

YAAK RIVER RESOURCES INC
Form 10QSB
August 14, 2003

SECURITIES & EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2003

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number 000-30489

Yaak River Resources, Inc.
(Exact Name of Small Business Issuer as specified in its charter)

Colorado
(State or other jurisdiction of incorporation)

84-1097796
(IRS Employer File Number)

2501 East Third Street, Casper, WY
(Address of principal executive offices)

82609
(Zip Code)

(307) 235-0012
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) had 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

As of August 12, 2003, 67,308,857 shares of Series A Common Stock, par value \$0.0001 per share, were outstanding.

YAAK RIVER RESOURCES, INC.

INDEX TO FORM 10-QSB QUARTERLY REPORT
For the Six Months Ended June 30, 2003

TABLE OF CONTENTS

PAGE

PART I - FINANCIAL STATEMENTS

| | |
|----------------------------------------------------------------------------------------------------|----|
| Item 1. Financial Statements | 3 |
| Report of Certified Public Accountant | 4 |
| Unaudited Balance Sheet at June 30 ,2003 And Audited Balance sheet at December 31, 2002 | 5 |
| Unaudited Statements of Operations For Three months and Six months Ended June 30, 2003 and 2002 | 6 |
| Statement of Stockholders' Equity at June 30, 2003 | 7 |
| Unaudited Statements of Cash Flows, for the Three Months Ended June 30, 2003 and 2002 | 8 |
| Notes to Financial Statements | 9 |
| Item 2. Management's Discussion and Analysis or Plan of Operations | 10 |
| PART II - OTHER INFORMATION | 18 |
| SIGNATURES | 19 |

Item 1. Financial Statements:

BASIS OF PRESENTATION

The accompanying unaudited financial statements are presented in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-QSB and Item 310 under sub-report A of Regulation S-B. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2003 are not necessarily indicative of results that may be expected for the year ending December 31, 2002. For Further information, refer to the financial statements and footnotes, thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 2002.

REPORT ON REVIEW BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

To the Board of Directors
Yaak River Resources, Inc.
Casper, Wyoming

Edgar Filing: YAAK RIVER RESOURCES INC - Form 10QSB

We have reviewed the accompanying balance sheet of Yaak River Resources, Inc. as of June 30, 2003 and the related statements of operations for the three months and six month periods ended June 30, 2003 and 2002, and the related cash flows for the six months ended June 30, 2003 and 2002 included in the accompanying Securities and Exchange Commission Form 10-QSB for the period ended June 30, 2003. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the balance sheet as of December 31, 2002, and the related statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein). In our report dated March 4, 2003, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of June 30, 2003 is fairly stated in all material respects in relation to the balance sheet from which it has been derived.

Michael Johnson & Co., LLC.
Denver, Colorado

July 17, 2003

4

YAAK RIVER RESOURCES, INC.
(A Development Stage Company)
BALANCE SHEETS
(Unaudited)

| | June 30, 2003 | December 31, 2002 |
|-------------------------------------------------|--------------------------|----------------------------------|
| | | |
| ASSETS: | | |
| Current Assets: | | |
| Cash | \$ 756 | \$ 754 |
| | 756 | 754 |
| Total Current Assets | | |
| Other Assets: | | |
| Investment - Properties | 35,743 | 35,743 |
| | 35,743 | 35,743 |
| Total Other Assets | | |
| TOTAL ASSETS | \$ 36,499 | \$ 36,497 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 4,775 | \$ 764 |
| Advances from shareholders' | 2,000 | -- |

Edgar Filing: YAAK RIVER RESOURCES INC - Form 10QSB

| | June 30, 2003 | December 31, 2002 |
|--------------------------------------------------------------------------------------------------------------------------|------------------|-------------------------|
| Total Current Liabilities | 6,775 | 764 |
| Stockholders Equity: | | |
| Preferred stock, \$.0001 par value, 50,000,000 share authorized, issued and outstanding - none | -- | -- |
| Series A - Common stock, \$.0001 par value; 250,000,000 shares authorized; issued and outstanding - 67,308,857 shares | 6,730 | 6,730 |
| Series B - Common stock, \$.0001 par value; 250,000,000 shares authorized; issued and outstanding - none | -- | -- |
| Capital paid-in excess of par value | 378,099 | 378,099 |
| Deficit accumulated during the development stage | (355,105) | (349,096) |
| Total Stockholders Equity | 29,724 | 35,733 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 36,499 | \$ 36,497 |

The accompanying notes are an integral part of the financial statements.

