K2 DIGITAL INC
Form 10QSB
November 14, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(MARK ONE)

|X| QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

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

Commission File No. 1-11873

K2 DIGITAL, INC.

(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware	13-3886065
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

c/o Thomas G. Amon
500 Fifth Avenue, Suite 1650
New York, NY 10110
(Address of Principal Executive Offices)

(212) 810-2430
(Issuer's Telephone Number, Including Area Code)

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

Yes |X| No |_|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) (Pursuant to rule 33-8587)

Yes |X| 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:

Class	Outstanding at October 31, 2006

Common stock, par value $.01 per share	4,982,699

Transitional Small Business Disclosure Format (check one):

Yes |_| No |X|

K2 DIGITAL, INC. AND SUBSIDIARY

INDEX

PAGE

PART 1 - FINANCIAL INFORMATION

PART I
FINANCIAL INFORMATION

K2 DIGITAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2006

(UNAUDITED)

ASSETS

CURRENT ASSETS:	
Cash	$ 75,337
Note receivable - net	9,253
Investment in security available-for-sale	17,080
Total current assets	$101,670

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:	
Accounts payable	$ 117,412
Accrued expenses	9,000
Total current liabilities	126,412
STOCKHOLDERS' DEFICIT:	
Convertible preferred stock, $0.01 par value, 1,000,000 shares authorized; 1,000,000 shares issued and outstanding	165,000
Common Stock, $0.01 par value, 25,000,000 shares authorized; 5,400,116 shares issued and 4,982,699 shares outstanding	54,001
Additional paid-in capital	8,317,910
Accumulated other comprehensive income	14,780
Accumulated deficit	(7,757,137)
	794,554
Less: Treasury stock, 417,417 shares, at cost	(819,296)
Total stockholders' deficit	(24,742)
Total liabilities and stockholders' deficit	$ 101,670

See the accompanying notes to condensed consolidated financial statements.

K2 DIGITAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 2006	2005
Revenues	$ -- --	$ -- --
Other income	10,281	17,836
General and administrative expenses	15,101	29,414
Net income (loss)	$ (4,820)	$ (11,578)
Comprehensive income (loss):		
Net income (loss)	$ (4,820)	$ (11,578)
Other comprehensive income (loss), unrealized gain (loss) on available-for-sale security:		
Unrealized holding gain (loss) arising during the period	(480)	4,600
Reclassification adjustment for gain included in net income	--	(17,800)
	(480)	(13,200)
Comprehensive income (loss)	$ (5,300)	$ (24,778)
Net income (loss) per common share - basic and diluted	$ (0.001)	$ (0.005)
Weighted average common shares outstanding - basic and diluted	4,982,699	4,982,699

See the accompanying notes to condensed consolidated financial statements.

3

K2 DIGITAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

NINE MONTHS ENDE

	SEPTEMBER 30,	
	2006	200
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (21,908)	$ (27,
Adjustments to reconcile net loss to net cash used in operating activities:		
Realized gain on sale of available-for-sale security		(27,
Changes in operating assets and liabilities:		
Note receivable - net	(9,253)	
Accounts payable and accrued expenses	(59,862)	13,
Net cash used in operating activities	(91,023)	(42,
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Gross proceeds from sale of available-for-sale security		38,
Gross proceeds from sale of convertible preferred securities	165,000	
Net increase (decrease) in cash	73,977	(4,
CASH, beginning of period	1,360	7,
CASH, end of period	$ 75,337	$ 3,

See the accompanying notes to condensed consolidated financial statements.

K2 DIGITAL, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. PRIOR BUSINESS AND GOING CONCERN CONSIDERATION

Through August 2001, K2 Digital, Inc. (together with its wholly-owned subsidiary, the "Company") was a strategic digital services company that provided consulting and development services including analysis, planning, systems design and implementation. In August 2001, the Company completed the sale of fixed and intangible assets essential to its business operations to Integrated Information Systems, Inc. ("IIS").

