

Edgar Filing: Endavo Media & Communications, Inc. - Form 10QSB

Endavo Media & Communications, Inc.  
Form 10QSB  
November 23, 2004

SECURITIES EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

OR

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

COMMISSION FILE NUMBER 33-119586

ENDAVO MEDIA AND COMMUNICATIONS, INC.  
(Exact name of the registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction  
of incorporation or organization)

87-0642448  
(IRS employer identification number)

50 WEST BROADWAY, SUITE 1100  
SALT LAKE CITY, UTAH 84101  
(Address of principal executive officers)

877-721-9627  
(Registrant's telephone number, including area code)

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X      No\_\_

State the number of shares outstanding of each of the issuer classes of common equity as of November 19, 2004.

|   |                                  |
|---|----------------------------------|
| Common Stock, par value \$.001<br>(Title of each class) | 10,717,983<br>(Number of shares) |
|---|----------------------------------|

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### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Investors are cautioned that certain statements in the Form 10-QSB are forward looking statements that involve risks and uncertainties. Words, such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and "views" are intended to identify forward-looking statements. Such statements are based on current expectations and projections about our business and assumptions made by the management and are no guarantee of future performance. Therefore, actual events and results may differ materially from those expressed or forecasted in the forward looking statements due to risk factors identified in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

ENDAVO MEDIA AND COMMUNICATIONS, INC.  
CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEET  
September 30, 2004  
(unaudited)

| Assets  |    |         |
|---|----|---------|
| -----   |    |         |
| Current assets:   |    |         |
| Cash  | \$ | 21,579  |
| Accounts receivable, net of allowance for<br>doubtful accounts of \$162,242 |    | 79,787  |
| Prepaid expenses  |    | 27,668  |
| Deposits  |    | 26,879  |
|   |    | -----   |
| Total current assets  |    | 155,913 |
| Property and equipment, net   |    | 613,109 |

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|   |              |
|---|--------------|
| Total Assets  | \$ 769,022   |
| -----   |              |
| -----   |              |
| Liabilities and Stockholders' Deficit   |              |
| -----   |              |
| Current liabilities:  |              |
| Accounts payable  | \$ 457,814   |
| Accrued payroll and other liabilities   | 439,130      |
| Unearned revenue  | 359,536      |
| Notes payable including related parties   | 1,698,740    |
|   | -----        |
| Total current liabilities   | 2,955,220    |
| Stockholders' deficit:  |              |
| Preferred stock, \$.001 par value; 1,000,000 shares<br>authorized, no shares issued and outstanding               | -            |
| Common stock, \$.001 par value, voting, 100,000,000 shares<br>authorized, 8,418,837 shares issued and outstanding | 8,419        |
| Additional paid-in capital  | 13,388,312   |
| Deferred compensation   | (1,543,459)  |
| Subscriptions receivable  | (36,432)     |
| Accumulated deficit   | (14,003,038) |
|   | -----        |
| Total stockholders' deficit:  | (2,186,198)  |
|   | -----        |
| Total liabilities and stockholders' deficit   | \$ 769,022   |
|   | -----        |

See accompanying notes to condensed consolidated financial statements

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ENDAVO MEDIA AND COMMUNICATIONS, INC.  
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS

|  | Three Months Ended<br>September 30 |           | Nine Mo<br>Septe |
|--|------------------------------------|-----------|------------------|
|  | 2004                               | 2003      | 2004             |
| -----  |                                    |           |                  |
| Service Revenue                              | \$ 42,509                          | \$ 78,604 | \$ 153,741       |
| Cost of sales                                | 89,806                             | 145,466   | 283,845          |
| Settlement expense                           | 8,589                              | -         | 143,589          |
| Selling, general, and administrative expense | 415,291                            | 1,012,732 | 1,399,885        |
|  | -----                              | -----     | -----            |

