SIENA TECHNOLOGIES, INC.
Form 10QSB
November 19, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

o **QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2007

OR

o **TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 000-25499

SIENA TECHNOLOGIES, INC.

(Exact name of small business issuer as specified in its charter)

Nevada	**88-0390360**
State or other jurisdiction of Incorporation or organization	(IRS Employer Identification Number)
5625 South Arville Street, Suite E, Las Vegas Nevada	**89118**
(Address of principal executive offices)	(Zip Code)

(702) 889-8777

(Issuer s telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No o

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

As of November 14, 2007 there were 42,163,691 shares of common stock issued and outstanding, $0.001 par value.

Transitional Small Business Disclosure Format (check one) Yes o No o

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(Formerly Network Installation Corp.)
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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SIENA TECHNOLOGIES, INC.
(Formerly Network Installation Corp.)

Consolidated Balance Sheets

	September 30, 2007 (Unaudited)	December 31, 2006
ASSETS:		
CURRENT ASSETS:		
Cash	$ 39,855	$ 7,808
Accounts Receivable, Net of Allowance for Doubtful Accounts of $15,902 ($11,044 at 2006)	629,948	1,388,169
Inventories	641,182	511,817
Costs in Excess of Billings	355,673	590,484
Current Assets of Discontinued Operations		41,981
Prepaid Expenses and Other Current Assets	359,476	22,152
Total Current Assets	2,026,134	2,562,411
Fixed Assets, Net of Accumulated Depreciation of $641,611 ($568,296 at 2006)	190,400	250,687
OTHER ASSETS:		
Goodwill	7,344,216	7,344,216
Patents	5,679	5,679
Investment in Tuscany Services LLC	354,851	
Assets Held for Sale		771,325
Total Other Assets	7,704,746	8,121,220
TOTAL ASSETS	$ 9,921,280	$ 10,934,318
LIABILITIES & STOCKHOLDERS DEFICIT:		
CURRENT LIABILITIES		
Bank Loans Payable	$ 289,118	$ 606,089
Accounts Payable and accrued expenses	1,398,135	1,937,463
Billings in Excess of Costs	830,218	924,963
Current Liabilities of Discontinued Operations	223,737	391,836
Current Portion of Notes Payable	66,285	36,264
Current Portion of Related Party Notes Payable	392,518	303,303
Factor Advances Payable	-	
Fair Market Value of Derivative Liabilities	274,260	1,827,108

Total Current Liabilities		3,474,271		6,027,026
LONG-TERM DEBT				
Notes Payable		1,351,782		1,215,797
Related Party Notes Payable		8,540,804		6,665,816
Litigation Settlement Obligation		45,000		
Total Long-Term Debt		9,937,586		7,881,613
STOCKHOLDERS DEFICIT:				
Common Stock, $.001 par value; 100,000,000 shares authorized 42,163,691 and 34,125,937 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively		42,163		34,126
Additional Paid-in Capital		29,451,998		29,204,486
Shares to be Issued		116,411		116,994
Accumulated Deficit		(33,101,148)		(32,329,927)
Total Stockholders Deficit		(3,490,577)		(2,974,321)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$	9,921,280	$	10,934,318

The accompanying notes are an integral part of these consolidated financial statements.

SIENA TECHNOLOGIES, INC.
(Formerly Network Installation Corp.)

