

KARMA MEDIA INC
Form 10QSB
November 12, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2004

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 333-86518

Karma Media, Inc.

(Exact name of small business issuer as specified in its charter)

Nevada

(State or jurisdiction of incorporation or organization)

75-3025152

(I.R.S. Employer Identification No.)

927 South Azusa, Suite C

City of Industry, CA 91748

(Address of principal executive offices)

(310) 397-1200

(Issuer's telephone number)

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: Common Stock, 16,600,000 shares issued and outstanding as of November 9, 2004.

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

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

KARMA MEDIA, INC.
(FORMERLY ESTELLE REYNA, INC.)
CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003

KARMA MEDIA, INC.
(FORMERLY ESTELLE REYNA, INC.)
CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003

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September 30, 2004 and 2003 (Unaudited)

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September 30, 2004 and 2003 (Unaudited)

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KARMA MEDIA, INC.
(FORMERLY ESTELLE REYNA, INC.)

CONDENSED BALANCE SHEET

SEPTEMBER 30, 2004 (UNAUDITED) AND DECEMBER 31, 2003 (AUDITED)

ASSETS

	(UNAUDITED) SEPTEMBER 30. <u>2004</u>	(AUDITED) DECEMBER 31, <u>2003</u>
Current Assets:		
Cash	\$ 66,725	\$ 106,668
Accounts receivable	40,067	18,228
Prepaid expenses and other current assets	20,577	5,179
Total Current Assets	127,369	130,075
Fixed assets, net	8,883	9,804
TOTAL ASSETS	\$ 136,252	\$ 139,879

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

LIABILITIES

Current Liability:		
Accounts payable and accrued expenses	\$ 17,515	\$ 9,431
Total Current Liability	17,515	9,431

**STOCKHOLDERS' EQUITY
(DEFICIT)**

Common stock, \$.001 Par Value;
25,000,000 shares authorized

16,600,000 and 14,800,000 issued and outstanding as of
September 30, 2004

and December 31, 2003, respectively	16,600	14,800
Warrants outstanding	777,357	777,357
Additional paid-in capital	1,030,900	150,700
Subscriptions receivable	-	(770)
Accumulated deficit	(1,706,120)	(811,639)
Total Stockholders' Equity (Deficit)	118,737	130,448

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 136,252	\$ 139,879
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The accompanying notes are an integral part of these condensed financial statements.

KARMA MEDIA, INC.**(FORMERLY ESTELLE REYNA, INC.)****CONDENSED STATEMENT OF OPERATIONS****FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 (UNAUDITED)**

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
OPERATING REVENUES				
Revenue	\$ 608,639	\$ 164,520	\$ 151,006	\$ 77,819
OPERATING EXPENSES				
General and administrative expenses	1,500,485	243,748	719,190	68,743
Depreciation	2,635	-	674	-
Total Operating Expenses	1,503,120	243,748	719,864	68,743
INCOME (LOSS) BEFORE PROVISION FOR TAXES	(894,481)	(79,228)	(568,858)	9,076
Provsion for income taxes	-	-	-	-
Net income (loss)	(894,481)	(79,228)	(568,858)	9,076
INCOME (LOSS) PER SHARE BASIC AND DILUTED	\$ (0.06)	\$ (0.01)	\$ (0.04)	\$ 0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC AND DILUTED				
	15,222,222	12,400,623	15,666,667	17,015,328

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

KARMA MEDIA, INC.
(FORMERLY ESTELLE REYNA, INC.)
CONDENSED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 (UNAUDITED)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)	\$ (894,481)	\$ (79,228)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Shares issued for services	882,000	100,000
Depreciation	2,635	-
(Increase) in accounts receivable	(21,839)	(11,126)
(Increase) in prepaid expenses and other current assets	(15,398)	-
Increase in accounts payable and accrued expenses	8,084	2,233
Total	855,482	91,107
Net cash provided by (used in) operating activities	(38,999)	11,879
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of fixed assets	(1,714)	-
Net cash (used in) investing activities	(1,714)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of subscriptions receivable	770	-
Net cash provided by investing activities	770	-
NET INCREASE (DECREASE) IN CASH	(39,943)	11,879

CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	106,668	7,072
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 66,725	\$ 18,951
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Shares issued for services	\$ 882,000	\$ 100,000

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

KARMA MEDIA, INC.
(FORMERLY ESTELLE REYNA, INC.)
NOTES TO CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003 (UNAUDITED)

NOTE 1-

BASIS OF PRESENTATION

The interim financial statements included herein, presented in accordance with accounting principles generally accepted in the United States have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information present and not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these interim financial statements be read in conjunction with the financial statements of the Company for the period ended December 31, 2003 and notes thereto included in the Company's Form 10-KSB. The Company follows the same accounting policies in the preparation of interim reports.

