

Edgar Filing: TOMBSTONE TECHNOLOGIES, INC. - Form 10-Q

TOMBSTONE TECHNOLOGIES, INC.

Form 10-Q

November 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2008

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

For the transition period from _____ to _____

Commission file number: 333-138184

TOMBSTONE TECHNOLOGIES, INC.
(Formerly Tombstone Cards, Inc.)

(Exact name of registrant as specified in its charter)

Colorado

51-0431963

(State of Incorporation)

(IRS Employer ID Number)

2400 Central Avenue, Suite G, Boulder, CO 80301

(Address of principal executive offices)

303-684-6644

(Registrant's Telephone number)

Indicate by check mark 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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of share outstanding of each of the issuer's classes of

Edgar Filing: TOMBSTONE TECHNOLOGIES, INC. - Form 10-Q

common stock, as of the latest practicable date.

As of November 12, 2008, there were 3,230,000 shares of the registrant's common stock issued and outstanding.

PART I - FINANCIAL INFORMATION

| | Page |
|---|------|
| | ---- |
| Item 1. Financial Statements (Unaudited) | F-1 |
| Condensed Balance Sheets - September 30, 2008 and December 31, 2007 | F-2 |
| Condensed Statements of Operations - Nine and Three months ended September 30, 2008 and 2007 | F-3 |
| Condensed Statement of Changes in Shareholders' Equity - July 1, 2008 through September 30, 2008 | F-4 |
| Condensed Statements of Cash Flows - Nine months ended September 30, 2008 and 2007 | F-5 |
| Notes to the Condensed Financial Statements | F-6 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 1 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk - Not Applicable | 2 |
| Item 4. Controls and Procedures | 2 |
| Item 4T. Controls and Procedures | 4 |
| PART II - OTHER INFORMATION | |
| Item 1. Legal Proceedings - Not Applicable | 5 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 5 |
| Item 3. Defaults Upon Senior Securities - Not Applicable | 5 |

Edgar Filing: TOMBSTONE TECHNOLOGIES, INC. - Form 10-Q

| | |
|--|---|
| Item 4. Submission of Matters to a Vote of Security Holders - Not Applicable | 5 |
| Item 5. Other Information - Not Applicable | 5 |
| Item 6. Exhibits | 6 |
| SIGNATURES | 7 |

PART I

ITEM 1. FINANCIAL STATEMENTS

Forward-Looking Statements

We make forward-looking statements in this report that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. In some cases, you may identify forward-looking statements by words such as "may," "should," "plan," "intend," "potential," "continue," "believe," "expect," "predict," "anticipate" and "estimate," the negative of these words or other comparable words. These statements are only predictions. You should not place undue reliance on these forward-looking statements. The forward-looking statements are qualified by their terms and/or important factors, many of which are outside our control, involve a number of risks, uncertainties and other factors, that could cause actual results and events to differ materially from the statements made. Such factors include, among other things, those described elsewhere in this report and the following:

Criminal procedure court rulings regarding right to privacy;

General economic and business conditions in the United States;

Defects in products could result in litigation and other significant costs; and

Other factors detailed in our filings with the Securities and Exchange Commission.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, including those events and factors detailed in our filings with the Securities and Exchange Commission, not all of which are known to us. Neither we nor any other person assumes responsibility for the accuracy or completeness of these statements. We will update this report only to the extent required under applicable securities laws. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements.

