

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: December 31, 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

31,203,726

Class

Number of shares outstanding at December 31, 2005.

Part 1. Financial Statements

SKYLYNX COMMUNICATIONS, INC.
Condensed Consolidated Balance Sheet
(Unaudited)
December 31, 2005

	As Restated (See Note 10)
Assets	
Current assets:	
Cash	\$ 42,527
Accounts receivable, net	25,741
Notes receivable	255,000
Prepaid expenses	31,066
Prepaid loan costs	20,655
Other current assets	<u>4,624</u>
Total current assets	379,613
Property and equipment, net	19,837
Deferred loan costs	43,056
Other assets	27,806
Total Assets	\$ 470,312
Liabilities and Shareholders' Deficit	
Current liabilities:	
Accounts payable	\$ 583,298
Accounts payable, related parties	22,900
Accrued salaries	505,220
Other accrued liabilities	68,757
Deferred revenues	34,849
Derivative Liability	370,494
Loan payable	500,000
Loan payable to related parties	<u>2,800</u>
Total current liabilities	2,088,318
Convertible debentures	147,520
Convertible debentures, related parties	105,038
Note payable net of discount of \$332,060	<u>667,940</u>
Total liabilities	3,008,816
Shareholders' deficit:	
Common stock	3,120
Additional paid-in capital	6,132,451
Retained deficit	<u>(8,674,075)</u>
Total shareholder's deficit	<u>(2,538,504)</u>

\$ 470,312

See accompanying notes to condensed consolidated financial statements.

-2-

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

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>As Restated</u>		<u>As Restated</u>	
	<u>(Note 10)</u>		<u>(Note 10)</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Internet service revenue	\$ 92,562	\$ 94,088	\$ 178,088	\$ 179,516
Operating expenses:				
Costs of revenue	61,567	51,107	117,730	102,817
Selling, general and administrative	317,938	383,778	678,946	686,472
Contributed rent (Note 2)	-	-	-	-
Bad debt expense	-	-	-	-
Costs of terminated merger (Note 5)	4,506	-	4,506	-
Research & development costs (Note 6)	9,723	222,855	22,606	418,992
Stock-based compensation (Note 4):				
Salaries	4,000	18,000	2,600	52,900
Board services	-	-	4,000	40,000
Consulting	<u>65,600</u>	<u>31,000</u>	<u>65,600</u>	<u>55,000</u>
Total operating expenses	<u>463,334</u>	<u>706,740</u>	<u>895,988</u>	<u>1,356,181</u>
Loss from operations	(370,772)	(612,652)	(717,900)	(1,176,665)
Other (expense) income:				
Other income	3,130	-	3,755	-
Interest expense	(66,061)	-	(142,017)	-
Derivative income	15,415	-	15,415	-
Total other (expense) income	(47,516)	-	(122,847)	-
Loss before income taxes	(418,288)	(612,652)	(840,747)	(1,176,665)
Income tax provision (Note 3)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net loss	<u>\$ (418,288)</u>	<u>\$ (612,652)</u>	<u>\$ (840,747)</u>	<u>\$ (1,176,665)</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>

Weighted average common shares outstanding 30,495,900 16,866,601 30,349,107 16,108,476

See accompanying notes to condensed consolidated financial statements.

-3-

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

	Six Months Ended	
	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Net cash used in operating activities	<u>(730,058)</u>	<u>(542,321)</u>
Cash flows from investing activities:		
Equipment purchases	-	(27,237)
Notes receivable	(205,000)	-
Investment	(10,500)	-
Net cash used in investing activities	(215,500)	(27,237)
Cash flows from financing activities:		
Repayment of related party loans	(9,000)	-
Proceeds from issuance of note payable	1,000,000	500,000
Proceeds from sale of common stock	-	100,000
Repayment of notes payable	(7,697)	-
Payments for debt issue costs	(35,051)	(32,035)
Decrease in prepaid loan costs	13,770	-
Net cash provided by financing activities	<u>962,022</u>	<u>567,965</u>
Net change in cash	16,464	(1,593)
Cash, beginning of period	26,063	<u>22,712</u>
Cash, end of period	<u>\$42,527</u>	<u>\$21,119</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>\$10,000</u>
Noncash financing transaction:		
Convertible debenture issuance for loans payable, accrued salaries, and accounts payable	-	<u>\$709,798</u>

See accompanying notes to condensed consolidated financial statements.