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|   |              |                |                |
|---|--------------|----------------|----------------|
| Loss from operations                        | (471,177)    | (1,079,594)    | (1,673,578)    |
| Other income (expense)                      | 913          | -              | 913            |
| Interest expense                            | (177,399)    | (58,628)       | (854,277)      |
|   | -----        | -----          | -----          |
| Loss before benefit for income taxes        | (647,663)    | (1,138,222)    | (2,526,942)    |
| Benefit for income taxes                    | -            | -              | -              |
|   | -----        | -----          | -----          |
| Net loss                                    | \$ (647,663) | \$ (1,138,222) | \$ (2,526,942) |
|   | =====        | =====          | =====          |
| Loss per common share basic and diluted     | \$ (0.39)    | \$ 2.47        | \$ (3.72)      |
|   | =====        | =====          | =====          |
| Weighted average shares - basic and diluted | 1,679,000    | 460,000        | 679,000        |
|   | =====        | =====          | =====          |

See accompanying notes to condensed consolidated financial statements

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ENDAVO MEDIA AND COMMUNICATIONS, INC.  
CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF CASHFLOWS  
For The Nine Months Ended September 30,

|   | 2004           | 2003           |
|---|----------------|----------------|
|   | -----          | -----          |
| Cash flows from operating activities:                                       |                |                |
| Net loss  | \$ (2,526,942) | \$ (3,212,268) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                |                |
| Depreciation and amortization   | 120,459        | 83,631         |
| Equipment used in lawsuit settlement  | 11,554         | -              |
| Stock issued for services   | 81,726         | 451,585        |
| Stock warrants issued for financing costs                                   | -              | 76,000         |
| Amortization of deferred compensation                                       | 111,043        | 230,001        |
| Amortization of unearned revenue  | (38,135)       | -              |
| Stock subscription satisfied with services                                  | -              | 1,356,100      |
| Amortization of discount on long-term debt                                  | 520,744        | 46,814         |
| Bad debt expense  | 20,000         | (8,200)        |
| Decrease (increase) in:   |                |                |
| Accounts receivable   | (31,217)       | (29,551)       |
| Deposits and prepaid expenses   | (21,636)       | (41)           |
| Increase (decrease) in:   |                |                |
| Accounts payable  | 713            | 42,270         |
| Accrued liabilities   | 228,446        | 173,299        |
| Deferred revenue  | 161,162        | 45,780         |
|   | -----          | -----          |

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|   |             |           |
|---|-------------|-----------|
| Net cash used in operating activities                   | (1,362,083) | (744,580) |
| Cash flows used in investing activities-                |             |           |
| Purchase of property and equipment                      | (196,203)   | (92,690)  |
| Cash flows from financing activities:                   |             |           |
| Cash over-draft   |             | 3,472     |
| Proceeds from issuance of common stock                  | 22,001      | 462,390   |
| Proceeds from related party note                        | 3,000       | 103,000   |
| Proceeds on convertible short-term debt                 | 1,412,300   | 197,000   |
| Proceeds on note payable                                | -           | 69,708    |
| Payments on note payable                                | (10,788)    | (17,488)  |
| Payments on related party note                          | (10,831)    | -         |
| Payments on convertible long-term debt                  | -           | (9,022)   |
|   | -----       | -----     |
| Net cash provided by financing activities               | 1,415,682   | 809,060   |
|   | -----       | -----     |
| Net (decrease) increase in cash<br>and cash equivalents | (142,604)   | (28,210)  |
| Cash and cash equivalents at beginning of period        | 164,183     | 28,210    |
|   | -----       | -----     |
| Cash and cash equivalents at end of period              | \$ 21,579   | \$ -      |
|   | =====       | =====     |

See accompanying notes to condensed consolidated financial statements

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ENDAVO MEDIA AND COMMUNICATIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2004

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Name Change and Reverse Stock Split- The Board of Directors voted unanimously to change the corporate name from CeriStar, Inc. to Endavo Media and Communications, Inc. and to issue one for sixteen reverse stock split. Both transactions became effective on September 24, 2004. All references to the Company's common stock in this filing have been adjusted to reflect the reverse stock split.

Basis of Presentation-- The accompanying condensed consolidated financial statements are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial statements.

These condensed financial statements reflect all adjustments (consisting only of

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normal recurring adjustments) that, in the opinion of management, are necessary to present fairly the financial position and results of operations for the periods presented.

