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SCARAB SYSTEMS INC
Form 10QSB
February 10, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly Period ended December 31, 2003

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition Period from _____ to _____

Commission file number 000-19949

SCARAB SYSTEMS, INC.
(Exact name of small business issuer as specified in its charter)

Colorado 84-1153522
(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

406-280 Nelson Street, Vancouver, British Columbia V6B 2E2
(Address of principal executive offices)

(604) 688-1075
(Issuer's telephone number)

(Former name, former address and former fiscal year,
if changed since last report)

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

As of February 10, 2004, 10,013,319 shares of Common Stock of the Issuer were
outstanding. EXCEPT WHERE AND AS OTHERWISE STATED TO THE CONTRARY IN THIS
QUARTERLY REPORT, ALL SHARE, PRICES PER SHARE AND EXERCISE PRICES HAVE BEEN
ADJUSTED TO GIVE RETROACTIVE EFFECT TO THE CHANGE IN THE PRICE PER SHARE OF THE
COMMON STOCK RESULTING FROM THE ONE-FOR-TEN SHARE CONSOLIDATION OF THE COMMON
STOCK THAT TOOK EFFECT ON JANUARY 20, 2004.

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

Part I -- Financial Information

Item 1. Financial Statements

The consolidated financial statements included herein have been prepared by
Scarab Systems, Inc. (the "Company") without audit, pursuant to the rules and
regulations of the Securities and Exchange Commission (SEC). Certain
information and footnote disclosures normally included in financial statements
prepared in accordance with generally accepted accounting principles have been
omitted pursuant to such SEC rules and regulations. In the opinion of the
Company the accompanying statements contain all adjustments necessary to

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present fairly the financial position of the Company as of December 31, 2003, and its results of operations for the nine-month periods ended December 31, 2003 and 2002 and its cash flows for the nine-month periods ended December 31, 2003 and 2002. The results for these interim periods are not necessarily indicative of the results for the entire year. The accompanying financial statements should be read in conjunction with the financial statements and the notes thereto filed as a part of the Company's annual report on Form 10-KSB.

 SCARAB SYSTEMS, INC.
 (A development stage enterprise)
 Consolidated Balance Sheets
 (Unaudited and Prepared by Management)
 =====

	December 31, 2003 (unaudited)	March 31, 2003

ASSETS		
Current		
Cash and cash equivalents	\$ -	\$ -

Total current assets	-	-

Fixed assets, net of accumulated amortization	1,012	1,305

Total assets	\$ 1,012	\$ 1,305
=====		

LIABILITIES

Current		
Accounts payable and accrued liabilities	\$ 209,699	\$ 124,306
Promissory notes (Note 6)	92,121	85,921

Total current liabilities	301,820	210,227

Promissory notes - non current (Note 6)	7,500	5,000

Total liabilities	309,320	215,227
=====		

STOCKHOLDERS' DEFICIT

Share capital Authorized:		
100,000,000 common shares with a par value		
of \$0.001 per share		
Issued and outstanding: 9,166,299 Common shares		
(March 31, 2003 - 9,166,299)	9,166	9,166

Additional paid in capital	245,123	245,123
Share subscriptions received	40,500	40,500
Deficit accumulated during the development stage	(603,097)	(508,711)

Total stockholders' deficit	(308,308)	(213,922)

Total liabilities and deficiency	\$ 1,012	\$ 1,305
=====		

The accompanying notes are an integral part of these consolidated financial

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statements.

SCARAB SYSTEMS, INC.
 (A development stage enterprise)
 Consolidated Statements of Operations
 (Unaudited and Prepared by Management)

	Nine months ended December 31,	
	2003	2002
	(unaudited)	(unaudited)

General and administrative expenses		
Amortization	\$ 294	\$ 419
Consulting fees	7,146	154,314
Foreign exchange losses	1,708	-
Interest expense	8,614	6,555
Management fees	59,413	60,085
Office expenses	351	28,213
Professional fees	13,261	20,181
Rent	-	26,945
Telephone	-	13,948
Transfer agent and filing fees	3,599	2,000
Travel expenses	-	4,340

Operating loss	(94,386)	(317,000)
Net income from discontinued operations (Note 4)	-	159,000