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006, as restated	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006, as restated
REVENUE				
Sales	$ 5,032,524	$ 15,919,577	$ 2,239,018	$ 4,174,364
Cost of Goods Sold	3,534,071	12,805,115	1,651,929	3,165,793
GROSS PROFIT	1,498,454	3,114,462	587,089	1,008,571
OPERATING EXPENSES				
Investor Relations	181,777	243,985	71,595	72,142
Salaries	2,325,181	1,698,215	363,962	612,978
Other Operating Expenses	1,579,765	2,215,276	451,536	593,874
Total Operating Expenses	4,086,723	4,157,476	887,093	1,278,994
LOSS FROM CONTINUING OPERATIONS	(2,588,269)	(1,043,014)	(300,004)	(270,423)
OTHER INCOME (EXPENSE)				
Interest Expense	(569,283)	(1,419,690)	(213,218)	(155,770)
Employee Stock Option Expense	(138,147)	(161,546)	-	(68,085)
Fair Value Adjustment	2,598,028	2,865,881	(100,866)	(259,168)
Gain on debt restructuring	(45,149)	1,229,954	-	
Gain on disposition of Assets	(28,401)	(298,799)	14,102	(201,407)
Total Other Income (Expense)	1,817,048	(2,215,800)	(299,982)	(684,430)
LOSS FROM DISCONTINUED OPERATIONS		(408,263)		-

Net (Loss) Income	$ (771,222)	$ 764,523	$ (799,124)	$ (954,853)
Basic (Loss) Earnings Per Common Share	$ (0.019)	$ 0.02	$ (0.02)	$ (0.03)
Weighted Average Shares Used to Compute:				
Basic (Loss) Earnings Per Common Share	39,942,075	35,837,851	42,636,991	29,180,914

The accompanying notes are an integral part of these consolidated financial statements.

SIENA TECHNOLOGIES, INC.
(Formerly Network Installation Corp.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended June 30, 2007	Nine Months Ended June 30, 2006 As Restated
CASH USED IN OPERATING ACTIVITIES:		
Net (loss) income	$ (771,222)	$ 764,523
Adjustments to reconcile net (loss) income to net cash used in operating activities		
Stock issued for services	254,966	139,800
Beneficial conversion feature expense	-	777,090
Stock warrants issued for debt inducement	-	302,493
Amortization of debt discount	-	267,610
Bad debt expense	84,597	-
Fair value adjustments of derivative liabilities	(2,799,760)	(4,581,826
Fair value of derivative liabilities in excess of proceeds		1,456,777
Amortization of stock based compensation for services	-	100,125
Accretion of notes payable	57,217	65,979
Depreciation	73,314	102,070
Gain on disposal of assets	(2,853)	(6,955)
Loss on writeoff of inventory		201,407
Gain on debt restructuring		(903,771)
Changes in operating assets and liabilities		
Accounts receivable	758,221	(634,936)
Inventory	(129,365)	1,646,557
Costs in excess of billings	124,811	(254,919)
Prepaid expenses and other current assets	(337,324)	(108,657)
Decrease in other assets	4,1981	20,690
Increase in litigation settlement obligation	45,000	
Accounts payable	(539,238)	120,609
Billings in excess of costs	(94,745)	(690,061
Net liabilities of discontinued operations, net	(168,099)	(47,084)
NET CASH USED IN OPERATING ACTIVITIES	(634,643)	(1,262,479
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchase of property and equipment	(10,000)	(30,885)
Investments in assets held for sale	(354,851)	(762,322)

NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		(364,851)		(793,207)
CASH PROVIDED BY FINANCING ACTIVITIES:				
Proceeds from bank loans		166,006		-
Payments of bank loans		(316,971)		
Payments made on notes payable related party		-		(149,422)
Proceeds made on notes payable related party		1,964,203		-
Proceeds from convertible debt		-		2,803,712
Proceeds from factor		-		4,560,000
Payments to factor		(736,780)		(4,560,000)
Proceeds from factor				4,560,000
Payments on notes payable		(44,917)		(656,772)
Loan from related party		-		
NET CASH PROVIDED BY FINANCING ACTIVITIES		1,031,541		1,997,518
NET INCREASE IN CASH & CASH EQUIVALENTS		32,047		(58,168)
BEGINNING CASH & CASH EQUIVALENTS		7,808		415,937
ENDING CASH & CASH EQUIVALENTS	$	39,855	$	357,769

The accompanying notes are an integral part of these consolidated financial statements.

SIENA TECHNOLOGIES, INC.
(Formerly Network Installation Corp.)