Edgar Filing: TOMBSTONE TECHNOLOGIES, INC. - Form 10-Q

TOMBSTONE TECHNOLOGIES, INC.
Condensed Balance Sheets

September 30,
2008

Unaudited

| | |
|---|------------|
| Assets | |
| Current assets | |
| Cash..... | \$ 48,308 |
| Accounts receivable..... | 2,508 |
| Inventory - raw materials..... | 6,944 |
| Prepaid expenses..... | 6,866 |
| | ----- |
| Total current assets..... | 64,627 |
| Equipment..... | 24,063 |
| Deferred patent costs..... | 484 |
| Software development costs..... | 37,395 |
| | ----- |
| Total assets..... | \$ 126,568 |
| | ===== |
| Liabilities and Shareholders' Equity | |
| Current liabilities: | |
| Accounts payable and accrued liabilities..... | \$ 19,458 |
| Deferred revenue..... | -- |
| Current portion - capital lease obligation..... | 1,992 |
| | ----- |
| Total current liabilities..... | 21,450 |
| Capital lease obligation, less current portion..... | 2,784 |
| | ----- |
| Total liabilities..... | 24,235 |
| | ----- |
| Shareholders' equity | |
| Common stock..... | 816,305 |
| Additional paid-in capital..... | 134,643 |
| Deficit accumulated during development stage..... | (848,615) |
| | ----- |
| Total shareholders' equity..... | 102,333 |
| | ----- |
| Total liabilities and shareholders' equity..... | \$ 126,568 |
| | ===== |

See accompanying notes to financial statements
F-2

TOMBSTONE TECHNOLOGIES, INC.
Statements of Operations
(Unaudited)

| | For the Nine Months Ended September 30, | | |
|--|---|--------------|----|
| | 2008 | 2007 | |
| Sales..... | \$ 53,397 | \$ 16,510 | \$ |
| Cost of sales..... | 34,958 | 9,397 | |
| Gross profit..... | 18,439 | 7,113 | |
| Expenses | | | |
| Selling, general and administrative expenses..... | 341,015 | 243,613 | |
| Loss from operations..... | (322,576) | (236,500) | |
| Other income and (expense) | | | |
| Interest income..... | 3,723 | 17,996 | |
| Interest expense..... | (352) | -- | |
| Loss before income taxes..... | (319,205) | (218,504) | |
| Income tax provision..... | -- | -- | |
| Net loss..... | \$ (319,205) | \$ (218,504) | \$ |
| Basic and diluted loss per share..... | \$ (0.10) | \$ (0.07) | \$ |
| Basic and diluted weighted average common shares outstanding..... | 3,230,000 | 3,230,000 | 3, |

See accompanying notes to financial statements

F-3

TOMBSTONE TECHNOLOGIES, INC.
Statement of Changes in Shareholders' Equity
(Unaudited)

| | Common Stock | | Additional Paid-in Capital | |
|-------------------------------------|--------------|------------|----------------------------------|----|
| | Shares | Amount | | |
| Balance at December 31, 2007..... | 3,230,000 | \$ 816,305 | \$ 82,030 | \$ |
| Stock options granted and vested... | -- | -- | 52,613 | |
| Net loss..... | -- | -- | -- | |
| Balance at September 30, 2008..... | 3,230,000 | \$ 816,305 | \$ 134,643 | \$ |

See accompanying notes to financial statements

F-4

TOMBSTONE TECHNOLOGIES, INC.
Statements of Cash Flows
(Unaudited)

| | For the Nine Months Ended September 30, | |
|---|---|--------------|
| | 2008 | 2007 |
| Net cash flows used in operating activities..... | \$ (260,232) | \$ (136,076) |

Edgar Filing: TOMBSTONE TECHNOLOGIES, INC. - Form 10-Q

| | | |
|---|--------------|--------------|
| Cash flows from investing activities: | | |
| Purchase of property and equipment..... | (3,086) | (519) |
| Purchase of intangible assets..... | (400) | -- |
| | ----- | ----- |
| Net cash flows used in investing activities..... | (3,486) | (519) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Payments on long term debt..... | (1,472) | -- |
| | ----- | ----- |
| Net cash flows used in financing activities..... | (1,472) | -- |
| | ----- | ----- |
| Net change in cash and cash equivalents..... | \$ (265,190) | \$ (136,595) |
| Cash and cash equivalents: | | |
| Beginning of period..... | \$ 313,498 | \$ 634,400 |
| | ----- | ----- |
| End of period..... | \$ 48,308 | \$ 497,806 |
| | ===== | ===== |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Income taxes..... | \$ -- | \$ -- |
| | ===== | ===== |
| Interest..... | \$ -- | \$ -- |
| | ===== | ===== |

See accompanying notes to financial statements

F-5

TOMBSTONE CARDS, INC.
(A Development Stage Company)
Note to Condensed Financial Statements
(Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of the Company, the accompanying unaudited condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2008, the results of operations for the nine months ended September 30, 2008 and 2007, and cash flows

Edgar Filing: TOMBSTONE TECHNOLOGIES, INC. - Form 10-Q

for the nine months ended September 30, 2008. These financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's annual report on Form 10-KSB for the year ended December 31, 2007. There have been no updates or changes to our audited financial statements for the year ended December 31, 2007.

