneficiaries of the Shelton Voting Trust are Bryan and Laura Walker as to 80% of its shares of the Company's common stock and Richard Smith, a former Director and Chief Financial Officer of the Company, as to 20% of its shares of the Company's common stock.

Under the terms of the Option Agreement, Mr. Brown was given the option to purchase from the Shelton Voting Trust an aggregate of 4,900,000 shares of common stock at a price of \$.002 per share.

Effective May 1, 2002, in anticipation that Mr. Brown and his affiliates would complete the exercise of the option to acquire 4,900,000 shares of common stock of the Company from the Shelton Voting Trust and thereby effect a change in control of the Company, Bryan Walker, Laura Walker, Richard Smith and Derek Smith voluntarily resigned as officers and directors of the Company. Following such resignations, the remaining directors of the Company were Gary Brown, Steve Jesson and William Chastain. Mr. Chastain subsequently elected not to serve as a director.

Effective June 14, 2002, all of the options under the Option Agreement were exercised to acquire from the Shelton Voting Trust 4,900,000 shares of the Company's common stock. Mr. Brown had assigned to third parties the rights to acquire a portion of the shares pursuant to the exercise of such options. As a result, shares underlying the Option Agreement were acquired by the following persons with respect to the number of shares set forth below:

| | |
|-----------------------------------|------------------|
| Gary L. Brown | 1,543,675 shares |
| Rover Telcom Corporation | 91,025 shares |
| Robert Todd | 65,300 shares |
| Bridgeport Construction, Inc. | 700,000 shares |
| American Merger Consultants, Inc. | 500,000 shares |
| Milford Communications Partners | 1,000,000 shares |
| Stephen L. Rogers | 1,000,000 shares |

The foregoing options were exercised in cash, for aggregate cash consideration of \$10,000.

(c) Spin-Off Trust.

Effective June 15, 2002, the Company transferred to a spin-off trust all 8,198,356 shares of common stock of Founders Industries which were held for distribution to the Basic shareholders, pro rata, pursuant to the spin-off whose previously declared effective date was February 8, 2002. The trustee of the spin-off trust is Bryan Walker.

Under the terms of the spin-off trust, the trustee has taken delivery of all of the Founders spin-off shares pending completion of the registration statement, its having been declared effective and the completion of the spin-off distribution. Further, if the spin-off is not completed for any reason within two years, then the trustee has been authorized to dispose of the spin-off shares in any commercially reasonable fashion and to distribute the proceeds derived from that disposition to the Basic shareholders, pro rata, in lieu of the distribution of the shares of common stock of Founders Industries, Inc.

As a result of having entered into the spin-off trust agreement and transferring the shares of Founders Industries common stock held for distribution to the Basic shareholders, pro rata, the historical operations of the Company, now owned by Founders Industries, have become de-consolidated from the operations of the Company as of the effective date of the spin-off, to wit: June 15, 2002. As a result of this de-consolidation, the financial statements of Basic Technologies, Inc. as of June 30, 2002, its fiscal year end, have been prepared without consolidation of the historical operations of the Company after December 31, 2001 whose assets are now held by Founders Industries.

(d) Acquisition of Rover Telcom Corporation.

Effective August 27, 2002, the Company consummated an Agreement and Plan of Reorganization pursuant to which it acquired 100% of the issued and outstanding shares of common stock of Rover Telcom Corporation. Rover Telcom Corporation had been an affiliated company of Mr. Brown and Mr. Jesson, Mr. Jesson having formerly served as a director of the Company until August 1, 2002. Under the terms of the acquisition, the Company issued an aggregate of 3,750,000 shares of common stock in exchange for 100% of the issued and outstanding shares of common stock of Rover Telcom Corporation. In the transaction, Mr. Brown received an aggregate of 1,875,000 shares of common stock, Kenneth Marshall, the Company's Secretary and General Counsel, received 750,000 shares of common stock and Mr. Jesson received 937,500 shares of common stock. Rover Telcom owns and operates an internet service provider serving the Fresno, California market.

(e)

Redomestication, Reverse Split and Name Change.

Effective May 7, 2003, the Company completed the following transactions:

1. The reverse split of its common stock by a ratio of 1-for-7;
2. Its redomestication to a corporation formed and organized under the laws of the State of Delaware; and
3. Its name change to "StarCom Wireless Networks, Inc."

Effective September 29, 2003, the Company changed its name again to "SkyLynx Communications, Inc."

(f) Acquisition of Interim Resources Corporation.

Effective December 10, 2003, the Company consummated an Agreement and Plan of Reorganization dated as of September 1, 2003 (the "Agreement") with Interim Corporate Resources, LLC, a Washington limited liability company ("ICR"). Under the terms of the Agreement, the Company acquired 100% of the issued and outstanding member interests of ICR solely in exchange for an aggregate of 700,000 shares of the Company's common stock. The 700,000 shares of common stock were issued to the members of ICR, pro rata, who were Kevin Gorman, Jon Fatula and Fred Anderson. Messrs. Gorman, Fatula and Anderson are executive officers of the Company.

Kevin Gorman currently serves as Chief Operating Officer of the Company and on September 13, 2004 he was also appointed to the Board of Directors of the Company; Mr. Fatula serves as Vice President - Information Technology, and Mr. Anderson serves as Vice President - Engineering. Messrs. Gorman, Fatula and Anderson have been employed by the Company since August 2003. Mr. Anderson resigned effective July 15, 2004.

ICR is a consulting company with established clients in the automatic vehicle location ("AVL") industry. ICR's assets consist principally of customer and client relationships which the Company plans to use in deploying and developing its wireless networks.

(g) Acquisition of SkyLynx Communications de Costa Rica S.A.

On November 28, 2003, the Company entered into a definitive Common Stock Purchase Agreement with Gustavo A. Yepes (the "Purchase Agreement") pursuant to which Mr. Yepes agreed to transfer and convey to the Company shares representing an aggregate of 75% of the issued and outstanding shares of common stock of DirectCom, S.A., a Costa Rican corporation.

Subsequent to entering into the Purchase Agreement, DirectCom, S.A. undertook a reorganization under the terms of a Joint Venture Agreement (the "Joint Venture Agreement") between Mr. Yepes, IdNet, S.A., a Costa Rican corporation, and Inversiones Sinalco, S.A., also a Costa Rican corporation. Under the Joint Venture Agreement, DirectCom, S.A. reorganized and changed its name to SkyLynx Communications de Costa Rica, S.A. ("SkyLynx Costa Rica") in contemplation of the consummation of the Purchase Agreement pursuant to which the Company would acquire 75% of the issued and outstanding shares of common stock of SkyLynx Costa Rica.

Effective April 30, 2004, the reorganization of SkyLynx Costa Rica was completed and Mr. Yepes transferred to the Company shares representing 75% of the issued and outstanding shares of common stock of SkyLynx Costa Rica, thus consummating the Purchase Agreement. In connection therewith, the Company issued to Yepes, in escrow, an aggregate of 300,000 shares of the Company's common stock in consideration of the shares of SkyLynx Costa Rica.

SkyLynx Costa Rica is the legal entity formed to implement the provisions of the Joint Venture Agreement under which the Company acquired 75% of the outstanding shares, IdNet acquired 20% of the outstanding shares and Inversiones Sinalco acquired 5% of the outstanding shares of SkyLynx Costa Rica.

Subsequent to executing the Purchase Agreement, Mr. Yepes was appointed Vice President, Latin American Operations, of the Company and has been serving as President of SkyLynx Costa Rica. He is responsible for implementing the Company's Costa Rican deployment and network operations.

(h) Consolidation

The financial statements for the fiscal year ended June 30, 2003 included in this report consolidate the activities of SkyLynx and its wholly-owned subsidiary, Rover TelCom Corporation, from August 27, 2002 to the fiscal year end June 30, 2003. The financial statements for the fiscal year ended June 30, 2004 consolidate the activities of SkyLynx and its wholly-owned subsidiary, Interim Resources Corporation, from December 10, 2003 to the fiscal year end June 30, 2004. . Additionally, the results of operations for its 75% owned subsidiary, SkyLynx Communications de Costa Rica, S.A. are included from acquisition on April 30, 2004 to the fiscal year end June 30, 2004

BUSINESS OF ISSUER

VISION/MISSION

- SkyLynx Communications, Inc. is dedicated to meeting the logistic needs of the Commercial fleet industry with special focus on the Emergency Medical Service (EMS), Police and Fire Department fleets critical to the First Response capabilities of Homeland Security. As a marketing driven company with a unique technological base, its goal is to establish a new paradigm in Automatic Vehicle Location Science (AVL) via a unique wireless data network that combines high-speed transfer capabilities with unparalleled geographic coverage over extended distances. Its

mission is to provide First Response groups with a low cost, highly reliable tracking, monitoring and data networking system that maximizes vehicle and personnel utilization, enhances Homeland Security and reduces operational expenses through greater logistical control.

Technology

- SkyLynx's wireless communications technology with its specialized radio units, which operates in low frequencies (150 MHz), provides fixed and mobile wireless data communications capability with ranges of up to 50 miles compared to higher frequency technologies, such as cellular, which typically have a base station coverage radius of up to only 8 miles. Furthermore, the Company is developing capabilities, which dramatically improve the ability of these frequencies to handle higher data rates than previously achievable. This should make possible the transmission of larger files such as images or other megabyte files over much greater distances than presently available from other land based wireless systems. Federal licenses for these frequencies are so underutilized that the federal government is re-allocating these frequencies, making them readily available at negligible costs versus the \$Billion plus investment required for the cellular networks. Finally, these lower frequencies have the additional advantage of being able to "bend" around natural and man-made obstacles, effectively extending the line of site required between two wireless devices. SkyLynx's network will consist of strategically located base stations (Wireless Relay Antennae Systems), which are used to communicate with fixed radio and mobile modems deployed in individual vehicles.

The Target

- SkyLynx intends to pursue a heavy user group strategy in its initial business-building phase giving priority to selling municipalities and ambulance companies with large first response fleets (50 + vehicles) and selected commercial carriers where the increased effectiveness and potential dollar savings from more efficient tracking and routing are the most dramatic; and the immediate sales volume leverage is the greatest.

The Opportunity

- Spearheaded by this technology and its First Response focus, the Company hopes to gain a significant share of the AVL Commercial Fleet market, which is estimated to reach \$1 billion in revenues in 2004. Once this beachhead has been secured, the way will be clear to line extend into other commercial fleet segments e.g. delivery services (UPS, FedEx, food & beverage, etc.) and complementary markets such as:

- * Local Information Services
- * Utility Meter Reading
- * Delivery Service Applications
- * School Buses
- * Auto, truck and heavy equipment leasing

BUSINESS STRATEGY

- Optimizing the logistics of ambulances, fire engines and police cars through more effective tracking and monitoring of individual vehicles is a major goal for municipalities and government agencies under the guidelines of Homeland Security. Whether responding to a major natural catastrophe or terrorist attack, being able to coordinate inter-agency assets and concentrate their first response units on the areas of greatest need in the shortest period of time is not just a question of efficiency and lower costs but of saving countless lives.

Awareness of AVL Potential

- A study in 2001 by The Strategis Group of the commercial fleet industry overall, revealed that nearly 50% of respondents were interested in purchasing an AVL system in the next three years and a significant 21% were definite in their purchase intentions.

The Strategy

- The Company's business strategy is to launch the SkyLynx network as the next generation in Automatic Vehicle Location Science (AVL) that provides First Response Groups and other commercial fleet segments with a low cost, highly reliable tracking; monitoring and data exchange system to maximize vehicle and personnel utilization; and reduced running expenses through greater logistical control. Beginning with a Western region deployment to work the model to profitability and then extending this to a nationwide basis.

SkyLynx's primary focus near term will be on selling municipalities and ambulance companies with large first response fleets (50 + vehicles) where the increased effectiveness and potential dollar savings from more efficient tracking and routing are the most dramatic; and, the immediate sales volume leverage is the strongest. The Company is convinced that its superior technology with its promise of:

- * Improved First Response capabilities,
- * Optimizing utilization of existing assets,
- * Increased fuel economy,
- * Increased worker productivity, and
- * Enhanced services overall

could quickly place SkyLynx in the forefront of this commercial fleet segment, as a key factor in streamlining operations.

Current Contracts - The Company has installed one base station in the Seattle/Tacoma area and two more are planned to meet the requirements for a contract they have with Rural Metro Ambulance. This base station is successfully tracking the first vehicles installed. The Company has completed Phase 1 of installing several base stations in the Denver/Aurora area to meet the needs of another contract they have been awarded by Rural Metro Ambulance for this area.

Sales/Distribution Model

- The Company, through its own sales force, channel agreements and partners, will target municipalities and ambulance fleet owners as their mission critical prime prospect groups using outside after market sales brokers to provide additional support. SkyLynx will use specialized providers of radio equipment to the fleet industry as the main distribution channel for their radio units.

PRODUCT STRATEGY

- The Company's data network is designed for high availability through base station coverage overlap as well as redundancy of critical components within each base station, the network interconnecting base stations and the Network Operation Center utilized to collect and distribute customer data. Further, given the needs of Homeland Security, the wireless technology used by SkyLynx is highly resistant to disruption because of the sheer number of

stations providing overlapping coverage and the speed at which downed operations can be reconstituted.

By partnering with other service providers the SkyLynx network will be able to establish a true nationwide geographic footprint of coverage (both urban and rural) that has been unobtainable in a cost effective fashion to date. The Company estimates that it will require approximately 2000 base stations to achieve this goal. It will partner with key 802.11 operators to provide high-speed data at access points and thus not incur a build-out cost for this portion. The monthly site rental is expected to range from \$150 - \$700 per site. The cost of a base station will range from \$10,000 to \$18,000 for sites equipped with telecommunication facilities for a total nationwide projected build-out cost of \$30 million. This is less than it takes to provide cellular coverage for some metropolitan areas.

Industry Standard

- SkyLynx will concentrate its efforts on the marketing and sales of an "off-the-shelf" product to meet market requirements and to minimize the need for custom solutions. Manufacturing of the SkyLynx radio will be out-sourced. The Company's goal as first to market with this combination of abilities is to establish their product as the industry standard. An open architecture customer interface (published Open Architecture Interface or OAI) approach will enable users to quickly integrate existing systems and equipment while providing for backward compatibility to investments made in existing technologies.

SkyLynx has initiated consulting arrangements with several well-respected individuals within the EMS industry to provide assistance in the feature/function definition thus ensuring that a customer driven solution set is delivered.

