

U.S. Securities and Exchange Commission

Washington, D.C. 20594

FORM 10-KSB/A Amendment #1

(Mark One)

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

For the fiscal year ended: **DECEMBER 31, 2003**

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

For the transition period from: _____ to _____

Commission file number 0-27145

1st Net Technologies, Inc.

(Exact name of registrant as specified in its charter)

Colorado

33-0756798

(State or other jurisdiction of
incorporation or organization)

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

1869 W. Littleton Boulevard

80120

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number: (303) 738-8994

Securities registered under Section 12(b) of the Exchange Act: None.

Securities registered under Section 12(g) of the Exchange Act:

6,395,357 shares of Common Stock, \$.001 par value

Title of each class

Indicate 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 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 X No _____

Indicate if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained in this Form, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. []

The issuer had no revenue for its most recent fiscal year.

The aggregate market value of the voting stock held by non-affiliates on March 31, 2004, calculated by taking the last sales price of the Company's common stock (\$.17 as quoted on March 29, 2004) was \$965,066. The number of shares outstanding of the issuer's common equity as of March 29, 2004 was 6,395,357.

Note: If determining whether a person is an affiliate will involve an unreasonable effort and expense, the issuer may calculate the aggregate market value of the common equity held by non-affiliates on the basis of reasonable assumptions, if the assumptions are stated.

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. 6,395,357 common shares issued and outstanding as of March 31, 2004

Transitional Small Business Disclosure Format (check one): Yes ____ No X

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PART I

ITEM 1. **Description of Business**

THIS ANNUAL REPORT ON FORM 10-KSB CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THESE STATEMENTS RELATE TO THE COMPANY'S FUTURE PLANS, OBJECTIVES, EXPECTATIONS AND INTENTIONS AND MAY BE IDENTIFIED BY WORDS LIKE "BELIEVE," "EXPECT," "MAY," "WILL," "SHOULD," "SEEK," OR "ANTICIPATE," AND SIMILAR EXPRESSIONS. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING THOSE SET FORTH IN THIS BUSINESS SECTION AND UNDER "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" BELOW.

1st Net Technologies, Inc. (the "Company" or "1st Net") had, prior to August 2001, primarily been in the Internet commerce and services business since its inception in 1997. In August 2001, the Company's Board of Directors decided to suspend its California operations and, subsequently, moved the Company's headquarters to Colorado, its original state of incorporation. With the closing of its California operations, the Company currently maintains no business operations, other than to manage its remaining assets and liabilities. Since August 2001, the Company has been a shell company in search of a merger candidate. Recent operations have consisted of debt restructuring.

In October 2001, the Company retained the services of a Corporate Reorganization/Bankruptcy Specialist in order to determine a course of action that might best provide the Company with the opportunity to remain a going concern. As of December 31, 2003, the Company continues to have discussions with its unsecured creditors to determine their willingness to negotiate their claims against the Company. The Company has a limited amount of capital from which to pay its remaining obligations. If the Company is unable to negotiate favorable and final terms with its remaining creditors, the Company may have to seek protection from its creditors through a Chapter 11 or Chapter 7 filing, at some point in the future. To date, no definitive decision has been made with regard to this course of action.

Our historical financial information contained in this Annual Report on Form 10-KSB is that of 1st Net Technologies, Inc. and its subsidiary corporation, SSP Management Corp., and is presented on a consolidated basis.

In January 1999, we acquired a 100 percent interest in SSP Management Corp., a Colorado corporation ("SSP"), from a private company that is considered a related party. SSP was wholly owned by Entrepreneur Investments, LLC ("EI") whose sole shareholder, James H. Watson, Jr., our current Chairman/President/CEO, was a member of 1st Net's Board of Directors at the time of acquisition. Through our acquisition of that company, we built several investment-oriented Internet Web sites and on-line newsletter publications. In December 1999, we made a strategic decision to divest ourselves of the SSP types of clients and services and, where applicable, to sell our information-based assets to companies whose long-term objective was to participate in that business. Accordingly, we completed the sale of some of our online newsletters to other unrelated companies in February and August 2000 and this subsidiary is no longer active in its former business.

At December 31, 2003, SSP and 1st Net Technologies continue to hold common stock in the following former clients:

<u>Name of Company</u>	<u>Status</u>	<u>Owner</u>	<u># of shares owned at 12/31/03</u>
a) SureCare, Inc.	Account	SSP	60,000 common
b) Zootech, Inc.	Account	SSP	5,000 common
c) Allwest System	Account	1 st Net	33 common
d) Phelps Engineer	Account	1 st Net	21,000 common
e) Uniprime Capital	Account	1 st Net	2,035 common
f) Zootech, Inc.	Account	1 st Net	17,000 common
e) CTG	Certificate	1 st Net	2,120,114 common

All the above, except Children's Technology Group (CTG), currently trades on either the NASD's Bulletin Board system or the "Pink Sheets."

CHILDREN'S TECHNOLOGY GROUP

In May 1999, we acquired a controlling interest in The Children's Technology Group, Inc. ("CTG") (formerly Tummybusters, Inc.), a Nevada corporation. The business model of CTG is to build a safe and enjoyable Internet community for children on-line. Prior to its acquisition by 1st Net, James H. Watson, Jr., our Chairman/President/CEO served as a member of the boards of directors of both CTG and 1st Net. Prior to December 31, 2000, the Company accounted for its investment in Children's Technology Group, Inc. ("CTG") in accordance with Accounting Principle Board ("APB") Opinion No. 16. Under this method, the Company consolidated CTG's financial statements with its own. During the year ended December 31, 2000, CTG issued additional shares of its common stock and preferred stock to the public resulting in a change in the Company's ownership. Because of the change in ownership, the Company no longer has a controlling interest in CTG.

At January 1, 2001, the cost basis in the 4,172,614 shares of CTG common stock was \$146,232. On June 28, 2001, the Company, CTG and a third party investor in CTG entered into a shares exchange and option agreement. Pursuant to the agreement, the Company returned 250,000 shares of CTG stock in exchange for \$25,000 in July 2001. Upon receiving the \$25,000 from CTG, the Company granted the third party investor an option to purchase 1,250,000 shares of CTG common stock owned by 1st Net at \$.125 per share. At December 31, 2001, the Company held 3,922,614 shares of CTG common stock valued at \$120,731. Additionally, the Company agreed to exchange 550,500 shares of its CTG's common stock with 550,500 shares of 1st Net's common stock owned by CTG. The share exchange was closed in January 2002.

During February 2002, the third party investor exercised the option to purchase 1,250,000 of the CTG stock owned by the Company, and paid the Company \$156,250 (\$.125/share). The sale reduced the number of shares of CTG common stock owned by the Company to 2,120,114. The Company recognized a gain on the sale of the CTG stock of \$110,497 and reduced its cost basis in the CTG investment by \$44,753.