There is no provision for dividends for the quarter to which this quarterly report relates. The results of operations for the nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year.

Reclassification

Certain 2007 amounts have been reclassified to conform with the 2008 presentation. These reclassifications have no effect on net income.

Note 2: Software Development Costs

On May 15, 2008, Tombstone Cards, Inc. (Tombstone) entered into an Intellectual Property Transfer Agreement with InDis Baltic, a Lithuania company, to purchase all of the rights, title and interest in and to the technology, intellectual property and the proprietary technology contained in the computer software known as OIEPrint. OIEPrint was developed as part of a development agreement between Tombstone and InDis Baltic. As part of the Intellectual Property Transfer Agreement, Tombstone agreed to pay the following:

1. \$7,500 immediately upon mutual acceptance of Transfer Agreement,
2. \$7,500 upon final acceptance of the Technology,
3. 140,000 shares of restricted common stock of Tombstone upon final acceptance of the Technology, and
4. \$10,000 in 90 days from the final acceptance of the Technology.

During nine months ended September 30, 2008, Tombstone made the first payment of \$7,500 for OIEPrint, which is a deferred charge in the accompanying financial statements. In addition, Tombstone has agreed to provide InDis Baltic with an exclusive license to use the OIE technology for the consideration of \$1.00. Further, InDis Baltic has agreed to continue work as the programmer of the software over the next two phases of development.

During the nine months ended September 30, 2008, we have capitalized costs of \$37,795 as software development costs in connection with the development of the OIEPrint software. Upon completion of the software, these costs will be amortized over their useful life.

F-6

Costs associated with software purchased for internal use are accounted for in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 provides guidance for the treatment of costs associated with computer software development and defines those costs to be capitalized and those to be expensed.

Note 3: Shareholders' Equity

A summary of changes in the number of stock options outstanding for the nine months ended September 30, 2008 is as follows:

Edgar Filing: TOMBSTONE TECHNOLOGIES, INC. - Form 10-Q

| | Number of Shares | Exercise Price Per Share | Weighted Average Exercise Price Per Share |
|--|---------------------|-----------------------------|---|
| Outstanding at December 31, 2007..... | 1,100,000 | - | \$ |
| Granted..... | 525,000 | \$0.65 - \$1.50 | \$ 1.02 |
| Exercised..... | - | - | \$ |
| Cancelled/Expired..... | (150,000) | \$0.75 | \$ 0.75 |
| ----- | | | |
| Outstanding at September 30, 2007..... | 1,485,000 | \$0.65 - \$1.50 | \$ 0.77 |
| ===== | | | |
| Exercisable at September 30, 2007..... | 4,570,000 | \$0.65 - \$1.50 | \$ 0.77 |
| ===== | | | |

On March 15, 2008, we granted to two consultants, options to purchase 125,000 and 50,000, respectively, shares of our common stock at an exercise price of \$0.65 and \$1.00 per share, in exchange for consulting services. The option to purchase 50,000 shares of our common stock vests on March 15, 2008 and expires on August 27, 2009, and the option to purchase 125,000 shares of common stock vests 50 percent on March 15, 2008 and 50 percent on June 16, 2008, and expires on March 13, 2013. Our Board of Directors valued our common stock at \$0.50 per share on the grant date. We, utilizing appropriate option pricing software, estimated the fair value of the options at \$.2981 and \$.0687 per share, for an aggregate grant-date fair value of \$40,697. We recorded \$40,698 for the nine month period ended September 30, 2008.