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed above, the Company sold fixed and intangible assets essential to its business operations to IIS and effectively became a "shell" company with no operational revenues and continuing general and administrative expenses. Further, at September 30, 2006, the Company has cumulative losses of approximately $7.8 million, a minimal cash balance and working capital and stockholders' deficits of approximately $24,700. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

AGREEMENT AND PLAN OF MERGER

On December 22, 2005, the Company signed a letter of intent ("LOI") with NPOWR Digital Media, Inc. ("NPOWR"), a California corporation, whereby NPOWR will acquire K2 preferred shares convertible into 1,500,000 shares of K2 common stock for $165,000 and subsequently enter into a merger agreement with the Company.

On January 24, 2006, the Company completed the sale of 1,000,000 shares of its convertible preferred shares to NPOWR at a purchase of $165,000. K2, its wholly-owned subsidiary, K2 Acquisition Corp. ("Merger Sub") and NPOWR intended to enter into a merger agreement whereby Merger Sub would merge with and into NPOWR. In connection with the merger, the shareholders of NPOWR would have acquired a controlling interest in K2. Further, prior to closing of the transaction, K2 was entitled to issue up to 500,000 stock options with an exercise price of $0.11 per share to its officers and directors. The transaction is subject to the normal conditions for closing, including satisfactory due diligence by the parties.

On July 27, 2006, the Company and NPOWR determined to abandon the contemplated merger between the parties. Pursuant to the LOI, NPOWR is obligated to pay all expenses of the Company as specified in the LOI to the date of termination. On September 29, 2006, NPOWR executed a promissory note in the amount of $18,253 representing amounts due to the Company under the LOI. The note is payable in four installments, the first due November 1, 2006 in the amount of $4,753 followed by three additional payments of $4,500 on or before December 31, 2006, February 28, 2007 and April 30, 2007.

The Company will continue to actively seek other business alternatives, through acquisition or merger or consider other options such as liquidation of the Company under Chapter 7 of the U.S. Bankruptcy Code.

5

2. BASIS OF PRESENTATION, NET LOSS PER SHARE AND NEW ACCOUNTING PRONOUNCEMENTS

GENERAL

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company and reflect all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the financial position as of September 30, 2006 and the financial results for the three and nine months ended September 30, 2006 and 2005, in accordance with accounting principles generally accepted in the United States of America for interim financial statements and pursuant to Form 10-QSB and Regulation S-B. Certain information and footnote disclosures normally included in the Company's annual audited consolidated financial statements have been condensed or omitted pursuant to such rules and regulations.

The results of operations for the three and nine months ended September 30, 2006 and 2005 are not necessarily indicative of the results of operations to be expected for a full fiscal year. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the fiscal year ended December 31, 2005, which are included in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission.

PRINCIPLES OF CONSOLIDATION

The accompanying condensed consolidated financial statements include the accounts of K2 Digital, Inc. and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

USE OF 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NET LOSS PER SHARE OF COMMON STOCK

The Company complies with SFAS No. 128, "Earnings Per Share", which requires dual presentation of basic and diluted earnings per share. Basic loss per share excluded dilution and is computed by dividing net loss available to common stockholders by the weighted average common shares outstanding for the year. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted to common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Since the effect of outstanding options is anti-dilutive, they have been excluded from the Company's computation of net loss per common share. Therefore, basic and diluted loss per common share for the three and nine months ended September 30, 2006 and 2005 were the same.

STOCK-BASED COMPENSATION

On January 1, 2006, we adopted SFAS No. 123R, "Share-Based Payment," which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB No. 25, "Accounting for Stock Issues to Employees." Among other items, SFAS 123R requires companies to record compensation expense for share-based awards issued to employees and directors in exchange for services provided. The amount of compensation expense is based on the estimated fair value of the awards on their grant dates and is recognized over the required service periods. The compensation amount includes (i) compensation expense for stock options granted prior to January 1, 2006 but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the pro-forma provisions of SFAS 123 and (ii) compensation expense for stock options granted subsequent to January 1, 2006 based on the grant date fair value estimated in accordance with SFAS 123R. During the three and nine months ended September 30, 2006 and 2005, the Company did not grant options pursuant to its stock option plans.