Notes to Consolidated Financial Statements September 30, 2007 (Unaudited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

OVERVIEW

On October 25, 2006, Network Installation Corp. (NIC) changed its name to Siena Technologies, Inc. (the Company). The Company was incorporated on March 24, 1998 under the laws of the state of Nevada. The Company has three wholly owned subsidiaries, Kelley Communication Company, Inc. (Kelley), Com Services, Inc. (COM) and Network Installation Corporation (Network), of which COM and Network have both been discontinued.

The Company currently does business through its wholly owned subsidiary, Kelley. Kelley has two operating divisions, Kelley Technologies and Enhance Home Technology (Enhance). Kelley specializes in the design, development and integration of automated system networks known as smart technologies, primarily for the gaming, entertainment and luxury residential markets. Kelley has developed a Patent-Pending, proprietary, next-generation Race and Sports Book technology platform designed for the gaming industry. In addition, Kelley has acquired exclusive rights to sell Techcierge™, a “smart building” software management system. The rights are exclusive in Nevada, Arizona and California with regard to the Multiple Dwelling Unit (“MDU”) marketplace and the rights are exclusive on a worldwide basis with regard to the gaming and casino marketplace. In addition, Kelley has acquired non-exclusive rights to sell a smart building security and surveillance software and hardware system.

Kelley s systems networks include: data, telecommunications, audio and video components, casino surveillance, security and access control systems, entertainment audio and video, special effects and multi-million dollar video conference systems. Kelley does work primarily in the Las Vegas area, but has also done projects in New Jersey, Oklahoma, Colorado, California, Texas, Arizona, Georgia, North Carolina, New York, North Dakota, South Dakota, Indiana, Illinois, Kansas, Washington, Kentucky, Louisiana, Missouri, Mississippi, Pennsylvania, and the Caribbean.

ACQUISITION OF KELLEY COMMUNICATION COMPANY, INC. (d/b/a Kelley Technologies)

Pursuant to an acquisition agreement, the Company acquired 100% of the outstanding common stock of Kelley Communication Company, Inc., a Nevada corporation, on September 22, 2005, in exchange for common stock. The results of Kelley s operations have been included in the accompanying consolidated financial statements since that date. Kelley is a Las Vegas, Nevada-based business focused on the design, project management, installation and deployment of data, voice, video, audio/visual, security and surveillance systems, entertainment and special effects, and telecom systems.

The aggregate purchase price was $10,232,101, all of which was paid by issuing 14,016,577 shares of the Company s common stock. The value of the shares of common stock was determined based on the average market price of the Company s common stock on the ten trading days prior to September 22, 2005. The purchase price was determined by taking into account many factors including the reputation that Kelley had amassed in its industry over the preceding 18 years, the reputation of Kelley s founder, James Michael Kelley, having been in the business for over 40 years, Kelley s estimate of 2005 projected revenues, and Kelley s debt obligations at the time of closing.

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The audit of Kelley as of September 22, 2005 has not been completed. However, the Company s preliminary financial analysis and due diligence related to the acquisition is complete. Kelley s unaudited balance sheet as of the date of the acquisition is as follows:

Cash	$	177,495
Accounts receivable		1,234,668
Inventory		965,927
Costs in excess of billings		488,370
Other assets		5,599
Fixed assets		713,220
Accumulated depreciation		(407,534)
Goodwill		11,144,216
Accounts payable		(879,995)
Notes payable		(2,297,227)
Billings in excess of earnings		(912,638)
Total	$	10,232,101

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

RESTATEMENT OF INTERIM UNAUDITED FINANCIAL STATEMENTS AT AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006

The Company has amended and restated its interim unaudited financial statements at and for the three and nine months ended September 30, 2006, to account for: (i) the Company s issuance of convertible debentures and related warrants to be in conformity with EITF 00-19, (ii) the issuance of a warrant in exchange for common stock by classifying the warrant as a derivative liability with changes in fair value being reported in the income statement and (iii) its issuance of stock options to employees in accordance with SFAS 123R, which the Company did not adopt timely.

