COMPETITIVE COMPANIES INC
Form 10QSB
January 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D. C. 20549

FORM 10-QSB

(X) Quarterly report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934.

For the quarterly period ended June 30, 2005.

( ) Transition report pursuant to Section 13 or 15(d) of the Exchange Act for the transition period from April 1, 2005 to June 30, 2005.

Commission File Number: 333-76630

COMPETITIVE COMPANIES, INC.
(Exact name of registrant as specified in charter)

NEVADA	**65-1146821**
(State of or other jurisdiction of incorporation or organization)	**(IRS Employer I.D. No.)**

3751 Merced Drive, Suite A
Riverside, CA 92503
(Address of Principal Executive Offices)

(909) 687-6100
(Registrant's Telephone Number, Including Area Code)

Check whether the registrant: (1) has filed all reports required to be filed by Section 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 (X)

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). [ ] Yes [X] No

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

Indicate the number of shares outstanding of each of the issuer's classes of stock as of November 22, 2005

48,645,810 Common Shares

Transitional Small Business Disclosure Format:

YES ( ) NO (x)

COMPETITIVE COMPANIES, INC.
INDEX TO FORM 10-QSB

COMPETITIVE COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2005
(UNAUDITED)

Assets	
Current Assets	
Cash	$ 2,174
Account receivables, net of allowance for doubtful account of $80,568)	122,638
Inventories	44,376
Prepaid expenses and other current assets	5,977
Total current assets	175,165
Property and equipment - net	187,224
Other assets	133,454
Total Assets	$ 495,843
Liabilities and Stockholders' Deficit	
Current Liabilities	
Accounts payable	$ 95,946
Current maturities of long term debt	217,975
Current maturities of capital lease obligations	23,504
Accrued and other liabilities	135,710
Total current liabilities	473,135
Long term debt	83,869
Total liabilities	557,004
Stockholders' Deficit:	
Preferred stock $.001 par value; 10,000,000 shares authorized; none outstanding	-
Common stock $.0001 par value; 70,000,000 share authorized; 47,966,310 shares issued and outstanding	4,796
Additional paid-in capital	1,349,312
Deficit	(1,415,269)
Total stockholders' deficit	(61,161)
Total Liabilities and Stockholder's Deficit	$ 495,843

See condensed notes to consolidated financial statements

COMPETITIVE COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Six Months Ended June 30, 2005	For the Period January 14, 2004 to June 30, 2004	For the Three Months Ended June 30, 2005	For the Three Months Ended June 30, 2004
Revenues	$ 198,615	$ -	$ 192,285	$ -
Cost of revenue	235,339	-	235,339	-
Gross profit (loss)	(36,724)	-	(43,054)	-
Other Operating Expenses	1,154,221	112,162	1,035,584	56,081
Net Loss	$ (1,190,945)	$ (112,162)	$ (1,078,638)	$ (56,081
Loss per share Basic and diluted	$ (0.03)	$ (0.00)	$ (0.03)	$ (0.00
Weighted average number of shares outstanding - basic and Diluted	39,232,000	32,622,000	39,983,600	33,019,000

See condensed notes to consolidated financial statements

4

COMPETITIVE COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended June 30, 2005	For the Period January 14, 2004 to June 30, 2004
Cash Flows from Operating Activities		
Net loss	$ (1,190,945)	$ (112,162)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	11,500	-
Provision for bad debt	1,708	-
Non cash compensation expense	778,000	3,200
Change in assets and liabilities	(105,880)	
Net cash provided by (used in) operating activities	(505,617)	28,006
Cash Flows from Investing Activities		
Purchases of property and equipment	-	(4,758)

Net cash used in investment activities	-	(4,758)
Cash Flows from Financing Activities		
Proceeds received from sale of stock	403,319	222,962
Purchase of preferred stock	(40,000)	-
Principal payments from debt and capital leases	(13,104)	(11,544)
Net cash provided by(used in) financing activities	350,215	211,418
Net increase (decrease) in cash	(155,402)	97,698
Cash and cash equivalents at the beginning of the period	157,576	-
Cash and cash equivalents at the end of the period	$ 2,174	$ 97,698

Supplementary Disclosure of Non Cash Investing and Financing Activities - During the six months ended June 30, 2005, we assumed certain net liabilities having a value of approximately $167,000 in exchange for shares of our common stock valued at $510,000 (see Note A).