Interim results are not necessarily indicative of the operating results to be expected for the full year. These financial statements should be read in conjunction with the company's financial statements and notes thereto for the year ended December 31, 2003 included in the Company's annual report on Form 10-KSB.

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Net Loss Per Common Share-- Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of debt convertible into common stock and outstanding stock options and warrants using the "treasury stock" method. Such common stock equivalents are not included in diluted weighted average shares when their effect is anti-dilutive. The earnings per common share for the three and nine months ended September 30, 2004 and 2003 have been adjusted to give retroactive effect to the one-for-sixteen reverse stock split effective September 24, 2004 as if the reverse stock split had occurred on January 1, 2003.

At September 30, 2004, and 2003 there were outstanding options and warrants to purchase 2,839,702 and 42,827 shares of common stock and debt conversion features to purchase 1,249,111 and 34,113 shares of common stock that were not included in the computation of diluted net loss per common share as their effect would have been anti-dilutive, thereby decreasing the net loss per common share.

Revenue Recognition- Revenue is recognized when a valid contract or purchase order has been executed or received, services have been performed or product has been delivered, the selling price is fixed or determinable, and collectibility is reasonably assured. Sales related to long-term service contracts, which do not meet this criteria, are deferred and are recorded as unearned revenue and recognized ratably over the period of the contract.

Stock-Based Compensation- The Company accounts for stock options granted to employees under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, and has adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation expense is recognized in the financial statements when options granted under those plans have an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. The Company granted no options during the periods ending September 30, 2004 and 2003 to employees.

### NOTE 2-- GOING CONCERN

The Company has a working capital deficit, a stockholders' deficit, and recurring net losses. These factors create substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustment that might be necessary if the Company is unable to continue as a going concern.

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The ability of the Company to continue as a going concern is dependent on the Company generating cash from the sale of its common stock or obtaining debt financing and attaining future profitable operations. Management's plans include selling its equity securities and obtaining debt financing to fund its capital requirements and ongoing operations; however, there can be no assurance the Company will be successful in these efforts.

### NOTE 3 - SHORT-TERM NOTES PAYABLE

Notes payable and convertible notes payable issued during the nine months ended September 30, 2004 consisted of the following:

Convertible notes payable purchased by a funding group totaled \$1,397,300 for the nine months ended September 30, 2004, for total debt to the group of \$2,261,300. During August and September of 2004, \$808,500 of these notes were converted into 2,131,078 shares of the Company's common stock, leaving \$1,452,800 in convertible notes to the group outstanding as of September 30, 2004. The notes are due on demand after 121 days past issuance and bear interest at 18% per year. The notes are convertible into the Company's common stock under a beneficial conversion rate that resulted in the notes being initially discounted in 2004 by \$340,700 of which approximately \$43,500 is unamortized at September 30, 2004. The total discount and beneficial conversion feature amortized on all notes during the nine months ended September 30, 2004 was approximately \$520,744.

### NOTE 4 -- COMMON STOCK TRANSACTIONS

The Company issued 5,742,624 shares of common stock for services valued at \$1,338,366 during the nine months ended September 30, 2004, \$1,256,640 of which was recorded as deferred compensation. As noted above, 2,131,078 shares of common stock were issued for the conversion of \$808,500 of notes payable and \$93,189 of accrued interest, for a total value of \$901,689. A total of 48,000 shares of common stock were issued for cash of \$22,000 and a subscription receivable of \$8,000.

### NOTE 5 -- CASH FLOW INFORMATION

Actual amounts paid for interest for the nine months ended September 30, 2004 and 2003, were \$201,700 and \$8,300 respectively. No income taxes were paid for the respective periods.

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During the nine months ended September 30, 2004, the Company issued 5,712,000 shares of common stock for consulting services valued at \$1,256,640, which was recorded as deferred compensation.

During the nine months ended September 30, 2004, the Company issued 162,500 warrants for consulting services, with exercise prices from \$.035 to \$.65, expiring March 26, 2005 and immediately exercisable. The fair value of the warrants is \$301,109, which was recorded as deferred compensation at September 30, 2004.