Results of operations for the interim periods are not indicative of annual results.

NOTE 2-

HISTORY AND ORGANIZATION OF COMPANY

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Karma Media, Inc. (the Company) was organized April 21, 1999 under the laws of the State of Nevada, as Le Gourmet Co. Inc.

On March 11, 2002, the Company amended its Articles of Incorporation to increase the number of authorized shares to 25,000,000 shares and to change the par value to \$0.001.

On March 17, 2003, the Company amended its Articles of Incorporation to change its name to Estelle Reyna, Inc.

On September 11, 2003, the Company amended its Articles of Incorporation to change its name to Karma Media, Inc.

KARMA MEDIA, INC.

(FORMERLY ESTELLE REYNA, INC.)

NOTES TO CONDENSED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2004 AND 2003 (UNAUDITED)

NOTE 3-

SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

Cash and cash equivalents

The Company maintains a cash balance in a non-interest bearing account that currently does not exceed federally insured limits. For the purpose of the statements of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. Cash equivalents include funds held in a Paypal account. There were no such cash equivalents as of September 30, 2004.

Fixed assets

Fixed assets are recorded at cost. Minor additions and renewals are expensed in the year incurred. Major additions and renewals are capitalized and depreciated over their estimated useful lives. Depreciation is calculated using half year convention over the estimated useful lives as follows:

Computers and equipment

3 years

Impairment of long-lived assets

Long- lived assets held and used by the Company are reviewed for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable or is impaired. Management has not had any impairment adjustments for the nine months ended September 30, 2004 and 2003, respectively.

Revenue recognition

The Company recognizes income when earned through affiliate programs. The affiliate programs are with various companies whereby they will pay a referral or commission for sales generated through a link on the Company's website. The affiliates generally take 30 days to process the commission once the sale occurs. The Company recognizes the commission once they are notified of the amount. For consulting, on- line marketing and sponsorship and appearance income the Company recognizes revenue as services are performed.

KARMA MEDIA, INC.
(FORMERLY ESTELLE REYNA, INC.)
NOTES TO CONDENSED FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2004 AND 2003 (UNAUDITED)

NOTE 3-

SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (CONTINUED)

Advertising costs

The Company expenses all costs of advertising as incurred. The advertising costs are included in general and administrative expenses in the condensed statements of operations for the nine months ended September 30, 2004 and 2003.

Earnings (Loss) Per Share of Common Stock

Historical net (loss) per common share is computed using the weighted average number of common shares outstanding. Diluted earnings per share (EPS) includes additional dilution from common stock equivalents, such as stock issuable pursuant to the exercise of stock options and warrants. Common stock equivalents were not included in the computation of diluted earnings per share when the Company reported a loss because to do so would be anti-dilutive for periods presented.

The following is a reconciliation of the computation for basic and diluted EPS:

September 30, September 30,

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2004

2003

Net (Loss)

	(\$894,481)	(\$79,228)
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Weighted-average common shares

outstanding (Basic)

15,222,222	12,400,623
------------	------------

Weighted-average common stock

equivalents:

Stock options

-	-
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Warrants

-	-
---	---

Weighted-average common shares

outstanding (Diluted)

15,222,222	12,400,623
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KARMA MEDIA, INC.

(FORMERLY ESTELLE REYNA, INC.)

NOTES TO CONDENSED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2004 AND 2003 (UNAUDITED)

NOTE 3-

SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (CONTINUED)

Start-up costs

Reporting on the costs of start-up activities Statement of Position 98-5 (SOP 98-5), Reporting on the Costs of Start-Up Activities, which provides guidance on the financial reporting of start-up costs and organizational costs, requires most costs of start-up activities and organizational costs to be expensed as incurred. SOP 98-5 is effective for fiscal years beginning after December 15, 1998. With the adoption of SOP 98-5, there has been little or no effect on the Company's financial statements.