See condensed notes to consolidated financial statements

COMPETITIVE COMPANIES, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE A - BACKGROUND AND FORMATION, AND NATURE OF OPERATIONS

Competitive Companies, Inc. ("Competitive") was originally incorporated under the laws of the state of Nevada in March 1998, and shortly thereafter acquired all of the assets and assumed all of the liabilities of Competitive Communications, Inc. ("CCI"), which was incorporated under the laws of the state of California in February 1996. In January 2000, CCI Residential Services, Inc. ("CCIR") was formed. This entity, which is also a wholly owned subsidiary of Competitive was formed to expand on the residential services currently being provided by CCI, while CCI focused on developing revenue streams from other services.

Competitive, CCI and CCIR (collectively referred to as the "Company") provide telephone, cable television, long distance/inter - exchange, and dial up and high-speed internet connections and e-mail services, mainly to customers who live in multi-tenant residential buildings. The Company's operations are located in Riverside, California and substantially all of its customers are California residents.

On May 5, 2005 the Company merged with CA Networks, Inc. ("CAN"), which was a development stage enterprise that was in the process of developing a business model in the same industry as Competitive. CAN was formed under the laws of the state of Wyoming on January 14, 2004. The combined companies maintained the name of CCI.

On the date of the transaction (the "Effective Date") the Company issued 40,599,999 shares of its common stock to the shareholders of CAN in exchange for the 40,599,999 outstanding shares of CAN. In effect, each of CAN's shares that were issued and outstanding immediately before the merger was exchanged for one share of the Company's common stock. Although Competitive was the legal acquirer and surviving entity, because the shareholders of CAN received the majority of the voting rights in the combined entity, for accounting purposes the acquisition was treated as a recapitalization of CAN with CAN being reflected as the acquirer of Competitive (a reverse acquisition). Accordingly, the 5,912,061 common shares held by the Company's shareholders were deemed to have been issued by CAN in exchange for the Company's net liabilities at the date of the acquisition. Upon such acquisition date, the purchase price consisted of the following:

A) Estimated value of 5,912,061 shares of common stock of Competitive deemed to have been issued, at estimated value of $0.10 per share	$ 591,206
B) Direct costs of the business combination	19,435
C) Net liabilities assumed	167,077
Total	$ 778,000

Because the net book value of Competitive' assets and liabilities approximated their fair values on the date of acquisition, the purchase price above has been reflected as an expense on the Company's books and records. Since the transaction was accounted for as a purchase, CAN's 2005 consolidated results of

operations only include the results of operations of Competitive since the date of acquisition. If the results of operations of Competitive were included in the accompanying consolidated financial statements for the period between January 1, 2005 and the date of the acquisition, then 2005 revenues, expenses, net loss and net loss per share would have increased approximately as follows:

	Qtr Ended June 30	Six Months Ended June 30
Revenues	$ 90,000	$ 371,000
Expenses	$ 113,000	$ 392,000
Net Loss	$ 23,000	$ 21,000
Net Loss Per Share	$ -	$ -

In connection with this transaction, we agreed to file a registration statement with the Securities and Exchange Commission to register the shares of restricted common stock issued to CAN's shareholders who own less than 5% of the total outstanding shares of the merged entity, however at the current time, we are considering whether or not this is feasible as we are not currently trading. The merged company (collectively "we", "us", "ours") intends to be a provider of local telephone, long distance service and high speed internet service through Wireless Internet networks in all states it operates in, and will also offer cellular service nationwide.

