

SKYLYNX COMMUNICATIONS INC
Form 10QSB/A
May 25, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-QSB/A-1

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

For Quarter Ended: September 30, 2005

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: 0-27635

SKYLYNX COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware

37-1465836

(State or other jurisdiction
of incorporation or organization)

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

1528 Stickney Point Road

Sarasota, Florida 34231

(Address of principal executive offices, including zip code)

Registrant's Telephone No., including area code: (941) 926-2510

500 John Ringling Boulevard, Sarasota, Florida 34236

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

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, \$.0001 par
value

30,323,726

Class
 Number of shares outstanding at September 30, 2005.

Part 1. Financial Statements

SKYLYNX COMMUNICATIONS, INC.
 Condensed Consolidated Balance Sheet
 (Unaudited)
 September 30, 2005

| | As Restated (See Note 10) |
|---|------------------------------|
| Assets | |
| Current assets: | |
| Cash | \$ 551,210 |
| Accounts receivable, net | 26,686 |
| Note receivable | 50,000 |
| Prepaid expenses | 51,662 |
| Prepaid loan costs | 74,762 |
| Other current assets | <u>1,756</u> |
| Total current assets | 756,076 |
| Property and equipment, net | 23,624 |
| Other assets | <u>28,704</u> |
| | <u>\$808,404</u> |
| Liabilities and Shareholders' Deficit | |
| Current liabilities: | |
| Accounts payable | \$ 590,530 |
| Accrued salaries | 492,942 |
| Other accrued liabilities | 89,397 |
| Deferred revenues | 36,306 |
| Derivative liability | 385,909 |
| Loan payable | 504,497 |
| Loan payable to related parties | <u>2,800</u> |
| Total current liabilities | 2,102,381 |
| Convertible debentures | 147,520 |
| Convertible debentures, related parties | 105,038 |
| Note payable net of discount of \$364,219 | <u>635,781</u> |
| Total liabilities | 2,990,720 |
| Shareholders' deficit: | |
| Common stock | 3,032 |
| Additional paid-in capital | 6,070,439 |
| Retained deficit | <u>(8,255,787)</u> |

| | |
|-----------------------------|--------------------|
| Total shareholder's deficit | <u>(2,182,316)</u> |
| | <u>\$ 808,404</u> |

See accompanying notes to condensed consolidated financial statements.

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SKYLYNX COMMUNICATIONS, INC.
Condensed Consolidated Statements of Operations
(Unaudited)

| | Three Months Ended <u>September 30,</u> | |
|--|--|---------------------|
| | <u>As Restated</u> <u>(See Note 10)</u> | |
| | <u>2005</u> | <u>2004</u> |
| Internet service revenue | <u>\$ 85,526</u> | <u>\$ 85,428</u> |
| Operating expenses: | | |
| Costs of revenue | 56,163 | 51,710 |
| Selling, general and administrative | 361,008 | 302,694 |
| Research and development | 12,883 | 196,137 |
| Stock-based compensation: | | |
| Salaries | 0 | 34,900 |
| Board services | 0 | 40,000 |
| Employees | 2,600 | 0 |
| Consulting | <u>0</u> | <u>24,000</u> |
| Total operating expenses | <u>432,654</u> | <u>649,441</u> |
| Loss from operations | <u>(347,128)</u> | <u>(564,013)</u> |
| Other (expense) income: | | |
| Other income | 625 | 0 |
| Interest expense | <u>(75,956)</u> | <u>0</u> |
| Total other (expense) income | <u>(75,331)</u> | 0 |
| Income tax provision | <u>0</u> | <u>0</u> |
| Net loss | <u>\$ (422,459)</u> | <u>\$ (564,013)</u> |
| Basic and diluted loss per share | <u>\$ (0.01)</u> | <u>\$ (0.04)</u> |
| Weighted average common shares outstanding | <u>30,212,314</u> | <u>15,686,898</u> |

See accompanying notes to condensed consolidated financial statements.