During the nine months ended September 30, 2004, the Company issued 2,131,078 shares of common stock for the conversion of \$808,500 of notes payable and \$93,189 of accrued interest, for a total value of \$901,689.

During the nine months ended September 30, 2004, 48,000 shares of common stock were issued for cash of \$22,000 and a subscription receivable of \$8,000.

Effective September 23, 2004, the 16:1 reverse split reduced the outstanding

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shares of common stock by 40,507,701, which reduced common stock by \$40,508 and increased additional paid-in-capital by the same amount.

During the nine months ended September 30, 2003, the Company received a commission, which reduced its deferred purchase obligation and was recorded as an increase of \$27,900 to deferred revenue.

During the nine months ended September 30, 2003, the Company reacquired 6,000 shares of its common stock for a reduction in deferred compensation of \$149,333 and subscriptions receivable of \$9,317. During the nine months ended September 30, 2004, the Company amortized \$111,043 of deferred compensation into selling, general and administrative expense.

During the nine months ended September 30, 2003, the Company disposed of equipment in exchange for extinguishments of an accrued liability of \$12,540. During the nine months ended September 30, 2004, the Company disposed of \$11,554 in satisfaction of a lawsuit.

During August 2003, the Company obtained a note payable to a funding group for \$182,000 bearing interest at 15% per annum. The note is payable in monthly installments of \$5,500 beginning February 1, 2004 through August 1, 2004 at which time the remaining unpaid principal and interest balance is due. The note includes 100,000 warrants. The total discount related to these warrants is \$63,000, of which all has been amortized at September 30, 2004. A total of \$45,509 of the discount was amortized to interest expense during the nine months ended September 30, 2004. The note is guaranteed by the former Chairman of the Board of Directors and is secured by equipment of the Company.

### NOTE 6 - SETTLEMENT EXPENSE

On July 1, 2004, the Company settled the lawsuit with Wired, LC. Pursuant to the terms of the settlement, the Company paid Wired \$90,000 through October 2004, and return certain equipment to Wired. The Company had to replace approximately \$54,000 of equipment. The Company has recorded a settlement expense and accrued liability of approximately \$144,000 as of September 30, 2004.

### NOTE 7 - SUBSEQUENT EVENTS

On October 28, 2004, \$792,975 of convertible short-term notes and accrued interest were converted to 1,380,285 shares of Endavo common stock.

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results for Operations

### Name Change and Reverse Stock Split

The Board of Directors voted unanimously to change the corporate name from CeriStar, Inc. to Endavo Media and Communications, Inc. and to issue one for sixteen reverse stock split. Both transactions became effective on September 23, 2004.

### Critical Accounting Policies

In Note 1 to the financial statements for the fiscal year ended December 31, 2003 included in our 10-KSB discuss those accounting policies that are considered to be significant in determining the results of operations and our financial position. We believe that the accounting principles utilized by us conform to generally accepted accounting principles in the United States of

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America.

The preparation of consolidated financial statements requires management to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. By their nature, these judgments are subject to an inherent degree of uncertainty. On an on-going basis, we evaluate our estimates, including those related to bad debts, inventories, intangible assets, warranty obligations, product liability, revenue, and income taxes. We base our estimates on historical experience and other facts and circumstances that are believed to be reasonable, and the results form the basis for making judgments about the carrying value of assets and liabilities. The actual result may differ from these estimates under different assumptions or conditions.

With respect to revenue recognition, stock based compensation, and allowance for doubtful accounts we apply the following critical accounting policies in the preparation of our financial statements:

### Revenue Recognition

We derive revenue primarily from the sale of communications services and sales of related communication equipment. Revenue is recognized when a valid contract or purchase order has been executed or received, services have been performed or product has been delivered, the selling price is fixed or determinable, and collectibility is reasonably assured. Sales related to long-term service contracts, which do not meet this criteria, are originally deferred and are recorded as unearned revenue and recognized ratably over the period of the contract.