YAAK RIVER RESOURCES, INC.
(A Development Stage Company)
STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | | June 18, 1988 (Inception) to June 30, 2003 |
|-------------------------------|--------------------------------|-------|------------------------------|-------|-----------------------------------------------------------|
| | 2003 | 2002 | 2003 | 2002 | |
| REVENUES: | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| OPERATING EXPENSES: | | | | | |
| Amortization | -- | -- | -- | -- | 1,500 |
| Bank charges | 19 | 6 | 31 | 6 | 613 |
| Legal and accounting | 1,006 | 3,347 | 4,006 | 5,459 | 110,265 |
| Director fees | -- | -- | -- | -- | 800 |
| Office expenses | -- | -- | -- | -- | 7,990 |
| Stock fees and other costs | 962 | -- | 962 | 414 | 11,910 |
| Administration and consulting | 1,010 | -- | 1,010 | -- | 128,085 |
| Mining assessments and fees | -- | -- | -- | -- | 75,479 |
| Bad debt | -- | -- | -- | -- | 6,250 |
| Rent/telephone | -- | -- | -- | -- | 12,213 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | | June 18, 1988 (Inception) to June 30, 355,105 |
|--------------------------------------------------|--------------------------------|-------------------|------------------------------|-------------------|--------------------------------------------------------------|
| Total Operating Expenses | 2,997 | 3,353 | 6,009 | 5,879 | 355,105 |
| Net Loss from Operations | (2,997) | (3,353) | (6,009) | (5,879) | (355,105) |
| Other Income and expenses: | | | | | |
| Interest income | -- | -- | -- | -- | -- |
| Interest expense | -- | -- | -- | -- | -- |
| Other | -- | -- | -- | -- | -- |
| Net Loss | \$ (2,997) | \$ (3,353) | \$ (6,009) | \$ (5,879) | \$(355,105) |
| Weighted average number of shares outstanding | 67,308,857 | 67,308,857 | 67,308,857 | 67,308,857 | |
| Basic and diluted net loss per share | * | * | * | * | |

* Less than \$.01

The accompanying notes are an integral part of the financial statements.

YAAK RIVER RESOURCES, INC.
(A Development Stage Company)
STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

| | # of Shares | Common Stock | Capital Paid In Excess of Par Value | Deficit Accum. During the Development Stage | Totals |
|-----------------------------------|-------------|-----------------|-------------------------------------------|------------------------------------------------------|----------|
| Balance - December 31, 2000 | 64,808,857 | 6,480 | 360,849 | (323,316) | 44,013 |
| Issuance of common stock for cash | 1,500,000 | 150 | 10,350 | -- | 10,500 |
| Net Loss for year | -- | -- | -- | (16,350) | (16,350) |
| Balance - December 31, 2001 | 66,308,857 | 6,630 | 371,199 | (339,666) | 38,163 |

| | # of Shares | Common Stock | Capital Paid In Excess of Par Value | Deficit Accum. During the Development Stage | Totals |
|-----------------------------------|-------------|--------------|-------------------------------------|---------------------------------------------|-----------|
| Issuance of common stock for cash | 1,000,000 | 100 | 6,900 | -- | 7,000 |
| Net Loss for year | -- | -- | -- | (9,430) | (9,430) |
| Balance - December 31, 2002 | 67,308,857 | 6,730 | 378,099 | (349,096) | 35,733 |
| Net Loss for period | -- | -- | -- | (6,009) | (6,009) |
| Balance - June 30, 2003 | 67,308,857 | \$6,730 | \$378,099 | \$(355,105) | \$ 29,724 |

The accompanying notes are an integral part of the financial statements.