-4-

(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

The Company has loan payables due to its officers and director as follows:

As of December 31, 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>
--	-----------------

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 six months ended December 31, 2005 resulting in a deferred tax asset, which was fully allowed for; therefore, the net benefit and expense resulted in \$-0- income taxes.

-5-

Note 4: Note payable (restated)

During the six months ended December 31, 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 December 31, 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 December 31, 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.

-6-

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 December 31, 2005, none of the debt was converted.

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 December 31, 2005	53,849
Carrying value at December 31, 2005	\$ 667,940

Both the Company and the lender recognize that the Company will have to effect either a reverse split or increase the number of authorized shares to be able to issue all the shares potentially issuable under the NIR convertible note and warrants. However, due to other contractual limitations of the investors' ownership percentage in the Company, we do not anticipate any difficulty in fulfilling our obligations.

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 December 31, 2005, the derivative liability is composed of the following:

		Number of Shares Derivative Liability Can Be Settled
Free standing warrants	\$247,159	3,332,533
Embedded beneficial conversion option	123,335	1,638,844
	\$370,494	4,971,377

A derivative gain in the amount of \$15,415 was recognized in the period ending December 31, 2005 and is related to the individual derivatives as follows:

-7-

Free standing warrants	\$ 12,117
Embedded beneficial conversion option	3,298
	\$ 15,415

Note 6: Shareholders' deficit (restated)

Six months ended December 31, 2004

During the six months ended December 31, 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.

During the three months ended December 31, 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 December 31, 2004.

During the six months ended December 31, 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 six months ended December 31, 2004.

During the six months ended December 31, 2004, the Company sold 928,573 shares of its common stock to investors for gross proceeds totaling \$65,000.

Six months ended December 31, 2005

During the six months ended December 31, 2005, the Company issued 800,000 shares of its common stock in exchange for services rendered from a consultant. The stock issuance was recorded at the market value of the Company's common stock on the transaction date. Stock based compensation expense of \$65,600 was recognized in the accompanying consolidated financial statements for the six months ended December 31, 2005.

During the six months ended December 31, 2005, the Company issued 90,000 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 \$6,600 was recognized in the accompanying consolidated financial statements for the six months ended December 31, 2005.

During the six months ended December 31, 2005, the Company issued 30,000 shares of its common stock in exchange for the settlement of a payable. The stock issuance was recorded at the fair value of the services provided.

-8-

Following is a schedule of changes in shareholders' deficit for the six months ended December 31, 2005:

	Common stock	Additional Paid-In	Retained		
	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Deficit</u>	
				<u>Total</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	890,000	89	72,111		72,200
Issuance of common stock in relief of a payable	30,000	3	2,997		3,000
Additional payments for purchase of Inforum			(10,500)		(10,500)
Net loss for the six months ended December 31, 2005				(840,747)	(840,747)
Balance, December 31, 2005	31,203,726	\$3,120	\$6,132,451	\$(8,674,075)	\$(2,538,504)

7. Stock Warrants

Edgar Filing: SKYLYNX COMMUNICATIONS INC - Form 10QSB/A

On July 29, 2005, the Company granted to the Buyers of the convertible notes under the Securities Purchase Agreement described in Note 4 above, warrants to purchase 3,332,533 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 weighted average exercise price and weighted average fair value of these warrants as of December 31, 2005 was \$0.20 and \$.074, respectively.

The fair value for the warrants granted during the six months ended December 31, 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%-4.37%
Dividend yield	0.00%
Volatility factor	278% - 296.5%
Weighted average expected life	3 years

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

	Number of Shares	Options Outstanding Exercise Price Per Share	Weighted Average 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 December 31, 2005	3,819,356	\$0.20 to \$3.00	\$0.56

-9-

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, which was subsequently rejected. 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 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 are subject to "... the final terms and conditions being negotiated between us."