Using the Black-Scholes option-pricing software, we assumed the following in estimating the fair value of the options at the grant date:

| | | | |
|-------------------------------------|------------|----|---------|
| Risk-free interest rate..... | 1.37% | to | 2.37% |
| Dividend yield..... | 0.00% | to | 0.00% |
| Volatility factor..... | 50.00% | | |
| Weighted average expected life..... | 1.45 years | to | 5 years |

On April 15, 2008, we granted to one consultant, options to purchase 100,000 shares of our common stock at an exercise price of \$1.25, in exchange for consulting services. The option to purchase 100,000 shares of our common stock vests immediately on April 15, 2008 and expires on August 28, 2009. Our Board of Directors valued our common stock at \$0.85 per share on the grant date. We, utilizing appropriate option pricing software, estimated the fair value of the options at \$.1049 per share, for an aggregate grant-date fair value of \$10,490. We recorded \$10,490 in share-based payment in the accompanying financial statements for the nine month period ended September 30, 2008.

Using the Black-Scholes option-pricing software, we assumed the following in estimating the fair value of the options at the grant date:

| | | | |
|-------------------------------------|-----------|----|---------|
| Risk-free interest rate..... | 1.82% | to | 2.82% |
| Dividend yield..... | 0.00% | to | 0.00% |
| Volatility factor..... | 50.00% | | |
| Weighted average expected life..... | 1.5 years | to | 5 years |

On June 30, 2008, we granted to one consultant, options to purchase 50,000

Edgar Filing: TOMBSTONE TECHNOLOGIES, INC. - Form 10-Q

shares of our common stock at an exercise price of \$1.50, in exchange for consulting services. The option to purchase 50,000 shares of our common stock vests immediately on June 30, 2008 and expires on August 29, 2009. Our Board of Directors valued our common stock at \$0.75 per share on the grant date. We, utilizing appropriate option pricing software, estimated the fair value of the options at \$.0215 per share, for an aggregate grant-date fair value of \$1,075. We recorded \$1,075 in share-based payment in the accompanying financial statements for the nine month period ended September 30, 2008.

Using the Black-Scholes option-pricing software, we assumed the following in estimating the fair value of the options at the grant date:

| | | | |
|-------------------------------------|--------|----|---------|
| Risk-free interest rate..... | 2.36% | to | 3.36% |
| Dividend yield..... | 0.00% | to | 0.00% |
| Volatility factor..... | 50.00% | | |
| Weighted average expected life..... | 1 year | to | 5 years |

On August 8, 2008, we granted to one consultant, options to purchase 50,000 shares of our common stock at an exercise price of \$0.65, in exchange for consulting services. The option to purchase 50,000 shares of our common stock vests immediately on August 8, 2008 and expires on August 31 2009. Our Board of Directors valued our common stock at \$0.40 per share on the grant date. We, utilizing appropriate option pricing software, estimated the fair value of the options at \$0.001 per share, for an aggregate grant-date fair value of \$50. We recorded \$50 in share-based payment in the accompanying financial statements for the nine month period ended September 30, 2008.

On August 8, 2008, we granted to an officer and director, options to purchase 150,000 shares of common stock exercise price of \$0.65, in exchange for performance services. The option to purchase 150,000 shares of our common stock vests immediately on August 8, 2008 and expires on August 31, 2009. Our Board of Directors valued our common stock at \$0.40 per share on the grant date. We, utilizing the appropriate option pricing software, estimated the fair value of the options at \$0.001 per share, for an aggregate grant-date fair value of \$150. We recorded \$150 in share-based payment in the accompanying financial statements for the nine month period ended September 30, 2008.

Using the Black-Scholes option-pricing software, we assumed the following in estimating the fair value of the options at the grant date:

| | |
|-------------------------------------|--------|
| Risk-free interest rate..... | 3.05% |
| Dividend yield..... | 0.00% |
| Volatility factor..... | 22.00% |
| Weighted average expected life..... | 1 year |

On September 4, 2008, we also issued to a consultant, options to purchase 50,000 shares of common stock exercise price of \$0.65, in exchange for performance services. The option to purchase 50,000 shares of common stock vests immediately on September 4, 2008 and expires on August 31, 2009. Our Board of Directors valued our common stock at \$0.45 per share on the grant date. We, utilizing the

F-8

appropriate option pricing software, estimated the fair value of the options at \$0.003 for an aggregate grant-date fair value of \$150. We recorded \$150 in share-based payment in the accompanying financial statements for the nine month period ended September 30, 2008.