### Accounting for Stock-based Compensation

We account for stock-based compensation issued to employees and directors under Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under APB No. 25, compensation related to stock options, if any, is recorded if an option's exercise price on the measurement date is below the fair value of the company's common stock and amortized to expense over the vesting period. Compensation expense for stock awards or purchases, if any, is recognized if the award or purchase price on the

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measurement date is below the fair value of the common stock and is recognized on the date of award or purchase. Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock Based Compensation," requires pro forma information regarding net loss and net loss per common share as if the company had accounted for its stock options granted under the fair value method.

We account for stock-based compensation issued to persons other than employees using the fair value method in accordance with SFAS No. 123 and related interpretations. Under SFAS No. 123, stock-based compensation is determined as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date for these issuances is the earlier of either the date at which a commitment for performance by the recipient to earn the equity instruments is reached or the date at which the recipient's performance is complete.

### Allowance for Doubtful Accounts

We must make estimates of the collectibility of accounts receivables. In doing so, we analyze accounts receivable and historical bad debts, customer credit-worthiness, current economic trends and changes in customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts.

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### Forward-Looking Statements

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes included in Item 1 of this Form 10-QSB. This discussion contains forward-looking statements. These statements are based on our current expectations, assumptions, estimates and projections about our business and our industry, and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's results, levels of activity, performance or achievement to be materially different from any future results, levels of activity, performance or achievements expressed or implied in or contemplated by the forward-looking statements. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of selected factors identified in the Item 2 and Form 10-QSB.

Endavo undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this Form 10-QSB.

### Company and Industry Overview

Endavo Media and Communications, Inc. first incorporated under the name of CeriStar in December of 1999 in Delaware, provides integrated broadband services, including voice, video and data services, to residential, commercial and municipal concerns through IP (Internet Protocol) based networks. The Company's current principal offering is to provide residential subscribers with integrated voice, video and data communications services over Fiber-to-the-Premise (FTTP) infrastructure. These communications services include IP telephony (VoIP), high-speed Internet connectivity, analog broadcast television and IP entertainment services, such as video-on-demand. Endavo manages the quality of service (QoS) and provides customer service and billing, as well as operations, engineering and network management support for its customer base network.

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On September 10, 2002, Endavo merged with a wholly owned subsidiary of Planet Resources Inc., a non-operating publicly held company, together referred to as Planet, in which all of the issued and outstanding stock of Endavo, including Convertible Preferred Series A shares and the Convertible Preferred Series B shares, were exchanged for shares of Planet Common Stock. Series A and B preferred shares were exchanged at a rate of .757 shares for every common share of Planet and the common stock of the Company were exchanged into .322 shares of Common Stock of Planet. Just prior to the merger, Planet authorized a 1 for 5.23 reverse stock split. The merger was accounted for as a reverse merger with Endavo being the accounting acquirer. On October 15, 2002, Planet Resources Inc. was renamed CeriStar, Inc., now Endavo Media and Communications, Inc. Since Planet had no operations for the two years prior to the merger, only Endavo's financial condition and results or operations will be discussed.

During the past quarter, Endavo has made some significant changes in the Company's business plan and objectives, along with changes that have occurred in the Company's executive management team and Board of Directors in August 2004. While the company plans to continue delivering IP voice, video and data services to its current residential customer base in Utah and continue operating and supporting its network facilities in the local market, the Company plans to develop an IP services delivery system that will enable the distribution of digital entertainment and communications services and applications over a nationwide IP/MPLS network. Once the technologies and products are sufficiently developed and tested, the Company plans to market IP services and content, on a

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wholesale and retail basis, to defined groups of customers in targeted geographical markets that are located within close proximity of or already connected to the national fiber backbone we plan to utilize and that have existing local or metropolitan fiber network loops.

Until we achieve substantial revenues or profitability over several quarters, we must be considered as a start-up entity. Until that time, we remain dependent on financing resources for cash flows to meet certain operating expenses and offer no assurance of our financial success or economic survival.

### Results of Operations

FOR THE COMPARATIVE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

Total revenue declined in the first nine months of fiscal 2004 to \$154,000 from \$268,000 in the first nine months of fiscal 2003. The overall decrease is primarily due to the Company's transition to residential services and the loss of a significant commercial customer from which revenues of \$124,000 were recognized in the first nine months of 2003. For the nine months ended September 30, 2004 revenue was primarily generated from sale of communications services with existing equipment owned by the Company.