EFFECT OF RESTATEMENTS

Effect on Income Statement

Description	Nine Months Ended September 30, 2006 (Unaudited)		Three Months Ended September 30, 2006 (Unaudited)	
Net Loss as Reported	$	(2,563,941)	$	(627,600)
Basic and Diluted Net Loss Per Common Share as Reported	$	(0.07)	$	(0.02)
Total Other Expense as Reported	$	(985,986)	$	(357,177)
Restatements				
Employee Stock Option Expense	$	(161,546)	$	(68,085)
Additional Gain on Debt Restructuring		326,183		0
Reduction of Amortization of Debt Discount Related to Beneficial Conversion Feature into Interest Expense		297,946		0
Fair Value of Conversion and Warrant Derivative Liabilities in Excess of Proceeds		(1,456,777)		0
Change in Fair Value of Derivative Liabilities Related to Beneficial Conversion Features and Related Warrants		460,743		(259,168)
Change in Fair Value of Derivative Liability Related to Issuance of Warrant		3,861,915		0
Total Restatements	$	3,328,464	$	(327,253)
Net Income as Restated	$	764,523	$	(954,853)
Basic Net Income Per Common Share as Restated	$	0.02	$	(0.03)
Total Other Income as Restated	$	2,342,478	$	(684,430)

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries, Network, Kelley, and COM. All significant inter-company accounts and transactions have been eliminated in consolidation. The results of Network and COM have been included in Loss from Discontinued Operations in the Company s accompanying consolidated financial statements.

CASH & CASH EQUIVALENTS

The Company considers all highly liquid debt instruments, purchased with an original maturity at the date of purchase of three months or less, to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates market value.

PROPERTY & EQUIPMENT

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets, e.g. computers (5 years), software (3 years), office furniture and equipment (3 to 7 years), and tenant improvements (life of the lease-approximately 60 months).

ACCOUNTS RECEIVABLE

The Company maintains an allowance for doubtful accounts for estimated losses that may arise if any of its customers are unable to make required payments. Management specifically analyzes the age of customer balances, historical bad debt experience, customer credit-worthiness and changes in customer payment terms when making estimates of the uncollectibility of the Company s trade accounts receivable balances. If the Company determines that the financial conditions of any of its customers have deteriorated, whether due to customer specific or general economic issues, increase in the allowance may be made. Accounts receivable are written off when all collection attempts have failed.

INVENTORY

Inventory consists of hardware, equipment and system networking materials that are primarily to be used for existing customer projects at quarter end. The Company does not buy or keep inventory on hand for stock. Inventories are stated at the lower of cost or market. Cost is determined by the average cost method at Kelley. The Company has reviewed its inventory for obsolescence on a quarterly basis since operations began and has written-off $529,096 at its Kelley subsidiary, for the year ended December 31, 2006, due to obsolescence.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company s financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are carried at cost, which approximates their face value, due to the relatively short maturity of these instruments. As of September 30, 2007 and December 31, 2006, the Company s notes payable have stated borrowing rates that are consistent with those currently available to the Company and, accordingly, the Company believes the carrying value of these debt instruments approximates their fair value.

GOODWILL

Under SFAS No. 142. Goodwill and other Intangible Assets, all goodwill amortization ceased effective January 1, 2002. Rather, goodwill is now subject only to impairment reviews. A fair-value based test is applied at the reporting level. This test requires various judgments and estimates. A goodwill impairment loss will be recorded for any goodwill that is determined to be impaired. Goodwill is tested for impairment at least annually.

ACCOUNTING FOR IMPAIRMENTS IN LONG-LIVED ASSETS

Long-lived assets and identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of assets may not be recoverable. Management periodically evaluates the carrying value and the economic useful life of its long-lived assets based on the Company s operating performance and the expected future undiscounted cash flows and will adjust the carrying amount of assets which may not be recoverable.