Key Advantages

- The SkyLynx system has the following advantages:

- * True extended coverage that exceeds that provided by cellular, PCS (Personal Communications Services) and conventional LMRS (Land Mobile Radio System) solutions.
- * Reliable data communications over wide areas at rates significantly less than those charged by satellite based systems.
- * A dedicated, encrypted secure wireless data network that is not congested by voice traffic within the band ensures reliable communications when it is needed.
- * The Company's technological developments permit the transmission of very large files over greater distances than are currently available from any other land based wireless systems.
- * A non-proprietary customer interface approach provides quick and easy integration with existing client technological platforms.
- * With a very short pay back period due to low monthly fees, expected returns on initial capital is attractive.
- * Short installation time to full market coverage due to relatively few base stations required.
- * Planned obsolescence provides a clear path for the incorporation of new technologies maximizing the Company's ability to continue to meet new market demands.
- * Benefits of using a multi-frequency band approach include:

- Ability to take advantage of the strengths of each frequency and associated technologies while not being shackled to the disadvantages.
- A dependable and dedicated data network that is not susceptible to the same disruptions that public and private voice and analog data networks experience.

MARKET ANALYSIS

Size of Key First Response Groups

| <u>Group</u> | <u>Number</u> |
|--------------|---------------|
| EMS | 887,523 |
| Firemen | 1,078,300 |
| Police | 1,041,000 |

Source: US Statistical Abstract 2002, US Fire Administration and EMS Magazine Study July 2003

Breakout of US Commercial Fleets by Size

- There were 29,493 commercial fleets with 50 or more vehicles, which represents only 39% of the 75,533 fleets, monitored in the commercial carrier study of 1995. But, with a combined count of 10.7 million, they accounted for 89% of the commercial vehicles in use. Currently, there are over 85,000 fleets in operation.

| Fleet Size | Number of Fleets | Trucks Per Fleet Group in Millions | Percentage of Total Trucks |
|--------------|------------------|------------------------------------|----------------------------|
| 500 + Trucks | 2,789 | 7.2 | 60.0% |
| 100 - 499 | 12,568 | 2.5 | 20.8% |
| 50 - 99 | 14,136 | 1.0 | 8.4% |
| 25 - 49 | 21,538 | .7 | 5.8% |
| 1 - 24 | 24,502 | .6 | 5.0% |
| Total | 75,533 | 12.0 | 100.0% |

Source: Commercial Carrier Journal, August 1995

Top Five Commercial Vehicle States

- The five largest States in terms of number of commercial vehicle registrations are California, Texas, Florida Ohio and New York.

Competitive Landscape

- The Company's primary competitors will be within the cellular and satellite industries. Whereas both technologies have their respective strengths, they each also possess distinct disadvantages that can be exploited. Movement towards the 3G technology (the next generation of cellular technology) in the cellular market provides a greater bandwidth for data transmission. The typical cell tower has a radius range of 3-5 miles (heavier traffic on a cell site tends to cause what is called cell breathing which will reduce the area served by that location). The inherent nature of the technology requires many expensive cell towers to service a small area. Due to their operating frequency and the cost to upgrade their networks, this serves to play to SkyLynx strengths for vehicle tracking and the need for more remote communications. (The cost to deploy and service a cell network directs their service towards a more typical population centric deployment versus geographic centric.) Furthermore the proliferation of 802.11 hotspots (wireless networks designed for localized service such as a building or the immediate vicinity) in the metro areas and at remote locations such as truck stops will serve to negate or minimize this advantage. Operating at a lower frequency extends the range served by any of the Company's base station sites to a 40 -80 mile radius. Vehicle tracking and data transmissions can still be effectuated even though there is a greater distance involved due to the ability of the Company's radio to use a lower frequency.

Satellites provides for a wide area of communications. Whereas they were initially designed with voice communications in mind, they can support an acceptable data transmission speed. However, due to the nature of sending a signal from outer space to earth, they are very susceptible to impediments such as mountains, buildings and trees. All of which serve to limit their ability to meet a given application. Additionally, their products are high in price due to the major investment required to launch and maintain a satellite.

MARKETING PLAN

- The Company's Marketing Plan is to launch the SkyLynx network as the next generation in the science of Automatic Vehicle Location (AVL). The Company will focus on Homeland Security's need to maximize the efficacy and cost efficiency of their First Response Groups as well as Emergency Medical Services overall in the areas of vehicle tracking and monitoring. SkyLynx will pursue a geographic segmentation strategy focusing on the Western Region of the United States, which includes California (the largest commercial vehicle state), Oregon, Washington and portions of Montana, Nevada, Arizona and Idaho. This will allow the Company to maximize its sales impact, while building the market share and momentum to roll out nationally.

SkyLynx will galvanize industry awareness and establish strong barriers to competitive entry by executing an aggressive brand building strategy that forges its breakthrough AVL story into one coherent and memorable message - a message where scientific innovation dedicated to the logistic needs of the nation's First Response Groups becomes the natural ally of long-term growth and profitability.

Market Considerations

1. Extremely Attractive Growth Prospects

- The AVL market in the commercial fleet industry is estimated to reach \$1 billion by 2005.

2. Market Receptivity

- The commercial fleet industry is already primed for AVL solutions with a recent study indicating that 21% of responding fleet owners had definite intents to purchase.

3. Strong Competitive Position

- The SkyLynx network provides true extended coverage that exceeds that provided by cellular, PCS (Personal Communications Services) and conventional LMRS (Land Mobile Radio System) solutions. Further, it offers data communications over wide areas at rates significantly less than those charged by satellite based systems.

4. Experience Management Team

- The SkyLynx Management Team has in-depth experience in many aspects of the wireless communications industry including management, operations, Internet applications, marketing, finance, technology and sales.

5. Marketing Impact

- The Company's geographic segmentation strategy focusing on the Western Region of the United States allows for highly targeted advertising and promotion that can create heavy impact with maximum cost efficiencies.

6. Strong Branding Potential

- The SkyLynx name and market focus can be the basis for a strong brand that in effect makes the Company synonymous with AVL service to the First Response segment of the commercial fleet industry.

FUTURE MARKETS

- Once the Company has established a strong position in the trucking industry, it can easily adapt and line extend its technology to serve complementary markets such as:

- * Local Information Services,
- * Delivery Services
- * Utility Meter Reading
- * Security Monitoring
- * Remote data collection (snow pack, weather, ocean, railroad, etc.)

These markets represent executions of the following technologies:

Location Based Services (LBS)

LBS creates an environment where the ability of the Company's network brings unparalleled flexibility in actually delivering the content to a broader geographic footprint. This is one of the most serious drawbacks to a full implementation of these services.

According to the Allied Business Intelligence Inc (ABI) forecasts, there will be between 700 and 800 million wireless LBS subscribers by the end of 2006, representing almost half of the world's 1.7 billion wireless subscriber population in that year.

Allied Business goes on to say that while LBS will encompass a host of new services, the services can generally be separated into four categories:

- * Information Services - Enhanced 411 or mobile yellow/white pages will allow mobile users to ascertain the location of the nearest gas station, hotel, ATM, movie theatre or point of interest. The users will also receive directions to those businesses and notification of their special offers.
- * Safety Services - The safety services segment of LBS includes any type of emergency service, whether it is roadside assistance or emergency 911, in or out of the vehicle. The best example of this would be GM's OnStar in-vehicle information system (IVIS).
- * Tracking Services - Many companies have been offering tracking services for vehicles and heavy machinery, to locate them when stolen. They can now be tracked by installing special transmitters in hidden locations on the vehicles. This could be extended to the marine industry to track and monitor boats.
- * Location based billing - LBS will allow carriers to initiate the move from flat rate pricing for general coverage areas to allowing customers to further define their own coverage areas. Customers can personally define coverage zones based on the location of their home; work or school and can change those zones while traveling via their handsets. Businesses can customize their calling zones based on where they do the most business. By offering this simple flexibility in pricing, airtime use could increase significantly.

SkyLynx's robust network will support all of these services and deliver the content in a very cost efficient way. Through strategic partnerships additional services can be provided creating added value of the network and additional revenue streams.

Telematics

Telematics is the combination of telecommunications and computing, the most common meaning is information services delivered via a communications network. Automotive Telematics is the wireless exchange or delivery of communication, information and other content between the auto and/or occupants and external sources. The most prominent examples are General Motors' OnStar and Mercedes Benz' TeleAid." Services that can be provided include:

- * Emergency roadside assistance;
- * Stolen vehicle tracking;
- * Automatic crash notification;
- * Remote engine diagnostics;
- * Navigation assistance; and
- * Concierge services (such as ordering tickets, making reservations, etc.)

A segment that is growing at a more rapid pace within this industry can be found on the commercial side. Trucks leaving the manufacturing site are now equipped with on board computers that track speed, braking, engine temperature, oil pressure and a sundry of other items. The need to have this information transmitted back to a central location where this information can be monitored and analyzed is taking on new significance with regards to

operational maintenance and support to load monitoring. The Company's radios make it uniquely positioned to offer a cost effective solution to meet these demands.

Consumer Automotive Telematics Service Preferences

- The potential in the consumer market is also great. A recent projectable consumer survey shows that a large percentage of respondents expressed strong interest in location-based Roadside Assistance, Stolen Vehicle Tracking and Navigation Assistance. As shown, interest of luxury vehicle drivers in Roadside Assistance service is consistent with the overall sample, but their interest in Stolen Vehicle Tracking and Navigation Assistance services is significantly above average.

Telemetry and SCADA (Supervisory Control And Data Acquisition)

The Company is positioned to meet the demands of these two applications. SkyLynx's wide area network provides the means by which the transfer of data can be effectuated and yet meet one of the most demanding requirements - low cost. A few of the market opportunities that represent the greatest opportunities can be found in the utility industry - meter reading, and the security industry - alarm notification. SCADA applications may involve two-way communications and are focused in on the management and control of assets/equipment that are typically dispersed over a large area. These applications may involve the controlling of machinery, the opening and closing of valves, opening or locking doors in a vehicle or controlling other remote equipment.

Use of the Company's network reduces labor costs and expedites an organization's ability to respond to changes in these remote operating environments. The extended geographic reach of the network presents a greater number of opportunities within these markets. There are extended applications as well such as inventory management, field force work orders, vending machine monitoring and pipeline monitoring.

The Strategis Group predicts wireless operators will have more than 10 million units in service by the year 2006. The leading customer segment will be the security and alarm industry, with other market segments like industrial equipment, vending, utilities and health care also providing a substantial customer base for operators and telemetry vendors. For instance, large construction firms also have demand for asset tracking and equipment positioning, which allows for efficient movement of millions of dollars worth of heavy equipment between jobsites, as well as assisting in the recovery of stolen equipment. Eventually, telemetry will become more or less standard in the wireless world as well as in the automotive industry.

Other markets that will be approached are the railroad industry, weather observation agencies, Department of Natural Resources, and harbor/maritime agencies.

Employees and Consultants

We currently have seven executive officers and key employees: Gary L. Brown, President and CEO, Kevin Gorman, Chief Operating Officer, Daniel J. Sullivan, Chief Financial Officer, Jon Fatula, Vice President-Information Technology, Joseph Williamson, Vice President - Field Engineering, Gus Yepes, Vice President of Latin American Operations and Kenneth L. Marshall, General Counsel.

ITEM 2. DESCRIPTION OF PROPERTY

During the fiscal year ended June 30, 2003, we did not maintain executive corporate offices. Mr. Brown operated from an office located in his residence in Sarasota, Florida. Effective October 15, 2003, we leased offices at 500 John Ringling Boulevard, Sarasota, Florida 34236. Our telephone number at that address is (941) 388-2882; facsimile (941) 388-2866.

The offices of our wholly-owned subsidiary, Rover Telcom Corporation, are located at 1315 Van Ness Avenue, Suite 103, Fresno, California 93721-1729. Our telephone number at that address is (559) 650-8100.

We also maintain West Coast corporate and engineering offices located at 643 Strander Blvd., Tukwila, Washington 98188. The telephone number at that address is (206) 575-1910; facsimile (206) 575-1877.

ITEM 3. LEGAL PROCEEDINGS

The Company is a defendant in a civil action that was brought by OptiGate, Inc. currently pending in the United States District Court for the Northern District of California, Fresno Division, Civil Action No. 03 CE CG 03733, in which the Plaintiff is claiming damages arising from a breach of contract. The Company has filed a counterclaim in the matter. Subsequent to filing the case, the Plaintiff filed a voluntary petition in bankruptcy under Chapter 7 of the United States Bankruptcy Code. The Company plans to vigorously defend the case, which it believes to have no merit. Management of the Company believes that the likelihood of a material adverse outcome is remote.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

From April 2001 to May 7, 2003, our common stock has traded on the Over-the-Counter Market and has been quoted on the OTC Electronic Bulletin Board under the symbol "BTEC." From May 8, 2003 until September 29, 2003, our common stock traded on the OTC Electronic Bulletin Board under the ticker symbol "SCWL." Beginning September 30, 2003, our ticker symbol was changed to "SKYC."

The following table sets forth the high and low prices for our common stock for each quarter during fiscal years 2003 and 2004. The prices listed below give retroactive effect to a 1-for-7 reverse split that was effected on May 7, 2003. The prices presented below are bid and ask prices, which represented price between broker-dealers and do not include retail markups and markdowns or any commission to the broker. The prices do not necessarily reflect actual transactions.

Common Stock

Quarter Ended

Low

High

September 30, 2002

\$.09

\$.11

December 31, 2002

\$.28

\$1.33

March 31, 2003

\$.28

\$1.19

June 30, 2003

\$.28

\$3.00

September 30, 2003

\$.45

\$.77

December 31, 2003

\$.59

\$.70

March 31, 2004

\$.51

\$.96

June 30, 2004

\$.15

\$.56

September 30, 2004

\$.05

\$.33

On November 11, 2004, the bid and ask prices of our common stock as quoted on the Bulletin Board were \$.16 and \$.18, respectively.

Factors we discuss in this form may have a significant impact on the market price of our common stock. Also, because of the relatively low price of our common stock, many brokerage firms may not effect transactions in the common

stock.