YAAK RIVER RESOURCES, INC.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS
(Unaudited)

| | Six Months Ended June 30, | | June 10, 1988 (Inception) to June 30, 2003 |
|-----------------------------------------------------------------------------|------------------------------|-----------|--------------------------------------------------------|
| | 2003 | 2002 | 2003 |
| Cash Flows From Operating Activities: | | | |
| Net (Loss) | \$(6,009) | \$(5,879) | \$(355,105) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Amortization and depreciation | -- | -- | 1,500 |
| Organization costs | -- | -- | (1,500) |
| Stock issued for services | -- | -- | 8,800 |
| Changes in assets and liabilities: | | | |
| Increase in accounts payable and accrued expenses | 4,011 | 3,498 | 4,775 |
| Total adjustments | 4,011 | 3,498 | 13,575 |
| Net Cash Used in Operating Activities | (1,998) | (2,381) | (341,530) |
| Cash Flow From Investing Activities: | | | |
| Exchange of properties - net | -- | -- | 147,167 |
| Investment purchase | -- | -- | (305,410) |
| Net Cash Provided By Investing Activities | -- | -- | (158,243) |
| Cash Flow From Financing Activities: | | | |
| Proceeds from long-term debt | -- | -- | 189,500 |
| Payment of long-term debt | -- | -- | (45,000) |
| Issuance of common stock | -- | -- | 354,029 |
| Advance from shareholder | 2,000 | -- | -- |

| | Six Months Ended June 30, | | June 10, 1988 (Inception) to June 30, |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------|----------------------------------------------------------|
| Net Cash Provided By Financing Activities | 2,000 | -- | 498,529 |
| Increase (Decrease) in Cash | 2 | (2,381) | (1,244) |
| Cash and Cash Equivalents - Beginning of period | 754 | 3,749 | -- |
| Cash and Cash Equivalents - End of period | \$ 756 | \$ 1,368 | \$ (1,244) |
| Supplemental Cash Flow Information: | | | |
| Interest paid | \$ -- | \$ -- | \$ -- |
| Taxes paid | \$ -- | \$ -- | \$ -- |
| Noncash Investing and financing activities: | | | |
| In 1999, the Company exchanged properties with a book value of \$182,910 to a related party in lieu of payment of liabilities of \$147,167 and land with book value of \$35,743 | \$ -- | \$ -- | \$ 182,910 |

The accompanying notes are an integral part of the financial statements.

YAAK RIVER RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Period Ended June 30, 2003

1. Presentation of Interim Information

In the opinion of the management of Yaak River Resources, Inc., the accompanying unaudited financial statements include all normal adjustments considered necessary to present fairly the financial position as of June 30, 2003, and the results of operations for the three months and six months ended June 30, 2003 and 2002, and cash flows for the six months ended June 30, 2003 and 2002. Interim results are not necessarily indicative of results for a full year.

The financial statements and notes are presented as permitted by Form 10-QSB, and do not contain certain information included in the Company's audited financial statements and notes for the fiscal year ended December 31, 2002.

2. Going Concern

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which contemplates continuation of the Company as a going concern. The Company's operations generated no income during the

Edgar Filing: YAAK RIVER RESOURCES INC - Form 10QSB

current period ended and the Company's deficit is \$355,105.

The future success of the Company is likely dependent on its ability to attain additional capital to develop its proposed products and ultimately, upon its ability to attain future profitable operations. There can be no assurance that the Company will be successful in obtaining such financing, or that it will attain positive cash flow from operations.

9

ITEM 1. Financial Statements

See attached financial statements

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

PLAN OF OPERATIONS

Management intends to seek out and pursue a business combination with one or more existing private business enterprises that might have a desire to take advantage of the Company's status as a public corporation. Management does not intend to target any particular industry but, rather, intends to judge any opportunity on its individual merits.

In addition, management intends either to sell its existing real estate interests as an undeveloped package or to spin off the interests into a private subsidiary corporation that has yet to be formed. See "Real Estate Properties."

Real Estate Properties

Since 1999, the Company has owned 91 unimproved lots located in Teller County, Colorado. The lots are zoned for residential development, and comprise a total of approximately 4.7 acres of land. They are located in the Pike's Peak region approximately six miles by road from the historic mining town of Cripple Creek, Colorado, and approximately 40 miles by highway from the Colorado Springs metropolitan area.