Using the Black-Scholes option-pricing software, we assumed the following in estimating the fair value of the options at the grant date:

Edgar Filing: TOMBSTONE TECHNOLOGIES, INC. - Form 10-Q

| | |
|-------------------------------------|--------|
| Risk-free interest rate..... | 3.10% |
| Dividend yield..... | 0.00% |
| Volatility factor..... | 22.00% |
| Weighted average expected life..... | 1 year |

During the nine months ended September 30, 2008, the Company and one consultant agreed to cancel the options issued in year 2007. Since the share-based payment expense was fully recognized in the prior year, this event does not affect the accompanying financial statements.

Note 4: Income Taxes

The Company records its income taxes in accordance with Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes." The Company incurred net operating losses during the periods shown on the condensed financial statements resulting in a deferred tax asset, which was reserved; therefore the net benefit and expense resulted in \$-0- income taxes.

F-9

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

The following discussion should be read in conjunction with our unaudited financial statements and notes thereto included herein. In connection with, and because we desire to take advantage of, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we caution readers regarding certain forward looking statements in the following discussion and elsewhere in this report and in any other statement made by, or on our behalf, whether or not in future filings with the Securities and Exchange Commission. Forward-looking statements are statements not based on historical information and which relate to future operations, strategies, financial results or other developments. Forward looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward looking statements made by, or on our behalf. We disclaim any obligation to update forward-looking statements.

The independent registered public accounting firm's report on the Company's financial statements as of December 31, 2007, and for each of the years in the two-year period then ended, includes a "going concern" explanatory paragraph, that describes substantial doubt about the Company's ability to continue as a going concern.

PLAN OF OPERATIONS

At September 30, 2008, we had cash on hand of \$48,309. We intend to use our cash

Edgar Filing: TOMBSTONE TECHNOLOGIES, INC. - Form 10-Q

funds to continue operations. We intend to continue to develop the business opportunities presented by our OIEPrint(TM) software and our business in the printing of custom playing cards. The development of the business opportunities includes continued marketing efforts and product testing over the next twelve months.

During the nine months ended September 30, 2008, we have focused on the continued development of our OIEPrint software and conducted the beta testing of such software. With the completion of the testing of the software, we began to offer the software for sale starting in October 2008. We offer two products:

- OIEPrint - is a platform, independent browser-based R (RIA) that supports template driven design and provides high-resolution PDF files to the printer; and
- OIEPrint Store - An advanced e-commerce solution that supports multiple customization options (e.g. paper color, paper weight, paper finish, collating, binding, shipping, etc.) and dependent variables (e.g. If you choose "A", you cannot choose "B" but can choose "C").

Over the next twelve months we intend to develop a third software product, OIEPrint VDP, a tool for linking database mining with custom printing and 1:1 marketing and release it for sales.

While each product will be available as a stand-alone license, we are offering a fully hosted solution for a monthly fee. Customization and implementation fees are also anticipated. We will offer the products through the Company, via a outbound sales staff that utilizes Web-based demos and Web-video in order to engage customers.

In the continuance of our business operations we do not intend to purchase or sell any significant assets and we do not expect a significant change in the number of employees of the Company.

1

RESULTS OF OPERATIONS

For the Three Months Ended September 30, 2008 Compared to the Three Months Ended September 30, 2007

During the three months ended September 30, 2008, we recognized sales of \$5,246 compared to sales of \$11,461 during the three months ended September 30, 2007 from the sale of our customized playing cards. The decrease of \$6,215 was a result of our focus on the completion of the beta testing of our software products.

During the three months ended September 30, 2008, we incurred cost of sales of \$2,302 compared to cost of sales of \$5,809 during the three months ended September 30, 2007. The decrease of \$3,507 was a result of the move to sales of our software product, which is less inventory driven. We recognized a gross profit of \$2,944 during the three months ended September 30, 2008 compared to \$5,652 during the three months ended September 30, 2007.