Estimates

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

Fair value of financial instruments

Fair value of financial instruments discussed herein are based upon certain market assumptions and pertinent information available to management as of September 30, 2004. The respective carrying value of certain balance sheet financial instruments approximated their fair values. These financial instruments include cash and equivalents, accounts receivable, prepaid expenses and accounts payable and accrued expenses. Fair values were assumed to approximate carrying values because they are short term in nature and their carrying amounts approximate fair values or they are payable on demand.

KARMA MEDIA, INC.

(FORMERLY ESTELLE REYNA, INC.)

NOTES TO CONDENSED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2004 AND 2003 (UNAUDITED)

NOTE 3-

SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (CONTINUED)

Income taxes

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable on the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Segment reporting

The Company follows Statement of Financial Accounting Standards No. 130, Disclosures About Segments of an Enterprise and Related Information . The Company operates as a single segment and will evaluate additional segment disclosure requirements as it expands its operations.

Recent pronouncements

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities , which addresses financial accounting and reporting for costs associated with exit or disposal activities and supercedes EITF No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit and

Activity (including Certain Costs Incurred in a Restructuring). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. The provisions of SFAS No. 146 will be adopted for exit or disposal activities that are initiated after December 31, 2002.

KARMA MEDIA, INC.

(FORMERLY ESTELLE REYNA, INC.)

NOTES TO CONDENSED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2004 AND 2003 (UNAUDITED)

NOTE 3-

SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (CONTINUED)

Recent pronouncements (continued)

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock- Based Compensation- Transition and Disclosure- an amendment of SFAS No. 123. This Statement amends SFAS No. 123, Accounting for Stock- Based Compensation, 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, this statement amends the disclosure requirements of SFAS No. 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. The adoption of SFAS No. 148 is not expected to have a material impact on the Company's financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others, an interpretation of FIN No. 5, 57, and 107, and rescission of FIN No. 34, Disclosure of Indirect Guarantees of Indebtedness of Others. FIN 45 elaborates on the disclosures to be made by the guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002; while, the provisions of the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company believes that the adoption of such interpretation will not have a material impact on its financial position or results in operations and has adopted the interpretations during fiscal year 2003, as required.

KARMA MEDIA, INC.

(FORMERLY ESTELLE REYNA, INC.)

NOTES TO CONDENSED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2004 AND 2003 (UNAUDITED)

NOTE 3-

SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (CONTINUED)

Recent pronouncements (continued)

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*, an interpretation of Accounting Research Bulletin No. 51. FIN No. 46 requires that variable interest entities be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. FIN No. 46 also requires disclosures about variable interest entities that companies are not required to consolidate but in which a company has a significant variable interest. The consolidation requirements of FIN No. 46 will apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements will apply to entities established prior to January 31, 2003 in the first fiscal year or interim period beginning after June 15, 2003. The disclosure requirements will apply in all financial statements issued after January 31, 2003. The Company has adopted the provisions of FIN No. 46 during the first quarter of fiscal 2003.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. SFAS No. 150 changes the classification in the statement of financial position of certain of certain common financial instruments from either equity or mezzanine presentation to liabilities and requires an issuer of those financial statements to recognize changes in fair value or redemption amount, as applicable, in earnings. SFAS No. 150, is effective for financial instruments entered into or modified after May 31, 2003, and with one exception, is effective at the beginning of the first interim period of adoption. Restatement of prior periods is not permitted. SFAS No. 150 did not have any impact on the Company's financial position or results of operations.

Stock- Based Compensation

The Company accounts for stock- based awards to employees in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations and has adopted the disclosure-only alternative of SFAS No. 123, Accounting for Stock- Based Compensation. Options granted to consultants, independent representatives and other non- employees are accounted for using the fair value method as prescribed by SFAS No. 123.

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KARMA MEDIA, INC.

(FORMERLY ESTELLE REYNA, INC.)

NOTES TO CONDENSED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2004 AND 2003 (UNAUDITED)

NOTE 4-

INCOME TAXES

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS No. 109), which requires use of the liability method. SFAS No. 109 provides that deferred tax assets and liabilities are recorded based on the differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, referred to as temporary differences. Deferred tax assets and liabilities at the end of each period are determined using the currently enacted tax rates applied to taxable income in the periods in which the deferred tax assets and liabilities are expected to be settled or realized.