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SKYLYNX COMMUNICATIONS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| | Three Months Ended | |
|--|----------------------|------------------|
| | <u>September 30,</u> | |
| | As Restated | |
| | (Note 10) | |
| | <u>2005</u> | <u>2004</u> |
| Cash flows from operating activities: | | |
| Net loss | \$(422,459) | \$(564,013) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 3,787 | 24,058 |
| Amortization of discount on note payable | 21,690 | 0 |
| Common stock issued in exchange for services | 2,600 | 24,000 |
| Common stock issued in exchange for salaries and board services | 0 | 56,900 |
| Changes in current assets and liabilities, net of effects of acquisition of Rover Telcom: | | |
| Accounts receivable | 3,995 | 12,445 |
| Other assets | (20,626) | 2,974 |
| Prepaid expenses | (26,070) | 664 |
| Accounts payable and accrued liabilities | 7,366 | 337,235 |
| Deferred revenues | <u>(604)</u> | <u>(2,391)</u> |
| Net cash (used in) operating activities | <u>(430,321)</u> | <u>(108,128)</u> |
| Cash flows from investing activities: | | |
| Equipment purchases | <u>0</u> | <u>(14,817)</u> |
| Net cash provided (used) in investing activities | <u>0</u> | <u>(14,817)</u> |
| Cash flows from financing activities: | | |
| Proceeds from related party loans | 0 | 55,340 |
| Repayment of related party loans | (9,000) | 0 |
| Proceeds from issuance of note payable | 1,000,000 | 0 |
| Repayment of notes payable | (3,200) | 0 |
| Increase in deferred loan costs | (32,332) | 0 |
| Proceeds from sale of common stock | <u>0</u> | <u>65,000</u> |
| Net cash provided by financing activities | <u>955,468</u> | <u>120,340</u> |
| Net change in cash | 525,147 | (2,605) |
| Cash, beginning of period | 26,063 | <u>22,712</u> |

| | | |
|---|------------------|------------------|
| Cash, end of period | <u>\$551,210</u> | <u>\$ 20,107</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for income taxes | <u>\$ 0</u> | <u>\$ 0</u> |
| Cash paid for interest | <u>\$ 0</u> | <u>\$ 0</u> |

See accompanying notes to condensed consolidated financial statements.

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SKYLYNX COMMUNICATIONS, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1: Basis of presentation

The financial statements presented herein have been prepared by the Company in accordance with the accounting policies in its Form 10-KSB dated June 30, 2005 and should be read in conjunction with the notes thereto.

In the opinion of management, all adjustments (consisting only of normal recurring adjustments) which are necessary to provide a fair presentation of operating results for the interim period presented have been made. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the year.

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

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

Financial data presented herein are unaudited.

Note 2: Related party transactions

As of June 30, 2005 the Company has loan payables due to its officers and director as follows:

| | |
|--|-----------------|
| Loans payable to a board member, at interest of 8%, unsecured, due on demand | <u>\$ 2,800</u> |
|--|-----------------|

During the three months ended September 30, 2005, the Company issued 40,000 shares of its common stock in exchange for services rendered from officers and directors of the company. The stock issuances were recorded at the market value of the Company's common stock on the transaction date. Stock based compensation expense of \$2,600 was recognized in the accompanying consolidated financial statements for the three months ended September 30, 2005.

Note 3: Income taxes

The Company records its income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". The Company incurred net operating losses during the three months ended September 30, 2005 resulting in a deferred tax asset, which was fully allowed for; therefore, the net benefit and expense resulted in \$-0- income taxes.

Note 4: Notes payable (restated)

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During the three months ended September 30, 2005, the Company entered into a Securities Purchase Agreement providing for the issuance of 8% Callable Secured Convertible Notes in the aggregate principal amount of \$3,000,000 and warrants to purchase an aggregate of 10,000,000 shares of common stock for the aggregate consideration of \$3,000,000.

As of September 30, 2005, the Company had issued convertible notes of \$1,000,000 due July 29, 2008 that are convertible into approximately 30,303,303 shares of common stock at an effective conversion price of \$.033 per share. The debentures were issued at par and pay interest of 8% annually. The holder has the right to convert at any time on or prior to the earlier of the maturity date, the date of payment of a default amount or optional prepayment amount. However, in no event shall the note holder be entitled to convert any portion of the note in excess of that portion of which the sum of (i) the number of shares of common stock beneficially owned by the holder and its affiliates and (ii) the number of shares of common stock issuable upon conversion that would result in beneficial ownership by the holder and its affiliates of more than 4.99% of the outstanding shares of common stock of the Company.