In January 2002, the Company granted the third party investor another option to purchase an additional 1,370,114 shares of its CTG common stock at \$.225 per share. This option was not exercised during its applicable term and expired in January 2003.

The Company's investment in CTG dropped to 13 percent at December 31, 2002. Due to the reduction in the percentage of ownership, the Company's investment in CTG was been reclassified as marketable securities that are available-for-sale.

SALE OF INTERNET PORTALS

In December 1999, we made a strategic decision to divest ourselves of the types of clients serviced by our subsidiary SSP Management and, where applicable, sell our information-based assets to companies whose long-term objective is to participate in the investor information business.

On February 23, 2000, SSP sold certain related assets to MarketByte, LLC. ("MarketByte") in exchange for a note receivable totaling \$200,000 and 10 percent of any future non-cash consideration received by Marketbyte in connection with the assets, through June 2, 2002. Under this Asset Purchase Agreement, in the event that the consideration received from Marketbyte through June 2, 2002 does not equal or exceed \$750,000, Marketbyte will be required to pay the Company the difference between \$750,000 and the consideration previously paid to the Company in connection with the original Asset Purchase Agreement. Subsequently, there have been two amendments to this Agreement to date. They are:

In October 2000, the Company agreed to amend its Agreement with MarketByte to read, "Upon expiration of the contract period of this Agreement, and should Seller (Company) not have received the total sum of Six Hundred Thousand Dollars (\$600,000) in cash and market value securities received or excess thereof, Buyer (MarketByte) shall agree to renegotiate in order to make up the difference between those amounts received by Seller and Six Hundred Thousand Dollars and such shall become due and owing immediately upon such date and the conclusion of the aforementioned negotiation." In consideration for agreeing to reduce the total value of the agreement by \$150,000, the Company received from Buyer 50,000 shares of marketable securities, which were valued at \$3.00 per share.

In December 2001, the Company again agreed to amend the MarketByte Agreement. This amendment states that "By mutual agreement Buyer and Seller do hereby agree to extend the payment period of such non-cash consideration as follows: a) MarketByte shall continue to pay 10 percent of any/all non-cash consideration (i.e. securities) it receives during its normal course of business until such time as the full amount owed has been received by Seller, with no specified time limit," and, "the parties also agree that as of the executed date of this Supplement the total amount of non-cash consideration due to the Seller is \$370,886.25, which is figured by subtracting the amounts already paid by Buyer to date...minus the original amount owed of \$400,000."

At December 31, 2003, MarketByte owed the Company \$10,000 in cash and \$317,655 in other non-cash consideration. Due to the uncertainty related to the collection of the "other consideration", no receivable has been recorded and any collections are recorded as income when received.

In August 2000, our two remaining newsletter publications and their respective databases were sold to a different unaffiliated party, Millennium Financial Publishing, LLC. (MFP) for an aggregate of \$115,000 in cash and promissory notes for the remainder of the \$1.5 million aggregate purchase price. Subsequent to the close of those agreements, MFP made payments to the Company totaling \$50,000 before becoming in default on those Agreements. During the second quarter of 2001, the Company filed suit against MFP in District Court, Arapahoe County, Colorado for breach of contract and failure to pay under the promissory notes executed by the companies. On or about February 28, 2002, the Company decided to settle its suit with MFP in consideration of them paying us \$2,500 in cash and \$5,000 in marketable securities, as well as returning to the Company the non-exclusive rights to the databases and

the exclusive rights to the other properties sold. MFP has not chosen not to honor the stipulations of this settlement as of December 31, 2003.

EMPLOYEES

As of December 31, 2003, the Company had no employees other than our President/CEO Mr. Watson. Mr. Watson currently receives no compensation for his services, other than reimbursements for expenses incurred on behalf of the Company.

ITEM 2. **Description of Property**

The Company maintains its executive offices at 1869 W. Littleton Blvd., Littleton, Colorado 80120. The Company paid \$1,000 and \$4,800 in rent for its office space during the years ended December 31, 2003 and 2002.

Our property and equipment as of December 31, 2003 consists of certain idle equipment at an estimated fair value of \$2,000.

ITEM 3. **Legal Proceedings**

As described toward the end of Item 1 above, we decided to settle our pending litigation against Millennium Financial Publishing, LLC ("MFP") in February 2002. MFP has so far chosen not to honor the stipulations of this settlement and thus no compensation has been received by the Company as a result of this action. The Company has chosen, at this time, not to expend the resources necessary to pursue this action, although we may pursue this suit in the future.

The Company was a party to the following lawsuits during 2003:

1) During 2001, a suit was filed by L.A. Commercial Group, Inc. in the amount of \$2,666. A default judgment was awarded against the Company in LA County, CA district court in 2002.

2) In October, 2002, the Company entered into a representation agreement with the Law Office of Roy R. Withers, of San Diego, California, to represent the Company in a civil action against Mitchell & Shea, attorneys at law, for misuse of name and related damages. This action stems from the dismissal of the Company pursuant to a 2002 lawsuit, whereby the Company is seeking to recoup the fees and expenses it had to expend to defend itself in that suit. The Company is also asking the Court for punitive damages related to this case. The case is still pending as of March 31, 2004.

ITEM 4. **Submission of Matters to a Vote of Security Holders**

We did not submit any matters to a vote of security holders during the fourth quarter of the year ended December 31, 2003.

PART II

ITEM 5. **Market for Common Equity, Related Shareholder Matters and Small business Issuer Purchases of Equity Securities**

Our common stock trades on the NASD's Bulletin Board system under the symbol "FNNTT." Although an active trading market for our Common Stock has at times existed in the past, currently our shares are only sporadically traded. Consequently, no meaningful market information is currently available.

To date, we have paid no dividends and do not anticipate paying dividends until we receive revenues in an amount which management determines to be sufficient.

The number of record holders of the Company's \$.001 par value Common Stock at December 31, 2003, was approximately 1,500.

We did not issue or sell any shares of stock during the year ended December 31, 2003.

ITEM 6. Management's Discussion and Analysis or Plan of Operation

This discussion may contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risks and Uncertainties" below. We undertake no obligation to release publicly the results of any revisions to these forward-looking statements to reflect events or circumstances arising after the date hereof.

OVERVIEW

Prior to August 2001, the Company had primarily been in the Internet commerce and services business since its inception in 1997. During 2001, the Company's Board of Directors decided to suspend its California operations and, subsequently, moved the Company's headquarters to Colorado, its state of incorporation. With the closing of its California operations, the Company maintains no current business operations, other than to manage its remaining assets and liabilities. The Company maintains one subsidiary corporation; SSP Management Corp. Our historical financial information contained in this Form 10-KSB is that of 1st Net Technologies, Inc. and SSP on a consolidated basis.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2002.