Endavo had a net loss in the first nine months of 2004 of \$2,526,942 compared with a net loss in the first nine months of 2003 of \$3,212,268.

Cost of revenue was \$284,000 in the first nine months of 2004, compared to \$396,000 in the first nine months of 2003. This decrease in cost of sales in 2004 is primarily due to decreased sales related labor costs as we move away from engineering labor and design sales to residential service sales and reduced bandwidth charges relating to commercial customers.

Gross margins to date 2004 were a negative \$130,000 compared to a negative \$128,000 in 2003. Thus far, Endavo has not generated a large enough customer base to cover its fixed bandwidth and service costs. As Endavo began the transition to an operating company, additional labor, engineering and bandwidth costs have been necessary to meet the needs of customers in a variety of locations. As Endavo acquires new customers in those areas where the Company's existing facilities are located, it can do so with lower cost of acquisition and can spread fixed costs associated with operating the network and facility over a larger base of subscribers, thus increasing the overall profitability of the Company's operations.

Selling, general and administrative expenses decreased by \$1,582,000 to \$1,400,000 in the first nine months of 2004 compared to \$2,982,000 in 2003 primarily due to the decrease in fees paid to consultants incurred in 2003 including approximately \$452,000 paid through the issuance of common stock and approximately \$1.36 million paid through elimination of stock subscription receivable.

The Company settled the lawsuit with Wired, LC. Pursuant to the terms of the settlement, the Company paid Wired \$90,000 through October 2004, and returned certain equipment to Wired. The Company had to replace approximately \$54,000 of equipment. The Company has recorded a settlement expense of approximately \$144,000 for the nine months ended September 30, 2004.

Interest expense increased to \$854,000 in the first nine months of 2004 from \$103,000 in 2003 as a significant amount of debt was add in late 2003 and 2004. A majority of the increase in 2004, \$521,000, was the amortization of debt discount during 2004.

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FOR THE COMPARATIVE THREE MONTHS ENDED September 30, 2004 AND 2003

Endavo had a net loss in the third quarter of 2004 of \$647,663, the loss in the second quarter of 2003 was \$1,138,222. Revenues were \$43,000 in the third quarter of 2004 compared to \$79,000 in the third quarter of 2003. The decline in revenues was primarily due to reduced commercial revenues.

Gross margins in the second quarter of 2004 were a negative \$47,000 compared to a negative \$67,000 in 2003. As Endavo's residential customer base expands in our current facility locations, excess bandwidth capacity is expected be able to service significantly larger customer base with little or no significant increase in fixed bandwidth costs.

Selling and administrative expense decreased by \$597,000 as consulting and other professional fees declined by \$516,000 due to decreased dependence on consultants employed to assist in developing business plans, partnering opportunities and product positioning.

The Company settled the lawsuit with Wired, LC. Pursuant to the terms of the settlement, the Company paid Wired \$90,000 through October 2004, and returned certain equipment to Wired. The Company had to replace approximately \$54,000 of equipment. The Company has recorded a settlement expense of approximately \$9,000 for the three months ended September 30, 2004.

Interest expense increased by \$119,000 as additional debt was incurred to fund operations and equipment purchases.

### Liquidity and Capital Resources

Endavo's revenues are not capable of supporting its current operations. Endavo will be dependent on the capital markets for funding its current operations. At September 30, 2004 the Company has a working capital deficit of \$2,799,000. To meet its continuing funding needs, Endavo actively seeks funding through issuance of debt securities. No assurance can be made that the Company will be successful in raising sufficient capital.