As of September 30, 2005, the Company issued to the holders of the 8% Callable Secured Convertible Notes warrants to purchase 3,332,533 shares of the Company's common stock. The warrant holders have the right to convert at any time at an exercise price of \$0.20 per share. The warrants may be exercised by the holder upon payment to the Company in cash or, if the resale of the warrant shares by the holder is not registered pursuant to an effective registration statement, by delivery to the Company of a written notice of an election to effect a "Cashless Exercise." In a Cashless Exercise, in lieu of paying the exercise price in cash, the holder would surrender the warrant for the number of shares of Common Stock determined by multiplying the number of Warrant Shares to which it would otherwise be entitled by a fraction, the numerator of which is the difference between the current market price per share of common stock and the exercise price, and the denominator of which would be the current market price per share of common stock.

In no event shall the warrant holder be entitled to exercise a number of warrants in excess of the number of warrants upon exercise of which the sum of (i) the number of shares of Common Stock beneficially owned by the holder and its affiliates and (ii) the number of shares of Common Stock issuable upon exercise of the Warrants would resulting beneficial ownership by the holder and its affiliates of more than 4.9% of the outstanding shares of Common Stock.

Pursuant to the Registration Rights Agreement, the Company must use its best efforts to obtain effectiveness of a Registration Statement covering all shares under the Security Agreement as soon as practicable. If the statement is not declared effective by the SEC on or prior to 105 days from the date of closing (now extended to June 7, 2006), the Company will make payments to the investors as partial relief for the damages to the Investors in an amount equal to two percent 2% per month of the then outstanding principal amount until sales could be made pursuant to such Registration Statement. Such amounts may be paid in cash or, at the Company's option, in shares of common stock priced at the conversion price on such payment date.

The Company also issued a Security Agreement in connection with the above agreement to provide a first priority security interest in certain property of the Company in order to secure the prompt payment, performance and discharge of all of the Company's obligations under the convertible note and warrant agreements.

Because the financing included registration rights related to share settlement of the embedded conversion features and the warrants that the Company has determined not to be within its control and because the number of shares issuable under the financings are variable, the Company has allocated the proceeds between the various instruments and derivative elements at their fair value pursuant to EITF 00-19. As of September 30, 2005, none of the debt was

converted.

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The following table presents the allocation of proceeds of the financing:

| | | |
|---|--|-------------|
| Principal balance of the notes | | \$1,000,000 |
| Less reduction for: | | |
| | Fair value of the warrants | (259,276) |
| | Fair value of beneficial conversion option | (126,633) |
| Recorded at closing | | \$ 614,091 |
| Amortization of discount (interest expense) | | |
| | through September 30, 2005 | 21,690 |
| | Carrying value at September 30, 2005 | \$ 635,781 |

Note 5: Derivative Financial Instruments

The Company generally does not use derivative instruments to hedge exposures to cash-flow risks or market-risks that may affect the fair values of its financial instruments. However, certain other financial instruments, such as warrants and embedded conversion features, are classified as liabilities when either (a) the holder possesses rights to net-cash settlement or (b) physical or net-share settlement is not within the control of the Company. In such instances, net-cash settlement is assumed for financial accounting and reporting. Such financial instruments are initially recorded at fair value and subsequently adjusted to fair value at the close of each reporting period.

As of September 30, 2005, the derivative liability is composed of the following:

| | | Number of Shares Derivative Liability Can Be Settled |
|---------------------------------------|-----------|--|
| Free standing warrants | \$259,276 | 3,332,533 |
| Embedded beneficial conversion option | 126,633 | 1,592,626 |
| | \$385,909 | 4,925,159 |

No derivative gain or loss was recognized in the period ending September 30, 2005.