The Company acquired the lots from Donald J. Smith, who was the former President and a Director of the Company. In connection with the purchase, the Company's board of directors deemed the lots to have a total value of \$162,000. The purchase price was paid in the form of approximately 23,000,000 treasury shares of the Company's Series A Common Stock.

To date, the Company has not developed the lots, and has reached a determination that it is not feasible for the Company to do so.

Risk Factors

An investment in the securities of the Company involves extreme risks and the possibility of the loss of a shareholder's entire investment. A prospective investor should evaluate all information discussed in this Report and the risk factors discussed below in relation to his financial circumstances before investing in any securities of the Company.

1. No Currently Relevant Operating History. The Company has no currently relevant operating history, revenues from operations, or assets other than cash from private sales of stock. The Company faces all of the risks of a new business and those risks specifically inherent in the investigation, acquisition, or involvement in a new business opportunity. Purchase of any securities of the Company must be regarded as placing funds at a high risk in a new or start-up venture with all of the unforeseen costs, expenses, problems, and difficulties to which such ventures are subject.

10

Edgar Filing: YAAK RIVER RESOURCES INC - Form 10QSB

2. No Assurance of Success or Profitability. There is no assurance that the Company will acquire a favorable business opportunity. Even if the Company were to become involved in a business opportunity, there is no assurance that it would generate revenues or profits, or that the market price of the Company's Common Stock would be increased thereby.

3. Possible Business Not Identified and Highly Risky. The Company has not identified and has no commitments to enter into or acquire a specific business opportunity. As a result the Company can disclose the risks and hazards of any business or opportunity that it might enter into in only a general manner, and cannot disclose the risks and hazards of any specific business or opportunity that it may enter into. An investor can expect a potential business opportunity to be quite risky. The Company's acquisition of or participation in a business opportunity will likely be highly illiquid and could result in a total loss to the Company and its stockholders should the business or opportunity prove to be unsuccessful.

4. Type of Business Acquired. The type of business to be acquired may be one that desires to avoid effecting a public offering and the accompanying expense, delays, and federal and state requirements which purport to protect investors. Because of the Company's limited capital, it is more likely than not that any acquisition by the Company will involve other parties whose primary interest is the acquisition of a publicly traded company. Moreover, any business opportunity acquired may be currently unprofitable or present other negative factors.

5. Impracticability of Exhaustive Investigation. The Company's limited funds and the lack of full-time management will likely make it impracticable to conduct a complete and exhaustive investigation and analysis of a business opportunity before the Company commits its capital or other resources thereto. Management decisions, therefore, will likely be made without detailed feasibility studies, independent analysis, market surveys, and the like which, if the Company had more funds available to it, would be desirable. The Company will be particularly dependent in making decisions upon information provided by the promoter, owner, sponsor, or others associated with the business opportunity seeking the Company's participation.

6. Lack of Diversification. Because of the limited financial resources of the Company, it is unlikely that the Company will be able to diversify its acquisitions or operations. The Company's probable inability to diversify its activities into more than one area will subject the Company to economic fluctuations within a particular business or industry and therefore increase the risks associated with the Company's operations.

7. Possible Reliance upon Unaudited Financial Statements. The Company generally will require audited financial statements from companies that the Company proposes to acquire. No assurance can be given, however, that audited financials will be available to the Company. In cases where audited financials are unavailable, the Company will have to rely upon unaudited information received from target companies management that has not been verified by outside auditors. The Company is subject, moreover, to the reporting provisions of the Securities Exchange Act of 1934, as amended (the Exchange Act), and thus will be required to furnish certain information about significant acquisitions, including certified financial statements for any business that the Company shall acquire. Consequently, acquisition prospects that do not have or are unable to obtain the required certified statements may not be appropriate for acquisition so long as the reporting requirements of the Exchange Act are applicable.