Net loss for the period	\$ (94,386)	\$ (158,000)
=====		
Net loss per share - basic and diluted	\$ (0.010)	\$ (0.018)
=====		
Weighted average number of common shares outstanding	9,166,299	8,802,948
=====		

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

SCARAB SYSTEMS, INC.
 (A development stage enterprise)
 Consolidated Statements of Cash Flows
 (Unaudited and Prepared by Management)

	Nine months ended December 31,	
	2003	2002
	(unaudited)	(unaudited)

Cash flows used in operating activities		
Net loss for the period	\$ (94,386)	\$ (158,000)
Adjustment to reconcile net loss to net cash used in operating activities:		
- Amortization	294	419
- Foreign exchange loss	1,200	-
Changes in non-cash working capital items:		
- accounts payable and accrued liabilities	85,392	58,581

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Net Cash used in operating activities	(7,500)	(99,000)

Cash flows provided by financing activities		
Proceeds from issuance of promissory notes	7,500	85,000
Proceeds from issuance of common stock	-	14,000

Net Cash provided by financing activities	7,500	99,000

Increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of period	-	-

Cash and cash equivalents, end of period	\$ -	\$ -
=====		

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

Notes to Consolidated Financial Statements (Unaudited and Prepared by Management)

1. Incorporation and Continuance of Operations

The consolidated financial statements presented are those of Scarab Systems, Inc. and its wholly-owned subsidiary Catalyst Technologies Inc. ("Catalyst"). Collectively, they are referred to herein as "the Company".

Scarab Systems Inc. ("Scarab") was incorporated on October 8, 2001 under the laws of the State of Nevada. The Company, a development stage enterprise, was in the business of providing a comprehensive range of services to the e-commerce sector.

On March 25, 2002, iRV, Inc. ("iRV"), a company incorporated in Colorado on August 1, 1999, entered into an Agreement and Plan of Reorganization with Scarab, whereby iRV issued 8,260,000 share of its common stock in exchange for all of the outstanding common stock of Scarab. As part of the definitive agreement and plan of reorganization, iRV transferred all its assets and liabilities to its subsidiaries and then spun off the subsidiaries and iRV became a non-operating shell company without any assets or liabilities. Immediately prior to the Agreement and Plan of Reorganization, iRV had 1,446,290 shares of common stock issued and outstanding. The acquisition was accounted for as a recapitalization of Scarab because the shareholders of Scarab controlled iRV after the acquisition. Scarab was treated as the acquiring entity for accounting purposes and iRV was the surviving entity for legal purposes. The issued and outstanding common stock of Scarab prior to the completion of acquisition was restated to reflect the 8,260,000 common stock issued by iRV.

Subsequent to the completion of Reorganization, Scarab transferred all its assets and liabilities to iRV and ceased to exist, and on March 24, 2003, iRV's name changed to Scarab Systems Inc. Accordingly, the consolidated financial statements are the continuation of Scarab.

On January 20, 2004, as approved by the requisite number of shares at the Special Meeting of Shareholders of the Company on September 24, 2002, a one-for-ten share consolidation of the Company's Stock took effect for shareholders of record. All per share information for all prior periods

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have been adjusted accordingly.

The consolidated financial statements for the nine months ended December 31, 2003 and 2002 have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. Management believes the statements include all adjustments of a normal recurring nature necessary to present fairly the results of operations for the interim periods.

The Company has not generated any revenue and requires additional funds to maintain its operations. Management's plans in this regard are to raise equity financing as required. These conditions raise substantial doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from this uncertainty.

2. Significant Accounting Policies

The Consolidated Financial Statements for the nine months ended December 31, 2003 and 2002 have been prepared in accordance with the accounting policies described in the Company's annual report on Form 10-KSB. The preparation of financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of 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. Management believes the statements include all adjustments of a normal recurring nature necessary to present fairly the results of operations for the interim periods.
Notes to Consolidated Financial Statements
(Unaudited and Prepared by Management)

3. Going Concern

These financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America applicable to a going concern which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The general business strategy of the Company is to review and possibly acquire a technology or resource business or property. The Company has incurred operating losses and requires additional funds to meet its obligations and maintain its operations. Management's plan in this regard is to raise equity financing as required. These conditions raise substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments that might result from this uncertainty.