In addition, our common stock is subject to rules adopted by the Commission regulating broker dealer practices in connection with transactions in "penny stocks." Those disclosure rules applicable to "penny stocks" require a broker dealer, prior to a transaction in a "penny stock" not otherwise exempt from the rules, to deliver a standardized disclosure document prepared by the Commission. That disclosure document advises an investor that investment in "penny stocks" can be very risky and that the investor's salesperson or broker is not an impartial advisor but rather paid to sell the shares. The disclosure contains further warnings for the investor to exercise caution in connection with an investment in "penny stocks," to independently investigate the security, as well as the salesperson with whom the investor is working and to understand the risky nature of an investment in this security. The broker dealer must also provide the customer with certain other information and must make a special written determination that the "penny stock" is a suitable investment for the purchaser, and receive the purchaser's written agreement to the transaction. Further, the rules require that, following the proposed transaction, the broker provide the customer with monthly account statements containing market information about the prices of the securities.

These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for our common stock. Many brokers may be unwilling to engage in transactions in our common stock because of the added disclosure requirements, thereby making it more difficult for stockholders to dispose of their shares.

Holders

As of November 11, 2004, the Company had approximately 239 shareholders of record. This does not include shareholders who held stock in accounts at broker-dealers.

Dividends

We have not declared or paid any cash dividends on our capital stock since inception and do not expect to pay any cash dividends for the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business.

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Recent Sales of Unregistered Securities

1. In December 2002, the Company issued an aggregate of 535,715 shares of common stock in connection with its acquisition of Rover Telcom Corporation. The shares were issued to a total of four persons, all of whom qualified as "accredited investors" within the meaning of Rule 502(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act.

2. In December 2002, the Company issued an aggregate of 42,857 shares of common stock to two persons in consideration of services. Both persons qualified as "accredited investors" within the meaning of Rule 502(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act.

3. In August 2002, the Company issued an aggregate of 235,715 shares of common stock to three executive officers of the Company in consideration of services. The three persons receiving the securities qualified as

"accredited investors" within the meaning of Rule 502(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act.

4. In May 2003, the Company issued an aggregate of 3,228,806 shares of common stock to six officers and directors of the Company in consideration of services. The six persons qualified as "accredited investors" within the meaning of Rule 502(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act.

5. In January 2003, the Company issued an aggregate of 1,307,143 shares of common stock to two executive officers of the Company in consideration of services. Both persons qualified as "accredited investors" within the meaning of Rule 502(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act.

6. Between July 2003 and October 2003, the Company completed a private placement consisting of an aggregate of 211,333 warrants, each warrant exercisable to purchase one share of the Company's common stock at an exercise price of \$.60 per warrant. All warrants sold were immediately exercised by the investor. The warrants and underlying common stock were sold to nine persons, each of whom qualified as an "accredited investor" within the meaning of Rule 502(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act and Regulation D thereunder.

7. In August 2003, the Company issued an aggregate of 625,000 shares to two consultants and two directors of the Company for consulting services. Each of the persons qualified as an "accredited investor" within the meaning of Rule 502(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act.

8. From November 2003 to November 2004, the Company completed a private placement consisting of eight percent (8%) convertible promissory notes and common stock purchase warrants. Each note was convertible into shares of the Company's common stock at a price equal to the market price on the date of sale less a discount of thirty percent (30%). Each warrant was exercisable for two years to purchase one additional share of common stock at an exercise price of \$3.00 per share. All promissory notes sold in the private offering were immediately converted into shares of the Company's common stock. As a result of the offering, the Company sold an aggregate of 3,476,078 shares of common stock and warrants exercisable to purchase an additional 1,738,039 shares of common stock, for gross proceeds of \$878,645. The securities were issued to an aggregate of 39 investors, each of whom qualified as an "accredited investor" within the meaning of Rule 501(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act and Regulation D thereunder.

9. In December 2003, the Company issued an aggregate 700,000 shares of common stock in connection with its acquisition of Interim Corporate Resources, LLC, a Washington limited liability company. The shares were issued to three individuals, each of whom was an executive officer of the Company and an "accredited investor" within the meaning of Rule 501(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act.

10. In February 2004, the Company issued an aggregate of 685,714 shares of common stock to five consultants for services. Each of the consultants qualified as an "accredited investor" within the meaning of Rule 501(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act.

11. In March 2004, the Company issued an aggregate of 60,000 shares of common stock to two consultants for services. Each of the consultants qualified as an "accredited investor" within the meaning of Rule 501(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act.

12. Between April and June 2004, the Company issued an aggregate of 650,000 shares of common stock to four consultants for services. Each of the consultants qualified as an "accredited investor" within the meaning of Rule 501(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act.

13. In May 2004, the Company issued 300,000 shares in connection with its acquisition of SkyLynx de Costa Rica, S.A. The shares were issued to one individual who at the time was an executive officer of the Company and qualified as an "accredited investor" within the meaning of Rule 501(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act.

14. Between June and August 2004, the Company issued an aggregate of 540,000 shares of common stock to executive officers and directors of the Company for services. Each of the officers and directors qualified as an "accredited investor" within the meaning of Rule 501(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act.

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15. In October 2004, the Company issued 625,000 shares of common stock to two directors and an affiliate of one of the directors for services. The directors qualified as "accredited investors" within the meaning of Rule 501(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act.

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The following table sets forth information as of June 30, 2004 with respect to compensation plans including individual compensation arrangements) under which equity securities have been issued or authorized for issuance.

EQUITY COMPENSATION PLAN INFORMATION

| | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuances under equity compensation plans (excluding securities reflected in column (a)) (c) |
|--|---|---|--|
| Equity compensation plans approved by security holders | 1,240,457 ⁽¹⁾ | N/A | 2,500,000 |
| Equity compensation plans not approved by security holders | -0- | -0- | -0- |
| Total | -0- | -0- | -0- |

⁽¹⁾ Consists of stock awards under Incentive Plan
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ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The financial statements for the fiscal year ended June 30, 2003 consolidate the activities of the Company and its wholly-owned subsidiary, Rover TelCom Corporation, from the date of acquisition, August 27, 2002, through June 30, 2003. The financial statements for the year ended June 30, 2004 consolidate the activities of SkyLynx Communications, Inc. and its subsidiaries SkyLynx Communications de Costa Rica S.A. and Rover Telcom Corporation from the date of acquisition through June 30, 2004. As a result, comparisons of results of operations for the recently completed fiscal year with the prior year are not particularly meaningful and are not indicative of the Company's present operations and future prospects.

RESULTS OF OPERATIONS - FISCAL YEAR ENDED JUNE 30, 2004 COMPARED TO YEAR ENDED JUNE 30, 2003

We reported a net loss of (\$3,575,466) or (\$.39) per share, for the year ended June 30, 2004. Our fiscal 2004 net loss included \$830,226 in research and development costs related to Automatic Vehicle Location (AVL) line of business. Our fiscal 2004 net loss included \$1,832,095 in stock based compensation. We occasionally compensate our officers, directors, consultants and attorneys for their services with common stock grants in order to save our cash. Our accounting policy is to record the stock-based compensation at the fair value of the stock issued based on quoted market prices at the time the services were performed. As a result, we take a noncash charge to our earnings each time we issue stock in lieu of cash payments.

In fiscal 2004, our operating unit was our subsidiary Rover Telcom, acquired on July 1, 2002. Rover Telcom is a local business to business internet service provider. Internet service revenue was \$339,272, costs of services, consisting of internet connectivity charges, totaled \$194,199 and the gross profit from our internet service was \$145,073 in fiscal 2004.

Fiscal 2004 selling, general and administrative costs include the marketing and administration costs of our ISP as well as corporate overhead. Selling, general and administrative costs also include the charge off certain internal costs related to preliminary merger negotiations and charges for the restructuring of our operations.

Beginning August 1, 2003, we retained three key employees and began efforts to develop our wireless data network and AVL services. While that new business segment is being developed, we will continue to operate our ISP in Fresno, California but do not expect to generate significant revenues or profits from those operations. We hope that our new wireless data network will begin commercial implementation in the first calendar quarter of the year 2005, although there can be no assurances in this regard.

FISCAL YEAR ENDED JUNE 30, 2003 COMPARED TO YEAR ENDED JUNE 30, 2002

We reported a net loss of (\$870,974) or (\$.34) per share, for the year ended June 30, 2003. Our fiscal 2003 net loss included \$195,740 in bad debt write-offs. We wrote off \$117,611 in connection with the purchase of our internet service provider and \$75,000 in advances to our merger candidate. The remainder, or \$3,082, in bad expense was related to trade receivables. Our fiscal 2003 net loss included \$283,000 in stock based compensation. We occasionally compensate our officers and directors for their services with common stock grants in order to save our cash. Our accounting policy is to record the stock-based compensation at the fair value of the stock issued based on quoted market prices at the time the services were performed. As a result, we take a noncash charge to our earnings each time we issue stock in lieu of cash payments.

In fiscal 2003, our operating unit was our subsidiary Rover Telcom, acquired on July 1, 2002. Rover Telcom is a local internet service provider. Internet service revenue was \$418,430, costs of services, consisting of internet connectivity charges, totaled \$232,768 and the gross profit from our internet service was \$185,662 in fiscal 2003.

Fiscal 2003 selling, general and administrative costs include the marketing and administration costs of our ISP as well as corporate overhead. Selling, general and administrative costs also include certain internal costs related to preliminary merger negotiations and charges for the restructuring of our operations.

Results of operations for the fiscal year ended June 30, 2002 reflect the operations of our discontinued business which were spun off with Founders Industries, Inc. Revenues for the prior period consisted primarily of ISP revenues from the Honolulu, Hawaii market which have been spun off with the Founders Industries distribution. As a result, comparisons with the current fiscal year are not meaningful.

Similarly, selling, general and administrative expenses for the fiscal year ended June 30, 2002 reflect the prior operations of the Company which have been discontinued with the Founders Industries spin-off. Accordingly, comparisons with the current fiscal year are not meaningful.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

In fiscal 2004, our ability to generate adequate amounts of cash to meet our needs came from loans from principal shareholders and common stock sales. Principal shareholder advanced us approximately \$102,000 and we raised approximately \$995,000 through our stock sales. In fiscal 2003, our ability to generate adequate amounts of cash to meet our needs came from loans from principal shareholders and common stock sales. Principal shareholders advanced us approximately \$220,000 and we raised approximately \$79,000 through our stock sales. Until we establish profitable operations, our sources of liquidity will continue to be shareholder loans and common stock sales. Our internet service provider operations broke even in fiscal 2004 and 2003 and are not expected to provide operating cash in the foreseeable future.

Financial condition

Current assets

Current assets increased from \$48,590 at June 30, 2003 to \$56,652 at June 30, 2004.

Property and equipment

Property and equipment increased from \$74,861 at June 30, 2003 to \$208,805 at June 30, 2004. Provisions for depreciation in fiscal 2003 and 2004 were \$42,778 and \$43,703, respectively. Net property additions were \$74,861 in fiscal 2003 and \$177,647 in fiscal 2004.

Deferred acquisition costs

Deferred acquisition costs of \$45,277 were capitalized in fiscal 2003. These capitalized costs were the out-of-pocket costs related to our merger negotiations. In fiscal 2004, these capitalized costs were charged to expense when the merger was abandoned.

Goodwill

Goodwill consists of an amount recorded with the acquisition of SkyLynx Communications de Costa Rica in April 2004 (\$69,300); the acquisition of Interim Corporate Resources, LLC in December 2003 (\$252,000); the acquisition of Rover in July 2002 (\$262,500) and the goodwill recorded by Rover with the acquisition of Net Asset in April 2002 (\$117,039). In accordance with Statements of Financial Accounting Standard ("SFAS") No. 142, goodwill is not amortized but is tested for impairment once a year.

Accounts payable, accrued salaries and other accrued liabilities

These amounts represent vendor and employee obligations.

Deferred revenue

Deferred revenue increased from \$39,013 at June 30, 2003 to \$62,962 at June 30, 2004. Deferred revenue represents internet service revenue collected in advance and funds received in advance for AVL operations. Substantially all of this revenue will be recognized in fiscal 2005.

Loan payable to related party

Related party loans increased from \$145,680 at June 30, 2003 to \$247,800 at June 30, 2004 and represents net cash advances received from related parties. In fiscal 2003, related parties advanced approximately \$299,045 to us for operations and the Company repaid approximately \$74,320 with shares of common stock. In fiscal 2004, related parties advanced the Company approximately \$102,120.

Our strategy in the near future is to focus on developing our AVL business.

We have incurred losses since inception and have an accumulated deficit. Without additional infusions of capital, there is substantial doubt about our ability to continue as a going concern. In fiscal 2003, the primary source of working capital has been loans from our principal shareholder, Gary Brown and from, the sale of common stock through private placements. We have no commitment from Mr. Brown to provide future working capital or that the Company will be successful in selling additional shares of its stock.

For the fiscal year ended June 30, 2004, we had a net loss of \$3,575,466 and operating activities was a net user of cash in the amount of \$963,605. Financing activities was a net provider of cash in the amount of \$1,097,565. The largest source of financing activities that provided cash in fiscal 2004 was the sale of common stock. For the fiscal year ended June 30, 2003, we had a net loss of \$870,974 and operating activities was a net user of cash in the amount of

\$232,646. Financing activities was a net provider of cash in the amount of \$299,045. The largest source of financing activities that provided cash in fiscal 2003 were advances from related parties.

As of June 30, 2004, we had no contractual capital commitments outstanding.

In the event that future operating cash flows do not meet all our cash requirements, we will need additional financing. Success in raising additional financing is dependent upon our ability to demonstrate that we can fulfill our business strategy, which is highly speculative. Should we need additional financing through debt or equity placements, there is no assurance that such financing will be available, if at all, at terms acceptable to the Company. If additional funds are raised by the issuance of equity securities, stockholders may experience dilution of their ownership interest and these securities may have rights senior to those of the holders of our common stock. If additional funds are raised by the issuance of debt, we may be subject to certain limitations on our operations, including limitations on the payment of dividends. If adequate funds are not available on acceptable terms, we may be unable to pursue our business strategy, take advantage of acquisition opportunities, develop or enhance services or respond to competitive pressures, any of which could have a materially adverse effect on our business, financial condition and results of operations.

We expect losses from operations and negative cash flow to continue for the foreseeable future. The rate at which these losses will be incurred may increase from current levels. If our revenue does not increase and if our spending levels are not adjusted accordingly, we may not generate sufficient revenue to achieve profitability, which would have a materially adverse effect on our business, financial condition and results of operations.