8. Investment Company Regulation. The Company does not intend to become classified as an investment company under the Investment Company Act of 1940 (the Investment Act). The Company believes that it will not become subject to regulation under the Investment Act because (i) the Company will not be engaged in the business of investing or trading in securities, (ii) any merger or acquisition undertaken by the Company will result in the Company's obtaining a majority interest in any such merger or acquisition candidate, and (iii) the Company intends to discontinue any investment in a prospective merger or acquisition candidate in which a majority interest cannot be obtained. Should the Company be required to register as an investment company, it shall incur significant registration and compliance costs. The Company has obtained no formal determination from the Securities and Exchange Commission (the Commission) as to the status of the Company under the Investment Act. Any violation of the Investment Act will subject the Company to materially adverse consequences. Should the Commission find that the Company is subject to the Investment Act, and order the Company to register under such Act, the Company would vigorously resist such finding and order. Irrespective of whether the Commission or the Company were to prevail in such dispute, however, the Company would be damaged by the costs and delays involved. Because the Company will not register under the Investment Act, investors in the Company will not have the benefit of the various protective provisions imposed on investment companies by such Act, including requirements for independent directors.

9. Other Regulation. An acquisition made by the Company may be of a business that is subject to regulation or licensing by federal, state, or local authorities. Compliance with such regulations and licensing can be expected to be a time-consuming, expensive process and may limit other investment opportunities of the Company.

10. Dependence upon Management. The Company will be heavily dependent upon the skills, talents, and abilities of its management to implement its business plan. The Company's executive officers and directors may devote as little as two hours per month to the affairs of the

Edgar Filing: YAAK RIVER RESOURCES INC - Form 10QSB

Company, which for a company such as this that is heavily dependent upon management, may be inadequate for Company business, and may delay the acquisition of any opportunity considered. Furthermore, management has little or no significant experience in seeking, investigating, and acquiring businesses and will depend upon its limited business knowledge in making decisions regarding the Company's operations.

11. Lack of Continuity in Management. The Company does not have employment agreements with its management, and there is no assurance that the persons who currently manage the Company shall continue to do so in the future. In connection with acquisition of a business opportunity, the current management of the Company probably will resign and appoint successors. This may occur without the vote or consent of the shareholders of the Company.

12. Conflicts of Interest. Certain conflicts of interest exist between the Company and its executive officers and directors. Each of them has other business interests to which they devote their primary attention, and they may be expected to continue to do so although management time should be devoted to the business of the Company. As a result, conflicts of interest may arise that can be resolved only through the exercise of such judgment as is consistent with the fiduciary duties that such executive officers and directors owe to the Company and its shareholders.

13. Indemnification of Officers and Directors. The Company's Articles of Incorporation provide for the indemnification of its directors, officers, employees, and agents, under certain circumstances, against attorney's fees and other expenses incurred by them in any litigation to which they become a party arising from their association with or activities on behalf of the Company. The Company may also bear the expenses of such litigation for any of its directors, officers, employees, or agents, upon such person's promise to repay the Company therefor if it is ultimately determined that any such person shall not have been entitled to indemnification. This indemnification policy could result in substantial expenditures by the Company which it will be unable to recoup.

12

14. Director's Liability Limited. The Company's Articles of Incorporation exclude personal liability of its directors to the Company and its stockholders for monetary damages for breach of fiduciary duty except in certain specified circumstances. Accordingly, the Company will have a much more limited right of action against its directors than otherwise would be the case. This provision does not affect the liability of any director under federal or applicable state securities laws.

15. Dependence upon Outside Advisors. To supplement the business experience of management, the Company may be required to employ accountants, technical experts, appraisers, attorneys, or other consultants or advisors. The selection of any such advisors will be made by management without any input from shareholders. Furthermore, it is anticipated that such persons may be engaged on an "as needed" basis without a continuing fiduciary or other obligation to the Company.

16. Minimal Working Capital; Accumulated Deficit. At June 30, 2003, the Company had working capital only in the minimal amount of \$756, and the Company's accumulated deficit was \$(355,105). See "Need for Additional Financing," below. For the three month period ended June 30, 2003, the Company had administrative, legal, and accounting expenses of \$2,997 which is comparable to \$3,353 for the same period ended June 30, 2002.

17. Need for Additional Financing. The Company's funds will not be adequate to take advantage of any available business opportunities. Even if the Company were to obtain sufficient funds to acquire an interest in a business opportunity, it may not have sufficient capital to exploit the opportunity. The ultimate success of the Company will depend upon its ability to raise additional capital. The Company has not investigated the availability, source, or terms that might govern the acquisition of additional capital and will not do so until it evaluates its needs for additional financing. When additional capital is needed, there is no assurance that funds will be available from any source or, if available, that they can be obtained on terms acceptable to the Company. If not available, the Company's operations will be limited to those that can be financed with its modest capital.