Note 6: Shareholders' deficit (restated)

During the three months ended September 30, 2004, the Company agreed to pay Black Knight Ventures, Inc., or its designees, an investment banking engagement fee consisting of 300,000 shares of common stock. In addition, Black Knight Ventures will receive a transaction fee, to be determined, upon their successfully arranging a financial or other transaction for the Company. Mr. Weiss was elected to the Board of Directors of the Company on September 13, 2004. Mr. Weiss and his wife, Lisa Weiss, are principals in Black Knight Ventures, Inc., a NASD member that provides investment-banking services to the Company.

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During the three months ended September 30, 2004, the Company issued 169,000 shares of its common stock in exchange for current year salaries and bonuses to its officers and employees. The stock issuances were recorded at the market value of the Company's common stock on the transaction date. Stock-based compensation expense of \$34,900 was recognized in the accompanying consolidated financial statements for the three months ended September 30, 2004.

During the three months ended September 30, 2004, the Company issued 500,000 shares of its common stock to compensate members of the board of directors for their services as directors. The stock issuances were recorded at the market value of the Company's common stock on the transaction date. Stock-based compensation expense of \$40,000 was recognized in the accompanying consolidated financial statements for the three months ended September 30, 2004.

During the three months ended September 30, 2004, the Company sold 928,573 shares of its common stock to investors for gross proceeds totaling \$65,000. During the three months ended September 30, 2003, the Company sold 143,334 shares of its common stock to investors for gross proceeds totaling \$86,200.

Following is a schedule of changes in shareholders' deficit for the three months ended September 30, 2005:

| | Common stock | | Additional | Retained | |
|---|---------------|---------------|----------------|----------------|---------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Paid-In</u> | <u>Deficit</u> | <u>Total</u> |
| | | | <u>Capital</u> | | |
| Balance, June 30, 2005 | 30,019,442 | \$3,001 | \$6,067,870 | \$(7,833,328) | \$(1,762,457) |
| Adjustment to issuance of common stock | 264,284 | 27 | (27) | | |
| Issuance of common stock for services | 40,000 | 4 | 2,596 | | 2,600 |
| Net loss for the three months ended September 30, 2005 | | | | (422,459) | (422,459) |
| Balance, September 30, 2005 | 30,323,726 | \$3,032 | \$6,070,439 | \$(8,255,787) | \$(2,182,316) |

7. Stock Warrants

On July 29, 2005, the Company granted to the Buyers of the convertible notes under the Securities Purchase Agreement described in Note 4, above, 3,332,533 warrants to purchase shares of its Common Stock. The warrants carry an exercise price of \$0.20 per share and vest on the date of grant. No warrants have yet been exercised.

The market price of the Company's common stock on the date of grant was \$0.079. The exercise price and fair value of these warrants as of September 30, 2005, were \$0.20 and \$0.077, respectively.

The fair value for the warrants granted during the three months ended September 30, 2005 was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

| | |
|--------------------------------|---------|
| Risk-free interest rate | 4.02% |
| Dividend yield | 0.00% |
| Volatility factor | 296.5% |
| Weighted average expected life | 3 years |

The following schedule summarizes the changes in the Company's outstanding stock awards:

| | Options Outstanding | | Weighted Average |
|-------------------------------|---------------------|-----------------------------|-----------------------------|
| | Number of Shares | Exercise Price Per Share | Exercise Price Per Share |
| Balance at June 30, 2005 | 486,823 | \$3.00 | \$3.00 |
| Awards granted | 3,332,533 | \$0.20 | \$0.20 |
| Awards exercised | - | \$0.00 | \$ - |
| Awards cancelled/expired | - | \$0.00 | \$ - |
| Balance at September 30, 2005 | 3,819,356 | \$0.20 to \$3.00 | \$0.56 |

8. Commitments and Contingencies

OptiGate, Inc. v. Rover Telcom, Inc., (hereafter called "Rover"). OptiGate, Inc., (hereafter "OptiGate") filed suit against Rover, a wholly owned subsidiary of the Company in the U. S. District Court for the Northern District of California, Fresno Div., CA No. 03 CE CG 03733. The claim asserts breach of contract by Rover. The amount claimed is \$150,000 for the alleged breach. Rover has counterclaimed for damages, breach and that the contract is void from inception. After suit was filed, service had and pleadings filed by both parties, OptiGate filed for Chapter 7 proceedings in the U. S. Bankruptcy Court, Middle District of California. The U. S. Trustee has opened negotiations to settle the matter by offering to accept \$100,000 and we have countered by offering \$10,000 as this is the amount of legal fees we expect to incur in defending this matter. Any judgment we obtain is expected to be not collectable. Management of the Company believes that the likelihood of a material adverse outcome is remote.