During the year ended December 31, 2003, the Company recognized net income totaling \$342,671 as compared to net income of \$32,123 during the year ended December 31, 2002. The net income recognized in 2003 was related to the following changes in revenues and expenses:

Operating expenses

Operating expenses totaling \$15,839 in 2003 decreased \$69,200 or 81.4 percent from \$85,039 in 2002. The decrease in operating expenses is due to the cut-back of corporate activities and a related reduction in professional fees from \$68,063 in 2002 to \$13,274 in 2003.

Other Income and Expense

December 31, 2003

During the year ended December 31, 2003, other income includes a gain on the sale of assets of \$45,380, a \$55,681 gain on the settlement of payables, the write-down of \$98,791 in accruals, and a gain resulting from the change in an accounting estimate totaling \$158,668. There were no amounts

recognized for these types of gains during the year ended December 31, 2002. The \$45,380 gain on sale of assets is related to collections of "other consideration" on the MarketByte receivable, which is recorded as a gain when consideration is received.

The Company's management recorded a corporate restructuring liability at December 31, 2000 in the amount of \$350,000. Management estimated the liability based on costs associated with employee reductions, relocation of the corporate headquarters and other expenses related to its plan to restructure and cease operations. The Company recognized liabilities totaling \$191,332 during the years ended December 31, 2003, 2002 and 2001, which reduced the restructuring liability to \$158,668. At December 31, 2003, management determined that it had over-estimated the original restructuring liability and revised its estimate, which reduced the liability to zero.

December 31, 2002

During the year ended December 31, 2002, other income included gains from sale of marketable securities and investments totaling \$117,562. The gains from sale of marketable securities were largely due to the sale of 1,250,000 shares of CTG stock for \$156,250 in February 2002. The Company incurred a \$4,000 loss on impairment of its idle assets during 2002.

LIQUIDITY AND CAPITAL RESOURCES

To date, we have been funded through sale of equity securities received from services, advances and loans from related parties, sale of SSP's operations, and proceeds from equity offerings. At December 31, 2002, the Company had cash and a net working capital deficit of \$9,077 and \$186,137, respectively. Our future source of capital will come from the remaining note receivable from prior sales of SSP's operations and disposal of equity securities held by the Company.

As of December 31, 2003, we had total assets of \$21,782, including current assets of \$19,282, investments of \$500 and \$2,000 in idle equipment. We had total liabilities (all current) of \$205,419 as of December 31, 2003. We had an accumulated deficit of \$6,303,912 and a shareholders' deficit of \$183,637 at December 31, 2003.

As of December 31, 2002, we had total assets of \$70,216, including current assets of \$67,716, investments of \$500 and \$2,000 in idle equipment. We had total liabilities (all current) of \$673,594 as of December 31, 2002. We had a retained loss of \$6,646,583 and a shareholders' deficit of \$603,378 at December 31, 2002.

Net cash used in operations was \$50,674 in 2003 consisting the \$342,671 of net income offset by the gain on sale of assets of \$45,380, the gain on write-down of liabilities of \$98,791, the gain on change in accounting estimate of 4158,668 and the increase in payables and accruals of \$34,825. Cash provided by investing activities was \$80,380 in 2003 all related to proceeds from SSP's MarketByte receivable. Cash used in financing activities was \$20,754 in 2003 all related to the repayment of promissory notes.

Net cash used in operations was \$112,772 in 2002 primarily due to the gain realized on the sale of investments totaling \$117,562. Cash provided by investing activities was \$163,315 in 2002 all related to proceeds from the sale of investments. Cash used in financing activities was \$55,000 in 2002 all related to the repayment of promissory notes.

On a forward-looking basis, 1st Net and its 100 percent owned subsidiary SSP maintain only minimal holdings of marketable securities. It is impossible however to ascertain the actual amounts that will be eventually realized by the Company when these securities are sold. Management is not sure that proceeds from the sale of investments held in addition to cash payments to be received from the transactions described above, will be sufficient to make up projected shortfalls from the results of its operations through the next twelve months.

Prior to August 2001, the majority of our capital resources was expended: 1) on salaries and benefits to our employees, 2) to service our debt burden to vendors, and 3) to our professional consultants. Since September 2001, we have eliminated our employee burden completely. Today, our greatest needs for capital are to pay fees to our outside consultants, primarily legal and accounting, and to continue trying to service and restructure our debt burden with past vendors.

Our main source of capital is our Asset Purchase and Loan Agreement with MarketByte, LLC. Entered into during the first quarter of 2000, SSP concluded a sale of its newsletter OTCjournal.com for a \$200,000 note receivable and 10 percent of the gross non-cash compensation the buyer realizes from the operation of OTCjournal.com. To date, there is approximately, \$327,655 remaining to be paid to SSP from that contract, including \$10,000 due on a note receivable and \$317,655 in future other considerations. There can be no assurance that MarketByte can and will continue to honor its financial commitment under this Agreement.

On July 11, 2001, the Company issued an option (Option #1) to purchase 1,250,000 common shares of its holdings in Children's Technology Group to DOC Partners, LLC (DOC) of Golden, Colorado. The option carried a strike price of \$0.125 per share. On February 11, 2002, DOC exercised that option by issuing a check in the amount of \$156,250 to the Company. On January 11, 2002, the Company agreed to issue a second and final option (Option #2) to DOC for 1,370,114 common shares at an exercise price of \$0.225 per share. This option expired on January 11, 2003. At December 31, 2003, the Company holds 2,120,114 common shares in Children's Technology Group.

RISKS AND UNCERTAINTIES

The risks and uncertainties described below are those that we currently deem to be material and that we believe are specific to our Company. If any of these or other risks actually occurs, the trading price of our Common Stock could decline. We have a history of losses and absent the gains on the MarketByte agreement, the settlement of liabilities and the write-off of the liabilities reserve; we would have suffered a net loss in 2003. Also, because we expect our operating losses to continue into the future, we may never be profitable. We had an accumulated deficit of \$6,303,912 at December 31, 2003. We incurred net income of \$342,671 and \$32,123 for the years ended December 31, 2003 and 2002, respectively, due to the previously described non-operating gains. While we are unable to predict accurately our future operating expenses, we currently expect our operating expenses to remain low, year-to-year, as we attempt to find a business combination that would be a suitable fit for the Company on a go-forward basis. If we fail to find a suitable business to acquire or combine with, we will not succeed.