	December 31, 2003	March 31, 2003
Deficit accumulated during the development stage	\$603,097	\$508,711
Working capital deficit	\$301,820	\$210,227

4. Reclassification

The Company has reclassified amounts presented in prior period financial statements to properly disclose the operating results of the Company's discontinued operations.

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5. Common Stock

No shares of common stock were issued by the Company during the nine months ended December 31, 2003.

6. Promissory Notes

	December 31, 2003	March 31, 2003
Promissory notes due to related party	\$41,523	\$41,361
Promissory notes due to unrelated party and convertible at \$0.05 to \$0.075 per share	17,312	16,531
Promissory notes; unrelated party	40,786	33,029
Total	99,621	90,921
Less: non-current portion	(7,500)	(5,000)
Total current portion	\$92,121	\$85,921

Notes to Consolidated Financial Statements
(Unaudited and Prepared by Management)

6. Promissory Notes (continued)

The above table includes the principal amounts of promissory notes outstanding. Interest payable on the notes is included in accounts payable and accrued liabilities.

On June 10, 2003, the Company issued an unsecured promissory note to an investor for \$7,500 in connection with a debt financing. The note bears interest at the rate of 3% per year and is repayable on June 10, 2005. Proceeds from the financing were used by the Company for working capital.

As at December 31, 2003, approximately \$17,312 of the promissory notes were due and payable immediately. The Company is discussing an extension of the notes with the noteholders but there are no certainties that an extension will be granted.

In addition, \$25,309 of the promissory notes are payable on demand. The Company has not received a demand notice for repayment from any of the noteholders.

7. Related Party Transactions

During the nine month period ended December 31, 2003, the Company paid or accrued consulting fees of \$59,413 to the directors and senior officers of the Company. At December 31, 2003, there was approximately \$108,200 in accrued liabilities that are owing to related parties.

8. Subsequent event

Subsequent to the nine months ended December 31, 2003, accrued debt of \$55,130, including \$34,281 owing to a related party, was forgiven.

On February 2, 2004, the Company announced it was undertaking a private

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placement of 1,200,000 common shares at \$0.10 per share for gross proceeds of \$120,000. There are no assurances that this financing will be completed.

In addition, on February 2, 2004, a related party promissory note in the amount of \$40,000, along with accrued interest of \$11,000, was converted into 510,000 common shares with an effective exercise price of \$0.10 per share.

Subsequent to the nine months ended December 31, 2003, the Company issued 96,000 common shares for share subscriptions received in the fiscal year ended March 31, 2003. The Company has also issued 241,020 common shares for services rendered in the fiscal year ended March 31, 2003.

Item 2. Management's Discussion and Analysis or Plan of Operations

FORWARD LOOKING STATEMENTS

The information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties, including statements regarding the Company's capital needs, business strategy and expectations. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential" or "continue", the negative of such terms or other comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks discussed below, and, from time to time, in other reports the Company files with the SEC, including the Company's Annual Report on Form 10-KSB for the year ended March 31, 2003. These factors may cause the Company's actual results to differ materially from any forward-looking statement. The Company disclaims any obligation to publicly update these statements, or disclose any difference between its actual results and those reflected in these statements. The information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Overview

Our business was to provide services to the e-commerce industry. Historically, these services have been comprised of marketing, e-commerce development and the sale and distribution of transaction processing and payment services, including rechargeable stored value payment and money transfer systems that can be used for both electronic commerce and point of sale purchases. In fiscal year 2003, the Company ceased all operations.

The Company has been in the development stage since its inception. It has had no significant operating revenue to date, has accumulated losses of \$603,097 and will require additional working capital to sustain its minimal operations. These circumstances raise substantial doubt as to the Company's ability to continue as a going concern.

The Company intends to continue to identify and review opportunities in the technology and resources sectors. The Company is currently reviewing various financing alternatives, including the possibility of an additional private equity offering. There can be no assurance, however, that such opportunities or financings will be available to the Company or, if it is, that it will be available on terms acceptable to the Company. If the Company is unable to obtain the financing necessary to support its operations, it may be unable to

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continue as a going concern.

The Company currently has no facilities and no employees.

Results of Operations

The results of operations include the results of the Company and its wholly owned subsidiary, Catalyst. During the year ended March 31, 2003, Catalyst became inactive due to the curtailing of substantially all of its operations and, thereafter, all administration operations of the Company were performed in the parent company.