The Company has not recorded a provision for income taxes for the nine months ended September 30, 2004 and 2003, respectively.

NOTE 5-

FIXED ASSETS

Fixed assets consist of the following at September 30, 2004:

Computer equipment

\$13,479

Accumulated depreciation

(4,596)

Net fixed assets

\$ 8,883

During the nine months ended September 30, 2004 and 2003, the Company recognized \$2,635 and \$0, respectively, in depreciation expense.

NOTE 6-

STOCKHOLDERS EQUITY (DEFICT)

The Company is authorized to issue 25,000,000 shares of its \$0.001 par value common stock.

On March 11, 2002, the Company effected a 1000- for- 1 forward stock split of its \$0.001 par value common stock.

All share and per share amounts have been retroactively restated to reflect the splits discussed below.

On May 5, 1999, the Company issued 2,000,000 shares of its \$0.001 par value common stock to an officer and director in exchange for a subscriptions receivable of \$2,000.

KARMA MEDIA, INC.

(FORMERLY ESTELLE REYNA, INC.)

NOTES TO CONDENSED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2004 AND 2003 (UNAUDITED)

NOTE 6-

STOCKHOLDERS EQUITY (DEFICT)

During March 2002, an officer, director, and shareholder of the Company paid for expenses totaling \$1,900 and paid cash in the amount of \$100 to cancel the entire subscriptions receivable balance.

On September 25, 2002, the Company completed its offering registered via Form SB-2 and issued a total of 500,000 shares of its \$0.001 par value common stock in exchange for cash of \$25,000.

On February 14, 2003, the Company issued a total of 2,000,000 shares of its \$0.001 par value common stock of the Company to two individuals, who are currently officers and directors of the Company, in exchange for services rendered valued at \$100,000.

On February 28, 2003, the Company declared a stock dividend to its shareholders. Each shareholder of record as of February 28, 2003 received four shares of the Company's \$0.001 par value common stock for each common share owned.

On July 14, 2003, Michelle Quinlan, the former president and CEO of the Company, cancelled 8,470,000 shares of the Company's \$0.001 par value common stock.

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On August 28, 2003, the Company issued a total of 770,000 shares of its \$0.001 par value common stock to individuals for a subscriptions receivable of \$770 and for services rendered of \$37,730 based on the fair market value of the stock.

On December 4, 2003, the Company issued a warrant to purchase 3,000,000 shares of its \$0.001 par value common stock in exchange for consulting services valued at \$777,357.

In 2004, the Company issued 1,800,000 shares of common stock valued at \$882,000 for services rendered. These shares were issued in connection with two agreements

As of September 30, 2004, the Company has 16,600,000 shares of common stock outstanding.

KARMA MEDIA, INC.

(FORMERLY ESTELLE REYNA, INC.)

NOTES TO CONDENSED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2004 AND 2003 (UNAUDITED)

NOTE 7-

WARRANTS AND OPTIONS

On December 4, 2003, the Company issued one warrant to a consultant to purchase 3,000,000 shares of the Company's \$0.001 par value common stock. The warrant exercise price is \$0.50 per share of common stock and substantially all warrants will expire on or before October 31, 2013. The warrant has been determined to have a market value of \$777,357 using the Black-Scholes option pricing model with a market value per common share of \$0.50, a risk free rate of return of 4.41%, an exercise period of ten years and a volatility of 80% and was discounted for the lack of marketability.

During the nine months ended September 30, 2004, no warrants have been exercised.

NOTE 8-

RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2004 and 2003, the Company paid the president of the Company \$20,000 and \$0, respectively for his services.

During the nine months ended September 30, 2004 and 2003, the Company paid the secretary of the Company \$70,000 and \$0, respectively for her services.

Office space and services are provided without charge by an affiliate and shareholder. Such costs are immaterial to the financial statements and, accordingly, have not been reflected therein. The officers and directors of the Company are involved in other business activities and may, in the future, become involved in other business opportunities. If a specific business opportunity becomes available, such persons may face a conflict in selecting between the Company and their other business interests. The Company has not formulated a policy for the resolution of such conflicts.

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KARMA MEDIA, INC.

(FORMERLY ESTELLE REYNA, INC.)