Our working capital requirements depend on numerous factors. We anticipate incurring additional expenses to increase our infrastructure development. In addition, we will continue to evaluate possible investments in businesses, products and technologies.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 1 to the financial statements. We believe our most critical accounting policies include revenue recognition, accounting for impairment of long-lived assets, and accounting for research and development expenses.

Revenue Recognition

- The Company recognizes revenue when earned, in accordance with American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, *Software Revenue Recognition*, SOP 98-9, *Modification of SOP 97-2 with Respect to Certain Transactions* and SEC Staff Accounting Bulletin 101, *Interpretive Guidance on Revenue Recognition*. Royalties based upon licensees' revenues or usage are recognized as licensees' revenues are earned or usage occurs. Maintenance and subscription revenue is recognized ratably over the contract period. Revenue attributable to significant undelivered elements is recognized over the contract period as elements are delivered. Revenues from fixed-price service contracts and software development contracts requiring significant production, modification, or customization are recognized using the percentage-of-completion method. Revenue from service contracts that are based on time incurred is recognized as work is performed.

Impairment of Long-Lived Assets

- The Company accounts for the impairment of long-lived assets in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Long-lived assets such as intellectual property are recorded at cost and amortized over their estimated useful lives. The Company reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Should the Company determine that a long-lived asset is impaired, an impairment loss is recognized in the amount the carrying amount of the asset exceeds its fair value.

Research and Development Costs

- The Company accounts for research and development costs in accordance with Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*. SFAS No. 86 specifies that costs incurred internally in creating a computer software product should be charged to expense when incurred as research and development until technological feasibility has been established for the product. Once technological feasibility is established, all software costs should be capitalized until the product is available for release to customers. Judgment is required in determining when the technological feasibility of a product is established. The Company has determined that technological feasibility for its products is reached shortly before the products are released. Costs incurred after technological feasibility is established are not material, and accordingly, the Company expenses all research and development costs when incurred.

RECENT ACCOUNTING PRONOUNCEMENTS

The Company has applied the provisions of Statements of Financial Accounting Standards Nos. 141 through 146. Implementation of these statements did not result in a material effect on the Company's financial position or operating results as of June 30, 2003.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. The Interpretation elaborates on the disclosures to be made by sellers or guarantors of products and services, as well as those entities guaranteeing the financial performance of others. The Interpretation further clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are effective on a prospective basis to guarantees issued or modified after December 31, 2002, and the disclosure requirements are effective for financial statements of periods ending after December 15, 2002. The Company believes that its disclosures with regards to these matters are adequate as of June 30, 2003.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure* an amendment of FASB Statement No. 123. This Statement amends FASB No. 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, it amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As of June 30, 2004, the Company continues to follow the intrinsic value method to account for stock-based employee compensation. The additional disclosure requirements of this statement have been included in the Company's financial statements for the year ended June 30, 2004.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). This interpretation explains how to identify variable interest entities and how an enterprise assesses its interest in a variable interest entity to decide whether to consolidate that entity. This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interest that effectively recombines risks that were previously dispersed. This interpretation applies immediately to variable interest entities 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 adoption of FIN 46 did not have a material effect on the Company's financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 is not expected to have a material impact on the Company's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. For financial instruments created before the issuance date of this Statement and still existing at the beginning of the interim period of adoption, transition will be achieved by reporting the cumulative effect of a change in accounting principle by initially measuring the financial instruments at fair value or other measurement attribute required by this Statement. The adoption of SFAS No. 150 is not expected to have a material impact on the Company's financial position or results of operations.

ITEM 7. FINANCIAL STATEMENTS

Financial statements are included herewith.

SKYLYNX COMMUNICATIONS, INC.

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To the Audit Committee of
SkyLynx Communications, Inc.:

We have audited the accompanying consolidated balance sheet of SkyLynx Communications, Inc., a Delaware Corporation and subsidiaries as of June 30, 2004, and the related consolidated statements of operations, shareholders' deficit, and cash flows for the years ended June 30, 2004 and 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board

(United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SkyLynx Communications, Inc. and subsidiaries as of June 30, 2004, and the results of their operations and their cash flows for the years ended June 30, 2004 and 2003 in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations, and has a working capital deficit and net capital deficit at June 30, 2004, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Cordovano & Honeck, P.C.
Denver, Colorado
November 11, 2004

SKYLYNX COMMUNICATIONS, INC.
(Formerly StarCom Wireless Networks, Inc.)
Consolidated Balance Sheet
June 30, 2004

Assets

Current assets:

| | |
|--|--------------|
| Cash | \$ 22,712 |
| Accounts receivable, net of allowance of \$5,598 | 29,345 |
| Employee advances | 925 |
| Prepaid expenses | <u>3,670</u> |
| Total current assets | 56,652 |

Property and equipment, net of accumulated

depreciation of \$104,103 (Note 3) 208,805

Goodwill (Note 1) 700,839

Other assets 14,304

\$ 980,600

Liabilities and Shareholders' Deficit

Current liabilities:

| | |
|---------------------------|------------|
| Accounts payable | \$ 452,284 |
| Accrued salaries | 488,928 |
| Other accrued liabilities | 34,985 |

| | |
|--|------------------|
| Deferred revenues | 62,962 |
| Loan payable to related parties (Note 2) | <u>247,800</u> |
| Total current liabilities | <u>1,286,959</u> |

Commitments (Note 7) -

Shareholders' deficit (Note 4):

| | |
|--|--------------------|
| Preferred stock, \$.0001 par value; 10,000,000 shares authorized, -0- shares issued and outstanding | - |
| Common stock, \$.0001 par value; 100,000,000 shares authorized, 14,671,445 shares issued and outstanding | 1,467 |
| Additional paid-in capital | 4,964,417 |
| Retained deficit | <u>(5,272,243)</u> |
| Total shareholder's equity | <u>(306,359)</u> |
| | <u>\$ 980,600</u> |

See accompanying notes to consolidated financial statements.

SKYLYNX COMMUNICATIONS, INC.
Consolidated Statements of Operations

| | Years Ended | |
|---|--------------------|------------------|
| | <u>June 30,</u> | |
| | <u>2004</u> | <u>2003</u> |
| Internet service revenue | \$ 339,272 | \$ 418,430 |
| Costs of direct Internet service | <u>194,199</u> | <u>232,768</u> |
| Gross profit | <u>145,073</u> | <u>185,662</u> |
| Operating expenses: | | |
| Selling, general and administrative | 1,017,623 | 576,696 |
| Contributed rent (Note 2) | 450 | 1,200 |
| Bad debt (recovery) expense | (16,655) | 195,740 |
| Research & development (Note 1) | 830,226 | - |
| Costs of terminated merger (Note 6) | 49,077 | - |
| Stock-based compensation (Notes 2 and 4): | | |
| Salaries | 541,123 | 37,000 |
| Board services | 403,050 | 75,000 |
| Legal | 213,250 | 11,500 |
| Consulting | <u>674,672</u> | <u>159,500</u> |
| Total operating expenses | <u>3,712,816</u> | <u>1,056,636</u> |
| Loss from operations | <u>(3,567,743)</u> | <u>(870,974)</u> |

| | | |
|--|----------------------|---------------------|
| Interest expense | <u>7,723</u> | <u>-</u> |
| Loss before income taxes | (3,575,466) | (870,974) |
| Income tax provision (Note 5) | <u>-</u> | <u>-</u> |
| Net loss | <u>\$(3,575,466)</u> | <u>\$ (870,974)</u> |
| Basic and diluted loss per share | <u>\$ (0.39)</u> | <u>\$ (0.34)*</u> |
| Weighted average common shares outstanding | <u>9,111,193</u> | <u>2,573,170*</u> |

*Restated for 1:7 reverse common stock split. See Note 4.

See accompanying notes to consolidated financial statements.

SKYLYNX COMMUNICATIONS, INC.
Consolidated Statement of Changes in Shareholders' Equity

| | <u>Common Stock</u> | | Additional | Retained | <u>Total</u> |
|---|---------------------|------------------|----------------|------------------|------------------|
| | <u>Shares</u> | <u>Par Value</u> | <u>Capital</u> | <u>Deficit</u> | |
| Balance, July 1, 2002 | 8,798,356 | 880 | 918,948 | (825,803) | 94,025 |
| 7:1 reverse common stock split (Note 4) | (42,857,033) | (4,286) | 4,286 | - | - |
| Stock-based compensation (Note 2 and 4) | 37,451,644 | 3,745 | 550,271 | - | 554,016 |
| Agreement and Plan of Reorganization completed with Rover Telcom, Inc. (Note 1) | 3,750,000 | 375 | 262,125 | - | 262,500 |
| Common stock sales (Note 4) | 131,749 | 13 | 79,037 | - | 79,050 |
| Rent contributed by an officer (Note 2) | - | - | 1,200 | - | 1,200 |
| Net loss | <u>-</u> | <u>-</u> | <u>-</u> | <u>(870,974)</u> | <u>(870,974)</u> |
| Balance, June 30, 2003 | 7,274,716 | 727 | 1,815,867 | (1,696,777) | 119,817 |
| Stock-based compensation (Note 2 and 4) | 3,676,916 | 368 | 1,831,727 | - | 1,832,095 |
| Common stock issued for acquisition of Interim Corporate Resources (Note 1) | 700,000 | 70 | 251,930 | - | 252,000 |
| Common stock issued for acquisition of of DirectCom S.A (Note 1) | 300,000 | 30 | 69,270 | - | 69,300 |

| | | | | | |
|---|------------|----------|-----------|--------------------|--------------------|
| Common stock sales net of offering costs of \$10,000 (Note 4) | 2,719,813 | 272 | 995,173 | - | 995,445 |
| Rent contributed by an officer (Note 2) | - | - | 450 | - | 450 |
| Net loss | <u>-</u> | <u>-</u> | <u>-</u> | <u>(3,575,466)</u> | <u>(3,575,466)</u> |
| Balance, June 30, 2004 | 14,671,445 | 1,467 | 4,964,417 | (5,272,243) | (306,359) |

See accompanying notes to consolidated financial statements.

SKYLYNX COMMUNICATIONS, INC.
Consolidated Statements of Cash Flows

| | Years Ended | |
|---|------------------|------------------|
| | <u>June 30,</u> | |
| | <u>2004</u> | <u>2003</u> |
| Cash flows from operating activities: | | |
| Net loss | \$ (3,575,466) | \$ (870,974) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 43,703 | 42,778 |
| Common stock issued in exchange for services (Notes 2 and 4) | 887,922 | 283,000 |
| Common stock issued in exchange for salaries and board services (Notes 2 and 4) | 944,173 | - |
| Allowance for bad debts | 5,598 | 8,083 |
| Rent contributed by an officer (Note 2) | 450 | 1,200 |
| Changes in current assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | (8,400) | 30,755 |
| Other assets | (16,074) | 261 |
| Accounts payable | 298,068 | 233,767 |
| Accrued liabilities | 432,472 | - |
| Deferred revenues | <u>23,949</u> | <u>38,484</u> |
| Net cash (used in) provided by operating activities) | <u>(963,605)</u> | <u>(232,646)</u> |
| Cash flows from investing activities: | | |
| Equipment purchases | (177,647) | - |
| Acquisition costs (Note 6) | <u>45,277</u> | <u>(45,277)</u> |
| Net cash used in investing activities | <u>(132,370)</u> | <u>(45,277)</u> |

Cash flows from financing activities:

| | | |
|--|------------------|------------------|
| Proceeds from related party loans (Note 2) | 102,120 | 219,995 |
| Proceeds from issuance of common stock net of offering costs (Note 4) | <u>995,445</u> | <u>79,050</u> |
| Net cash provided by (used in) financing activities | <u>1,097,565</u> | <u>299,045</u> |
| Net change in cash | 1,590 | 21,122 |
| Cash, beginning of year | <u>21,122</u> | <u>-</u> |
| Cash, end of year | <u>\$ 22,712</u> | <u>\$ 21,122</u> |

Supplemental disclosure of cash flow information:

| | | |
|----------------------------|-------------|-------------|
| Cash paid for income taxes | <u>\$ -</u> | <u>\$ -</u> |
| Cash paid for interest | <u>\$ -</u> | <u>\$ -</u> |

See accompanying notes to consolidated financial statements.

SKYLYNX COMMUNICATIONS, INC.
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Organization and Basis of Presentation

SkyLynx Communications, Inc. (the "Company") was incorporated in the state of Colorado on January 21, 1998. In May 2003, the Company completed its redomestication to a corporation formed and organized under the laws of the state of Delaware. The Company was originally engaged in the diversified operations of environmental remediation and recovery of oil and gas properties in Texas and Oklahoma, the development of oil and gas ventures and related interests, and as an Internet service provider and e-business consultant in Hawaii.

Inherent in the Company's business are various risks and uncertainties, including its historical operating losses and dependence upon strategic alliances. The Company's future success will be dependent upon its ability to create and provide effective and competitive automatic vehicle location services and the Company's ability to develop and provide new services that meet customers changing requirements; including the effective use of leading technologies to continue to enhance its current services and to influence and respond to emerging industry standards and other technological changes on a timely and cost-effective basis.

Management plans to seek additional funding through equity offerings and debt financing and ultimately, to achieve profitability.

Name Change

In May 2003, the Company changed its name from Basic Technologies, Inc. to StarCom Wireless Networks, Inc. in anticipation of a potential business combination (see Note 6). In September 2003, the Company changed its name from StarCom Wireless Networks, Inc. to SkyLynx Communications, Inc.

Spin-Off

On December 31, 2001, the Board of Directors and shareholders of the Company formed Founders Industries, Inc. ("Founders") for the purpose of effecting a tax-free reorganization pursuant to the provisions of the Internal Revenue Code, and to transfer all of the assets, liabilities and operations of the Company's subsidiaries to Founders solely in exchange for Founders' stock. Founders issued 8,198,356 shares of its \$.001 par value common stock to the Company. In February 2002, the Company transferred certificates representing the 8,198,356 shares of the Founders stock to the Company's shareholders as a pro rata dividend, such shares to be "restricted securities" under the Securities Act of 1933, as amended. Following this distribution of shares, the original certificate was cancelled.

Business Combinations

On November 28, 2003, SkyLynx Communications, Inc. (the "Company") entered into a definitive Common Stock Purchase Agreement with Gustavo A. Yepes (the "Purchase Agreement") pursuant to which Yepes agreed to transfer and convey to the Company shares representing an aggregate of 75% of the issued and outstanding shares of common stock of DirectCom, S.A., a Costa Rican corporation.