Angelo v. SkyLynx Communications, Inc

., involves a dissident shareholder/lender to Founders Industries, Inc., (hereafter called "Founders"), from whom the company acquired control of Basic Technologies, Inc., (hereafter called "BTEC") after all assets and liabilities had been transferred from BTEC to Founders. The plaintiff allegedly loaned money to BTEC long prior to the transaction by which control was transferred to new management. The plaintiff accepted shares of BTEC (now Founders) along the way. The liability was taken over by Founders and BTEC received a hold harmless from Founders. Founders did not pay back the debt and suit ensued. Founders and Brian Walker, its president, have agreed to hold SkyLynx harmless from this debt. The exposure of the company is believed to be negligible. This case was dismissed as to the company on July 15, 2005.

The company had employment agreements with Fred Anderson, Jon Fatula and Kevin Gorman. Under those agreements the company agreed to negotiate a reimbursement to these employees certain sums allegedly owed them by StarCom Wireless, Inc., (hereafter called "StarCom"). Mr. Fatula and Mr. Gorman filed secured claims against the bankrupt estate of StarCom in the case referred to in item 1 above. Mr. Anderson did not file a civil claim despite being urged to do so. Mr. Anderson did file a claim in the Ch. 11 and Ch. 7 bankruptcy cases of StarCom.

Mr. Anderson says that some amount in excess of \$300,000 is due him and that is disputed. First he made no claim in bankruptcy for any amount. Secondly he was urged to file suit against StarCom more two years ago and declined. Thirdly his claim against SkyLynx includes salary claims on behalf of his wife who is not a party to our agreement. Fourth the amount claimed includes sales by a company owned by Mr. Anderson and allegedly not paid for by StarCom. SkyLynx did not agree to reimburse him for any of those items. Finally it appears that Mr. Anderson was being paid back salary by StarCom and AllCom, Inc., an affiliate of StarCom, but not giving any credit to SkyLynx for the amounts paid.

In all three instances negotiated amounts may be owed. No such negotiations have occurred or been requested by these employees. Therefore, only a *de minimis* amount is due on any of these matters at present. The contracts do not specify any amount and further, subject to "...the final terms and conditions being negotiated between us."

No other known or asserted claims against the Company exist to the knowledge of Management.

9. Subsequent Event

On November 29, 2005, SkyLynx Communications, Inc. the (the "Company") executed a definitive Agreement and Plan of Merger ("the Merger Agreement") between and among the Company, an acquisition subsidiary SkyLynx Acquisition Company ("SAC"), and Vetco Hospitals, Inc., a California corporation ("VETCO").

The Merger Agreement provides for the Merger of SAC with and into VETCO, with VETCO to be the surviving corporation.

Upon consummation of the Merger, all issued and outstanding shares of VETCO common stock will be converted automatically into an aggregate of 1,000,000 SkyLynx Series A Convertible Preferred Stock having a Stated Value of \$3.00 per share (the "Series A Preferred"). The number of shares of Series A Preferred to be issued to the VETCO shareholders shall be adjusted at the time of Closing such that the total number of shares of SkyLynx Common Stock issuable upon conversion of the Series A Preferred (the "Conversion Stock") shall represent, at closing, 55% of the total issued and outstanding shares of SkyLynx Common Stock, on the Closing Date, on a fully diluted basis, excluding shares of Common Stock issued or reserved for issuance pursuant to Securities Purchase Agreements and related instruments entered into by SkyLynx with NIR Group investors.

At the Effective Time, all issued and outstanding options, warrants and other rights to acquire shares of VETCO common stock, if any, shall be converted into identical rights with respect to SkyLynx Common Stock. No new options are to be granted prior to closing.