NOTES TO CONDENSED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2004 AND 2003 (UNAUDITED)

NOTE 9-

COMMITMENT

On December 4, 2003, the Company executed a consulting agreement with Christopher Pair to assist the Company with strategic planning and introducing potential business partners and customers. The agreement provides for (a) consulting fees paid quarterly based on 20% of net revenues less certain revenues attributable to revenues not associated with the contract and other expenses; and (b) issuance of one warrant to purchase up to 3,000,000 shares of the Company's \$0.001 par value common stock. Consulting fees associated with the warrant were based on a value of \$0.50 per share. The value of the warrant was based on the then- market closing price of the Company's common stock. The Company then discounted both the then- market closing price because the shares issued and options to purchase shares were restricted and the volume of trading of the Company's common stock that was not restricted was relatively low. The resulting consulting expense recognized for the warrant issuance was \$777,356 for the year ended December 31, 2003. During the nine months ended September 30, 2004, the Company has paid no consulting fees and has accrued no fees.

Item 2. Management's Discussion and Analysis.

This section must be read in conjunction with the unaudited Financial Statements included in this report.

Developments in the quarter ended September 30, 2004.

As previously disclosed, during the first and second quarters of 2004, Karma Media, Inc. ("Karma Media" or the "Company") was successful in establishing itself as a complete multi-media company with operations and distribution on the Web, on television and on radio. The Company secured agreements with both English and Hispanic broadcasters, such as Radiovisa, Urban America Television, Olympusat, WRCX Ohio, Tiger Eye Broadcasting, WJAL (Chambersburg, Pennsylvania), Radio Difusion y Comunicacion, S.A. (Republic of Panama), Americana de Television (Venezuelan broadcaster with more than 300 affiliate stations in South America, Spain and the United States of America), and WYLE and WLLT (Sheffield, Alabama).

During the third quarter of 2004, Karma Media further strengthened its presence as a multi-media company by entering additional broadcast agreements that expand the Company's worldwide reach.

On July 9, 2004, Karma Media signed a 26-week television broadcast agreement with Globe Entertainment Television, DBA Caribbean Superstation (CSS). CSS is located in New Rochelle, New York. The agreement entitles Karma Media to 3 ½ minutes of commercial per each half-hour broadcast of Estelle's Paradise, Karma Media's flagship program.

On August 2, 2004, Karma Media signed a 26-week radio broadcast agreement with WKM Radio 91.5 FM, a broadcaster located in Bolivia, South America. Under the terms of the agreement, Karma Media is entitled to receive 2 minutes of commercial airtime in exchange for providing the WKM Radio with a one-minute radio vignette entitled El Super Minuto Caliente de Estelle.

On September 8, 2004, Karma Media entered into an agreement with US EURO Securities, Inc., a private, global investment bank headquartered in Los Angeles, California. The three-year engagement agreement proposes a best-efforts equity offering of a certain number of shares of common stock to be issued by the Company, for an amount up to one million dollars (\$1,000,000). As of September 30, 2004, no shares had been issued under the terms of the agreement.

Also on September 8, 2004, Karma Media signed an agreement with US EURO Consulting, Inc., a Delaware Corporation. Under the 3-year agreement, Karma Media hired US EURO Consulting as the Company's non-exclusive finance consultant. As compensation for services to be rendered, US EURO Consulting, Inc. received 900,000 restricted shares of KRMA common stock, in addition to other, performance-based compensation. The Consultant is involved in corporate finance, corporate strategy and planning, and the Company recognizes the substantial experience and knowledge of the Consultant in matters relating to corporate structure and capital resources.

In addition to the agreements described above, the following agreements were concluded at the beginning of fourth quarter, 2004:

o

On October 11, 2004, Karma Media signed a 24-month license agreement with OBETV, a UK-based broadcaster. OBETV will air Karma Media's travel program, *Estelle's Paradise* from two to four times each week. Karma Media will retain the rights to 6 minutes of commercial air time per hour of broadcast.

o

On October 12, 2004, Karma Media signed an Interactive Marketing and Content Distribution Agreement with Altnet, Inc. Altnet is the world's largest issuer of Digital Rights Managed (DRM) licenses for digital entertainment, issuing around 350,000 licenses each day.

o

Altnet is a joint venture between Brilliant Digital Entertainment (OTCBB: BDEI), and Joltid, developers of a popular P2P technology. Under the terms of the agreement, Altnet will promote, distribute and sell Karma Media's digital content on a pay per download basis. Karma Media will receive a revenue share equal to 45% of the adjusted gross revenue collected by Altnet.

o

On October 15, 2004, Karma Media entered into a one-year agreement with Broadcast Marketing Corp. (BMC), a New York Corporation. BMC is a media sales company specializing in merchandise and services barter that can solicit and sell local and national advertisers various media.