Subsequent to entering into the Purchase Agreement, DirectCom, S.A. undertook reorganization under the terms of a Joint Venture Agreement (the "Joint Venture Agreement") between Yepes, IdNet, S.A., a Costa Rican corporation, and Inversiones Sinalco, S.A. a Costa Rican corporation. Under the Joint Venture Agreement, DirectCom, S.A. reorganized and changed its name to SkyLynx Communications de Costa Rica, S.A. ("SkyLynx Costa Rica") in contemplation of the consummation of the Purchase Agreement pursuant to which the Company would acquire 75% of the issued and outstanding shares of common stock of SkyLynx Costa Rica.

Effective April 30, 2004, the reorganization of SkyLynx Costa Rica was completed and Yepes transferred to the Company shares representing 75% of the issued and outstanding shares of common stock of SkyLynx Costa Rica, thus consummating the Purchase Agreement. In connection therewith, the Company issued to Yepes, in escrow, an aggregate of 300,000 shares of the Company's common stock in consideration of the shares of SkyLynx Costa Rica.

SkyLynx Costa Rica is the legal entity formed to implement the provisions of the Joint Venture Agreement under which the Company acquired 75% of the outstanding shares, IdNet acquired 20% of the outstanding shares and Inversiones Sinalco acquired 5% of the outstanding shares of SkyLynx Costa Rica. Under the terms of the Joint Venture Agreement, SkyLynx Costa Rica has been constructing and deploying a wireless communications network in Costa Rica. As of the date of this Report, the first backbone of the network has been completed and is ready to be commercially deployed.

Effective December 10, 2003, SkyLynx Communications, Inc. (the "Company") consummated an Agreement and Plan of Reorganization dated as of September 1, 2003 (the "Agreement") with Interim Corporate Resources, LLC, a Washington limited liability company ("ICR").

Under the terms of the Agreement, the Company acquired 100% of the issued and outstanding member interests of ICR solely in exchange for an aggregate of 700,000 shares of the Company's common stock. The 700,000 shares of common stock were issued to the members of ICR, pro rata, who were Kevin Gorman, Jon Fatula and Fred Anderson. Messrs. Gorman, Fatula and Anderson are executive officers of the Company. Kevin Gorman currently serves as Chief Operating Officer of the Company; Mr. Fatula serves as Vice President - Information Technology, and Mr. Anderson served as Vice President - Engineering until his resignation in July 2004. Messrs. Gorman, Fatula and Anderson have been employed by the Company since August 2003.

ICR is a consulting company with established clients in the automatic vehicle location ("AVL") industry. ICR's assets consist principally of customer and client relationships, which the Company plans to use in deploying and developing its wireless networks.

On July 1, 2002, the Company entered into an Agreement and Plan of Reorganization whereby the Company acquired 100 percent of the issued and outstanding shares of Rover Telcom Corporation ("Rover") in exchange for 3,750,000 shares (535,714 shares post-split) of the Company's common stock. The results of Rover's operations have included in the accompanying consolidated financials statements since that date. Rover owns and operates an Internet service provider ("ISP") serving the Fresno, California market. Rover had been an affiliated company of the Company's president and a former director. The Company plans to build its future operations in the automatic vehicle location industry.

The aggregate purchase price was \$262,500, consisting of 3,750,000 shares (535,714 shares post-split) of the Company's common stock with a market value of \$.07 per share. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

| July 1, 2002 | |
|---------------------------|--------------------|
| Current assets | \$ 71,003 |
| Property and equipment | 117,639 |
| Other assets | 1,900 |
| Goodwill | <u>117,039</u> |
| Total assets acquired | <u>307,581</u> |
| Current liabilities | (364,653) |
| Long-term debt | <u>-</u> |
| Total liabilities assumed | <u>(364,653)</u> |
| Net liabilities acquired | <u>\$ (57,072)</u> |

Principles of Consolidation

The financial statements for the year ended June 30, 2004 consolidate the activities of SkyLynx Communications, Inc. and its subsidiaries SkyLynx Communications de Costa Rica S.A. and Rover Telcom Corporation. All significant intercompany balances and transactions have been eliminated in consolidation.

The financial statements for the year ended June 30, 2003 consolidate the activities of SkyLynx Communications, Inc. and its wholly-owned subsidiary Rover Telcom Corporation. All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain accounts in the 2003 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less when acquired, to be cash equivalents. The Company had no cash equivalents at June 30, 2004.

Property, Equipment and Depreciation

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which is estimated to be three to five years. Leasehold improvements are depreciated over the shorter of the asset life or lease term. Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the consolidated statements of operations.

Goodwill

Goodwill consists of an amount recorded with the acquisition of SkyLynx Communications de Costa Rica in April 2004 (\$69,300); the acquisition of Interim Corporate Resources, LLC in December 2003 (\$252,000); the acquisition of Rover in July 2002 (\$262,500) and the goodwill recorded by Rover with the acquisition of Net Asset in April 2002 (\$117,039). In accordance with Statements of Financial Accounting Standard ("SFAS") No. 142, goodwill is not amortized but is tested for impairment once a year.

Impairment of Long-Lived Assets

The Company evaluates the carrying value of its long-lived assets under the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Statement No. 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows estimated to be generated by those assets are less than the assets' carrying amount. If such assets are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying value or fair value, less costs to sell.

Income Taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Revenue and Cost Recognition

The Company recognizes revenue ratably as services are provided. Amounts collected prior to the service being provided are reflected as deferred revenue.

Sources of Supplies

The Company relies on third-party networks, local telephone companies and other companies to provide data communications capacity. Although management feels alternative facilities could be found in a timely manner, any disruption of these services could have an adverse effect on operating results.

Loss per Share

Net loss per share-basic excludes dilution and is determined by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the period. Net loss per share-diluted reflects the potential dilution that could occur if securities and other contracts to issue common stock were exercised or converted into common stock. As of June 30, 2004, there were no outstanding common stock equivalents; therefore, net loss per share-basic and net loss per share-diluted were equal at June 30, 2004.

Stock-based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Under APB No. 25, compensation expense is based on the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123.

Financial Instruments and Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base and the relatively minor balances of each individual account. The Company has provided for an allowance for doubtful accounts for the year ended June 30, 2004 based on management's estimate of the collectibility of accounts receivable.

The Company has determined, based on available market information and appropriate valuation methodologies, the fair value of its financial instruments approximates carrying value at June 30, 2004. The carrying amounts of cash, accounts receivable, accounts payable, and other accrued liabilities approximate fair value due to the short-term maturity of the instruments.

Research and Development

All research and development costs are expensed as incurred. During the years ended June 30, 2004 and 2003, the Company expensed \$830,226 and \$-0-, respectively of research and development costs.

Recent Accounting Pronouncements

In June 2003, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement covers restructuring type activities beginning with plans initiated after December 31, 2002. Activities covered by this standard that are entered into after that date will be recorded in accordance with provisions of SFAS No. 146. The adoption of SFAS No. 146 did not have a significant impact on the Company's results of operations or financial position.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123" ("SFAS 148"). SFAS 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, this Statement amends Accounting Principles Board ("APB") Opinion No. 28, "Interim Financial Reporting", to require disclosure about those effects in interim financial information. SFAS 148 is effective for financial statements for fiscal years ending after December 15, 2002. The Company will continue to account for stock-based employee compensation using the intrinsic value method of APB Opinion No. 25, "Accounting for Stock Issued to Employees,"

but has adopted the enhanced disclosure requirements of SFAS 148.

In April 2003, the FASB issued SFAS Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement is effective for contracts entered into or modified after June 30, 2003, except for certain hedging relationships designated after June 30, 2003. Most provisions of this Statement should be applied prospectively. The adoption of this statement did not have a significant impact on the Company's results of operations or financial position.

In May 2003, the FASB issued SFAS Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities, if applicable. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. The adoption of this statement did have a significant impact on the Company's results of operations or financial position.

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45"), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 requires a company, at the time it issues a guarantee, to recognize an initial liability for the fair value of obligations assumed under the guarantees and elaborates on existing disclosure requirements related to guarantees and warranties. The recognition requirements are effective for guarantees issued or modified after December 31, 2002 for initial recognition and initial measurement provisions. The adoption of FIN 45 did not have a significant impact on the Company's results of operations or financial position.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity 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 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The adoption of FIN 46 did not have a significant impact on the Company's results of operations or financial position.

(2) Related Party Transactions

An officer contributed office space to the Company during the years ended June 30, 2004 and 2003. The office space was valued at \$100 per month based on the market rate in the local area and is included in the accompanying consolidated financial statements as contributed rent expense with a corresponding credit to additional paid-in capital. Contributed rent expense is \$450 and \$1,200 for years ended June 30, 2004 and 2003, respectively.

The Company has loan payables due to its officers and director as follows:

| | |
|---|-----------|
| Loans payable to an officer, at interest of 6%, due on demand | \$194,800 |
| Loans payable to an officer, at interest of 8%, due on demand | 5,000 |

| | |
|---|------------------|
| Loans payable to a board member, at interest of 8%, due on demand | <u>48,000</u> |
| | <u>\$247,800</u> |

During the years ended June 30, 2004 and 2003, the Company issued 990,002 shares and 2,900,000 shares (414,286 shares post-split), respectively of its common stock in exchange for current year salaries and bonuses to its officers and employees. The stock issuances were recorded at the market value of the Company's common stock on the transaction date. Stock-based compensation expense of \$345,480 and \$37,000 was recognized in the accompanying consolidated financial statements for the year ended June 30, 2004 and 2003, respectively. In addition, during the year ended June 30, 2004, the Company issued 235,714 shares of its common stock in exchange for accrued salaries and bonuses to two of its employees. The stock issuances were recorded at the market value of the Company's common stock on the transaction date. Stock-based compensation expense of \$195,643 was recognized in the accompanying consolidated financial statements for the year ended June 30, 2004.

During the year ended June 30, 2004 and 2003, the Company issued 725,000 shares and 3,500,000 shares (500,000 shares post-split), respectively of its common stock to compensate members of the board of directors for their services as directors. The stock issuances were recorded at the market value of the Company's common stock on the transaction date. Stock-based compensation expense of \$403,050 and \$75,000 were recognized in the accompanying consolidated financial statements for the years ended June 30, 2004 and 2003, respectively.

(3) Property and Equipment

Property and equipment consisted of the following at June 30, 2004:

| | |
|-----------------------------------|-------------------|
| Broadband equipment in Costa Rica | \$ 149,410 |
| Computers and shop equipment | 22,443 |
| ISP equipment | 128,333 |
| Leasehold improvements | 2,220 |
| Software | <u>10,742</u> |
| | 313,148 |
| Less: accumulated depreciation | <u>(104,343)</u> |
| | <u>\$ 208,805</u> |

Depreciation expense totaled \$43,703 and \$42,778 for the years ended June 30, 2004 and 2003, respectively

(4) Capital Stock

Preferred Stock

The Board of Directors is authorized to issue shares of preferred stock in series and to fix the number of shares in such series as well as the designation, relative rights, powers, preferences, restrictions, and limitations of all such series. The Company had no preferred shares issued and outstanding at June 30, 2004.

Common Stock Issuances

During the years ended June 30, 2004 and 2003, the Company issued 425,000 shares and 450,000 (64,286 shares post-split), respectively of its common stock to its attorneys in exchange for legal services. The stock issuances were recorded at the market value of the Company's common stock on the transaction date. Stock-based compensation expense of \$213,250 and \$11,500 were recognized in the accompanying consolidated financial statements for the year ended June 30, 2004 and 2003.

During the year ended June 30, 2004 and 2003, the Company issued 1,302,200 shares and 3,500,000 shares (500,000 shares post-split), respectively of its common stock in exchange for merger, technology, lobbying and other consulting services. Stock issuances were recorded at the market value of the Company's common stock on the transaction date. Stock-based compensation expense of \$674,672 and \$159,500 were recognized in the accompanying consolidated financial statements for the year ended June 30, 2004 and 2003.

During the year ended June 30, 2003, the Company sold 131,749 post-split shares of its common stock to unrelated third parties for gross proceeds totaling \$79,050 (\$.60/share).

Private Placement Memorandum dated August 31, 2003

In September 2003, the Company offered units consisting of 8 percent convertible promissory notes and common stock purchase warrants. Each note was convertible into shares of the Company's common stock at a price equal to the quoted market price on the day of sale less a discount of 30 percent. One warrant was offered for every two dollars in principal denomination of note purchased. Each warrant entitled the holder to purchase one share of the Company's common stock at \$3.00 per share for a period of two years. The Company closed the offering in February 2004 after selling 978,063 units for net proceeds of \$873,645 after deducting \$5,000 in offering costs. Each promissory note sold was immediately converted into shares of common stock. Accordingly, the transaction was accounted for as a sale of common stock. As of June 30, 2004, there are 436,823 warrants outstanding that expire through 2006.

Private Placement Memorandum dated May 8, 2003

<R>
 In May 2003, the Company offered for sale warrants to purchase up to 1,000,000 shares of its common stock for \$.01 per warrant. Each warrant entitled the holder to purchase one share of common stock at \$0.60 per share. The Company closed the offering in October 2003, after selling 211,333 warrants for net proceeds of \$121,800, after deducting \$5,000 in offering costs. All warrants sold were immediately exercised. All of the foregoing issuances of the Company's securities were undertaken without registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon an exemption from the registration requirements of the Securities Act contained in Section 4(2) and Regulation D, Rule 506 thereunder. In each instance, the investor qualified as an "accredited investor" within the meaning of Rule 501(a) of Regulation D, the securities were taken for investment purposes and were subject to appropriate restrictions on transfer.

</R>

Common Stock Split

On May 7, 2003, the Company completed a 1 for 7 reverse split of its common stock for shareholders of record on April 17, 2003. The stock split decreased the number of common shares outstanding from 50,000,000 to 7,142,967 on that date.