3. CONVERTIBLE PREFERRED STOCK

The Company is authorized to issue 1,000,000 shares of its convertible preferred stock with such designations, voting and other rights and preferences, as may be determined from time to time by the Board of Directors and shareholders. Each holder of preferred shares is entitled to one vote for each full share of common stock into which such holders' preferred shares would be convertible. In the event of any liquidation, dissolution, or winding up of the Company, the holders of preferred stock shall be entitled to receive, prior and in preference to any distributions to the holders of common stock, the amount of $0.165 per share of preferred stock. If that amount is not sufficient to meet the full preferential amount to which the holders of the preferred stock are entitled, then the entire assets of the Company shall be distributed to the holders of the preferred stock on a proportional basis. During the quarter ended March 31, 2006, the Company completed the sale of 1,000,000 shares of its convertible preferred shares at a purchase price of $165,000. These shares are convertible into 1,500,000 common shares at a ratio of 1 preferred share to 1.5 common shares, at the discretion of the Board of Directors and shareholders.

7

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following presentation of management's discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's Condensed Consolidated Financial Statements, the accompanying notes thereto and other financial information appearing elsewhere in this Report. This section and other parts of this Report contain forward-looking statements that involve risks and uncertainties. The Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations-Factors Affecting Operating Results and Market Price of Stock".

OVERVIEW

Founded in 1993, the Company is a digital professional services company that, until August 2001, historically provided consulting and development services, including analysis, planning, systems design, creation and implementation. In August 2001, upon the sale of assets to Integrated Information Systems, Inc. ("IIS"), the Company effectively ceased operations.

On December 22, 2005, the Company signed a letter of intent with NPOWR Digital Media, Inc. ("NPOWR"), a California corporation, whereby NPOWR will acquire K2 preferred shares convertible into 1,500,000 shares of K2 common stock for $165,000 and subsequently enter into a merger agreement with the Company.

On January 24, 2006, the Company completed the sale of 1,000,000 shares of its convertible preferred shares to NPOWR at a purchase of $165,000. K2, its wholly-owned subsidiary, K2 Acquisition Corp. ("Merger Sub") and NPOWR intended to enter into a merger agreement whereby Merger Sub would merge with and into NPOWR. In connection with the merger, the shareholders of NPOWR would have acquired a controlling interest in K2. Further, prior to closing of the transaction, K2 was entitled to issue up to 500,000 stock options with an exercise price of $0.11 per share to its officers and directors. The transaction is subject to the normal conditions for closing, including satisfactory due diligence by the parties.

On July 27, 2006, the Company and NPOWR determined to abandon the contemplated merger between the parties. Pursuant to the LOI, NPOWR is obligated to pay all expenses of the Company as specified in the LOI to the date of termination. On September 29, 2006, NPOWR executed a promissory note in the amount of $18,253 representing amounts due to the Company under the LOI. The note is payable in four installments, the first due November 1, 2006 in the amount of $4,753 followed by three additional payments of $4,500 on or before December 31, 2006, February 28, 2007 and April 30, 2007. The Company has established a provision for $9,000 for to amounts due after December 31, 2006.

The Company will continue to actively seek other business alternatives, through acquisition or merger or consider other options such as liquidation of the

Company under Chapter 7 of the U.S. Bankruptcy Code.