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On October 20, Karma Media entered into a one-year agreement with America One Television, a broadcaster located in Ft. Worth, Texas. America One is a family-oriented, general entertainment television network that reaches nearly 25 million U.S. homes via a network of over 100 television affiliates. America One's affiliates are primarily independent broadcasters and many of them are major media affiliated stations (ABC, UPN, FOX, WB, etc.). America One Television is a wholly owned subsidiary of USFR Media Group, Houston, Texas. America One will air Karma Media's travel program, *Estelle's Paradise* and grant Karma Media 2 minutes of commercial air time per half-hour broadcast.

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On October 27, Karma Media signed a 26-week broadcast agreement with CVM Communications Group Limited (CVMTV), a Kingston-Jamaica based broadcaster. Under the terms of the agreement, Karma Media retains 4 minutes of commercial air time per half-hour broadcast.

The Company is continuously pursuing additional agreements with broadcasters and other strategic partners worldwide.

Karma Media is also further strengthening its position as a cause-related marketer by systematically including a series of public service announcements in all of its productions, whether for radio or television. With the ongoing signature of new television and radio broadcast agreements, Karma Media has extended its reach well beyond the Internet and is in a unique position to promote public service announcements and other non-profit messages to millions of households around the world in both the English and Spanish language. Starting June 2004, the Company began airing messages from the Ad Council and disseminating messages about critical issues such as historic preservation, arts education, after school participation and obesity prevention. Going forward, Karma Media intends to allocate at least 10% of its available commercial airtime to non-profit causes, with a clear goal of effecting positive social change in all markets where the Company has a presence.

Karma Media's philosophy to foster social change by creating awareness and fundraising campaigns for noble, non-profit causes was initially restricted to the Company's Internet operations. Recent company developments have extended the reach of this philosophy to television and radio markets.

Chairperson Estelle Reyna still receives numerous requests from non-profit organizations asking for her patronage and has committed to several personal appearances for the remainder of the year 2004. Ms. Reyna's name, growing popularity (loyal fan base exceeding 300,000 individuals), the worldwide growth in the distribution of Karma Media's content and programming, as well as ongoing media appearances provide the Company with significant leverage in building the Karma Media brand and in supporting worthwhile charities and other non-profit causes.

Karma Media's strategy rests on successful branding and the creation of new and innovative channels of distribution. Strategic public relations and the lifelong alignment of Estelle Reyna with non-profit causes should further enhance the Company's stature. Karma Media plans to expand its position as a cause-related media company. The Company's cause-related marketing model involves consumers, businesses and charities in a concept where one contributes to the benefit of the other.

In September 2004, Karma Media moved its principal office from 9660 Flair Drive, Suite 328, El Monte, CA 91731 to 927 South Azusa, Suite C, City of Industry, CA 91748. That office space and services continue to be provided without charge by an affiliate and shareholder.

Results of Operation for the Nine Months Ended September 30, 2004 Compared to Those for the Nine Months Ended September 30, 2003

In the nine months ended September 30, 2004, Karma Media generated approximately \$608,639 in revenue versus approximately \$164,520 in the comparable period of 2003. The increase is attributable to an increase in payments derived from the Company's online marketing campaigns conducted on behalf of clients as well as an increase in affiliate royalties collected from merchants.

The expenses for the nine months ended September 30, 2004 were \$1,503,120, and consisted of \$1,500,485 in general and administrative expenses and \$2,635 in depreciation. The expenses for the nine months ended September 30, 2003 were \$243,748 and consisted entirely of general and administrative expenses. The depreciation expense in 2004 applies to \$13,479 in computers and equipment purchased as of September 30, 2004.

The increase in expenses reflects an expansion of the Company's operations, which resulted, in particular, in a greater need for consulting services. During both periods under comparison, the expenses included a substantial amount of stock-based compensation: in 2004 to retained strategic and financial consultants and in 2003 to newly recruited officers and directors. In aggregate, the stock-based compensation during the first nine months of 2004 was recorded as approximately \$882,000 in cost.