USE OF ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates made in preparing these financial statements include revenue recognition (specifically, related to the estimated gross margins on long term construction contracts), the provision for the uncollectible accounts receivable, analysis of the value of goodwill, the issuance of derivative financial instruments such as convertible debentures, stock options and warrants, the issuance of common stock for services, and useful lives for depreciable and amortizable assets. Actual results could differ from those estimates.

The estimates that relate to the accounting for derivative financial instruments embedded in the Company s convertible debentures are made to be in conformity with EITF 00-19, whereby the Company is required to bifurcate the conversion feature of its convertible debentures from the debt hosts and account for the convertible feature as a derivative liability with changes in fair value being reported in the statement of operations. In addition, the warrants issued along with the convertible debentures are also required to be classified as derivative liabilities with changes in fair value being reported in the statement of operations as well. Effective June 30, 2006, all convertible debentures and associated warrants were retired.

REVENUE RECOGNITION

The Company s revenue recognition policies are in compliance with all applicable accounting regulations, including American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Revenues from design, fabrication of racked equipment, project management and delivery generated by Kelley are recognized using the percentage-of-completion method of accounting. Accordingly, income is recognized in the ratio that costs incurred bears to estimated total costs. Adjustments to cost estimates are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. The aggregate of costs incurred and income recognized on uncompleted contracts in excess of related billings is shown as a current asset, and the aggregate of billings on uncompleted contracts in excess of related costs incurred and income recognized is shown as a current liability.

Generally, the Company extends credit to its customers and does not require collateral. The Company performs ongoing credit evaluations of its customers and historic credit losses have been within management s expectations. The Company estimates the likelihood of customer payment based principally on a customer s credit history and its general credit experience. To the extent the Company s estimates differ materially from actual results, the timing and amount of revenues recognized or bad debt expense recorded may be materially misstated during a reporting period.

The Company s revenue recognition policy for the sale of its products is in compliance with Staff Accounting Bulletin (SAB) 104. Revenue is recognized when a formal arrangement exists, the price is fixed or determinable, the delivery is completed and collectibility is reasonably assured. Generally, the Company extends credit to its customers and does not require collateral.

STOCK-BASED COMPENSATION

The Company has historically accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. Compensation cost for stock options, if any, is measured as the excess of the fair value of the Company s stock at the date of grant over the amount an employee must pay to acquire the stock. Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans.

In December 2004, the FASB issued SFAS No. 123 (Revised), Share-Based Payment (SFAS 123(R)). SFAS 123(R) replaces SFAS 123 and supersedes APB 25. SFAS 123(R) is effective as of the beginning of the first interim period or annual reporting period that begins after December 15, 2005. SFAS 123(R) requires that the costs resulting from all share-based payments transactions be recognized in the financial statements. SFAS 123(R) applied to all awards granted after the required effective date and shall not apply to awards granted in periods before the required effective date, except if prior awards are modified, repurchased, or cancelled after the effective date.

The following table sets forth the Company s stock option grants, exercise prices, stock option grants forfeited and certain vesting periods and amounts vested at September 30, 2007.

Date(s) of Grant	Stock Options Granted	Exercise Price	Stock Options Forfeited	Stock Options Remaining	Cliff Vesting Period
10/20/2005	972,500	0.79	535,000	437,500	23 months
3/30/2006	1,347,500	0.42	1,180,000	167,500	33 months

6/2/2006	600,000	0.41	0	600,000	33 months
8/8/2006	192,500	0.21	80,000	112,500	33 months
9/1/2006	350,000	0.42	0	350,000	33 months
9/21/2006	750,000	0.39	750,000	0	27 months
9/25/06 to 2/1/2007	200,000	0.27 to 0.42	112,500	87,500	33 months
Balance at September 30, 2007	4,412,500		2,657,500	1,755,000	

BASIC AND DILUTED NET (LOSS) INCOME PER SHARE

Net income (loss) per share is calculated in accordance with the Statement of Financial Accounting Standards No. 128 (SFAS No. 128), Earnings Per Share . Basic net income (loss) per share is based upon the weighted average number of common shares outstanding. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potential common stock (including common stock equivalents) had all been issued, and if such additional common shares were dilutive. Under SFAS No. 128, when the Company incurs a net loss, if the additional common shares are dilutive, they are not added to the denominator in the calculation.