(5) Income Taxes

A reconciliation of the U.S. statutory federal income tax rate to the effective tax rate is as follows:

| | Year Ended | |
|---------------------------------------|-----------------|-------------|
| | <u>June 30,</u> | |
| | <u>2004</u> | <u>2003</u> |
| U.S. federal statutory graduated rate | 34.00% | 34.00% |
| State income tax rate, | | |

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| | | |
|--|----------------|----------------|
| net of federal benefit | 5.83% | 5.83% |
| Contributed rent | -0.01% | -0.05% |
| Net operating loss for which no tax benefit is currently available | <u>-39.82%</u> | <u>-39.78%</u> |
| | <u>0.00%</u> | <u>0.00%</u> |

At June 30, 2004, deferred tax assets consisted of a net tax asset of \$2,097,714, due to operating loss carryforwards of \$5,277,493, which was fully allowed for, in the valuation allowance of \$2,097,714. The valuation allowance offsets the net deferred tax asset for which there is no assurance of recovery. The change in the valuation allowance for the years ended June 30, 2004 and 2003 totaled \$1,426,835 and \$346,469, respectively. The current tax benefit also totaled \$1,426,835 and \$346,469 for the years ended June 30, 2004 and 2003, respectively. The net operating loss carryforward expires through the year 2024.

The valuation allowance will be evaluated at the end of each year, considering positive and negative evidence about whether the deferred tax asset will be realized. At that time, the allowance will either be increased or reduced; reduction could result in the complete elimination of the allowance if positive evidence indicates that the value of the deferred tax assets is no longer impaired and the allowance is no longer required.

Should the Company undergo an ownership change as defined in Section 382 of the Internal Revenue Code, the Company's tax net operating loss carryforwards generated prior to the ownership change will be subject to an annual limitation, which could reduce or defer the utilization of these losses.

(6) Letter of Intent

On April 18, 2003, the Company entered into a Letter of Intent ("LOI") with StarCom Wireless Networks, Inc. ("StarCom"). StarCom operates a wireless data network with real-time monitoring capabilities of mobile and fixed assets primarily in the northwestern United States. Under the terms of the LOI, the Company would acquire all of the issued and outstanding common stock of StarCom in exchange for shares of the Company's common stock that would equal 50 percent of the total issued and outstanding common stock immediately following the exchange. The transaction was terminated without completion.

As part of its due diligence related to the potential StarCom transaction, the Company incurred legal, accounting, travel and other expenses totaling \$45,277. These costs were written off as an expense to the Company's operations during the year ended June 30, 2004, as the acquisition was not successful. In addition, the Company advanced StarCom \$60,000 and paid expenses on behalf of StarCom totaling \$15,047. These expenditures, totaling \$75,047, have been recorded as an advance to the merger candidate; however because StarCom filed for bankruptcy reorganization, an allowance equal to 100 percent of the receivable has been established to offset the entire receivable.

(7) Commitments and Contingencies

The Company and its subsidiaries lease office space and rooftops under a non-cancelable operating leases. Future minimum rental payments under the lease are as follows:

| | |
|-----------------|---------------|
| <u>June 30,</u> | |
| 2005 | \$ 110,616 |
| 2006 | 87,466 |
| 2007 | 80,895 |
| 2008 | 18,420 |
| 2009 | <u>15,385</u> |

\$ 312,782

Rent expense for the years ended June 30, 2004 and 2003 totaled \$69,810 and \$17,256, respectively.

The Company is a defendant in a lawsuit that asks for damages of \$150,000 that involves a contract dispute. The Company has filed a counterclaim. The Claimant has subsequently entered into Chapter 7 proceedings in the U.S. Bankruptcy Court. The U.S. Trustee has opened negotiations to settle this matter, however, no settlement has been reached. No amount has been reserved in the accompanying consolidated financial statements.

During the year ended June 30, 2004, the Company entered into employment agreements with three prospective employees whereby the Company agreed to pay certain pre-employment contingencies, the amounts of which were to be determined at a future date. The pertinent terms and conditions of these employment agreements have not yet been finalized; therefore no compensation expense has been accrued or recognized in the accompanying consolidated financial statements.

(8) Subsequent Events

In October 2004, the Company obtained a short-term loan for \$500,000 for working capital needs, which is personally secured and guaranteed by certain officers and directors of the Company. Interest is at 12% percent. The loan matures on October 4, 2005.

Subsequent to June 30, 2004, 1,954,716 shares of common stock were issued for stock sales and as compensation to officers, employees and new board members of the Company.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

During our two most recent fiscal years and any later interim period, we did not dismiss our principal independent accountant. Our principal accountant was the principal accountant of all significant subsidiaries. There have been no disagreements with our accountants on accounting and financial disclosure matters.

ITEM 8A. CONTROLS AND PROCEDURES

Gary Brown, Chief Executive Officer and Daniel J. Sullivan, Chief Financial Officer of the Company have established and are currently maintaining disclosure controls and procedures for the Company. The disclosure controls and procedures have been designed to ensure that material information relating to the Company is made known to them as soon as it is known by others within the Company.

Our Chief Executive Officer and Chief Financial Officer conduct an update and a review and evaluation of the effectiveness of the Company's disclosure controls and procedures and have concluded, based on their evaluation within 90 days of the filing of this Report, that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(

a) OF THE EXCHANGE ACT

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Our executive officers, key employees and outside Directors and their respective ages and positions are set forth below:

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|----------------------|------------|--|
| Gary L. Brown | 55 | President, Chief Executive Officer, Director |
| Kenneth L. Marshall | 63 | Secretary and General Counsel |
| Stephen L. Rogers | 60 | Director |
| Kevin Gorman | 51 | Chief Operating Officer, Director |
| Daniel J Sullivan | 49 | Chief Financial Officer |
| Alfredo Chang | 31 | Director |
| Jon Fatula | 52 | Vice President - Information Technology |
| Gustavo Yepes | 44 | Vice President -Latin American Operations |
| Robert Weiss | 54 | Director |
| Joseph P. Williamson | 44 | Vice President -Operations |

Gary L. Brown age 55, CEO, Board Member

- Prior to BTEC, Mr. Brown was Chairman of the Board and founder of LineShark Communications, Inc. a regional Internet Service Provider. Mr. Brown was an original founder of SkyLynx Communications, Inc. based in Denver, CO and served as its Chairman of the Board, President and CEO for over two years. SkyLynx Communications is an Internet service provider embarking on a rapid acquisition strategy similar to LineShark concentrating on the Pacific Rim region of the country. Mr. Brown resigned his position at SkyLynx to devote his full time to LineShark. Within two years following Mr. Brown's resignation as an officer and director of LineShark, LineShark filed a voluntary petition in bankruptcy. In addition, Mr. Brown served as a director of Cable Corporation of America, Inc., at the request of the Bankruptcy Court, during the period that it was subject to a voluntary petition in bankruptcy under Chapter 11 of the United States Bankruptcy Code. Mr. Brown had been in the securities industry since 1973 as a registered securities principal in both Colorado and Florida. He has vast experience in the capital formation and establishing of publicly traded companies as well as mergers and acquisitions. Mr. Brown took SkyLynx from inception to over a \$300 million capitalization and set in place commitments to fund the future growth and expansion of the company. Mr. Brown attended Central Missouri State University from 1967 to 1972.

Kenneth L. Marshall age 63, Secretary and General Counsel-

Mr. Marshall has been a member of the Florida Bar since 1972. He served as Secretary and General Counsel for SkyLynx and LineShark Communications, Inc. Within two years following his resignation as Secretary and General Counsel of LineShark Communications, Inc., that company filed a voluntary petition in bankruptcy. His area of

practice is commercial law. He holds a J.D. degree from The Washington College of Law, The American University and a B. S. in Business Management from Florida Atlantic University.

Stephen L. Rogers

, **age 60, Board Member**, has more than 30 years of senior management experience in the broadcast television industry. He served as the President and CEO of WEDU, Tampa, Fla., one of the most-viewed public television stations in the nation. He has been recognized both locally and nationally for his leadership, technical expertise and business acumen, most recently with the prestigious 21st Century Award by America's Public Television Stations and as TV Station Manager of The Year by Tampa Bay Magazine. Mr. Rogers served as Chairman of the Board of the Florida Public Broadcasting Service for two years and a board member for ten years. He has also been a member of the board of directors of the Florida Association of Broadcasters for four years. He also served on numerous committees in Washington, D.C. assisting congressional staff in the drafting of public broadcasting legislation addressing new technologies.

Kevin Gorman, age 51, Chief Operating Officer and Director,

joined the Company in August, 2003 and became a director in September 2004. He was President and Chief Operating Officer of StarCom Wireless, USA, LLC from June 2001 until July, 2003, a provider of a wireless 2-way data communications network. From April 2000 until October 2000, he was President and COO of Tidemark Solutions, a developer of e-government transaction based hosted web services. From 1999 to 2000, he was President, Internet Security Unit North America for Aladdin Knowledge Systems, an Israeli internet security company. From 1987 to 1999, he was President and COO of IntegraTRAK, Inc., a telemangement software company. Mr. Gorman holds a B.A. degree from St. Thomas University and a Master of Science Telecommunications degree from St. Mary's College in Minnesota.

Daniel J. Sullivan, age 48, Chief Financial Officer, joined the Company in November, 2003. Prior to joining the Company, Mr. Sullivan was chief financial officer of Selective HR Solutions, Inc., a subsidiary of Selective Insurance Group, from November 1997 until October 2003. Previously, he served as Chief Financial Officer for Stacey's Buffet, Inc., publicly-held restaurant chain from November 1995 until November 1997. From February 1994 through November 1995 Mr. Sullivan was chief financial officer of Quality Products, Inc., a publicly-held manufacturing and steel service company. Mr. Sullivan was chief financial officer of a privately owned industrial and medical gas distributor from March 1993 through February 1994. From April 1990 through March 1993, Mr. Sullivan was chief financial officer of the trailer manufacturing division of Oshkosh Truck Corporation. Additionally, Mr. Sullivan is a Certified Public Accountant and spent six years in the audit department at KPMG where he left as Senior Manager in 1986. Mr. Sullivan has a BS Degree in Business Administration (Accounting) from San Diego State University (1980).

Alfredo Chang, age 31, Board Member, joined the board of directors in February 2004. Since November 2003, he has been Vice President, High Grade and Emerging Markets Portfolio Manager for GE Asset Management. From January 2002 to November 2003, he was Vice President, Portfolio Manager for GE Asset Management. From August 2000 to January 2002, he served as an Assistant Portfolio Manager for GE Financial Assurance. From April 1996 until August 2000, he held the positions of Regional Investment Officer and Portfolio Manager with AIG Global Investment Corp. in New York. Between 1993 and 1996, he held positions with Bankers Trust, Salomon Brothers and Merrill Lynch. Mr. Chang has a BS in Business from the University of Florida, 1993. He is a member of the New York Society of Security Analysts; the Association of Investment Management and Research, and the GE Asian Pacific American Network.

Robert Weiss, age 54, became a director in September 2004. Mr. Weiss is co-founder of Black Knight Ventures, Inc., an investment banking company focused on early stage transactions. Prior to that, he was president of Atlantic American Partners, a merchant banking group formed by Communications Equity Associates. He has an extensive

background in institutional investing, having served in investment banking at Paine Webber, COO for Zurich Kemper, head of marketing at Weiss, Peck & Greer, and a consultant at SEI. His fund experience includes working with accelerators at The University City Science Center and Philadelphia Port of Technology, as well as working with multiple SBIC's. Mr. Weiss earned a BS from The United States Military Academy at West Point, and an MBA from Boston University. He has served on the Investment Committee for The Association of Graduates at West Point and is on the board of the Tampa Bay Alumni Chapter of West Point. In addition to his association with SkyLynx Communications, Inc., he sits on the Board of Directors of BioVest, Inc.

Jon Fatula, age 52, Vice President-Information Technology,

joined the Company in August 2003. From March 1996 until March 2003, he served as Vice President, Software Development for StarCom Wireless, Inc. From September 1992 until February 1996, he was Vice President - Technology for Media Logic, Inc. Previously, he was a Program Manager at MicroSoft Corp. Mr. Fatula attended Yale University as an undergraduate and has a BA Degree, Magna Cum Laude from Geneva College (1975).

Gustavo Yepes, age 44, Vice President - Latin American Operations, joined the Company in December 2003. With over 18 years of experience in software development and wireless data communications, he served as the President and Chief Executive Officer for Infotech now MobileTec International Inc., from December 1990 until June 2003 a technical business dedicated to designing, building and integrating solutions for the commercial and public safety industries. From January 1987 to November 1989 he worked with IBM in conversions and migrations strategies to the IBM system AS/400 and applications software design and implementation for the AS400 platform. He also worked as a consultant in the private industry performing systems analysis and applications development. He attended Kean College from 1977 to 1981 and majored in Computer Science. Mr. Yepes has also attended many professional computer related seminars and computer technical schools where he has received certifications in software systems design, specialized software programming and training on the IBM systems AS/400 and Risc/6000 at IBM.

Joseph A. Williamson, age 44, Vice President - Operations, joined the Company in January 2004. From November 2002 to December 2003, he was a consultant to the Company. From January 2000 to June 2001, he was Vice President Engineering for Metropolitan Area Networks, Inc., where he led the development of a wireless broadband network using excess DTV spectrum. From May 1998 to the present, he has served as President of Total Video Service, Inc. Mr. Williamson holds a BS in Electrical Engineering from the University of Florida (1985).

All directors serve for terms of one year each or until their successors are elected and qualified, and are subject to re-election at the Company's regular annual meeting of shareholders, unless they earlier resign.

No family relationship exists between any director or executive officer.

There are no material proceedings to which any director, officer or affiliate of the Company, any owner of record or beneficially of more than five percent (5%) of any class of voting securities of the Company, or any associate of any such director, officer, affiliate of the Company, or security holder is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries.

Except as set forth above with respect to Messrs. Brown and Marshall, during the last five (5) years no director or officer of the Company has:

- a. had any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- b. been convicted in a criminal proceeding or subject to a pending criminal proceeding;

- c. been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or
- d. been found by a court of competent jurisdiction in a civil action, the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

Any transactions between the Company and its officers, directors, principal shareholders or other affiliates have been and will be on terms no less favorable to the Company than the Board of Directors believes could be obtained from unaffiliated third parties on an arms-length basis and will be approved by a majority of the Company's independent outside disinterested directors.

Meetings and Committees of the Board of Directors

a. Meetings of the Board of Directors

During the fiscal year ended June 30, 2004, the Board of Directors held two meetings, including regularly scheduled and special meetings, and undertook five separate actions by unanimous written consent. All meetings were attended by all directors, either in person or by telephonic conference.

Mr. Jesson was elected to the Board of Directors in August 2003 and resigned in September 2004. Mr. Chang was elected to the Board of Directors in January 2004. Messrs. Weiss and Gorman were elected to the Board of Directors in September 2004.