For the Nine Months Ended December 31, 2003 Compared to the Nine Months Ended December 31, 2002

Operating Expenses From Continued Operations. Operating expenses consisted of consulting fees, management fees, professional fees and other general corporate expenses. Operating expenses were \$94,386 for the nine months ended December 31, 2003, compared with \$317,000 for the nine months ended December 31, 2002. This decrease in operating expenses reflects the curtailing of substantially all of the Company's operating activities during the current fiscal period. Consulting fees were \$7,146 for the nine months ended December 31, 2003, compared with \$154,314 for the nine months ended December 31, 2002 when the Company was actively engaging financial consultants to raise equity for the Company's operations. Professional fees were \$13,261 for the nine months ended December 31, 2003, compared with \$20,181 for the nine months ended December 31, 2002. The professional fees related to the costs associated with the Company's last audited statements and periodic reporting obligations. General office expenses, including rent, telephone were nil for the nine months ended December 31, 2003, compared with \$26,945 and \$13,948, respectively, for the nine months ended December 31, 2002 when the Company was operating. Management fees were \$59,413 for the nine months ended December 31, 2003, compared with \$60,085 for such fees for the nine months ended December 31, 2002. The Company recorded amortization expenses of \$294 for the nine months ended December 31, 2003, compared with \$419 for the nine months ended December 31, 2002. Interest costs were \$8,614 for the nine months ended December 31, 2003 compared with \$6,555 for the nine months ended December 31, 2002.

Net Income From Discontinued Operations. The Company ceased all of its business during the fiscal year ended March 31, 2003 and, as a result, combined all operating revenues and expenses related to the previous business under discontinued operations. The Company recorded no net income from discontinued operations for the nine months ended December 31, 2003, compared with a net income of \$159,000 for the nine months ended December 31, 2002.

Net Loss for the Period. The Company recorded a net loss of \$94,386 for the nine months ended December 31, 2003, compared with a net loss of \$158,000 for the nine months ended December 31, 2002.

Liquidity and Capital Resources

The Company's cash on hand was nil as at December 31, 2003 and March 31, 2003. The Company's working capital deficit was \$301,820 as at December 31, 2003, compared to a working capital deficit of \$210,227 as at March 31, 2003.

The Company has funded its business to date from sales of its common stock and promissory notes from shareholders and related parties. The Company will require additional financing in order to complete our stated plan of operations for the next twelve months.

Our cash used in operating activities for the nine months ended December 31, 2003 in the amount of \$7,500 was funded from the issuance of a promissory note.

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During the comparative period, the cash used in operating activities of \$99,000 and was funded by the issuance of common stock for gross proceeds of \$14,000 and funded by the issuance of \$85,000 in promissory notes.

Other than the foregoing, Management knows of no trends, demands or uncertainties that are reasonably likely to have an impact on the Company's liquidity or capital resources other than the matured promissory notes and demand promissory notes.

Plan of Operations

We believe that it is in the best interests of the Company and its shareholders that we actively seek acquisition candidates. We believe the Company can offer owners of potential merger or acquisition candidates the opportunity to acquire a controlling ownership interest in a public company at substantially less cost than is required to conduct an initial public offering. The target company will, however, incur significant post-merger or acquisition registration costs in the event target company shareholders wish to offer a portion of their shares for subsequent sale. Further, while target company shareholders will receive "restricted securities" in any merger or acquisition transaction, those restricted securities will represent, if a trading market develops for our common stock, ownership in a "publicly-traded" as opposed to a "privately-held" company. We also believe target company shareholders may benefit in obtaining a greater ownership percentage in the Company remaining after a merger or acquisition than may be the case in the event a target company offered its shares directly for sale to the public. Nevertheless, our officers and directors have not conducted market research and are not aware of statistical data which would support the perceived benefits of a merger or acquisition transaction for target company shareholders.

We expect to concentrate primarily on the identification and evaluation of prospective merger or acquisition "target" entities including private companies, partnerships or sole proprietorships. We do not intend to act as a general or limited partner in connection with partnerships we may merge with or acquire. We have not identified any particular area of interest within which it will concentrate its efforts.