We are much less likely to succeed than a business with an established operating history. You should consider an investment in our stock in light of the risks, uncertainties and difficulties frequently encountered by early-stage companies in new markets such as ours. We may not be able to successfully address any or all of these risks. Failure to adequately do so could cause our business, results of operations and financial condition to suffer. Our future financial performance also will depend, in part,

on our ability to diversify our offerings by successfully developing, introducing and gaining customer acceptance of new products. We cannot assure you, however, that we will be successful in achieving market acceptance of any new products that we develop or acquire. Any failure or delay in diversifying our existing offerings could harm our business, results of operations and financial condition.

We face increasing competition from better-established companies that have significantly greater resources. Many of our current and potential competitors could enjoy substantial competitive advantages, such as:

- * Greater corporate name recognition and larger marketing budgets and resources;
- * Established marketing relationships and access to larger customer bases; and
- * Substantially greater financial, technical and other resources.

In order to be successful we will need to seek out, identify, and negotiate certain favorable terms with an existing business entity or concept whose operations may be a good fit for the Company. However, problems commonly associated with such a transaction may eventually cause us to fail. Our future success will depend in part upon the ability of our management to effectively negotiate such a transaction. Such a transaction may require us to hire and train additional personnel to manage the expanded operations. In addition, we will be required to continue to improve our operational, financial and management controls and our reporting systems and procedures. If we fail to successfully manage these processes, we may be unable to proceed forward as a going concern. If we acquire any companies or technologies in the future, they could prove difficult to integrate, disrupt our business, dilute shareholder value and adversely affect operating results. We may acquire or make investments in complementary companies, services and technologies in the future. As a result, if we fail to properly evaluate and execute acquisitions or investments, our business and prospects will be seriously harmed.

If we have to go to court and litigate for any reason, it will be time consuming and expensive. Therefore, the threat of creditor lawsuits could adversely affect the Company's ability as a going concern.

In the future, we may seek to license additional technology or content in order to enhance our current features or to introduce new services. There can be no assurance that any such licenses will be available on commercially reasonable terms, if at all. The loss of or inability to obtain or maintain any of these technology licenses could result in delays in introduction of new services until equivalent technology, if available, is identified, licensed and integrated, which could have a material adverse effect on our business, results of operations and financial condition.

We are not sure of the scope or the impact on us of all of the laws, rules and regulations that are likely to affect our business in the future.

The securities industry in the United States is subject to extensive regulation under both federal and state laws. In addition, the Securities and Exchange Commission (the "Commission"), the NASD, various stock exchanges, and other regulatory bodies, such as state securities commissions, require strict compliance with their rules and regulations. As a matter of public policy, regulatory bodies are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets. Our failure to comply with any of these laws, rules or regulations could result in censure, fine, or the issuance of cease-and-desist orders, any of which could have a material adverse effect on our business, financial condition and operating results.

ITEM 7. Financial Statements

The Financial Statements are included on Pages F-1 through F-13.

ITEM 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

There have been no disagreements between the Company and its independent accountants on any matter of accounting principles or practices or financial statement disclosure.

ITEM 8A. Controls and Procedures

- (a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Principal Accounting Officer has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this annual report (the “Evaluation Date”). Based upon such evaluation, the officer has concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective in alerting him on a timely basis to material information relating to our Company (including our consolidated subsidiary) required to be included in our reports filed or submitted under the Exchange Act.
- (b) Changes in internal controls over Financial Reporting. During the most recent fiscal year, there have not been any significant changes in our internal controls over financial reporting or in other factors that could have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART III

ITEM 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

The Directors and Officers of the Company are as follows:

Name	Age	Positions and Offices Held
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James H. Watson, Jr.	41	President, Chairman, Chief Executive Officer, Chief Financial Officer and Director
Daniel Nye	43	Director

There is no family relationship between any Director or Executive Officer of the Company.

The Company presently has no committees.

Set forth below are the names of all Directors and Executive Officers of the Company, all positions and offices with the Company held by each such person, the period during which he has served as such, and the business experience of such persons during at least the last five years:

James H. Watson, Jr., 41, has served as our President since December 2000 and as our Chief Executive Officer and Chairman of our Board of Directors since June 30, 1999. He has been a member of our Board since 1997. Mr. Watson currently devotes 40-50% of his time to our business. Mr. Watson is the Founder and the General Managing Member of Entrepreneur Investments, LLC (EI), a private financial consulting and investment firm that specializes in the unique needs of development stage companies. Started in 1996, EI has worked hand in hand with both public and private companies, assisting them with such critical issues as corporate capitalization, mergers/acquisitions, management placement, and business strategy. From 1995 to 1996, he was a Founder and Chief Operating Member of N8 Concepts, LLC, a private company that specialized in sports-related trademark licensing and event management. Mr. Watson has served on various Boards in recent years including Probook, Inc., Nicklebys.com, Inc., Children's Technology Group, Inc., and Mariah Communications. At present, Mr. Watson does not sit on any other Boards. Mr. Watson graduated from the University of Tennessee / Chattanooga in 1985 with a Bachelors degree in Political Science/Public Administration.

Daniel Nye, 43, has been the President of NYCON Resources Inc. since its inception in 1992. NYCON is a private corporation involved in natural resource exploration and investment, real estate investment, and securities speculation. Mr. Nye is responsible for identifying and structuring investment opportunities and strategic planning for NYCON. Mr. Nye received a BS degree in Aerospace Technology from Indiana State University.

SECTION 16(A) BENEFICIAL REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on its review of the copies of such reports furnished to the Company and written representations that no other reports were required during the year ended December 31, 2003, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners were complied with.

ITEM 10. **Executive Compensation**

BOARD OF DIRECTOR MEETINGS AND COMMITTEES

The Board of Directors held no meetings during the year ended December 31, 2003.

COMPENSATION SUMMARY

The following table sets forth the annualized base salary that we paid to our Chief Executive Officer. Mr. James H. Watson became our CEO on June 29, 1999 and has not received any cash compensation since accepting the position. None of our other executives or directors has received compensation. We reimburse our officers and directors for any reasonable out-of-pocket expenses incurred on our behalf.

Name and Principal Position	Year	Salary Compensation	Bonus	Other Compensation
James H. Watson, Jr. President, CEO	2003	\$ -	\$ -	\$ -
	2002	\$ -	\$ -	\$ -

Notes:

As of December 31, 2003, we had no group life, health, hospitalization, medical reimbursement or relocation plans in effect. Further, we had no pension plans or plans or agreements, which provide compensation on the event of termination of employment or change in control of the Company.

We do not pay members of our Board of Directors any fees for attendance or similar remuneration or reimburse them for any out-of-pocket expenses incurred by them in connection with our business.

COMPENSATION OF DIRECTORS

There was no compensation paid to any directors of 1st Net.

EMPLOYMENT AGREEMENTS

Currently, no employment agreements exist with any officer or employee.

LONG-TERM INCENTIVE PLAN

None.