Outside directors are reimbursed their expenses associated with attendance at such meetings or otherwise incurred in connection with the discharge of their duties as directors. Directors receive no additional compensation for their service as directors. However, directors who also serve in a consultation capacity with the Company have received compensation in the form of shares of our common stock.

Mr. Jesson received a grant of 142,858 shares of restricted common stock, Mr. Rogers received an aggregate of 300,000 shares of restricted common stock in consideration of both consulting and director services, Mr. Chang has received an aggregate of 425,000 shares of restricted common stock in consideration of both consulting and director services and Mr. Weiss received 250,000 shares of restricted common stock upon being elected to the Board. Mr. Gorman waived his right to receive a stock grant at the time that he was elected to serve as a director.

b. Committees

The board appoints committees to help carry out its duties. In particular, board committees work on key issues in greater detail than would be possible at full board meetings. Each committee reviews the results of its meetings with the full board.

During the fiscal year ended June 30, 2004, the Board did have an Audit Committee and, Compensation Committee, but did not have a standing Nomination Committee or any other standing committees. The Board of Directors as a whole served the functions of a nomination committee.

Audit Committee

The audit committee is currently composed of the following directors:

Robert Weiss
Stephen Rogers

The Board of Directors has determined that Messrs. Weiss and Rogers are "independent" within the meaning of the National Association of Securities Dealers, Inc.'s listing standards. For this purpose, an audit committee member is deemed to be independent if he does not possess any vested interests related to those of management and does not have any financial, family or other material personal ties to management.

The Board of Directors has determined that none of the members of the audit committee qualify as an "audit committee financial expert" within the meaning of Item 401(e)(2) of Regulation SB. The audit committee lacks an audit committee financial expert due principally to its historical lack of funds necessary to compensate such a person.

The audit committee did not meet during fiscal 2004. The committee is responsible for accounting and internal control matters. The audit committee:

- reviews with management, the internal auditors and the independent auditors policies and procedures with respect to internal controls;
- reviews significant accounting matters;
- approves the audited financial statements prior to public distribution;
- approves any significant changes in accounting principles or financial reporting practices;
- reviews independent auditor services; and
- recommends to the board of directors the firm of independent auditors to audit our consolidated financial statements.

In addition to its regular activities, the committee is available to meet on all of the independent accountants, controller or internal auditor whenever a special situation arises.

Audit Committee Report

The audit committee of the board of directors has:

1. reviewed and discussed the Company's audited financial statements for the fiscal year ended June 30, 2004 with management and representatives of Cordovano & Honeck, P.C. (C&H);
2. discussed with C&H the matters required to be discussed by SAS 61, as modified or supplemented; and
3. received the written disclosures and letter from C&H required by Independence Standards Board Standard No. 1 and discussed C&H's independence with representatives of C&H.

Based on the review and discussions referred to above, the audit committee recommends to the board of directors that the audited financial statements for the fiscal year ended June 30, 2004 be included in the Company's annual report on Form 10-KSB filed with the Securities and Exchange Commission.

The Audit Committee

Robert Weiss

Stephen Rogers

Compensation Advisory Committee

The compensation advisory committee is currently composed of the following directors:

Alfredo Chang
Stephen Rogers
Gary Brown (ex officio)

Our chief executive officer, Gary Brown, serves as an ex officio member of the compensation advisory committee. The compensation advisory committee did not meet during fiscal 2004. The compensation advisory committee:

- recommends to the board of directors the compensation and cash bonus opportunities based on the achievement of objectives set by the compensation advisory committee with respect to our chairman of the board and president, our chief executive officer and the other executive officers;
- administers our compensation plans for the same executives;
- determines equity compensation for all employees;
- reviews and approves the cash compensation and bonus objectives for the executive officers; and
- reviews various matters relating to employee compensation and benefits.

Nomination Process

The Board of Directors has not appointed a standing nomination committee and does not intend to do so during the current year. The process of determining director nominees has been addressed by the board as a whole, which consists of four members. The board has not adopted a charter to govern the director nomination process.

Of the currently serving five directors, Messrs. Weiss, Rogers and Chang would each be deemed to be independent within the meaning of the National Association of Securities Dealers, Inc.'s listing standards. For this purpose, a director is deemed to be independent if he does not possess any vested interests related to those of management and does not have any financial, family or other material personal ties to management.

The board of directors has not adopted a policy with regard to the consideration of any director candidates recommended by security holders, since to date the board has not received from any security holder a director nominee recommendation. The board of directors will consider candidates recommended by security holders in the future. Security holders wishing to recommend a director nominee for consideration should contact Mr. Daniel Sullivan, Chief Financial Officer, at the Company's principal executive offices located in Sarasota, Florida, and provide to Mr. Sullivan, in writing, the recommended director nominee's professional resume covering all activities during the past five years, the information required by Item 401 of Regulation SB, and a statement of the reasons why the security holder is making the recommendation. Such recommendation must be received by the Company before September 30 following the most recently completed fiscal year.

The board of directors believes that any director nominee must possess significant experience in business and/or financial matters as well as a particular interest in the Company's activities.

All director nominees identified in this proxy statement were recommended by our President and unanimously approved by the board of directors.

Shareholder Communications

Any shareholder of the Company wishing to communicate to the board of directors may do so by sending written communication to the board of directors to the attention of Mr. Daniel Sullivan, Chief Financial Officer, at the principal executive offices of the Company. The board of directors will consider any such written communication at its next regularly scheduled meeting.

Any transactions between the Company and its officers, directors, principal shareholders, or other affiliates have been and will be on terms no less favorable to the Company than could be obtained from unaffiliated third parties on an arms-length basis and will be approved by a majority of the Company's independent, outside disinterested directors.

Code of Ethics

Our Board of Directors has adopted a Code of Business Conduct and Ethics for all of our directors, officers and employees subsequent to the fiscal year ended June 30, 2004. We will provide to any person without charge, upon request, a copy of our Code of Business Conduct and Ethics. Such request should be made in writing and address to Investor Relations, SkyLynx Communications, Inc., 500 John Ringling Blvd., Sarasota, Florida 34236. Further, our Code of Business Conduct and Ethics is being filed herewith as an exhibit to this Annual Report on Form 10-KSB.

Section 16(a) Compliance

Under the securities laws of the United States, the Company's directors, its executive officers and any persons holding more than 10% of the Company's common stock are required to report their ownership of the Company's common stock and any changes in that ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established and the Company is required to report any failure to file by these dates during fiscal 2003 and fiscal 2004. In making this report, the Company has relied on the written representations of its directors and officers or copies of the reports that they have filed with the Commission. Based upon the foregoing, Mr. Brown failed to file in a timely fashion three reports covering five transactions; Ken Marshall failed to file in a timely fashion one report covering four transactions; Steve Rogers failed to file in a timely fashion one report covering one transaction; Gustavo Yepes failed to file in a timely fashion two reports covering 17 transactions; Dan Sullivan failed to file in a timely fashion one report covering one transaction; Alfredo Chang failed to file in a timely fashion two reports covering two transactions; Kevin Gorman failed to file in a timely fashion three reports covering three transactions; and Robert Weiss failed to file in a timely fashion one report covering one transaction.

ITEM 10. EXECUTIVE COMPENSATION.

The following table and discussions summarizes all compensation earned by or paid to our Chief Executive Officer ("CEO") and the other most highly compensated executive officers for all services rendered in all capacities to us and our subsidiaries for each of our last three fiscal years. However, no disclosure has been made for any executive officer, other than the CEO, whose total annual salary and bonus is less than \$100,000.

TABLE 1
SUMMARY COMPENSATION TABLE

| Name and Principal <u>Position</u> | <u>Fiscal</u> | Annual Compensation | | Long Term Compensation |
|--|---------------|--------------------------|---|---------------------------------|
| | | <u>Salary(\$)</u> | <u>Other Annual Compensation (\$)⁽¹⁾</u> | <u>Options SARs (#)</u> |
| Gary L. Brown, CEO and President | 2004 | \$150,000 ⁽²⁾ | \$-0- | -0- |
| | 2003 | \$75,000 ⁽²⁾ | \$-0- | -0- |
| | 2002 | \$-0- | \$-0- | -0- |
| Kevin Gorman, Chief Operating Officer | 2004 | \$155,417 ⁽³⁾ | \$-0- | -0- |
| | 2003 | \$-0- | \$-0- | -0- |
| | 2002 | \$-0- | \$-0- | -0- |
| Jon Fatula, Vice President | 2004 | \$119,167 ⁽³⁾ | \$-0- | -0- |
| | 2003 | \$-0- | \$-0- | -0- |
| | 2002 | \$-0- | \$-0- | -0- |
| Fred Anderson, Vice President | 2004 | \$119,167 ⁽³⁾ | \$-0- | -0- |
| | 2003 | \$-0- | \$-0- | -0- |
| | 2002 | \$-0- | \$-0- | -0- |

- No executive officer will receive perquisites and other personal benefits, which, in the aggregate, exceeded the lesser of either \$50,000 or 10% of the total of annual salary and bonus paid during a fiscal year.
- Messrs. Brown and Marshall have been accruing salary since January 1, 2003 at the above-stated rate, due to the Company's lack of funds.
- Messrs. Gorman, Fatula and Anderson began receiving salary effective August 1, 2003.

Company Equity Incentive Plan

In 2004, the Board of Directors and the Shareholders of the Company approved amendments to the 2003 Equity Incentive Plan (the "Incentive Plan"), increasing the number of shares authorized to be issued under the Plan by an additional 2,500,000 shares. The Incentive Plan allows the Company to grant incentive stock options non-qualified stock options and/or stock purchase rights and stock bonus awards (collectively "Rights") to officers, employees, former employees and consultants of the Company and its subsidiaries. Options granted to eligible participants may take the form of Incentive Stock Options ("ISO's") under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") or options which do not qualify as ISO's ("Non-Qualified Stock Options" or "NQSO's"). As required by Section 422 of the Code, the aggregate fair market value (as defined by the Incentive Plan) of the Company's Common Stock (determined as of the date of grant of ISO) with respect to which ISO's granted to an employee are exercisable for the first time in any calendar year may not exceed \$100,000. The foregoing limitation does not apply to NQSO's. Rights to purchase shares of the Company's Common Stock may also be offered under the Incentive Plan at a purchase price under terms determined by the Incentive Plan Administrator.

Either the Board of Directors (provided that a majority of Directors are "disinterested" can administer the Incentive Plan, or the Board of Directors may designate a committee comprised of Directors meeting certain requirements to administer the Incentive Plan. The Administrator will decide when and to whom to make grants, the number of shares to be covered by the grants, the vesting schedule, the type of awards and the terms and provisions relating to the exercise of the awards.

An aggregate of 1,240,457 shares of the Company's Common Stock have been issued under the Incentive Plan and an additional 2,500,000 shares are reserved for future issuance. As of the date of this report, there are no options

or other awards outstanding under the Plan.

Table 2
Option/SAR Grants in Last Fiscal Year
Individual Grants

| <u>Name</u> | <u>Options/SARs Granted (#)</u> | <u>% of Total Options/SARs Granted to Employees in Fiscal Year</u> | <u>Exercise or Base Price (\$/Sh)</u> | <u>Expiration Date</u> |
|--------------------|--|---|--|-------------------------------|
| Gary L. Brown | 0 | 0 | N/A | N/A |
| Kevin Gorman | 0 | 0 | N/A | N/A |
| Jon Fatula | 0 | 0 | N/A | N/A |
| Fred Anderson | 0 | 0 | N/A | N/A |

The following table sets forth certain information concerning the number and value of unexercised options held by each of the Named Executive Officers at June 30, 2004.

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Table 3
Aggregated Options/Sar Exercised In Last Fiscal Year
And Fy-End Option/Sar Values

| <u>Name</u> | <u>Shares Acquired on Exercise</u> | <u>Value Realized (\$)</u> | <u>Number of Securities Underlying Unexercised Options at <u>06/30/03</u></u> | <u>Value of Unexercised In-the-Money Options at <u>6/30/03</u></u> |
|--------------------|---|---|--|---|
| | | | <u>Exercisable/Unexercisable</u> | <u>Exercisable/Unexercisable</u> |
| Gary L. Brown | 0 | 0 | 0 | 0 |
| Kevin Gorman | 0 | 0 | 0 | 0 |
| Jon Fatula | 0 | 0 | 0 | 0 |
| Fred Anderson | 0 | 0 | 0 | 0 |

Employment agreements

Effective August 1, 2003, we entered into written employment agreements with Kevin Gorman, Jon Fatula and Fred Anderson:

Mr. Gorman's agreement is an "at will" employment contract under which we agreed to pay him a signing bonus of \$22,500 and a base annual salary of \$145,000 per year.

Mr. Fatula's agreement is an "at will" employment contract under which we have agreed to pay him a base salary of \$130,000 per year.

Mr. Anderson's agreement is an "at will" employment contract under which we have agreed to pay him a base salary of \$130,000 per year. Mr. Anderson resigned in August 2004.

Indemnification and limitation on liability of directors

Our Bylaws effectively provide that we shall, to the full extent permitted by the Delaware General Corporation Law ("DGCL"), as amended from time to time, indemnify all persons whom we may indemnify pursuant thereto. In addition, our Articles of Incorporation eliminate personal liability of our Directors to the full extent permitted by the DGCL, as amended from time to time.

The DGCL permits a corporation to indemnify its Directors and officers against expenses (including attorney's fees), judgments, fines and amounts paid in settlements actually and reasonably incurred by them in connection with any action, suit or proceeding brought by a third party if such Directors or officers acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reason to believe their conduct was unlawful. In a derivative action, indemnification may be made only for expenses actually and reasonably incurred by Directors and officers in connection with the defense or settlement of an action or suit and only with respect to a matter as to which they shall have acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interest of the corporation, except that no indemnification shall be made if such person shall have been adjudged liable to the corporation, unless and only to the extent that the court in which the action or suit was brought shall determine upon application that the defendant officers or Directors are reasonably entitled to indemnity for such expenses despite such adjudication of liability.

The DGCL also provides that a corporation may eliminate or limit the personal liability of a Director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a Director, provided that such provision shall not eliminate or limit the liability of a Director (i) for any breach of the Director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for willful or negligent conduct in paying dividends or repurchasing stock out of other than lawfully available funds or (iv) for any transaction from which the Director derived an improper personal benefit. No such provisions shall eliminate or limit the liability of a Director for any act or omission occurring prior to the date when such provision becomes effective.