18. Leveraged Transactions. There is a possibility that any acquisition of a business opportunity by the Company may be leveraged, i.e., the Company may finance the acquisition of the business opportunity by borrowing against the assets of the business opportunity to be acquired, or against the projected future revenues or profits of the business opportunity. This could increase the Company's exposure to larger losses. A business opportunity acquired through a leveraged transaction is profitable only if it generates enough revenues to cover the related debt and expenses. Failure to make payments on the debt incurred to purchase the business opportunity could result in the loss of a portion or all of the assets acquired. There is no assurance that any business opportunity acquired through a leveraged transaction will generate sufficient revenues to cover the related debt and expenses.

19. Competition. The search for potentially profitable business opportunities is intensely competitive. The Company expects to be at a disadvantage when competing with many firms that have substantially greater financial and management resources and capabilities than the Company. These competitive conditions will exist in any industry in which the Company may become interested.

Edgar Filing: YAAK RIVER RESOURCES INC - Form 10QSB

20. No Foreseeable Dividends. The Company has not paid dividends on its Common Stock and does not anticipate paying such dividends in the foreseeable future.

21. Loss of Control by Present Management and Shareholders. The Company may consider an acquisition in which the Company would issue as consideration for the business opportunity to be acquired an amount of the Company's authorized but unissued Common Stock that would, upon issuance, constitute as much as 95% of the voting power and equity of the Company. The result of such an acquisition would be that the acquired company's shareholders and management would control the Company, and the Company's management could be replaced by persons unknown at this time. Such a merger could leave investors in the securities of the Company with a greatly reduced percentage of ownership of the Company. Management could sell its control block of stock at a premium price to the acquired company's shareholders, although management has no plans to do so.

13

22. Dilutive Effects of Issuing Additional Common Stock. The majority of the Company's authorized but unissued Common Stock remains unissued. The board of directors of the Company has authority to issue such unissued shares without the consent or vote of the shareholders of the Company. The issuance of these shares may further dilute the interests of investors in the securities of the Company and will reduce their proportionate ownership and voting power in the Company. See Series B Common Shares Authorized, below.

23. Thinly-traded Public Market Barriers to establishment of and Active Public Market. There currently is only a thinly traded or virtually inactive public market for the securities of the Company. No assurance can be given that a more active market will develop or that an investor will be able to liquidate his investment without considerable delay, if at all. If a more active market should develop, the price may be highly volatile. Factors such as those discussed in this Risk Factors section may have a significant impact upon the market price of the securities of the Company. Owing to what may be expected to be the low price of the securities, many brokerage firms may not be willing to effect transactions in the securities. Even if an investor finds a broker willing to effect a transaction in these securities, the combination of brokerage commissions, state transfer taxes, if any, and any other selling costs may exceed the selling price. Further, many lending institutions will not permit the use of such securities as collateral for any loans.

Should an active trading market fail to develop, any investment in the Common Stock would be highly illiquid. Accordingly, an investor in the Common Stock may not be able to sell the Common Stock readily, if at all. Consequently, should the investor suffer a change in circumstances arising from an event not now contemplated, and should the investor therefore wish to transfer the Common Stock owned by him, he may find he has only a limited or no ability to transfer or market the Common Stock. Accordingly, purchasers of the Common Stock need to be prepared to bear the economic risk of their investment for an indefinite period of time. Prospective investors should be fully aware of the long-term nature of their investment in the Company.

The Common Stock is listed on the Electronic Bulletin Board operated by the NASD. There is no assurance, however, that a mere Bulletin Board listing will obviate any of the liquidity limitations described above. In May of 2002, moreover, the NASD filed with the Securities and Exchange Commission proposed rules to create and govern a new exchange to be called the Bulletin Board Exchange (the BBX). The BBX would replace the Electronic Bulletin Board. Subject to approval by the Commission, the BBX is to begin operation in the first quarter of 2003.