On December 16, 2005, the Company executed a definitive Agreement and Plan of Merger with Digital Computer Integration Corporation ("DCI"), Defense Technology Systems, Inc. and Zenon Maiekowicz as Shareholders of DCI (Shareholders). Under the terms of the agreement, if consummated, the Company will acquire 100% of the issued and outstanding shares of DCI in exchange for 572,776 shares of Series B Convertible Preferred Stock and 3,748,518 shares of Series C Convertible Preferred Stock.

The acquisitions of Vetco and DCI are subject to customary conditions. If consummated, the acquisitions will result in a change in control of the Company.

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10. Restatement

The Company has restated its September 30, 2005 condensed financial statements to correct an error in accounting for warrants and the beneficial conversion feature associated with the convertible notes payable discussed in Note 4. The warrants were originally bifurcated, valued at their fair value, classified as equity, and the note was discounted. The beneficial conversion was originally valued at its intrinsic value under EITF 98-5, classified as equity and interest expense was immediately recognized.

As discussed in Notes 4 and 5, because registration rights related to share settlement of the warrants and embedded conversion features are not within the Company's control, EITF 00-19 requires allocation of the proceeds between the various instruments (the notes, warrants, and beneficial conversion feature) and the derivative elements must be carried at fair value. Further, because the note holder possesses rights to net-cash settlement and because physical or

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net-share settlement is not within the control of the Company, EITF 00-19 assumes net-cash settlement and requires the derivative to be classified as a liability.

The following sets forth the effects of the restatement discussed above. Amounts reflected as "As Previously Reported" represent those amounts included in the Company's Form 10-QSB for the period ended September 30, 2005.

Condensed Consolidated Balance Sheet (Unaudited)

September 30, 2005

As

Previously

| | Reported | Adjustment | As Restated |
|-----------------------------|----------------|----------------|----------------|
| Derivative liability | - | \$385,909 | \$385,909 |
| Note payable | \$ 755,128 | \$ (119,347) | \$635,781 |
| Net of discount of | \$244,872 | \$ 119,347 | \$364,219 |
| Additional paid-in capital | \$ 7,070,439 | \$ (1,000,000) | \$6,070,439 |
| Retained deficit | \$ (8,989,225) | \$ 733,438 | \$ (8,255,787) |
| Total shareholders' deficit | \$ (1,915,754) | \$ (266,562) | \$ (2,182,316) |

Condensed Consolidated Statement of Operations (Unaudited)

September 30, 2005

As

Previously

| | Reported | Adjustment | As Restated |
|------------------|--------------|------------|-------------|
| Interest expense | \$ (809,394) | \$733,438 | \$ (75,956) |

Condensed Consolidated Statement of Cash Flows (Unaudited)

September 30, 2005

As

Previously

| | Reported | Adjustment | As Restated |
|--|----------------|--------------|--------------|
| Net loss | \$ (1,155,897) | \$ 733,438 | \$ (422,459) |
| Amortization of discount on note payable | \$755,128 | \$ (733,438) | \$21,690 |

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

The following discussion and analysis covers material changes in the financial condition of SkyLynx Communications, Inc., (the "Company") since June 30, 2005 and material changes in our results of operations for the three months ended September 30, 2005, as compared to the same period in 2004. This discussion and analysis should be read in conjunction with "Management's Discussion and Analysis" included in the Company's Annual Report on Form 10-KSB for the year ended June 30, 2005, including audited financial statements contained therein, as filed with

the Securities and Exchange Commission.

Special note regarding forward-looking statements

This report contains forward-looking statements within the meaning of federal securities laws. These statements plan for or anticipate the future. Forward-looking statements include statements about our future business plans and strategies, statements about our need for working capital, future revenues, results of operations and most other statements that are not historical in nature. In this Report, forward-looking statements are generally identified by the words "intend", "plan", "believe", "expect", "estimate", and the like. Investors are cautioned not to put undue reliance on forward-looking statements. Except as otherwise required by applicable securities statutes or regulations, the Company disclaims any intent or obligation to update publicly these forward-looking statements, whether as a result of new information, future events or otherwise. Because forward-looking statements involve future risks and uncertainties, these are factors that could cause actual results to differ materially from those expressed or implied.