We intend to obtain Directors' and officers' liability insurance policies covering certain liabilities of persons serving as officers and Directors and providing reimbursement to us for our indemnification of those persons; however, we have not yet done so.

We intend to enter into an Indemnification Agreement with each of our Directors and officers. The Indemnification Agreement will contain provisions that may require us, among other things, to indemnify our Directors and Officers against certain liabilities that may arise by reason of their status or service as Directors or Officers (other than liabilities arising from willful misconduct of a culpable nature) and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified. We believe that such indemnification provisions and agreements are necessary to attract and retain qualified persons as Directors and executive officers.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

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The following table sets forth information with respect to beneficial ownership of our common stock at October 31, 2004 by each person who beneficially owns more than 5% of the common stock; by each of our executive officers named in the Management section; by each of our Directors; and by all executive officers and Directors as a group. Unless otherwise indicated, we believe all persons in the table have sole voting and investment power for all shares beneficially owned by them. ⁽¹⁾

| <u>Name and Address⁽³⁾</u> | <u>Number of Shares</u> | <u>Percent Owned⁽²⁾</u> |
|---|-------------------------|------------------------------------|
| Gary L. Brown | 3,210,236 | 21.9% |
| Kenneth L. Marshall | 817,215 | 5.6% |
| Robert Weiss ⁽⁴⁾ | 370,000 | 2.5% |
| Kevin Gorman | 540,000 | 3.7% |
| Stephen Rogers | 514,287 | 3.5% |
| Alfredo Chang | 425,000 | 2.9% |
| Daniel J. Sullivan | 300,000 | 2.0% |
| Gus Yepes | 300,000 | 2.0% |
| Jon Fatula | 172,501 | 1.2% |
| Joseph P. Williamson IV | 115,000 | 0.8% |
| All Officers and Directors as a Group (10 persons) | 6,764,239 | 46.1% |

(1)

Beneficial ownership is based on information provided to us, and the beneficial owner has no obligation to inform us of or otherwise report any changes in beneficial ownership. Except as indicated, and subject to community property laws when applicable, the persons named in the table above have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

(2)

The percentages shown are calculated based upon 14,671,445 shares of common stock outstanding. In calculating the percentage of ownership, unless as otherwise indicated, all shares of common stock that the identified person or group had the right to acquire within 60 days of the date of this Memorandum upon the exercise of options and warrants or conversion of notes are deemed to be outstanding for the purpose of computing the percentage of shares of common stock owned by such person or group, but are not deemed to be outstanding for the purpose of computing the percentage of the shares of common stock owned by any other person.

(3)

Unless otherwise stated, the beneficial owner's address is 500 John Ringling Blvd., Sarasota, FL 334236.

(4)

Includes 120,000 shares held of record by Black Knight Ventures, Ltd., an investment banking firm controlled by Mr. Weiss and his wife.

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ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Open account cash advances have been made by various shareholders. No promissory notes, interest rates or repayment schedules were set at the time of such advances.

In December 2001, Gary L. Brown, our Chairman, President and CEO, and Steve Jesson, one of our directors, were each issued 142,858 shares of our Common Stock in consideration of their joining our Board of Directors. In August 2002, Mr. Jesson resigned as a director. Effective April 17, 2003, Mr. Jesson was re-elected to serve as a director our Company, and at the time was granted an additional 142,858 shares of our Common Stock.

From December 2001 to April 2003, Mr. Brown made cash advances to the Company totaling approximately \$170,000. Mr. Brown has converted all of those cash advances into shares of our Common Stock at a conversion price of \$.07 per share.

In April 2003, Mr. Brown converted accrued and unpaid compensation in the amount of approximately \$44,000 into shares of our Common Stock at a conversion price of \$.07 per share.

During the year ended June 30, 2002, Mr. Brown was granted an option to purchase 700,000 shares of Common Stock from the Shelton Voting Trust at a price of \$.014 per share. During the year, Mr. Brown assigned options to purchase 142,858 shares of Common Stock each to Robert Francis (through Milford Communications Partners) and Stephen Rogers, as well as options to other persons. In connection with the option exercise, Mr. Brown acquired 220,525 shares of our Common Stock.

In May 2002, Robert D. Francis, a director, acquired 142,858 shares of our Common Stock pursuant to the assignment from Gary L. Brown of an option held by Mr. Brown to purchase shares of Common Stock from the Shelton Voting Trust.

From January 1, 2003 to April 30, 2003, Mr. Francis performed services as a consultant for the Company for which he was paid a consultant's fee of \$6,250 per month. Effective April 30, 2003, Mr. Francis converted accrued compensation in the amount of \$25,000 into shares of our Common Stock at a conversion price of \$.07 per share.

In May 2002, Stephen L. Rogers, a director, acquired 142,858 shares of Common Stock pursuant to an assignment from Gary L. Brown of an option held by Mr. Brown to purchase shares of Common Stock from the Shelton Voting Trust.

From January 1, 2003 through March 31, 2003, Mr. Rogers provided consultant's services for the Company for a consulting fee of \$5,000. Effective April 30, 2003, Mr. Rogers converted that sum into shares of our Common Stock at a conversion price of \$.07 per share.

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Kenneth L. Marshall serves as Secretary and General Counsel to the Company in consideration of \$5,000 per month. In addition, Mr. Marshall has made cash advances to our subsidiary, Rover Telcom Corporation, in the amount of \$23,500. Effective April 30, 2003, Mr. Marshall converted an aggregate of \$48,365 of accrued salary, cash advances and unreimbursed expenses into shares of our Common Stock at a conversion price of \$.07 per share.

In August 2003, we issued 300,000 shares of our Common Stock to our director, Stephen Rogers, in consideration of his consulting services for the Company. We valued the shares of Common Stock at \$.10 per share.

Alfredo Chang, a director, has received an aggregate of 425,000 shares of Common Stock in consideration of his services as a director and consultant.

Robert Weiss, a director, was granted 250,000 shares of Common Stock for his services as a director. In addition, Black Knight Ventures, Ltd., an investment banking firm controlled by Mr. Weiss and his wife, was issued an additional 120,000 shares of Common Stock for investment banking services.

In October 2004, the Company obtained a term loan from a commercial lender in the amount of \$500,000. To obtain the loan, the lender required personal guarantees and collateral enhancement, which was provided by four individuals, three of whom are members of our Board of Directors. In consideration of those guarantees and collateral enhancements, the Company issued 50,000 shares of restricted Common Stock to each Alfredo Chang and Daniel J. Sullivan, a director and Chief Financial Officer, and the Company issued 100,000 shares of restricted Common Stock each to Robert Weiss, a director, and Joseph Roberts, a shareholder.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

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| Exhibit No. | Title |
|-------------|---|
| 2.1 | Letter of Understanding dated December 13, 2001 (Incorporated by reference from Current Report on Form 8-K filed May 15, 2002. |
| 2.2 | Option Agreement dated December 13, 2001 (Incorporate by reference from Current Report on Form 8-K filed May 15, 2002. |
| 2.3 | Agreement and Plan of Reorganization between Rover Telcom Corporation, Shareholders of Rover Telcom Corporation and Basic Technologies, Inc. (Incorporated by reference from Current Report on Form 8-K filed September 9, 2002). |
| 2.4 | Asset Purchase and Lock-Up Agreement by and Between Rover Group, Inc. and Inforum Communications, Inc. (Incorporated by reference from Current Report on Form 8-K Filed September 9, 2002) |

- 2.5 Agreement and Plan of Merger between Basic Technologies, Inc. and StarCom Wireless Networks, Inc. (Incorporated by reference from Current Report on Form 8-K Filed May 7, 2003)
- 2.6 Agreement And Plan Of Reorganization by and Among SkyLynx Communications, Inc. Interim Corporate Resources LLC (Incorporated by reference from Current Report on Form 8-K filed December 23, 2003)
- 3.1. Certificate of Incorporation of StarCom Wireless Networks, Inc. (Incorporated by reference from Current Report on Form 8-K filed May 7, 2003).
- 3.2 ByLaws of StarCom Wireless Networks, Inc. (Incorporated by reference from Current Report on Form 8-K filed May 7, 2003).
- 3.3 Certificate of Amendment to Certificate of Incorporation changing the name of the Company to SkyLynx Communications, Inc. (Incorporated by reference from Current Report on Form 8-K filed September 29, 2003).
- 3.4 Articles of Incorporation of Rover Telcom Corporation (Incorporated by reference from Current Report on Form 8-K filed September 9, 2002).
- 3.5 By-Laws of Rover Telcom Corporation (Incorporated by reference from Current Report on Form 8-K Filed September 9, 2002)
- 9.0 Trust Agreement dated June 15, 2002 (Incorporated by reference from Annual Report on Form 10-KSB dated June 30, 2002 filed on October 15, 2002.
- 10.1 Press Release dated July 17, 2003 Announces Termination Of Letter Of Intent And New Strategic Direction (Incorporated by reference from Current Report on Form 8-K filed July 17,2003)
- 10.2 SkyLynx Communications, Inc. 2002 Equity Incentive Plan (Incorporated by reference from

Registration Statement on Form S-8 filed December 8, 2003)

10.3 Consultation and Securities Compensation Agreement between the Company and Carl Dilley dated November 4, 2003 (Incorporated by reference from Registration Statement on Form S-8 filed December 8, 2003)

10.4 Consultation and Securities Compensation Agreement between the Company and Clifford L. Neuman dated November 4, 2003 (Incorporated by reference from Registration Statement on Form S-8 filed December 8, 2003)

10.5 Common Stock Purchase Agreement between Gus Yepes and SkyLynx Communications, Inc. (Incorporated by reference from Current Report on Form 8-K filed May 14, 2004)

10.6 Joint Venture Agreement between Inversiones Sinalco, S.A., IdNet, S.A., and SkyLynx Communications Inc. . (Incorporated by reference from Current Report on Form 8-K filed May 14, 2004)

10.7 Escrow Agreement between Gus Yepes and SkyLynx Communications, Inc. . (Incorporated by reference from Current Report on Form 8-K filed May 14, 2004)

10.8 AVL Business Brochure (Incorporated by reference from Current Report on Form 8-K filed June 29, 2004)

* 14.1

Code of Ethics

17 Resignation letter From Steven S. Jesson dated September 2, 2004 (Incorporated by reference from Current Report on Form 8-K filed September 3, 2004)

31. Certification

32. Certification pursuant to 18 U.S.C. Section 1350

* Previously filed.

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(b) Reports on Form 8-K

- 1 On May 14, 2004, the Company filed a Current Report on Form 8-K dated April 30, 2004, Item 2. - Acquisition of Assets - reporting the consummation of the Common Stock Purchase Agreement with Gustavo A. Yepes for the purchase of 75% of the issued and outstanding shares of common stock of DirectCom, S.A., a Costa Rican corporation
- 2 On June 29, 2004, the Company filed a Current Report on Form 8-K dated June 29, 2004, Item 5. - Other Events And Required FD Disclosure - a summary of the business and strategic activities of the Company and an update of its plan of operations.
- 3 On July 16, 2004, the Company filed a Current Report on Form 8-K/A-1 dated April 30, 2004, Item 2. - Acquisition of Assets - an update on the Common Stock Purchase Agreement with Gustavo A. Yepes for the purchase of 75% of the issued and outstanding shares of common stock of DirectCom, S.A., a Costa Rican corporation
- 4 On September 3, 2004, the Company filed a Current Report on Form 8-K dated September 3, 2004, Item 5.02. - Departure Of Directors Or Principal Officers; Election Of Directors; Appointment Of Principal Officers - announcing the resignation of a director
- 5 On September 13, 2004, the Company filed a Current Report on Form 8-K dated September 13, 2004, Item 5.02. - Departure Of Directors Or Principal Officers; Election Of Directors; Appointment Of Principal Officers - announcing the election of two directors

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ITEM 14. PRINCIPAL ACCOUNTANTS FEES AND SERVICES

In the last two fiscal years, we have retained Cordovano & Honeck (C&H) as our principal accountants. C&H audited our consolidated financial statements for fiscal 2004 and 2003. We understand the need for our principal accountants to maintain objectivity and independence in their audit of our financial statements. To minimize relationships that could appear to impair the objectivity of our principal accountants, our audit committee has restricted the non-audit services that our principal accountants may provide to us primarily to tax services and audit related services. We are only to obtain non-audit services from our principal accountants when the services offered by our principal accountants are more effective or economical than services available from other service providers, and, to the extent possible, only after competitive bidding. These determinations are among the key practices adopted by the audit committee effective during fiscal 2004. The board has adopted policies and procedures for pre-approving work performed by our principal accountants.

After careful consideration, the Audit Committee of the Board of Directors has determined that payment of the below audit fees is in conformance with the independent status of the Company's principal independent accountants. Before engaging the auditors in additional services, the Audit Committee considers how these services will impact the entire engagement and independence factors.

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The following is an aggregate of fees billed for each of the last two fiscal years for professional services rendered by our principal accountants:

| | <u>2004</u> | <u>2003</u> |
|---|------------------|------------------|
| Audit fees - audit of annual financial statements and review of financial statements included in our quarterly reports, services normally provided by the accountant in connection with statutory and regulatory filings. | \$ 19,409 | \$ 18,955 |
| Audit-related fees - related to the performance of audit or review of financial statements not reported under "audit fees" above | - | - |
| Tax fees - tax compliance, tax advice and tax planning | - | - |
| All other fees - services provided by our principal accountants other than those identified above | <u>11,123</u> | <u>7,875</u> |
| Total fees paid or accrued to our principal accountants | <u>\$ 30,532</u> | <u>\$ 26,830</u> |

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SKYLYNX COMMUNICATIONS, INC.

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Date: December 2, 2004

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By: /s/ Gary L. Brown

Gary L. Brown, Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

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Signature

Title

Date

/s/ Gary L. Brown

Chief Executive Officer and Director
(Principal Executive Officer)

December 2, 2004

Gary L. Brown

/s/ Daniel J Sullivan

Chief Financial Officer
(Principal Financial and
Accounting Officer)

December 2, 2004

Daniel J Sullivan

/s/ Kevin M Gorman

Director

December 2, 2004

Kevin M. Gorman

/s/ Stephen L. Rogers

Director

December 2, 2004

Stephen L. Rogers

/s/ Robert D. Weiss

Director

December 2, 2004

Robert D. Weiss

/s/ Alfredo Chang

Director

December 2, 2004

Alfredo Chang

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