The Company s significant components of common stock equivalents are its convertible debentures (which were retired effective June 30, 2006), warrants to purchase the Company s common stock and stock options.

Prior to the retirement of all convertible debentures effective June 30, 2006, the convertible debentures which could be exercised on any date subsequent to the issuance of the convertible debentures, would have had an anti-dilutive effect on the net income per common share once and if the holders elected to exchange the convertible debentures for shares of the Company s common stock. The number of common shares which could be exchanged by the Company for a full release of the obligation to repay the principal and interest balances associated with all convertible debentures could possibly have been based in part on the Company s price per common share as quoted on the OTC bulletin board on the date of conversion. Since the Company was not able to determine the price per common share of its common stock in the future, it did not believe it could reasonably determine the number of common shares to be issued pursuant to an exchange of its convertible debentures for common shares. Therefore, the Company could not accurately determine the number of common shares which could have been exchanged by the Company that were related to the convertible debentures through June 30, 2006, at which time all convertible debentures were retired.

Stock options that have an anti-dilutive effect on the net income per common share once exercised to purchase 1,755,500 (at strike prices ranging from $.21 to $.79 per share) and 3,770,000 (at strike prices ranging from $.37 to $.79 per share) shares of common stock remained outstanding as of September 30, 2007 and September 30, 2006, respectively. These stock options have various vesting periods between two and three years from the date of grant.

Warrants that have an anti-dilutive effect on the net income per common share once exercised, to purchase 16,710,895 (at strike prices ranging from $.01 per share to $.85 per share) and 7,034,645 (at strike prices ranging from $.01 to $.85 per share) shares of common stock remained outstanding as of September 30, 2007 and September 30, 2006, respectively.

401(k) AND PROFIT SHARING PLANS

The Company has a qualified 401(k) profit sharing plan that covers substantially all full-time employees meeting certain eligibility requirements. The Company s annual profit sharing contribution is discretionary as determined by the Board of Directors; however, the contributions cannot exceed 25% of compensation for the eligible employees in any one tax year. For the year ended December 31, 2006, the Company s net contribution to the plan (after applying forfeiture credits) was $142,777. Contributions to the Plan are designated for each allocation group , and then allocated among eligible participants in each group based on the ratio of their salaries to the total salaries of all participants in the group. The plan document specifies the members of each allocation group. Because of the Company s defined benefit pension plan (which was terminated in 2006), the minimum contribution for each eligible non-key employee is 5% of pay. After 2006, provided that no key employee makes 401(k) contributions to the plan, there will be no minimum company contribution required.

Profit sharing contribution accounts are subject to a five year graded vesting schedule.

With respect to the plan s 401(k) feature, eligible employees may contribute from 1% to 75% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. Although the plan provides for a discretionary matching contribution by the Company, no matching contributions were made for the year ended December 31, 2006 and the Company does not intend to make any contributions for 2007. There is, however, a one time payment due of $168,000 on December 31, 2007, which is accounted for in the current liability section of the balance sheet under accrued expenses.