Results of Operations

Three Months Ended September 30, 2005 versus Three Months Ended September 30, 2004

We incurred a net loss of \$422,459 (as restated) for the three months ended September 30, 2005, as compared to a net loss of \$564,013 for the three months ended September 30, 2004 due to the following:

Stock-based compensation decreased to \$2,600 for the three months ended September 30, 2005 as compared to \$98,900 for the three months ended September 30, 2004. The reduction in the Company's stock price caused the reduction of stock-based compensation in the three months ended September 30, 2005 compared to the same period in 2004.

Sales revenue remained relatively consistent at \$85,526 for the three months ended September 30, 2005, as compared to \$85,428 for the comparative period in the prior year.

Costs of revenue increased approximately 9 percent, to \$56,163 for the three months ended September 30, 2005, as compared to \$51,710 for the three months ended September 30, 2004 primarily due to an increase in our Internet backhaul charges.

General and administrative expenses increased approximately 44 percent, to \$361,008 for the three months ended September 30, 2005, as compared to \$302,694 for the three months ended September 30, 2004. The increase is related to increased general and administrative costs in our Sarasota, Florida and Seattle, Washington operations and decreased general and administrative costs in our Fresno, California Internet Service Provider operations.

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Interest expense increased to \$75,956 (as restated) for the three months ended September 30, 2005 as compared to \$0 interest expense for the same period in 2004. This is due to the Company issuing convertible debentures and amortizing the value of the warrants and beneficial conversion features.

General and administrative costs incurred in the Sarasota, Florida and Seattle, Washington operations consist mainly of salaries, travel and professional fees related to our search for new business opportunities. General and administrative costs incurred in the Fresno, California decreased due to a decrease in salaries and benefits.

Liquidity and Capital Resources

We have current assets of \$756,076 (including \$551,210 in cash) compared with current liabilities of \$2,102,381 (as restated), resulting in a working capital deficit of \$1,346,305 as of September 30, 2005. Our auditors have questioned our ability to continue as a going concern in our June 30, 2005 annual audited financial statements due to our significant operating losses incurred since inception and our working capital deficit. We rely on loans and private sales of equity to maintain liquidity. Our capital resources include private stock sales and cash advances from principal shareholders.

Our cash balance at June 30, 2005 increased \$525,147 from \$26,063 to \$551,210 as of September 30, 2005. The increase was mainly due to the proceeds from the issuance of a note payable of \$1,000,000, offset by cash used for the payments of existing loans and negative cash flows from operations of \$430,321. Negative cash flows from operations consisted primarily of our \$422,459 (as restated) net loss.

Until we establish profitable operations, our sources of liquidity will continue to be notes payable, shareholder loans and common stock sales. Our Internet service provider operations incurred a net loss of approximately \$9,350 during the three months ended September 30, 2005 and are not expected to provide operating cash in the foreseeable future.

The Company's future success will be dependent upon its ability to create and provide effective and competitive automatic vehicle location services and the Company's ability to develop and provide new services that meet customers changing requirements; including the effective use of leading technologies to continue to enhance its current services and to influence and respond to emerging industry standards and other technological changes on a timely and cost-effective basis. There can be no assurance that we will achieve these goals.

ITEM 3. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our Management, including our Principal Executive Officer and Principal Accounting Officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report. Based on this evaluation, our Principal Executive Officer and Principal Accounting Officer concluded that our financial disclosure controls and procedures were not effective so as to timely identify, correct and disclose information required to be included in our Securities and Exchange Commission ("SEC") reports due to the Company's limited internal resources and lack of ability to have multiple levels of transaction review. Through the use of external consultants and the audit process, management believes that the financial statements and other information presented herewith are materially correct.

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There have been no significant changes in the Company's internal control over financial reporting or, to our knowledge, in other factors that could significantly affect the Company's internal controls over financial reporting subsequent to the evaluation date.

Certification by each Director and Executive Officer has been executed.