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. The reported amounts of revenues and expenses during the reporting period may be affected by the estimates and assumptions we are required to make. Actual results could differ significantly from our estimates.

Basis of Presentation

Our accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-QSB and Rule 10-1 of Regulation S-X of the Securities and Exchange Commission (the "SEC"). Accordingly, these consolidated financial statements do not include all of the footnotes required by accounting principles generally accepted in the United States of America. In our opinion, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005. The accompanying consolidated financial statements and the notes thereto should be read in conjunction with Competitive's audited consolidated financial statements as of December 31, 2004 and for the years ended December 31, 2004 and 2003 contained in Competitive's Form 10-KSB, and the audited financial statements of CAN contained in the Company's 8-K/A filing dated June 27, 2005.

Recent Pronouncements

With the exception of SFAS 123(R) "Share-Based Payments", we do not believe any other recent accounting pronouncements could have an impact on our consolidated financial statements.

In December 2004, FASB Statement Number 123 ("FAS 123 (R)"), Share-Based Payments. FAS 123 (R) was issued. This statement requires all entities to recognize compensation expense in an amount equal to the fair value of shared-based payments such as stock options granted to employees. We will be required to apply FAS 123 (R) on a modified prospective method. Under this method, we are required to record compensation expense (as previous awards

continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption. In addition, we may elect to adopt FAS 123 (R) by restating previously issued financial statements, basing the amounts on the expense previously calculated and reported in the pro forma disclosures that had been required by FAS 123. FAS 123 (R) is effective for the first reporting period beginning after December 15, 2005. Because all of our stock options outstanding have already fully vested, we do not believe the adoption of FAS 123 (R) will have a material impact on our consolidated financial statements.

NOTE B - GOING CONCERN

Our consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplate the realization of assets and liquidation of liabilities in the normal course of business. We have incurred losses from operations and are experiencing difficulty in generating sufficient cash flow to pay certain indebtedness which was due in April 2004 (the note has not been paid and is in default). In addition, we do not currently have the cash resources to meet our operating commitments for a period of twelve months, and we expect to have ongoing requirements for capital investment to implement our business plan. Finally, our ability to continue as a going concern must be considered in light of the problems, expenses and complications frequently encountered by entrance into established markets and the competitive environment in which we operate.

As discussed in Note A, we have closed a merger with Competitive, which is a public company. We anticipate this merger will provide us with better access to debt or equity capital and/or that will help to improve our results of operations through our ability to offer additional services to our customers and through the negotiation of better line usage charges and sharing of operating overhead. Since inception, our operations have primarily been funded through private equity financing, and we expect to continue to seek additional funding through private or public equity and debt financing.

Our ability to continue as a going concern is dependent on our ability to generate sufficient cash from operations to meet our cash needs and/or to raise funds to finance ongoing operations and repay debt. However, there can be no assurance that we will be successful in our efforts to raise additional debt or equity capital and/or that our cash generated by our operations will be adequate to meet our needs. These factors, among others, indicate that we may be unable to continue as a going concern for a reasonable period of time.

Our consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

NOTE C - ISSUANCE OF OPTIONS

During the period ended June 30, 2005, we issued 1,877,000 options to purchase shares of our common stock to certain employees, which options vested immediately. Because the exercise price of the options ($.10) was equal to the fair value of our common stock at the date of the grant, and because we continue to use the intrinsic value method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," to account for our stock-based employee compensation arrangements, no stock based compensation has been recorded as a result of the issuance of such options.

NOTE D - OTHER RELATED PARTY TRANSACTIONS

During the quarter ended June 30, 2005, we paid consulting fees of approximately $60,800 to certain officers and directors. The amount is included in compensation and benefits in the accompanying consolidated statement of operations.