ITEM 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

BENEFICIAL OWNERS

The following table sets forth information regarding the beneficial ownership of the shares of the Common Stock (the only class of shares outstanding) of 1st Net on December 31, 2003 (at which date there were 6,395,357 shares issued and outstanding), by each person known by us to be the beneficial owner of more than five percent of the outstanding shares of our Common Stock and by each person known by us to be a director or nominee or executive officer owning a beneficial interest in our equity securities.

Name and Address of Beneficial Owner(a) -----	Amount of Class (Shares) -----	Percent of Class -----	Title of Class -----
Entrepreneur Investments, LLC (a)(b)	118,500	1.85%	Common Stock
APJW, Inc. (a)(b)	600,000	9.38%	Common Stock

All Officers and Directors as a Group (One Person)	718,500	11.23%	Common Stock
---	---------	--------	--------------

(a) All entities or persons listed have sole voting and investment power with respect to their shares of Common Stock, except to the extent authority is shared by spouses under applicable law.

(b) James H. Watson is the managing member of Entrepreneur Investments, LLC., and also the President and sole shareholder of APJW, Inc.

CHANGES IN CONTROL

The Company knows of no arrangement, including the pledge by anyone of any securities of the Company, that may result in a change in control.

ITEM 12. **Certain Relationships and Related Transactions**

The Company borrowed funds from JW Holdings Corporation (“JW Holdings”), an affiliate under common control, for working capital during 2001. At December 31, 2001, the Company was indebted to the affiliate in the amount of \$75,078. The Company borrowed \$27,882 and \$-0- from the affiliate and made payments of \$48,636 and \$30,000 in 2003 and 2002, respectively. Borrowings from the affiliate are non-interest bearing unless so stated at the time funds are advanced. The Company owed the affiliate \$24,324 at December 31, 2003.

In September 2000, Daniel Nye, a Director, personally loaned the Company \$50,000 in exchange for a promissory note. The note carried an interest rate of ten percent (10%) annually with a one (1) year term. In September 2001, Mr. Nye agreed to extend the note for six (6) additional months. On June 7, 2001, we paid interest accrued on this loan totaling \$2,500. On February 12, 2002, we paid the entire principal due of \$50,000 and Mr. Nye agreed to waive all remaining, accrued interest. Mr. Nye was not an affiliate of the Company at the time the loan was granted.

Item 13. **Exhibits and Reports on Form 8-K**

Reports on Form 8-K:

None.

Exhibits:

1st Net Technologies, Inc. includes herewith the following exhibits:

- 31.1 Certification of Chief Executive Officer and Principal Accounting Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer and Principal Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Item 14. **Principal Accountant Fees and Services**

1. **Audit and Audit-Related Fees**

During the year ended December 31, 2003, the Company's principal accountant billed \$6,700 in fees that were directly associated with the preparation of annual audit reports and quarterly review reports.

During the year ended December 31, 2002, the Company's principal accountant billed \$7,794 in fees that were directly associated with the preparation of annual audit reports and quarterly review reports.

2. **Tax Fees**

During the year ended December 31, 2003, the Company's principal accountant billed \$-0- in fees that were directly associated with the preparation of tax filings.

During the year ended December 31, 2002, the Company's principal accountant billed \$300 in fees that were directly associated with the preparation of filings.

3. **All Other Fees**

The Company's principal accountant did not bill any other fees during the years ended December 31, 2003 and 2002.

Audit Committee's Pre-Approval Policies and Procedures

Due to the fact that 1st Net Technologies has only one active officer and two directors, the Company does not have an audit committee at this time.

Percentage of Hours Expended

All hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year were attributable to work performed by persons that are the principal accountant's full-time, permanent employees.

SIGNATURES

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

1st Net Technologies, Inc.

Dated: April 12, 2004

By:/s/ James H. Watson, Jr.
James H. Watson, Jr., Chief Executive Officer
Officer and Principal Accounting Officer of
the Registrant

Pursuant to the requirements of the Security Exchange Act of 1934, as amended, this Report has been signed by the following persons in the capacities and on the dates indicated.

Dated: April 12, 2004

By:/s/ James H. Watson, Jr.
James H. Watson, Jr., Chief Executive Officer
Officer and Principal Accounting Officer of
the Registrant

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND PRINCIPAL ACCOUNTING OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Annual Report on Form 10-KSB of 1ST Net Technologies, Inc. for the year ending December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof, the undersigned, in the capacity and date indicated below, hereby certifies that:

1. I have reviewed this annual report on Form 10-KSB of 1st Net Technologies, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: April 12, 2004

By:/s/ James H. Watson, Jr.
James H. Watson, Jr., Chief Executive Officer
Officer and Principal Accounting Officer of
the Registrant

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of 1st Net Technologies, Inc. (the "Company") on Form 10-KSB for the period ending December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James H. Watson, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: April 12, 2004

By:/s/ James H. Watson, Jr.
James H. Watson, Jr., Chief Executive Officer
Officer and Principal Accounting Officer of
the Registrant

1ST NET TECHNOLOGIES, INC.
Index to Consolidated Financial Statements

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To the Board of Directors and Shareholders:
1st Net Technologies, Inc.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheet of 1st Net Technologies, Inc. (a Colorado corporation) and Subsidiary, as of December 31, 2003 and the related consolidated statements of operations, changes in shareholders' deficit and cash flows for the years ended December 31, 2003 and 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of 1st Net Technologies, Inc., as of December 31, 2003 and the results of their operations and their cash flows for the years ended December 31, 2003 and 2002 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As shown in Note 2 to the consolidated financial statements, the Company has incurred net losses since inception and has a net capital deficit at December 31, 2003. These and other factors discussed in Note 2 to the consolidated financial statements raise a substantial doubt about the ability of the Company to continue as a going concern. Management's plans in regard to those matters are also described in Note 2. The Company's ability to achieve its plans with regard to those matters, which may be necessary to permit the realization of assets and satisfaction of liabilities in the ordinary course of business, is uncertain. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 11 to the financial statements, the Company's financial statements have been restated to reflect the write-off of its equipment lease as a capital contribution and not as a gain on debt restructure.