PART 2

OTHER INFORMATION

Item 1 - Legal Information:

OptiGate, Inc. v. Rover Telcom, Inc.,

(hereafter called "Rover"). OptiGate, Inc., (hereafter "OptiGate") filed suit against Rover, a wholly owned subsidiary of the Company in the U. S. District Court for the Northern District of California, Fresno Div., CA No. 03 CE CG 03733. The claim asserts breach of contract by Rover. The amount claimed is \$150,000 for the alleged breach. Rover has counterclaimed for damages, breach and that the contract is void from inception. After suit was filed, service had and pleadings filed by both parties, OptiGate filed for Chapter 7 proceedings in the U. S. Bankruptcy Court, Middle District of California. The U. S. Trustee has opened negotiations to settle the matter by offering to accept \$100,000 and we have countered by offering \$10,000 as this is the amount of legal fees we expect to incur in defending this matter. Any judgment we obtain is expected to be not collectable. Management of the Company believes that the likelihood of a material adverse outcome is remote.

Angelo v. SkyLynx Communications, Inc.

, involves a dissident shareholder/lender to Founders Industries, Inc., (hereafter called "Founders"), from whom the company acquired control of Basic Technologies, Inc., (hereafter called "BTEC") after all assets and liabilities had been transferred from BTEC to Founders. The plaintiff allegedly loaned money to BTEC long prior to the transaction by which control was transferred to new management. The plaintiff accepted shares of BTEC (now Founders) along the way. The liability was taken over by Founders and BTEC received a hold harmless from Founders. Founders did not pay back the debt and suit ensued. Founders and Brian Walker, its president, have agreed to hold SkyLynx harmless from this debt. The exposure of the company is believed to be negligible. This case was dismissed as to the company on July 15, 2005.

The company had employment agreements with Fred Anderson, Jon Fatula and Kevin Gorman. Under those agreements the company agreed to negotiate a reimbursement to these employees certain sums allegedly owed them by StarCom Wireless, Inc., (hereafter called "StarCom"). Mr. Fatula and Mr. Gorman filed secured claims against the bankrupt estate of StarCom in the case referred to in item 1 above. Mr. Anderson did not file a civil claim despite being urged to do so. Mr. Anderson did file a claim in the Ch. 11 and Ch. 7 bankruptcy cases of StarCom.

Mr. Anderson says that some amount in excess of \$300,000 is due him and that is disputed. First he made no claim in bankruptcy for any amount. Secondly he was urged to file suit against StarCom more two years ago and declined. Thirdly his claim against SkyLynx includes salary claims on behalf of his wife who is not a party to our agreement. Fourth the amount claimed includes sales by a company owned by Mr. Anderson and allegedly not paid for by StarCom. SkyLynx did not agree to reimburse him for any of those items. Finally it appears that Mr. Anderson was being paid back salary by StarCom and AllCom, Inc., an affiliate of StarCom, but not giving any credit to SkyLynx for the amounts paid.

In all three instances negotiated amounts may be owed. No such negotiations have occurred or been requested by these employees. Therefore, only a *de minimis* amount is due on any of these matters at present. The contracts do not specify any amount and further, subject to "...the final terms and conditions being negotiated between us."

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For the reasons enumerated above no amount should be specified. At the most a footnote of potential undetermined sums may be owed.

No other known or asserted claims against the Company exist to the knowledge of management.

Item 2 - Recent Sales of Unregistered Securities:

In August 2005, the Company issued an aggregate of 40,000 shares of common stock to employees in consideration of services. The persons receiving the securities qualified as "accredited investors" within the meaning of Rule 502(a) of Regulation D. The securities, which were taken for investment purposes and were subject to appropriate transfer

restrictions and restrictive legend, were issued without registration under the Securities Act in reliance upon the exemption set forth in Section 4(2) of the Securities Act.

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:

| Exhibit No. | Description |
|-------------|---|
| 31 | Certification |
| 32 | Certification Pursuant to U.S.C. Section 1350 |

(b) Reports on Form 8-K:

On November 3, 2005, the Company filed a Current Report on Form 8-K, announcing a change in the name of the Company's Certified Public Accountants and entry into a material definitive agreement.

On November 29, 2005, the Company filed a Current Report on Form 8-K, announcing the entry into a material definitive agreement.

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SKYLYNX COMMUNICATIONS, INC.

Date: May 25, 2006

By: /s/ Gary L. Brown

Gary L. Brown, President,
President and Acting Chief Financial Officer

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