NOTE E - SUBSEQUENT EVENTS

During the quarter ended June 30, 2005, we entered an acquisition agreement to purchase an unrelated entity. However, because this entity failed to comply with the terms of the acquisition agreement, we were unable to consummate the acquisition, and abandoned our efforts relative to such matter in September 2005. During the period between the date of the acquisition agreement and our decision to abandon the proposed acquisition, we invested approximately $109,000 in such entity. This amount, which is included in other assets in the accompanying consolidated balance sheet, was determined to be impaired as of the date of our decision to abandon the acquisition and accordingly, we charged operations for $109,000 in September 2005.

Subsequent to September 30, 2005, our Board of Directors authorized the grant of 3,750,000 options to our Directors for services provided in such quarter. The options vest immediately and have exercise prices of $.10 per share which amount is equal to the fair value of our common stock as of the date of the grant. Because we account for equity instruments issued to non-employees based on the fair value of the consideration received or the fair value of the equity instruments, whichever is more reliably measurable, we anticipate that stock based compensation will be applicable for these options in the fourth quarter of our fiscal year ended December 31, 2005.

End of financial statements.

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS-COMPETITIVE COMPANIES, INC.

Statement of Operations. At this time comparisons of operations to the January 14, 2004 to June 30, 2004 period are not possible, because of the merger/acquisition between Competitive Companies, Inc. and CA Networks. Therefore, we will focus the financial comparisons on the three and six months ending June 30, 2005 and include information from 2004 as it relates to customer base only.

Revenues. Revenues were $198,615 and $192,285 during the six and three months ended June 30, 2005. respectively as compared to no revenues during the corresponding periods of the preceding fiscal year. This is because prior to our acquisition of Competitive Companies, Inc. in May 2005, we were a development stage enterprise that had not commenced its planned principal operations. In 2005, we acquired Competitive Companies, Inc and started to generate revenues from telephone services we provide to apartment complexes. While not evident in the consolidated statements of operations(as Competitive's financials are not presented for 2004), Competitive's revenues declined somewhat because of competitive pricing. We have partially compensated for the competitive pricing from the special free long distance calling plans and free local calling minutes offered by most wire and cellular telephone companies by reducing our prices for long distance services. Even with our more aggressive pricing and package plans, we have not been able to increase our number of apartment complex telephone customers.

Some apartment complex customers have continued to use cellular telephones as their only telephone. The apartment owners have also reported a decline in the apartment complex occupancy rates at several properties, which has directly affected our customer base. The number of apartment complex telephone customers decreased by 235 (14%) from 1,712 through the second quarter of 2004 to 1,477 through the second quarter of 2005. The cable television service revenue also decreased slightly through the second quarter of 2005 as compared through the second quarter of 2004. This has resulted in our serving approximately 6% or 40 fewer cable television customers through the end of the second quarter of 2005 compared through the end of the second quarter 2004.

Our introduction of high-speed Internet services and competitively priced telephone-cable television-high speed Internet package have helped to increase our apartment complex Internet service customer base by 43 (23%) customers from 189 through the second quarter of 2004 to 232 through the second quarter of 2005. We believe that the apartment complexes will maintain current occupancy rates at least through the end of 2005 provided no major changes occur in the economy. We anticipate revenue may continue to be slightly reduced due to competitive telephone pricing, cellular service competition, and satellite television competition.

Additionally, sales to business and residential customers have been slower than anticipated. This is due to low margins associated with re-sale of the major local exchange carrier services and higher bad debt with this customer base as apposed to the apartment complex customer base. We will start to address the lower margins as we build our infrastructure that will support our wireless concept. Our improved pricing for telephone service, cable television service, and high-speed Internet service is competitive with major providers, and provides a bundled package that is not available to our customers from any of our competitors. Acquisition of new contracts with apartment owners for telephone, television, and high-speed internet services to their complexes is contingent on potential additional financing, which we will continue to pursue.

10

Other Operating Expenses. Other operating expenses for the six months ended June 30, 2005 were $1,154,221. This amount was made up primarily of compensation and benefits of $1,000,008, occupancy of $76,471 and other expenses of $67,828. Compensation was primarily attributable to $778,000 of non-cash expenses arising from our acquisition of Competitive.