-10-

On January 24, 2006, SkyLynx Communications, Inc. (the "Company"), was served with a Summons and Petition that was filed in the District Court of Dallas County, Texas, B-44th Judicial District, Cause No. 06-00451 by New Market Technology, Inc., as plaintiff, against the Company, Digital Computer Integration Corporation ("DCI") and other parties. The factual nexus of the claims center around transactions that occurred between DCI, the plaintiff and other parties. In December, 2005, the Company announced that it had entered into a definitive Agreement and Plan of Merger to acquire DCI. In the Petition, the plaintiff asserts numerous claims against the other defendants and the Company, including claims based upon tortious interference with contract and conspiracy. The Company is currently negotiating a settlement.

9. Acquisitions

On November 29, 2005, SkyLynx Communications, Inc. (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.

As of December 31, 2005, the Merger has not been consummated; therefore none of the operations of VETCO have been included in the attached consolidated financial statements.

On December 16, 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 Digital Computer Integration Corporation, a Texas corporation ("DCI"), Defense Technology Systems, Inc., a Delaware corporation ("DFTS"), a shareholder of DCI, and Zenon Maciekowicz and Clara Jane Maciekowicz, individually, collectively and as shareholders of DCI.

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

Upon consummation of the Merger, the issued and outstanding shares of DCI common stock owned by Defense Technology Systems, Inc. ("DFTS") (51%) will be converted automatically into an aggregate of 572,776 shares of SkyLynx Series B Convertible Preferred Stock having a Stated Value of \$1.00 per share (the "Series B Preferred"). The remaining issued and outstanding shares of DCI common stock owned by Zenon and Clara Jane Maciekowicz, ("ZM") (49%), will be converted into an aggregate of 3,648,518 shares of SkyLynx Series C Convertible Preferred Stock having a stated value of \$1.00 per share (the "Series C Preferred").

-11-

Of the Series C Preferred to be issued to ZM on the effective date of the merger, an aggregate of 3,500,000 shares will be escrowed upon DCI achieving certain gross revenue and net profit milestones over five years following the closing. Any shares of Series C Preferred not earned at the end of five years shall be canceled.

The merger agreement also contemplates that SkyLynx will issue a promissory note in favor of New Market Technology, Inc., in the principal amount of \$1.2 million. A promissory note made by DCI in favor of New Market Technology, Inc., also in the principal amount of \$1.2 million will be assigned by DCI to DFTS, without recourse.

At closing, DCI shall also assign to DFTS shares of Series G Convertible Preferred Stock of New Market Technology, Inc., owned by DCI and held as portfolio securities.

The acquisition of DCI is scheduled to be completed on or about February 28, 2006.

As of December 31, 2005, the Merger has not been consummated; therefore none of the operations of DCI have been included in the attached consolidated financial statements.

10. Restatement

The Company has restated its December 31, 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 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 December 31, 2005.

-12-

Condensed Consolidated Balance Sheet (Unaudited)
December 31, 2005

	As Previously Reported	Adjustment	As Restated
Derivative liability	-	\$370,494	\$370,494
Note payable	\$776,735	\$(108,795)	\$667,940
Net of discount of	\$223,265	\$108,795	\$332,060
Additional paid-in capital	\$7,132,451	\$(1,000,000)	\$6,132,451
Retained deficit	\$(9,412,375)	\$738,300	\$(8,674,075)
Total shareholders' deficit	\$(2,276,804)	\$(261,700)	\$(2,538,504)

Condensed Consolidated Statement of Operations (Unaudited)
Three Months ended 12/31/2005

	As Previously Reported	Adjustment	As Restated
Interest expense	\$(55,508)	\$(10,553)	\$(66,061)
Derivative gain	\$-	\$15,415	\$15,415

Condensed Consolidated Statement of Operations (Unaudited)
Six Months ended 12/31/2005

	As Previously Reported	Adjustment	As Restated
Interest expense	\$(864,902)	\$722,885	\$(142,017)
Derivative gain	\$-	\$15,415	\$15,415

-13-

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 and six months ended December 31, 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 December 31, 2005 versus Three Months Ended December 31, 2004

We incurred a net loss of \$418,288 (as restated) for the three months ended December 31, 2005, as compared to a net loss of \$612,652 for the three months ended December 31, 2004 due to the following:

Interest expense increased to \$66,061 (as restated) for the three months ended December 31, 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.