RESULTS OF OPERATIONS

During the three and nine months ended September 30, 2006, the Company, operating as a "shell," incurred net losses of approximately ($4,800) and ($21,900) respectively. During the three and nine months ended September 30, 2005, the Company incurred net losses of approximately ($11,600) and ($27,800) respectively. The Company's net income (loss) for the three and nine months ended September 30, 2006 consists primarily of accounting, legal and other expenses related to maintaining the "shell" corporation. The Company's results from operations were improved as a result of reimbursement of ongoing public company costs from NPOWR totaling $30,000 paid during the quarter ending June 30, 2006 and $18,253 NPOWR committed by execution of a promissory note for that amount in the quarter ending September 30, 2006, reduced by an allowance of $9,000. The Company's net loss for the three and nine months ended September 30, 2005 was the result of the Company's ongoing public company expenses, partially offset by a gain on the sale of a portion of its available-for-sale security.

CONTINUING OPERATIONS, LIQUIDITY AND CAPITAL RESOURCES

Subsequent to the sale of assets to IIS, the Company effectively ceased operations and has been in the process of liquidating assets, collecting accounts receivable and paying creditors. The Company does not have any ongoing business operations or revenue sources beyond those assets not purchased by IIS. Accordingly, the Company's remaining operations will be limited to either a business combination with an existing business or the winding up of the Company's remaining business and operations, subject, in either case, to the approval of the stockholders of the Company. These, among other matters, raise substantial doubt about the Company's ability to continue as a going concern.

The Company's cash balance of $75,337 at September 30, 2006 increased by $73,977 or approximately 5439% compared to the $1,360 cash balance at December 31, 2005. This increase is primarily due to the Company's issuance of $165,000 preferred stock in connection with the proposed merger with NPOWR, offset by paying down its obligations. In the quarter ending September 30, 2005 the Company sold 4,000 shares of TFSM at $5.60 per share.

FACTORS AFFECTING OPERATING RESULTS AND MARKET PRICE OF STOCK

For the past five years, the Company has been a "shell" company with no operational revenues and continuing general and administrative expenses.

In August 2001, the Company sold certain fixed and intangible assets essential to its business operations and entered into a purchase agreement containing provisions restricting the Company's ability to continue to engage in the business engaged in by the Company prior to the transaction. Accordingly, the Company's remaining operations have been limited to liquidating assets, collecting accounts receivable, paying creditors, and negotiating and structuring the transactions contemplated in the non-binding letter of intent or the winding up of the Company's remaining business and operations, subject, in either case, to the approval of the stockholders of the Company.

The transactions contemplated may never be consummated.

To date, the Company has been unsuccessful in finding a suitable merger partner. The Company's remaining assets may not be sufficient to meet its ongoing costs of remaining a shell company and paying its liabilities. The Company's Board of Directors is considering other options, which may include a merger or similar transaction with another entity, or liquidation of the Company under Chapter 7 of the U.S. Bankruptcy Code.

9

ITEM 3. CONTROLS AND PROCEDURES

The Company's President has conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, the President concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to him in a timely fashion. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the President completed his evaluation.

10

PART II

OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

3.1	Certificate of Incorporation of the Company*
3.1(a)	Amendment to Certificate of Incorporation of the Company*
3.1(b)	Amendment to Certificate of Incorporation of the Company**
3.2	By-laws of the Company*
3.2(b)	Amendment to By-laws of the Company*
3.3	Letter Agreement, dated June 28, 2002, between the Company and First Step***
4.1	Common Stock Certificate*
4.2	Voting Agreement among Messrs. Centner, de Ganon, Cleek and Szollose*
31.1	Sarbanes-Oxley Act Section 302 Certification
32.1	Sarbanes-Oxley Act Section 900 Certification

* Incorporated by reference from the Company's Registration Statement on Form SB-2, No. 333-4319.

** Incorporated by reference from the Company's Form 10-KSB for its fiscal year ended December 31, 2000.

*** Incorporated by reference from the Registrant's Form 10-QSB/A filed on June 28, 2002.

SIGNATURES

In accordance with the requirements 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.

K2 DIGITAL, INC.

Date: November 14, 2006

By: /s/ Gary Brown

Gary Brown
President
(Principal Financial and
Accounting Officer)