Endavo believes that as the Company proves its technology and products through its current customer base, it will be able to effectively and profitably deliver a technically advanced communications product to a broader range of wholesale and retail customers within defined target markets. Endavo will continue developing and testing its technology and products until such time the Company believes that the Company's products are scalable and marketable to a broader market of potential customers. At that time, the Company expects to deploy a sales and marketing plan, while continuing to develop and support its technology and products. Expansion into new market areas will be limited by the amount of investment capital and equipment financing that can be acquired, as well as by the geographical reach of its network operating facilities and scalability of its network facilities and operations. Endavo's current expansion plan will

require additional equity and debt capital to fund current and expanded operations. A majority of this funding is intended to be raised in the equity markets. It is anticipated that debt or lease financing of equipment will become increasingly available as the Company's service offerings gain acceptance and our markets expand, thus leveraging our investment capital. In the short term, Endavo will remain dependent on new equity capital. No assurance can be made that the Company will be successful in raising sufficient capital.

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The Company's long-term liquidity and capital requirements will depend upon numerous factors, including the Company's ability to achieve a level of demand for its services that supports its business model and its cost structure, securing significant long-term funding for expansion efforts, and the Company's ability to find suitable funding sources to improve its capital structure. The Company may require additional financing or seek to raise additional funds through bank facilities, debt or equity offerings, or other sources of capital to meet liquidity and capital requirements. Additional funds may not be available when needed or on terms acceptable to the Company, which could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows. These are factors that indicate that the Company may be unable to continue operations.

### Risks Related to Our Business

Certain statements contained in this Form 10-QSB, and other written and oral statements made from time to time by us, do not relate strictly to historical facts. These statements are considered "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "may," "plan," "possible," "project," and "should," or similar words or expressions, are intended to identify forward looking statements. This forward looking information involves important risks and uncertainties that could materially alter results in the future from those expressed in any forward looking statements made by, or on behalf of, us. We caution you that such forward-looking statements are only predictions and actual events or results may differ materially. In evaluating such statements, you should specifically consider the various factors that could cause actual events or results to differ materially, including those factors described below. It is not possible to foresee or identify all factors affecting our forward-looking statements and you should not consider any list of such factors to be exhaustive. We are under no duty to update any forward-looking statements.

We have substantial losses and negative cash flow.

Since our inception in 1999, we have had substantial and recurring losses and negative cash flow. We are at risk of continued losses until our revenues increase. There is no assurance that we can increase our revenue sources and it is unlikely that we can lower our expenses in our present mode of operations. We may never earn profits. If we continue to lose money over a period of time, we may be forced to discontinue our operations.

We required substantial capital to grow our business and sustain current operations.

Since our inception, we have required substantial capital to fund our business operations. Our future capital requirements will depend upon many factors, including the adoption of integrated broadband services, requirements to maintain adequate telecommunications capabilities, expansion of our marketing and sales efforts, and the status of competitive products and services in the marketplace.

Our business operates at a loss and we require additional capital to fund current operations.

Historically, our revenues have been less than our expenses and we have financed our operations primarily through sales of equity and debt securities. We expect to enter into additional financial transactions, which could result in

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significant dilution or substantial indebtedness.

Our access to capital is uncertain.

We currently have no commitments, agreements or understandings regarding additional financing and we may be unable to obtain additional financing on satisfactory terms or at all. We expect to pursue additional financing through the private placement of debt or equity. If additional funds are raised or acquisitions made by issuing equity securities, dilution to the existing stockholders will result. We may also incur or assume substantial indebtedness. These arrangements may require us to relinquish rights to certain of our existing or potential products or other assets. Accordingly, the inability to obtain such financing could have a material adverse affect on our business, financial condition and results of operations. Our future revenue and operating results depend on a number of factors.

We are in a rapidly changing industry, which affects our ability to forecast growth and revenues.

Our short operating history and the rapidly changing nature of the markets in which we compete make it difficult to accurately forecast our revenues and operating results. Our quarterly operating results are unpredictable and we expect them to fluctuate in the future due to a number of factors. These factors may include, among others things:

- o The amount and timing of operating costs and capital expenditures relating to the growth of our business;
- o The costs to develop and introduce new products and services in response to changing market conditions and customer preferences;
- o The announcement or introduction of new or enhanced products or services by our competitors; and
- o The entrance of a large, better capitalized competitor into our markets.

In view of such fluctuations, we believe that quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as a measure of future performance.

We may not be able to attract customers for our services.