As proposed, the standards that must be met for BBX listing are more stringent than those imposed by the Electronic Bulletin Board. Those standards include requirements as to annual meetings of shareholders, proxy solicitations, independent directors, audit committees, shareholder approval of stock-option grants, shareholder approval of below-market issuances of stock, and the like. The BBX, moreover, would charge nontrivial initial and continuing listing fees.

On the basis of its current organization and practice, the Company would not meet all of the proposed BBX standards. Even if the Company's organization and practice could be reconfigured to meet those standards, which is not certain, management has not resolved to pursue such a reconfiguration.

It appears likely, therefore, that, should the Commission approve the BBX proposal, the Company's securities would have no more than pink-sheet status. Historically, securities listed only in the pink sheets have been even less liquid than those listed on the Electronic Bulletin Board.

24. Impact of Sarbanes-Oxley Act of 2002 and Related Regulations. A predominant aspect of the Company's business plan is to promote a business combination between the Company and a private, operating business enterprise. The Company's ability to promote such a business combination hinges upon the perceived benefit of the actual or potential public-company status of the Company.

14

Edgar Filing: YAAK RIVER RESOURCES INC - Form 10QSB

The enactment of the Sarbanes-Oxley Act of 2002, and of regulations that have been or are to be promulgated thereunder, results in a significant increase in the risks and costs of public-company status. A few features of the Act are

- (1) CEO and CFO certifications of the financial statements and other information contained in annual and quarterly reports;
- (2) acceleration of deadlines for Section 16 reporting of insider transactions;
- (3) acceleration of deadlines for reporting of material changes in financial conditions or operations;
- (4) prohibition of new loans to directors and executive officers;
- (5) review by the Securities and Exchange Commission at least every three years of periodic reports and other filings;
- (6) new authority to prohibit certain individuals from serving as officers and directors;
- (7) extension of the statute of limitations on claims of securities fraud;
- (8) establishment of new criminal offenses for destroying, altering, or falsifying records;
- (9) federal sentencing guidelines to be amended sufficiently to "deter and punish" criminal acts;
- (10) disclosure of whether a financial expert serves on the audit committee and, if not, why not;
- (11) disclosure of whether a code of ethics for senior management has been adopted and enforced and, if not, why not; and
- (12) requirement that attorneys to the corporation report material violations of securities laws or breaches of fiduciary duties.

Compliance with these new rules, among numerous others, will increase the legal and accounting expenses of being a public reporting company, and will impose significant new demands upon the time and energies of management. In addition, the new rules will increase the exposure of the principals of public companies to personal legal risk.

Management believes, therefore, that this new body of law will have a significant, adverse impact upon the Company's business. This impact will take the form of narrowing the pool of candidates for potential business combinations with the Company. The narrowing is expected to occur for two reasons.

15

First, the Company will need to be more exacting in its evaluation of candidates. To be an appropriate candidate, a private business enterprise will need to possess levels of resources, and of business, legal, and accounting sophistication and experience, that permit a reasonable conclusion to be reached that the candidate has the capability of complying with the new law. The Company will need to satisfy itself, moreover, that the candidate has not only the needed resources but also a corporate culture that is compatible with the financial limitations imposed by the new law, and with the increased levels of scrutiny and candor associated with the new law.

Second, the perception by potential candidates of the cost-benefit ratio of public status will be altered. Qualified candidates might well perceive there to be a new and less advantageous relationship between the historical benefits of being a public corporation and the increased costs and new limitations associated with public-company status.

These factors are expected to combine to increase the difficulty of identifying and investigating candidates. In addition, these factors might well make it more difficult for the Company to complete a business combination or, even if it proves feasible to complete one, to do so on terms as favorable as those that public shell corporations have succeeded in negotiating in the past.

25. Broker-Dealer Sales of Company's Registered Securities. The Company's registered securities are covered by a Securities and Exchange Commission rule that imposes additional sales practice requirements on broker-dealers who sell such securities to persons other than

Edgar Filing: YAAK RIVER RESOURCES INC - Form 10QSB

established customers and accredited investors. For purposes of the rule, the phrase "accredited investors" means, in general terms, institutions with assets in excess of \$5,000,000, or individuals having a net worth in excess of \$1,000,000 or having an annual income that exceeds \$200,000 (or that, when combined with a spouse's income, exceeds \$300,000). For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser's written agreement to the transaction prior to the sale. Consequently, the rule may affect the ability of broker-dealers to sell the Company's securities and also may affect the ability of investors in securities of the Company to sell their securities in any market that might develop therefor.