Cordovano and Honeck, P.C.
Denver, Colorado
March 26, 2004
(Except for Note 11, as to which
the date is April 11, 2005)

1ST NET TECHNOLOGIES, INC.
Consolidated Balance Sheet
December 31, 2003

	As Restated (See Note 11)
Assets	
Current Assets:	
Cash	\$ 9,077
Marketable securities (Note 5)	205
Note receivable (Note 4)	<u>10,000</u>
Total current assets	19,282
Investment, at cost (Note 6)	500
Idle equipment, at cost, net of accumulated depreciation of \$9,599 (Note 7)	<u>2,000</u>
	<u>\$ 21,782</u>
Liabilities and Shareholders' Deficit	
Current Liabilities:	
Accounts payable and accrued liabilities	\$ 92,056
Indebtedness to related parties (Note 3)	24,324
Capital lease obligations (Note 1)	49,039
Accrued payroll and payroll taxes	<u>40,000</u>
Total current liabilities	<u>205,419</u>
Shareholders' Deficit (Note 8):	
Preferred stock, \$.001 par value; 10,000,000 shares authorized, 0 shares issued and outstanding	-
Common stock, \$.001 par value; 40,000,000 shares authorized, 6,395,357 shares issued and outstanding	6,395
Additional paid-in capital	6,192,941
Accumulated deficit	(6,303,912)
Accumulated other comprehensive income:	
Unrealized holding loss on marketable securities	<u>(79,061)</u>
Total shareholders' deficit	<u>(183,637)</u>
	<u>\$ 21,782</u>

See accompanying notes to consolidated financial statements

1ST NET TECHNOLOGIES, INC.
Consolidated Statements of Operations

	For the Years Ended December 31,	
	As Restated (See Note 11)	
	2003	2002
Costs and expenses:		
General and administrative expenses	\$ 15,839	\$ 85,039
Loss from operations	(15,839)	(85,039)
Other income (expense):		
Realized gain/ (loss) on sale of investments	-	117,562
Interest expense	(10)	-
Gain on sale of assets	45,380	-
Gain on debt restructure (Note 1)	55,681	-
Impairment of idle assets (Note 7)	-	(4,000)
Other income (Note 1)	257,459	3,600
Income before income taxes	342,671	32,123
Provision for income taxes	-	-
Net income	\$ 342,671	\$ 32,123
Basic and diluted income per share	\$ 0.05	\$ 0.00
Weighted average common shares outstanding	6,395,357	6,479,511

See accompanying notes to consolidated financial statements

1ST NET TECHNOLOGIES, INC.
Consolidated Statement of
Changes in Shareholders' Deficit

Table Split - See Below

	Preferred Stock		Common Stock		Common
	Shares	Par Value	Shares	Par Value	Stock Warrants
Balance at January 1, 2002	-	\$ -	6,945,857	\$ 6,946	\$ 177,022
Shares reacquired in exchange for 552,500 shares of CTG (Note 6)	-	-	(550,500)	(551)	-
Common stock warrants expired (Note 9)	-	-	-	-	(177,022)
Comprehensive loss:					
Unrealized loss on investments held for sale	-	-	-	-	-
Net income	-	-	-	-	-
Total comprehensive loss	-	-	-	-	-
Balance at December 31, 2002	-	-	6,395,357	6,395	-
Capital contribution (Notes 1 and 11)	-	-	-	-	-
Comprehensive loss:					
Unrealized loss on investments held for sale	-	-	-	-	-
Net income	-	-	-	-	-
Total comprehensive loss	-	-	-	-	-
Balance at December 31, 2003	-	\$ -	\$ 6,395,357	\$ 6,395	\$ -

Table Split - See Above

	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive Income	Total
			Unrealized Holding Loss	
Balance at January 1, 2002	\$ 5,915,912	\$ (6,678,706)	\$ -	\$ (578,826)
Shares reacquired in exchange for 552,500 shares of CTG (Note 6)	551	-	-	-
Common stock warrants expired (Note 9)	177,022	-	-	-
Comprehensive loss:				
Unrealized loss on investments held for sale	-	-	(56,675)	(56,675)
Net income	-	32,123	-	32,123
Total comprehensive loss	-	-	-	(24,552)
Balance at December 31, 2002	6,093,485	(6,646,583)	(56,675)	(603,378)
Capital contribution (Notes 1 and 11)	99,456	-	-	99,456
Comprehensive loss:				
Unrealized loss on investments held for sale	-	-	(22,386)	(22,386)
Net income	-	342,671	-	342,671
Total comprehensive loss	-	-	-	320,285
Balance at December 31, 2003	\$ 6,192,941	\$ (6,303,912)	\$ (79,061)	\$ (183,637)

See accompanying notes to consolidated financial statements

1ST NET TECHNOLOGIES, INC.
Consolidated Statements of Cash Flows

	For the Years Ended December 31,	
	2003	2002
Cash flows from operating activities:		
Net income (loss)	\$ 342,671	\$ 32,123
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Gain on sale of assets	(45,380)	-
Asset impairment	-	4,000
Realized gain on sale of investments	-	(117,562)
Gain on debt restructure (Note 1)	(55,681)	-
Gain on write-off of liabilities (Note 1)	(98,791)	-
Gain on change in accounting estimate (Note 1)	(158,668)	-
Changes in current assets and liabilities:		
Accounts receivable	-	2,060
Accounts payable and accrued liabilities	(34,825)	(33,393)
Net cash used in operating activities	(50,674)	(112,772)
Cash flows from investing activities:		
Proceeds from receipt of note receivable	80,380	-
Proceeds from sale of marketable securities, net	-	163,315
Net cash provided by investing activities	80,380	163,315
Cash flows from financing activities:		
Repayment of notes payable	-	(55,000)
Proceeds from related party loans (Note 2)	27,882	-
Repayment of related party loans (Note 2)	(48,636)	-
Net cash used in financing activities	(20,754)	(55,000)
Net change in cash	8,952	(4,457)
Cash, beginning of period	125	4,582
Cash, end of period	\$ 9,077	\$ 125

Supplemental disclosure of cash flow information:

Cash paid for:

Interest	\$ -	\$ -
Taxes	\$ -	\$ -

1ST NET TECHNOLOGIES, INC.
Notes to Consolidated Financial Statements

1. Organization

1st Net Technologies, Inc. (the “Company” or “1st Net”) was primarily in the Internet commerce and services business from its inception in 1997 through August 2001. The Company conducted its business operations through SSP Management Corp. (“SSP”), its wholly owned subsidiary. SSP provided Internet public relations and Internet newsletters and sold substantially all of its operations in 2000. At December 31, 2003, SSP remains wholly-owned by 1st Net. The Company ceased operations and moved its headquarters from San Diego, California to Denver, Colorado in August 2001. Since August 2001, the Company has been a shell company in search of a merger candidate. Recent operations have consisted of debt restructuring.

Debt restructurings and write-offs

The Company defaulted on certain equipment lease obligations during 2001. One lease was owed to an affiliate that dissolved its corporate existence. As a result, the Company wrote-off the \$99,456 lease obligation and recorded a capital contribution during the year ended December 31, 2003. The Company remains liable for the remaining lease obligations which totaled \$49,039 at December 31, 2003.

The Company relocated in August 2001 and defaulted on its office lease. Due to a change in ownership of the building where the office lease was located and the lack of contact with the landlord since 2001, management believes the probability of collection actions on the office lease is remote. Therefore, the Company wrote-off the \$45,000 lease obligation during the year ended December 31, 2003.