We plan to seek to merge with or acquire a target company with either assets or earnings, or both, and that preliminary evaluations undertaken by us will assist in identifying possible target companies. We have not established a specific level of earnings or assets below which it would not consider a merger or acquisition with a target company. Moreover, we may identify a target company, which is generating losses, which it will seek to acquire or merge with it. The merger with or acquisition of a target company which is generating losses or which has negative shareholders' equity may have a material adverse affect on the price of our common stock.

It should be noted, however, that our independent accountants audit report for the fiscal year ended March 31, 2003 contains a qualification and explanatory language that due to our recurring losses from operations and net capital deficiency, substantial doubts exist about our ability to continue as a going concern.

Plan of Acquisition

We plan to follow a systematic approach to identify our most suitable acquisition candidates. In the past, our officers and directors have not used consultants in an effort to identify potential target companies, although it is possible that such consultants may be used in the future. To date, there have been no discussions with and there exists no agreements or understandings with any particular consultant to provide such services for us. If a finder or consultant is engaged, of which there can be no assurance, we will make an

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effort to limit the scope and duration of the services to be performed by such consultant so as to minimize any costs associated with such services

As a reporting Company under Section 13 of the Exchange Act, we will be required to prepare and file an annual report on Form 10-KSB containing audited financial statements certified by an independent public accountant. In addition, we will be required to file Quarterly Reports on 10-QSB for the first, second and third interim periods which include unaudited financial statements for the quarter and year to date. In addition to the Quarterly and Annual Reports, extraordinary events outside of the ordinary course of business must be reported on Form 8-K, such as a change of control, a material acquisition or disposition of assets, changes in accountants and the like. Under certain circumstances, an acquisition of significant assets or a significant subsidiary will require the preparation of additional audited financial statements for the acquired business as well as pro forma financial information. Our officers, directors and ten-percent shareholders will also be subject to the beneficial ownership reporting requirements and short swing trading restrictions contained in Section 16 of the Exchange Act. All of the foregoing reporting requirements, and the associated costs of complying with such requirements, could limit the pool of potential acquisition or merger candidates.

While we will make every effort to fully comply with its reporting obligations under the Exchange Act, should such obligations be suspended for any reason in the future, we intend to continue to voluntarily file periodic reports.

First, we intend to concentrate on identifying any number of preliminary prospects which may be brought to the attention of management through present associations, personal contacts of our affiliates, or by virtue of very limited advertising campaigns we may conduct. As is customary in the industry, we may pay a fee to a non-affiliate for locating a merger or acquisition candidate. If any such fee is paid, it will be approved by our Board of Directors and will be in accordance with industry standards. After preliminary candidates are identified, we will then apply certain broad criteria to the prospects. Essentially, this will entail a determination by us as to whether or not the prospects are in an industry which appears promising and whether or not the prospects themselves have potential within their own industries. During this initial screening process, we will ask and receive answers to questions framed to provide appropriate threshold information, depending upon the nature of the prospects' businesses. Such evaluation is not expected to be an in-depth analysis of the target company's operations although it will encompass a look at most, if not all, of the same areas to be examined once one or more target companies are selected for an in-depth review. For example, at this stage, we may look at a prospect's unaudited balance sheet. Once a prospect is selected for an in-depth review, we will review the prospect's audited financial statements. Nevertheless, this evaluation is anticipated to provide a broad overview of the business of the target company and should allow a large percentage of preliminary prospects to be eliminated from further consideration.

Assuming we are able to complete the preliminary evaluation process and select a limited number of companies for further study, of which there can be no assurance, it may enter into preliminary negotiations with target company management in order to obtain detailed financial and operational information. Following our receipt of such information, we will conduct an in-depth analysis of five major areas of concern with respect to the target company as follows:

1. **Managerial and Financial Stability.** We will review audited financial statements of the target company, to the extent available, and will also research the background of each director and member of management of the target company in order to discern whether the stability of the company is such that further negotiations are warranted.

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2. Industry Status. We will research the potential of the target company's industry. The concern here is whether the industry is in a growth, stagnant or declining stage.

3. Production of Product. If the target company is a manufacturer, we will review whether it has the necessary resources or access to the necessary resources and supplies to produce a quality product in a timely manner.