The resulting net loss for the nine months ended September 30, 2004 was approximately \$894,481, or \$0.06 per share, compared to a net loss of \$79,228, or \$0.01 per share, recorded for the comparable period of 2003.

Results of Operation for the Three Months Ended September 30, 2004 Compared to Those for the Three Months Ended September 30, 2003

In the three months ended September 30, 2004, Karma Media generated approximately \$151,006 in revenue versus approximately \$77,819 in the comparable period of 2003. The increase is attributable to an increase in payments derived from the Company's online marketing campaigns conducted on behalf of clients as well as an increase in affiliate royalties collected from merchants.

The expenses for the three months ended September 30, 2004 were \$719,864, and consisted of \$719,190 in general and administrative expenses and \$674 in depreciation. The expenses for the three months ended September 30, 2003 were \$68,743 and consisted entirely of general and administrative expenses. The depreciation expense in 2004 applies to \$13,479 in computers and equipment purchased as of September 30, 2004.

The increase in expenses reflects an expansion of the Company's operations, which resulted, in particular, in a greater need for consulting services. During both periods under comparison, the expenses included a substantial amount of stock-based compensation: in 2004 to retained strategic and financial consultants and in 2003 to newly recruited officers and directors.

The resulting net loss for the three months ended September 30, 2004 was approximately \$568,858, or \$0.04 per share, compared to a net income of \$9,076, or \$0.00 per share, recorded for the comparable period of 2003.

Liquidity and Capital Resources

As of September 30, 2004, Karma Media had working capital equal to approximately \$109,854. Karma Media's current assets as of September 30, 2004 consisted of \$66,725 in cash, \$40,067 in receivables, and prepaid expenses and other current assets of \$20,577. During the nine months ended September 30, 2004, the Company's cash and cash equivalents decreased by \$39,943. The decrease was due primarily to general and administrative expenses attributable to business expansion as well as increases in accounts receivable and prepaid expenses.

Karma Media believes that it has sufficient resources to continue operations for the next twelve months.

Item 3. Controls and Procedures

Based on their most recent review, which was completed within ninety days of the filing of this report, Karma Media's Officers have concluded that Karma Media's disclosure controls and procedures are effective to ensure that information required to be disclosed by Karma Media in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to Karma Media's management, including its Officers, as appropriate to allow timely decisions regarding required disclosure and are effective to ensure that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There were no significant changes in Karma Media's internal controls or in other factors that could significantly affect those controls subsequent to the date of their evaluation.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

During the quarter ended September 30, 2004, the Company issued 500,000 shares of common stock valued at \$200,000 (\$0.40 per share) to Dartmouth Capital, Inc. for services rendered. At the time of the issuance, the Company provided Dartmouth Capital, Inc. access to all available material information about Karma Media. Also, as a professional business consulting entity, Dartmouth Capital, Inc. and its principals had a degree of financial sophistication, which allowed them to make an independent assessment of the investment merits of Karma Media. On the basis of these facts, Karma Media claims that the issuance of stock to Dartmouth Capital, Inc. was qualified for the exemption from registration contained in Section 4(2) of the Securities Act of 1933.

On or about September 8, 2004, the Company issued 900,000 shares of common stock valued at \$522,000 (\$0.58 per share) to US EURO Consulting, Inc. for services to be rendered. At the time of the issuance, the Company provided US EURO Consulting, Inc. access to all available material information about Karma Media. Also, as a professional financial consulting entity, US EURO Consulting, Inc. and its principals had a degree of financial sophistication, which allowed them to make an independent assessment of the investment merits of Karma Media. On the basis of these facts, Karma Media claims that the issuance of stock to US EURO Consulting, Inc. was qualified for the exemption from registration contained in Section 4(2) of the Securities Act of 1933.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

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

(a)