There is no assurance that we will be able to obtain adequate distribution of our services to a large number of subscribers. We believe that our ability to achieve revenues in the future will depend in significant part upon our ability to build upon existing relationships with, and provide support to existing telephone and Internet service providers, school campuses, Broadband Communities, real-estate developers and consumers. As a result, any cancellation, reduction or delay may materially adversely affect our business, financial condition and results of operations.

If we make any acquisitions, we will incur a variety of costs and may never realize the anticipated benefits.

We may attempt to acquire businesses, technologies or products that we believe are a strategic fit with our business. If we undertake any transaction of this sort, the process of integrating a business, technology or product may result in operating difficulties and expenditures, which may absorb significant management attention that would otherwise be available for ongoing development of our business. Moreover, we may never realize the anticipated benefits of any acquisition. Future acquisitions could result in potentially dilutive issuances

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of equity securities, the incurrence of debt, contingent liabilities and/or amortization expenses related to goodwill and other intangibles and the incurrence of large immediate write-offs.

Our ability to attract and retain key management, employees and consultants is uncertain.

We are dependent on our management staff. The loss of services of any of these personnel could impede the achievement of our corporate goals and development objectives. There can be no assurance that we will be able to attract and retain personnel on acceptable terms given the competition among telecommunications companies for experienced personnel. In addition, we do not maintain "key-man" life insurance policies on any member of our management staff and do not expect to obtain such policies in the near future.

### ITEM 3. Controls and Procedures

As of September 30, 2004 (the "Evaluation Date"), our current Chief Executive Officer evaluated our disclosure controls and procedures. Based on that evaluation, he has concluded that as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to material information relating to our company required to be included in our reports filed or submitted by us under the Exchange Act.

There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation.

## PART II - OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K

#### Exhibits

The following exhibits are included as part of this report:

#### A) Exhibits:

- 31 Certification of Chief Executive and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Chief Executive and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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#### B) Reports on Form 8-K

1. The Company filed a Current Report on Form 8-K, dated January 13, 2004 announcing the resignation of David L. Bailey as Chairman of the Board and member of our Board of Directors for personal reasons.
2. The Company filed a Current Report on Form 8-K, dated January 21, 2004 announcing the resignation of Dane Goodfellow as a member of our Board of Directors to pursue other endeavors.
3. The Company filed a Current Report on Form 8-K, dated March 5, 2004 as a shareholder update on progress in 2003 and Strategic Plans.
4. The Company filed a Current Report on Form 8-K, dated June 28, 2004 announcing the filing of a breach of contract lawsuit against

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Parkway Crossing, LLC, Basin Digital Media, LLC and Summit Development and Management, LLC.

5. The Company filed a Current Report on Form 8-K, dated August 2, 2004 announcing the resignations of Fred Weismiller as Chief Executive Officer, Robert Lester as Chief Financial Officer and Michael Miller as Chief Operations Officer and the appointment of Paul D. Hamm as interim Chief Executive Officer and Mark Hewitt as Chief Technology and Operations Officer. Jerry Dunlap was named to the Board of Directors to fill the remaining term of Mr. Lester.
6. The Company filed a Current Report on Form 8-K, dated September 23, 2004 announcing the resignation of Michael as a member of the Board of Directors and the resignation of Fred Weismiller as Chairman of the Board of Directors and also as a member of the Board of Directors.
7. The Company filed a Current Report on Form 8-K, dated September 24, 2004 announcing the name change for CeriStar, Inc. to Endavo Media and Communications, Inc. and 1 for 16 reverse stock split.

### SIGNATURES

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

ENDAVO MEDIA AND COMMUNICATIONS, INC.

Dated: November 23, 2004

/s/ Paul D. Hamm

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Paul D. Hamm  
Chief Executive Officer

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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.

Dated: November 23, 2004

/s/ Paul D. Hamm

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Paul D. Hamm  
Chief Executive Officer and President

Dated: November 23, 2004

/s/ Mark S. Hewitt

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Mark S. Hewitt  
Chief Operations Officer and Chief  
Technology Officer

Dated: November 23, 2004

/s/ Mark S. Hewitt

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Mark S. Hewitt  
Director