During the year ended December 31, 2003, the Company settled certain accounts payable balances. The resulting gain of \$55,681 is included in the accompanying consolidated financial statements as “Gain on debt restructure”.

During the year ended December 31, 2003, the Company adjusted its payroll tax accruals based on negotiations with the Internal Revenue Service. The Company reversed \$53,791 of payroll tax accruals as a result of the adjustment.

Change in accounting estimate

The Company’s management recorded a corporate restructuring liability at December 31, 2000 in the amount of \$350,000. Management estimated the liability based on costs associated with employee reductions, relocation of the corporate headquarters and other expenses related to its plan to restructure and cease operations. The Company recognized liabilities totaling \$191,332 during the years ended December 31, 2003, 2002 and 2001, which reduced the restructuring liability to \$158,668. At December 31, 2003, management determined that it had over-estimated the original restructuring liability and revised its estimate, which reduced the liability to zero.

2. Significant accounting policies

Going concern

The Company’s financial statements have been prepared under the assumption it will continue as a going concern. Realization of the Company’s assets in the accompanying financial statements is dependent upon the continued operation of the Company. In order to continue operations, the Company must raise additional funds by incurring new debt, raising new equity or liquidating investment securities. There is no assurance the Company will be successful in acquiring the working capital necessary to continue as a going concern. The Company is operating through the forbearance of its creditors.

1ST NET TECHNOLOGIES, INC.
Notes to Consolidated Financial Statements

Principles of consolidation

The consolidated financial statements include the accounts of the Company and SSP. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying financial statements have been prepared on a consolidated basis as if common control was established as of the inception of SSP.

Estimates and assumptions

The preparation of the financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Company had no cash equivalents at December 31, 2003.

Investments

Marketable securities are stated at market value as determined by the most recently traded price of the security at the balance sheet date. The Company's marketable securities have been classified as available-for-sale securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The unrealized gains and losses on available-for-sale securities are reported as a separate component of shareholders' equity, using the specific identification method.

Idle equipment

At December 31, 2003, the Company's idle equipment consisted of computer equipment. The net book value of this equipment totals \$2,000. In the opinion of management, the net book value of the idle equipment is not in excess of the net realizable value.

Impairment and disposal of long-lived assets

The Company evaluates the carrying value of its long-lived assets under the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Statement No. 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows estimated to be generated by those assets are less than the assets' carrying amount. If such assets are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying value or fair value, less costs to sell.

1ST NET TECHNOLOGIES, INC.
Notes to Consolidated Financial Statements

Fair value of financial instruments

The Company estimates the fair value of its monetary assets and liabilities based upon existing interest rates related to such assets and liabilities compared to current rates of interest for instruments with a similar nature and degree of risk. The Company estimates that the carrying values of its monetary assets and liabilities approximate their fair values as of December 31, 2003 due to the short-term maturity of those instruments.

Comprehensive income

SFAS No. 130, *Reporting Comprehensive Income*, requires that all components of comprehensive income, including net income, be reported in the financial statements in the period in which they are recognized. Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Net income (loss) and other comprehensive income, including unrealized gains and losses on investments held for sale, shall be reported net of their related tax effect, to arrive at comprehensive income (loss).

Earnings per share

Earnings per share is computed in accordance with SFAS No. 128, *Earnings Per Share* and SEC Staff Accounting Bulletin (or SAB) No. 98. Under the provisions of SFAS No. 128, basic earnings per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the net loss for the period by the weighted average number of common and common equivalent shares outstanding during the period. Under the provisions of SAB No. 98, common shares issued for nominal consideration are included in the per share calculations as if they were outstanding for all periods presented.

Potentially dilutive securities include options and warrants that were excluded from basic and diluted earnings per share because of their anti-dilutive effect. Anti-dilutive securities outstanding totaled 625,000 and 625,000 at December 31, 2003 and 2002, respectively.

Stock-based compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations in accounting for its employee stock options because the alternative fair value accounting provided for under SFAS No. 123, *Accounting for Stock-Based Compensation*, requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, when the exercise price of the Company's employee stock options is not less than the deemed fair value for the underlying stock on the date of grant, no compensation expense is recognized. At the time stock options were granted, the exercise price was at a price not less than the fair value of the underlying common stock.

3. Related party transactions

The Company borrowed funds for working capital from an affiliate during 2001. At December 31, 2001, the Company was indebted to the affiliate in the amount of \$75,078. The Company borrowed \$27,882 and \$-0- from the affiliate and made payments of \$48,636 and \$30,000 in 2003 and 2002, respectively. Borrowings from the affiliate are non-interest bearing unless so stated at the time funds are advanced. The Company owed the affiliate \$24,324 at December 31, 2003.

1ST NET TECHNOLOGIES, INC.
Notes to Consolidated Financial Statements

At December 31, 2001, the Company was indebted to two related parties pursuant to promissory notes totaling \$50,000 and \$5,000, respectively. The Company repaid both notes during 2002.

4. Notes Receivable

On February 23, 2000, SSP sold an Internet newsletter published by the Company along with certain related assets to Marketbyte, L.L.C. ("Marketbyte") for a \$200,000 promissory note and \$550,000 in other future consideration. Other future consideration consists of 10% of any future consideration received by Marketbyte in connection with the newsletter through June 2, 2002. SSP and Marketbyte amended the sale agreement in October 2000 and again in December 2001. The amended terms reduced other future consideration from \$550,000 to \$400,000 and cancelled the June 2, 2002 due date for other future considerations. Marketbyte has paid \$190,000 towards the note and \$82,345 in other consideration through December 31, 2003. At December 31, 2003, the balance on the promissory note of \$10,000 is included in the accompanying consolidated financial statements as "Note receivable". Due to the uncertainty related to the collection of the "other consideration", no receivable has been recorded and any collections are recorded as income when received.

5. Marketable securities

Marketable securities are stated at their fair value and consisted of the following at December 31, 2003:

2003	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Equity Securities.....	\$ 22,591	\$ -	\$ (22,386)	\$ 205

2002	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Equity Securities.....	\$ 79,266	\$ 688.00	\$ (57,363)	\$ 22,591

The Company received net proceeds from sale of equity securities held in the amount of \$-0- and \$163,315 and realized a gain in the amount of \$-0- and \$117,562, in 2003 and 2002 respectively. The Company recorded net accumulated comprehensive losses on available-for-sale securities totaling \$22,386 and \$56,675 during the years ended December 31, 2003 and 2002, respectively.