During the three months ended September 30, 2008, we incurred operational losses of \$58,323 compared to \$94,775 during the three months ended September 30, 2007. The decrease of \$36,452 is a result of the \$39,160 decrease in general and selling expenses This decrease is a result of decreased operational activities over the prior period combined with management's focus on the completion of its

Edgar Filing: TOMBSTONE TECHNOLOGIES, INC. - Form 10-Q

beta testing of the software products.

During the three months ended September 30, 2008, we recognized a net loss of \$57,932 compared to a net loss of \$89,602 during the three months ended September 30, 2007. The decrease of \$31,670 is a result of the decreased operational activities discussed above.

For the Nine Months Ended September 30, 2008 Compared to the Nine Months Ended September 30, 2007

During the nine months ended September 30, 2008, we recognized sales of \$53,397 compared to sales of \$16,510 during the nine months ended September 30, 2007 from the sale of our customized playing cards and our software products. The increase of \$36,887 was a result of increased marketing and sales activities.

During the nine months ended September 30, 2008, we incurred cost of sales of \$34,958 compared to cost of sales of \$9,397 during the nine months ended September 30, 2007. The increase of \$25,561 was a result of the increase in sales of our products. We recognized a gross profit of \$18,439 during the nine months ended September 30, 2008 compared to \$7,113 during the nine months ended September 30, 2007.

During the nine months ended September 30, 2008, we incurred operational losses of \$322,576 compared to \$236,500 during the nine months ended September 30, 2007. The increase of \$86,076 is a result of the \$97,402 increase in general and selling expenses combined with the \$52,613 increase expenses incurred as a result of issue equity to pay for services. These increases are a result of increased operational activities over the prior period combined with increase general and administrative expenses as a result of the Company's Annual Shareholder Meeting.

During the nine months ended September 30, 2008, we recognized a net loss of \$319,205 compared to a net loss of \$218,504 during the nine months ended September 30, 2007. The increase of \$100,701 is a result of the increased operational activity discussed above offset by the increase in sales.

LIQUIDITY AND FINANCIAL CONDITION

Net cash used in operating activities during the nine months ended September 30, 2008 and September 30, 2007 were \$260,232 and \$136,076, respectively. Net cash used in investing activities during the nine months ended September 30, 2008 and

2

September 30, 2007 were \$3,486 and \$519, respectively. During the nine months ended September 30, 2008, we invested funds of \$3,086 in the purchase of property and equipment. Net cash used in financing activities during the nine months ended September 30, 2008 and September 30, 2007 were \$1,472 and \$0, respectively.

At September 30, 2008, we had total current assets of \$64,627, consisting of cash on hand of \$48,308, \$2,508 in accounts receivable, \$6,944 in inventory and \$6,866 in prepaid expenses. At September 30, 2008, we had total current liabilities of \$21,450, consisting of accounts payable and accrued liabilities of \$19,458 and the current portion of lease obligations of \$1,992.

During the nine months ended September 30, 2008, we granted to six consultants, options to purchase 425,000 shares of our common stock at an exercise price of \$0.65 to \$1.50 per share, in exchange for consulting services. During the nine months ended September 30, 2008, we granted an officer and director of the

Edgar Filing: TOMBSTONE TECHNOLOGIES, INC. - Form 10-Q

Company, options to purchase 150,000 shares of our common stock at an exercise price of \$0.65 per share, in exchange for his services. Our Board of Directors valued our common stock at \$0.40 to \$0.85 per share on the grant date. We, utilizing appropriate option pricing software, estimated the fair value of the options as shown in the below table, for an aggregate grant-date fair value of \$52,613. We recorded \$ 52,613 in share-based payment in the accompanying financial statements for the nine-month period ended September 30, 2008.