4. Acceptance and Potential of Product. We will review the acceptance of the target company's product in the market place and assess the competition. We will also review whether or not the product is realistic: is there potential for the product to be workable and to fulfill its intended purpose.

5. Development of Target Company. We will review the target company's stage of development (examples: start-up stage, established company, etc.).

The foregoing is an outline of the areas of concern which most often arise and merit careful scrutiny by management. Because of the possible varieties of target companies, which may come to our attention, additional factors will most likely be considered in any given analysis. Also, the procedures used in such a review are expected to vary depending upon the target company being analyzed. We may select a target company for further negotiations even though the target may not receive a favorable evaluation as to some of the five areas of concern.

We expect to enter into further negotiations with target company management following successful conclusion of financial and evaluation studies. Negotiations with target company management will be expected to focus on the percentage of the Company that target company shareholders would acquire in exchange for their shares in the target company. Depending upon, among other things, the target company's assets and liabilities, our shareholders will in all likelihood hold a lesser percentage ownership interest in the Company following any merger or acquisition. Assets of a merger or acquisition candidate would be valued at historical cost for transactional purposes. The percentage ownership may be subject to significant reduction in the event we acquire a target company with substantial assets. Any merger or acquisition we effect can be expected to have a significant dilutive effect on the percentage of shares held by our then shareholders.

The final stage of any merger or acquisition to be effected by us will require us to retain the services of our counsel and a qualified accounting firm in order to properly effect the merger or acquisition. We may be expected to incur significant legal fees and accounting costs during the final stages of a merger or acquisition. Also, if the merger or acquisition is successfully completed, we anticipate that certain costs will be incurred for public relations, such as the dissemination of information to the public, to the shareholders and to the financial community. If we are unable to complete the merger or acquisition for any reason, our capital may be substantially depleted if legal fees and accounting costs have been incurred. We intend to retain legal and accounting services only on an as-needed basis in the latter stages of a proposed merger or acquisition.

We anticipate that it may be necessary to raise additional funds within the next 12 months to meet expenditures required for operations. There are no current plans or commitments in this regard, and there can be no assurance that we will be able to raise the funds necessary to continue its limited operations.

It is possible that acquisition targets are seeking a business combination with us as part of their efforts to raise additional capital. We do not intend to raise capital, either through the public or private sale of equity or debt securities to enable us to provide bridge capital to any potential acquisition

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candidate. Nor do we intend to borrow any funds or use any proceeds of any equity or debt offering to make payments to any of our management, promoters, or their respective affiliates or associates.

Role of Management in Acquisition Process

The consummation of any acquisition will likely result in a change in control of the Company, pursuant to which the officers, directors and principal shareholders of the acquired company will be issued sufficient numbers of shares of our common stock to exercise voting control immediately following the acquisition. In addition, the transaction may involve the sale by our current principal shareholders of all or a portion of their beneficial ownership of our common stock to the control persons of the acquired company. Such sale would be upon terms privately negotiated between the principals of the acquired company and our principal shareholders. Our shareholders will, in all likelihood, not be provided with information, including financial statements, of a business to be acquired or be afforded an opportunity to approve or consent to any stock buy-out transaction involving our principal shareholders. Moreover, our other shareholders will in all likelihood not be offered an opportunity to sell their shares of our common stock on the same or similar terms and conditions. We have not adopted and do not plan to adopt in the future any policy that would restrict, limit or prohibit management or our principal shareholders from negotiating a buy-out of their stock in connection with an acquisition transaction.

Competition

We will remain an insignificant participant among the firms, which engage in mergers with and acquisitions of privately financed entities. There are many established venture capital and financial concerns that have significantly greater financial and personnel resources and technical expertise than we do. In view of our combined limited financial resources and limited management availability, we will continue to be at a significant competitive disadvantage compared to our competitors. Also, we will be competing with numerous other small, blank check, public companies.

Regulation and Taxation

We could be subject to regulation under the Investment Company Act of 1940 in the event we obtain and continue to hold a minority interest in a number of entities. Our plan of operation is based upon the us obtaining a controlling interest in any merger or acquisition target company and, accordingly, we may be required to discontinue any prospective merger or acquisition of any company in which a controlling interest will not be obtained.