LIQUIDITY AND CAPITAL RESOURCES

Cash received from operations in 2005 was primarily from telephone and cable subscriber revenue generated by our telephone and cable TV service at apartment complexes. Additional revenue was generated from residential and business telephone customers and high-speed Internet service to selected apartment complexes.

We used cash for operating and investing activities during the period ended June 30, 2005. These cash outflows were primarily financed through sales of our common stock.

We are in default on a $207,450 note payable due April 28, 2004, bearing interest at 15%, and a note payable, bearing interest at 10% and under which we currently owe principal and interest of approximately $55,000.

We do not have adequate cash to pay the aforementioned notes and/or meet our other operating commitments for the next year.

CAUTIONARY STATEMENT

This Form 10-QSB, press releases and certain information provided periodically in writing or orally by our officers or our agents contain statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act, as amended and Section 21E of the Securities Exchange Act of 1934. The words expect, anticipate, believe, goal, plan, intend, estimate and similar expressions and variations thereof if used are intended to specifically identify forward-looking statements. Those statements appear in a number of places in this Form 10-QSB and in other places, particularly, Management's Discussion and Analysis or Results of Operations, and include statements regarding the intent, belief or current expectations us, our directors or our officers with respect to, among other things: (i) our liquidity and capital resources; (ii) our financing opportunities and plans and (iii) our future performance and operating results. Investors and prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. The factors that might cause such differences include, among others, the following: (i) any material inability of us to successfully internally develop our products; (ii) any adverse effect or limitations caused by Governmental regulations; (iii) any adverse effect on our positive cash flow and abilities to obtain acceptable financing in connection with our growth plans; (iv) any increased competition in business; (v) any

inability of us to successfully conduct our business in new markets; and (vi) other risks including those identified in our filings with the Securities and Exchange Commission. We undertake no obligation to publicly update or revise the forward looking statements made in this Form 10-QSB to reflect events or circumstances after the date of this Form 10-QSB or to reflect the occurrence of unanticipated events.

Item 3. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management and our board of directors, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2005. This evaluation was carried out under the supervision and with the participation of our management, including our principal (chief) executive officer and principal (chief) financial officer. Based upon the evaluation, our principal (chief) executive officer and principal (chief) financial officer concluded that our disclosure controls and procedures were of limited effectiveness at the reasonable assurance level at such date.

Through the merger with Competitive Companies, Inc. we became a public company in May 2005. We have hired outside consultants and professionals to assist us with our SEC reporting requirements, however we continue to evaluate our needs as they relate to accounting and disclosure controls and procedures and plan to implement new disclosure controls and procedures. As part of this plan and implementation, we are re-evaluating, re-designing, and documenting policies and procedures, putting those procedures in operation and monitoring the effectiveness of the procedures.

Changes in Internal Controls Over Financial Reporting

In connection with the evaluation of the Company's internal controls during the Company's fiscal quarter ended June 30, 2005, the Company's Principal Executive Officer and Principal Financial Officer have determined that there are no changes to the Company's internal controls over financial reporting that has materially affected, or are reasonably likely to materially effect, the Company's internal controls over financial reporting.

PART II. - OTHER INFORMATION

Item 1. Legal Proceedings

NONE

Item 2. Changes in Securities

During the quarter ending June 30, 2005, we issued shares of our common stock for consulting services and cash. The stock was issued to U.S. persons in transactions that were exempt from registration under section 4(2) promulgated under the Securities Act of 1933. No commissions were paid.

Item 3. Defaults Upon Senior Securities

NONE

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

NONE

Item 5. Other Information

NONE

Item 6. Exhibits and Reports on Form 8-K

Exhibits

31 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer and Acting Chief Financial Officer, Russell Preston

32 Section 1350 Certification, Russell Preston

SIGNATURE

Pursuant to the requirements 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.

Competitive Companies, Inc.

By /s/ Russell Preston

Russell Preston, Chief Executive Officer
and Acting Chief Financial Officer

Date: January 5, 2006