6. Investments

CTG common stock

At January 1, 2001, the cost basis in the 4,172,614 shares of CTG common stock was \$146,232. On June 28, 2001, the Company, CTG and a third party investor in CTG entered into a shares exchange and option agreement. Pursuant to the agreement, the Company returned 250,000 shares of CTG stock in exchange for \$25,000 in July 2001. Upon receiving the \$25,000 from CTG, the Company granted the third party investor an option to purchase 1,250,000 shares of CTG common stock owned by 1st Net at \$.125 per share. At December 31, 2001, the Company held 3,922,614 shares of CTG common stock valued at \$120,731. Additionally, the Company agreed to exchange 550,500 shares of its CTG's common stock with 550,500 shares of 1st Net's common stock owned by CTG. The share exchange was closed in January 2002.

1ST NET TECHNOLOGIES, INC.
Notes to Consolidated Financial Statements

During February 2002, the third party investor exercised the option to purchase 1,250,000 of the CTG stock owned by the Company, and paid the Company \$156,250 (\$.125/share). The sale reduced the number of shares of CTG common stock owned by the Company to 2,120,114. The Company recognized a gain on the sale of the CTG stock of \$110,497 and reduced its cost basis in the CTG investment by \$44,753.

The Company's investment in CTG dropped to 13 percent during the year ended December 31, 2002. Due to the reduction in the percentage of ownership, the Company's investment in CTG was reclassified as marketable securities that are available-for-sale and the investment was written down to market value. During the years ended December 31, 2003 and 2002, the Company recorded unrealized losses on the CTG investment totaling \$21,201 and \$23,552, respectively.

Other investments

During the year ended December 31, 2002, the Company sold another investment to a third party investor for \$7,065. The Company recognized a gain on the sale for \$7,065 as the investment had previously been written off by the Company.

The Company holds one other equity investment in a private company valued at cost, after an allowance for permanent decline in value, in the amount of \$500 at December 31, 2003.

7. Idle equipment

In August 2001, the Company returned all property under capital leases to the financial institutions and gave most of its remaining property and equipment to a third party vendor for an unpaid office lease obligation. The Company retained certain equipment and its associated software, which has been idle since August 2001. The Company expects to dispose the remaining equipment in its foreseeable future. The Company recorded an asset impairment charge totaling \$4,000 during the year ended December 31, 2002. The idle equipment has an estimated net realizable value of \$2,000 at December 31, 2003.

1ST NET TECHNOLOGIES, INC.
Notes to Consolidated Financial Statements

Idle equipment consists of the following at December 31, 2003:

Computer equipment.....	\$ 11,599
Less accumulated depreciation	<u>(9,599)</u>
	<u><u>\$ 2,000</u></u>

There was no depreciation expense recorded during the years ended December 31, 2003 and 2002.

8. Shareholders' deficit

Preferred stock

The Board of Directors is authorized to issue shares of preferred stock in series and to fix the number of shares in such series as well as the designation, relative rights, powers, preferences, restrictions, and limitations of all such series. The Company had no preferred shares issued and outstanding at December 31, 2003.

Options and warrants

The Company accounts for all stock options under SFAS No. 123. However, as permitted by SFAS No. 123, the Company accounts for stock options granted to employees and stock options granted to nonemployees, in a different manner. Directors, acting in their capacity as directors, are considered employees.

The Company has elected to account for stock options granted to employees under the "*intrinsic value method*" whereby no compensation expense is recorded if the option's price equals or exceeds the fair value of the underlying stock. The Company accounts for stock options granted to consultants and other providers under the "*fair value method*" whereby compensation expense is recorded for the excess of the fair value of the option over the market price of the underlying stock.

On October 31, 2002, 236,200 warrants expired. The Company recorded a capital contribution of \$177,022 upon expiration of the warrants.

Under SFAS No. 123, when the intrinsic value method is elected, compensation expense is also measured under the fair value method, but reported on a "pro forma" basis. However, there was no pro forma effect related to the Company's options and warrants during the years ended December 31, 2003 and 2002.

Following is a schedule of changes in the Company's outstanding warrants and options for years ended December 31, 2003 and 2002:

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Options/Warrants	Number	Number Exercisable	Weighted Avg Exercise Price	Weighted Avg Remaining Life
Outstanding at January 1, 2002.....	861,200	411,200	\$3.39	2 years
Granted.....	-	-	-	-
Exercised.....	-	-	-	-
Expired.....	(236,200)	-	\$5.48	-
Cancelled.....	-	-	-	-
Outstanding at December 31, 2002.....	625,000	625,000	\$2.60	1 year
Granted.....	-	-	-	-
Exercised.....	-	-	-	-
Expired.....	-	-	-	-
Cancelled.....	-	-	-	-
Outstanding at December 31, 2003.....	<u>625,000</u>	625,000	\$2.60	2 months

9. Income taxes

A reconciliation of the U.S. statutory federal income tax rate to the effective rate is as follows:

	<u>2003</u>	<u>2002</u>
Federal income tax rate.....	34.00%	15.00%
State income tax rate, net of Federal benefit.....	3.06%	3.94%
Net operating loss for which no tax benefit is currently available.....	<u>-37.06%</u>	<u>-18.94%</u>
	<u>0.00%</u>	<u>0.00%</u>

At December 31, 2003, deferred taxes consisted of a net tax asset of \$2,100,843, due to operating loss carryforwards of \$6,204,456, which was fully allowed for, in the valuation allowance of \$2,100,843. The valuation allowance offsets the net deferred tax asset for which there is no assurance of recovery. The change in the valuation allowance for the years ended December 31, 2003 and 2002 totaled \$(163,834) and \$(6,083). Net operating loss carryforwards will expire through 2021.

The valuation allowance will be evaluated at each balance sheet date, considering positive and negative evidence about whether the asset will be realized. At that time, the allowance will either be increased or reduced; reduction could result in the complete elimination of the allowance if positive evidence indicates that the value of the deferred tax asset is no longer impaired and the allowance is no longer required.

Should the Company undergo an ownership change as defined in Section 382 of the Internal Revenue Code, the Company's tax net operating loss carryforwards generated prior to the ownership change will be subject to an annual limitation, which could reduce or defer the utilization of these losses.

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10. Commitments and contingencies

During 2002, the Company received a demand for payment of approximately \$135,000 from Diagnostic Recovery Services, Inc. on behalf of CIT Group. The Company denies any knowledge of liability related to this claim. There was no litigation related to this claim as of the date of this report. The Company has not accrued any liability specifically related to this claim.

11. Restatement

The Company has restated its December 31, 2003 financial statements to reflect the write-off of its equipment lease as a capital contribution and not as a gain on debt restructure. The impact of the change resulted in a \$99,456 increase of the Company's additional paid-in capital and an equal reduction in the net income recognized for the year ended December 31, 2003. The net income for the year ended December 31, 2003 was reduced from \$442,127 to \$342,671 and income per share was reduced from \$.07 to \$.05.