We could also be required to register under the Investment Company Act of 1940 in the event it comes within the definition of an Investment Company contained in that Act due to its assets consisting principally of shares held in a number of other companies. We intend to seek at most one or two mergers or acquisitions, which transactions we believe will not result in the Company being deemed an "investment company" since its interests will be in majority or wholly owned subsidiaries which themselves will not be investment companies.

Any securities that we acquire in exchange for our common stock will be "restricted securities" within the meaning of the Securities Act of 1933 (the "1933 Act"). If we elected to resell such securities, such sale could not proceed unless a registration statement had been declared effective by the Securities and Exchange Commission or an exemption from registration was available. Section 4(1) of the 1933 Act, which exempts sales of securities not involving a distribution, would in all likelihood be available to permit a private sale if various restrictions pertaining to such a sale are complied with. Although our plan of operation does not contemplate resale of securities

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acquired, in the event such a sale were necessary, we would be required to comply with the provisions of the 1933 Act.

As a condition to any merger or acquisition, it is possible that the target company management may request registration of our common stock to be received by target company shareholders. In such event, we could incur registration costs, and we intend to require the target company to bear most, if not all, of the cost of any such registration. If we do contribute toward the cost of such registration, our maximum contribution will be limited to the extent that we have assets available for such contribution. Alternatively, we may issue "restricted securities" to any prospective target company, which securities may be subsequently registered for sale or sold in accordance with Rule 144 of the Securities Act of 1933.

We intend to structure a merger or acquisition in such a manner as to minimize federal and state tax consequences to the Company and any target company.

Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

Our Chief Executive Officer and Chief Financial Officer have, within 90 days of the filing date of this report, evaluated our internal controls and procedures designed to ensure that information required to be disclosed in reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within specified time periods. After such review, the Company's Chief Executive Officer and Chief Financial Officer have concluded that said information was accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the evaluation referred to in paragraph (a) above.

Part II. Other Information

Item 1. Legal Proceedings

We are not a party to any material legal proceedings and to our knowledge, no such proceedings are threatened or contemplated.

Item 2. Changes in Securities and Use of Proceeds

We did not complete any unregistered sales of our common stock during our fiscal quarter ended December 31, 2003.

Item 3. Default upon Senior Notes

A 6% promissory note in the amount of \$10,000, along with accrued interest, became due and payable on December 31, 2003. The Company and the noteholder are currently discussing the possibility of extending the terms of the note but there are no assurances the maturity date of the note will be extended. This note is convertible into common stock of the Company at an exercise price of \$0.05 per share.

A 20% promissory note in the approximate amount of \$7,312, along with accrued interest, became due and payable on December 31, 2002. The Company and the noteholder are currently discussing the possibility of extending the terms of the note but there are no assurances the maturity date of the note will be

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extended. This note is convertible into common stock of the Company at an exercise price of \$0.075 per share.

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

No matters were submitted to our security holders for a vote during the fiscal quarter ending December 31, 2003.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit	Description
31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.1	Officers' Certification

(b) Date of Current Report	Description
July 8, 2003	Form 8-K reporting withdrawal of Form 15
August 1, 2003	Form 8-K reporting that appointee declined directorship.
February 2, 2004	Form 8-K reporting proposed financing and conversion of promissory note

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.

SCARAB SYSTEMS, INC.
(Registrant)

Date: February 10, 2004 /s/ Thomas E. Mills
Thomas E. Mills, President

Date: February 10, 2004 /s/ John Allen
John Allen, Chief Financial Officer

Exhibit 31.1

Certification

I, Thomas E. Mills, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Scarab Systems, Inc.;

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2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

February 10, 2004

By /s/ Thomas E. Mills
Thomas E. Mills
Chief Executive Officer and President

Exhibit 31.2

Certification

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I, John S. Allen, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Scarab Systems, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

February 10, 2004

By /s/ John S. Allen
John S. Allen
Chief Financial Officer

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EXHIBIT 32.1

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Scarab Systems, Inc. on Form 10-QSB for the quarter ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the Report), we, Thomas E. Mills, Chief Executive Officer and President of the Company, and John S. Allen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 10, 2004

By /s/ Thomas E. Mills
Thomas E. Mills
Chief Executive Officer and President

Date: February 10, 2004

By /s/ John S. Allen
John S. Allen
Chief Financial Officer