| Optionee ----- | Number of shares ----- | Fair value of options ----- | Total Expenses ----- | Total exp recogni as of September 3 2008 ---- |
|----------------------|------------------------------|-----------------------------------|----------------------------|--|
| Consultant | 125,000 | \$.2981 | \$37,263 | \$37,263 |
| Consultant | 50,000 | \$.0687 | \$3,435 | \$3,435 |
| Consultant | 100,000 | \$.1049 | \$10,490 | \$10,490 |
| Consultant | 50,000 | \$.0215 | \$1,075 | \$1,075 |
| Consultant | 50,000 | \$.001 | \$50 | \$50 |
| Consultant | 50,000 | \$.003 | \$150 | \$150 |
| Officer and Director | 150,000 | \$.001 | \$150 | \$150 |

ITEM 3. QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable

ITEM 4. CONTROLS AND PROCEDURES

Disclosures Controls and Procedures

We have adopted and maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods required under the SEC's rules and forms and that the information is gathered and communicated to our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), as appropriate, to allow for timely decisions regarding required disclosure.

As required by SEC Rule 15d-15(b), Messrs. Harris and Cox our Chief Executive Officer and Chief Financial Officer carried out an evaluation under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 15d-14 as of the end of the period covered by this report. Based on the foregoing evaluation, Messrs. Harris and Cox have concluded that our disclosure controls and procedures are effective in timely alerting them to

material information required to be included in our periodic SEC filings and to ensure that information required to be disclosed in our periodic SEC filings is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure as a result of the deficiency in our internal control over financial reporting discussed below.

Edgar Filing: TOMBSTONE TECHNOLOGIES, INC. - Form 10-Q

ITEM 4T. CONTROLS AND PROCEDURES

Management's Quarterly Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the company in accordance with as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized

Management's assessment of the effectiveness of the small business issuer's internal control over financial reporting is as of the quarter ended September 30, 2008. We believe that internal control over financial reporting is effective. We have not identified any, current material weaknesses considering the nature and extent of our current operations and any risks or errors in financial reporting under current operations.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This quarterly report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

There was no change in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

4

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

NONE

ITEM 2. CHANGES IN SECURITIES

Edgar Filing: TOMBSTONE TECHNOLOGIES, INC. - Form 10-Q

The Company made the following unregistered sales of its securities from July 1, 2008 through September 30, 2008.

| DATE OF SALE | TITLE OF SECURITIES | NO. OF SHARES | CONSIDERATION | CLASS |
|--------------|---------------------|---------------|---------------------|--------|
| 8/8/2008 | Options | 150,000 | Services | Office |
| 8/8/2008 | Options | 50,000 | Consulting Services | Busine |
| 9/4/2008 | Options | 50,000 | Consulting Services | Busine |

Exemption From Registration Claimed

All of the sales by the Company of its unregistered securities were made by the Company in reliance upon Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act"). All of the individuals and/or entities listed above that purchased the unregistered securities were almost all existing shareholders, all known to the Company and its management, through pre-existing business relationships, as long standing business associates, and employees. All purchasers were provided access to all material information, which they requested, and all information necessary to verify such information and were afforded access to management of the Company in connection with their purchases. All purchasers of the unregistered securities acquired such securities for investment and not with a view toward distribution, acknowledging such intent to the Company. All certificates or agreements representing such securities that were issued contained restrictive legends, prohibiting further transfer of the certificates or agreements representing such securities, without such securities either being first registered or otherwise exempt from registration in any further resale or disposition.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

5

ITEM 6. EXHIBITS

Exhibits. The following is a complete list of exhibits filed as part of this Form 10-Q. Exhibit numbers correspond to the numbers in the Exhibit Table of Item 601 of Regulation S-K.

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act

Edgar Filing: TOMBSTONE TECHNOLOGIES, INC. - Form 10-Q

Exhibit 31.2 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act

Exhibit 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act

Exhibit 32.2 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act

6

SIGNATURES

Pursuant to the requirements of Section 12 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.

TOMBSTONE CARDS, INC.
(Registrant)

Dated: November 13, 2008

By: /s/ John Harris

John Harris, President &
Chief Executive Officer

Dated: November 13, 2008

By: /s/ Neil Cox

Neil Cox Chief Financial Officer &
Chief Accounting Officer

7