26. Preferred Shares Authorized. The Articles of Incorporation of the Company authorize issuance of a maximum of 50,000,000 nonvoting shares of Preferred Stock, par value \$0.0001 per share. No shares of Preferred Stock have been issued or are outstanding on the date of this Report, and there is no plan to issue any in the foreseeable future. Should a series of Preferred Stock be issued, however, the terms of such series could operate to the significant disadvantage of the holders of outstanding Series A Common Stock or other securities of the Company. Such terms could include, among others, preferences as to dividends and distributions on liquidation.

16

27. Series B Common Shares Authorized. The Articles of Incorporation of the Company authorize issuance of a maximum of 250,000,000 nonvoting shares of Series B Common Stock, par value \$0.0001 per share. No shares of Series B Common Stock have been issued or are outstanding on the date of this Report and there is no plan to issue any in the foreseeable future. Should Series B Common Stock be issued, however, such Stock could have a substantial, dilutive effect upon the interests of the holders of outstanding Series A Common Stock or other securities of the Company, and would reduce the proportionate ownership of such holders in the Company.

28. Possible Rule 144 Sales. The majority of the outstanding shares of Common Stock held by present shareholders are "restricted securities" within the meaning of Rule 144 under the Securities Act of 1933, as amended. As restricted shares, these shares may be resold only pursuant to an effective registration statement or under the requirements of Rule 144 or other applicable exemption from registration under the Act and as required under applicable state securities laws. Rule 144 provides in essence that a person who has held restricted securities for a period of one year may, under certain conditions, sell every three months, in brokerage transactions, a number of shares that does not exceed the greater of 1.0% of a company's outstanding common stock or the average weekly trading volume during the four calendar weeks prior to the sale. There is no limit on the amount of restricted securities that may be sold by a nonaffiliate after the restricted securities have been held by the owner for a period of two years. A sale under Rule 144 or under any other exemption from the Act, if available, or pursuant to subsequent registrations of shares of Common Stock of present stockholders, may have a depressive effect upon the price of the Common Stock in any market that may develop. As of November 12th, 2002 a total of 33,341,977 shares of Common Stock (49.5% of the total number of issued and outstanding shares) held by present shareholders of the Company are available for sale under Rule 144, all of which will be subject to applicable volume restrictions under the Rule.

Item 3. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) as of a date within 90 days of the filing of this quarterly report (the "Evaluation Date"), have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to ensure the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. There were no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the Evaluation Date.

Special Note Regarding Forward-Looking Statements

Some of the statements under "Description of Business," "Risk Factors," "Management's Discussion and Analysis or Plan of Operation," and elsewhere in this Report and in the Company's periodic filings with the Securities and Exchange Commission constitute forward-looking statements. These statements involve known and unknown risks, significant uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, those listed under "Risk Factors" and elsewhere in this Report.

17

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "intends," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology.

Edgar Filing: YAAK RIVER RESOURCES INC - Form 10QSB

The forward-looking statements herein are based on current expectations that involve a number of risks and uncertainties. Such forward-looking statements are based on assumptions that the Company will obtain or have access to adequate financing for each successive phase of its growth, that there will be no material adverse competitive or technological change in condition of the Company's business, that the Company's President and other significant employees will remain employed as such by the Company, and that there will be no material adverse change in the Company's operations, business or governmental regulation affecting the Company. The foregoing assumptions are based on judgments with respect to, among other things, further economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the Company's control.

Although management believes that the expectations reflected in the forward-looking statements are reasonable, management cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither management nor any other persons assumes responsibility for the accuracy and completeness of such statements.

18

PART II -- OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31.1 Certification by Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification by the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

None

19

SIGNATURES

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

YAAK RIVER RESOURCES, INC.

Date: August 12, 2003

By: /s/ Blaize N. Kaduru
Blaize N. Kaduru,
President
Secretary, Treasurer,
Principal Executive Officer,
Principal Financial Officer and
Principal Accounting Officer

20