Six Months Ended December 31, 2005 versus Six Months Ended December 31, 2004

We incurred a net loss of \$840,747 (as restated) for the six months ended December 31, 2005, as compared to a net loss of \$1,176,665 for the six months ended December 31, 2004 due to the following:

Stock-based compensation decreased to \$72,200 for the six months ended December 31, 2005 as compared to \$147,900 for the six months ended December 31, 2004. The reduction in the Company's stock price caused the decrease of stock-based compensation in the six months ended December 31, 2005 compared to the same period in 2004.

-14-

Sales revenue remained relatively consistent at \$178,088 for the six months ended December 31, 2005, as compared to \$179,516 for the comparative period in the prior year.

Costs of revenue increased approximately 15 percent, to \$117,730 for the six months ended December 31, 2005, as compared to \$102,817 for the six months ended December 31, 2004 primarily due to an increase in our connection charges.

General and administrative expenses decreased to \$678,946 for the six months ended December 31 2005, as compared to \$686,472 for the six months ended December 31, 2004. This decrease was due to a decrease in stock based compensation.

Interest expense increased to \$142,017 (restated) for the six months ended December 31, 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 \$379,613 (including \$42,527 in cash) compared with current liabilities of \$2,088,318 (as restated) resulting in a working capital deficit of \$1,708,705 as of December 31, 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 \$16,464 from \$26,063 to \$42,527 as of December 31, 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 \$730,058. Negative cash flows from operations consisted primarily of our \$840,747 net loss, less the amortization of discounts on notes payable of \$53,849 and common stock issued for services of \$72,200.

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 December 31, 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.

-15-

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.

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, which was subsequently rejected. 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.

-16-

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 are subject to "...the final terms and conditions being negotiated between us."

On January 24, 2006, SkyLynx Communications, Inc. (the "Company"), was served with a Summons and Petition that was filed in the District Court of Dallas County, Texas, B-44th Judicial District, Cause No. 06-00451 by New Market Technology, Inc., as plaintiff, against the Company, Digital Computer Integration Corporation ("DCI") and other parties. The factual nexus of the claims center around transactions that occurred between DCI, the plaintiff and other parties. In December, 2005, the Company announced that it had entered into a definitive Agreement and Plan of

Merger to acquire DCI. In the Petition, the plaintiff asserts numerous claims against the other defendants and the Company, including claims based upon tortious interference with contract and conspiracy. The Company is currently negotiating a settlement.

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.

In December 2005, the Company issued an aggregate of 50,000 shares of common stock to a director in consideration of services. The person receiving the securities qualified as an "accredited investor" 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.

Also in December 2005, the Company issued an aggregate of 30,000 shares of common stock to vendor in settlement of a payable valued at \$3,000.

Finally, in December 2005, the Company issued an aggregate of 800,000 shares of common stock to a consultant in consideration of services. The person receiving the securities qualified as an "accredited investor" 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 4, 2005, the Company filed a Current Report on Form 8-K in response to comments provided by the Securities and Exchange Commission, and filed an Amended Annual Report on Form 10-KSB for the fiscal year ended June 30, 2004.

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

On December 16, 2005, the Company filed a Current Report on Form 8-K, announcing the entry into a material definitive agreement.

On December 8, 2005, the Company filed a Current Report on Form 8-K, announcing the issuance of 800,000 shares of unregistered securities in exchange for consulting services.

On January 24, 2006, the Company filed a Current Report on Form 8-K, announcing a claim against the Company and other parties by New Market Technology, Inc.

-18-

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 and Acting Chief Financial Officer

-19-