Exhibits required by Item 601 of Regulation S-B

Exhibit Number	Name and/or Identification of Exhibit
3.	Articles of Incorporation & By-Laws
(a)	Articles of Incorporation of Le Gourmet Co., Inc. filed on June 21, 2001, incorporated by reference to the Registration Statement on Form SB-2, as amended, filed with the SEC on June 19, 2002.
(b)	Bylaws of Le Gourmet Co., Inc. adopted on June 21, 2001, incorporated by reference to the Registration Statement on Form SB-2, as amended, filed with the SEC on June 19, 2002.
(c)	Certificate Of Amendment of Articles of Incorporation of Le Gourmet, Inc., incorporated by reference to the Information Statement on Form 14(C), filed with the SEC on March 24, 2003.
(d)	Certificate Of Amendment of Articles of Incorporation of Estelle Reyna, Inc., incorporated by reference to the Information Statement on Form 14(C), filed with the SEC on August 26, 2003.
10.	Material Contracts
(a)	Publishing Contract/Release Form, incorporated by reference to the Registration Statement on Form SB-2, as amended, filed with the SEC on June 19, 2002.
(b)	Correspondence with Mr. Einhorn and Ms. Reyna Regarding a Gift of Assets and Assignment of Revenues incorporated by reference to the Annual Report on Form 10-KSB filed with the SEC on March 13, 2003.
(c)	

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Independent Contractor Agreement with Matthew Boyce, incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on May 7, 2003.

(d)

Marketing Agreement between Prince Marketing Group, Inc. and Estelle Reyna, incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on May 7, 2003.

(e)

Broadcast Agreement between MBE 247, Markwell Productions, and Estelle Reyna Incorporated, incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on May 7, 2003.

(f)

The Planet Internet Services Terms and Conditions of Service, incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on November 14, 2003.

(g)

Engagement agreement between the Company and Dennis K. Rodman, Inc. incorporated by reference to the Annual Report on Form 10-KSB filed with the SEC on April 9, 2004.

(h)

Site Integration and Linking Agreement between the Company and A Special Wish Foundation incorporated by reference to the Annual Report on Form 10-KSB filed with the SEC on April 9, 2004.

(i)

Amended and Restated Consultant Agreement between Christopher Pair and the Company incorporated by reference to the Annual Report on Form 10-KSB filed with the SEC on April 9, 2004.

(j)

Marketing Agreement with Radiovisa Corporation, incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on May 14, 2004.

(k)

Programming Agreement with Urban America Television, incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on May 14, 2004.

(l)

Reseller Agreement with Wildgate Wireless, Inc., incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on August 10, 2004.

(m)

Qool Aid LLC Promotion Order, incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on August 10, 2004.

(n)

Broadcast Agreement with Olympusat, incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on August 10, 2004.

(o)

Broadcast Agreement with WRCX, incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on August 10, 2004.

(p)

Broadcast Agreement with Tiger Eye Broadcasting, incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on August 10, 2004.

(q)

Broadcast Agreement with WJAL, incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on August 10, 2004.

(r)

Broadcast Agreement with WYLE & WLLT, incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on August 10, 2004.

(s)

Broadcast Agreement with ATEL TV, incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on August 10, 2004.

(t)

Broadcast Agreement with Radio Difusión y Comunicación, incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on August 10, 2004.

(u)

Management Consulting Agreement with Dartmouth Capital, Inc., incorporated by reference to the Quarterly Report on Form 10-QSB filed with the SEC on August 10, 2004.

(v)

Broadcast Agreement with Globe Entertainment Television.

(w)

Broadcast Agreement with WKM RADIO.

(x)

Financial Services Consulting Agreement with US EURO Consulting.

(y)

Engagement Agreement with US EURO Securities.

(z)

License Agreement with OBE TV.

(aa)

Interactive Marketing and Content Distribution Agreement with AltNet.

(bb)

Agreement with Broadcast Marketing Corp.

(cc)

Program License Agreement with America One Television.

(dd)

Broadcast Agreement with CVMCommunications Group Limited

31. Officer certifications pursuant to the Sarbanes-Oxley Act of 2002.

32. Certification Pursuant to Title 18, United States Code, Section 1350, as Adopted Pursuant to Section 906 Of The Sarbanes-Oxley Act Of 2002.

(b) Reports on Form 8-K

During the quarter ended September 30, 2004, Karma Media filed no Reports on Form 8-K.

SIGNATURES

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

Karma Media, Inc.
(Registrant)

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Dominique Einhorn Dominique Einhorn	President & CEO, Director	November 12, 2004
/s/ Estelle Reyna Estelle Reyna	Secretary, Director	November 12, 2004
/s/ Michael C. Markwell Michael C. Markwell	Treasurer, Director, Principal Financial Officer, Principal Accounting Officer	November 12, 2004