DEFINED BENEFIT PLAN

Kelley sponsors a defined benefit pension plan which covers all employees who have completed one year of service and have attained the age of twenty-one. The following table sets forth the benefit obligation, fair value of plan assets, and the funded status of Kelley s Plan; amounts recognized in the Company s financial statements; and the principal weighted-average assumptions used:

		At December 31, 2006
Change in benefit obligation:		
Benefit obligation at beginning of year	$	400,194
Actuarial gain		(2,161
Interest cost		21,892
Benefit obligation at end of year	$	419,925
Change in plan assets:		
Fair value of plan assets at beginning of year	$	402,659
Actual return on plan assets		33,516
Fair value of plan assets at end of year	$	436,175

		For the Year Ended December 31, 2006
Funded status	$	(16,250)
Unrecognized net actuarial gain		12,648
Net amount recognized	$	(3,602)
Amounts recognized in the statement of financial position consist of:		
Prepaid benefit cost	$	(3,602)
Net amount recognized	$	(3,602)
Weighted-average assumptions as of December 31:		
Discount rate		5.50
Expected return on plan assets		6.00
Rate of compensation increase		3.00

Components of net periodic benefit cost for the year ended December 31, 2006 are as follows:

		2006
Service cost	$	0
Interest cost		21,892
Net asset gain during the period deferred for later recognition		9,356
Expected return on plan assets		(33,516)
Net periodic benefit cost	$	(2,268)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans as of December 31, 2006 were $419,925, $419,925 and $436,175, respectively.

The provisions of Financial Accounting Standards Board Statement No. 87, Employers Accounting for Pensions, require the Company to record an additional minimum liability of $0 at December 31, 2006. This liability represents the amount by which the accumulated benefit obligation exceeds the sum of the fair market value of plan assets and accrued amounts previously recorded. The additional liability may be offset by an intangible asset to the extent of previously unrecognized prior service cost.

The Company has discontinued the defined benefit pension plan as of November 13, 2006.

3. GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which contemplates continuation of the Company as a going concern. However, the Company has an accumulated deficit of ($33,000,284), and is generating losses from operations. The continuing losses have adversely affected the liquidity of the Company. The Company faces continuing significant business risks, including, but not limited, to its ability to maintain vendor and supplier relationships by making timely payments when due.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company s ability to raise additional capital, obtain financing and to succeed in its future operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Management has taken the following steps to improve its results of operations and financial condition, which include: (i) completed the discontinuance of operations of Network and COM, (ii) increased gross margins at Kelley from 12% in the fourth quarter of 2005 to 30% in the third quarter of 2007, (iii) restructured all of the Company s convertible debt in exchange for promissory notes with payment terms ranging from two to five years, (iv) retired the rights for the holders to convert the outstanding debt into common stock of the Company, (v) restructured bank and other loans payable saving $500,000 of debt service in 2007, (vi) reduced head count which is expected to result in approximately $650,000 in cost savings in 2007, (vii) raised $2,157,000 in private equity, and raised and additional $2 million in a 7% convertible debt (viii) increased sales and marketing efforts and (ix) sold a 50% share of a non-core business asset that yielded approximately $316,000 in net proceeds.

4. ASSETS HELD FOR SALE

The Company is currently in the process of designing and building cable television and internet systems in order to provide such services to up to approximately 2,000 residential homeowners in a development in Henderson, Nevada called Tuscany. In April of 2007, the Company sold 50% of its interest in this asset for $375,000 and entered into a joint venture agreement to manage the operations along with the buyer. At December 31, 2006, the Asset Held for Sale was comprised primarily of materials and labor costs incurred on the job site, net of the results of the operations to date. The operations to date consist of minimal billings to the home owners association for customers who are receiving basic cable television service from the Company and billings to individual home owners for internet services provided to them by the Company, less the costs to provide such services and maintain the equipment. The initial installation, or Phase I, was completed on September 1, 2006 and Phase II (to provide expanded cable television services) was substantially completed in April of 2007. At December 31, 2006, the Company wrote the asset down by $477,295 to approximate its fair market value, based on the purchase price received from the buyer.

5. INVESTMENT IN TUSCANY SERVICES LLC

Asset Sale

On April 9, 2007, Kelley entered into a Contribution, Assignment and Assumption Agreement (the Contribution Agreement) with MCS Services LLC (MCS) and Tuscany Services LLC (Tuscany Services) pursuant to which Kelley contributed substantially all of its assets used in the operation of the cable system in the Tuscany Community located in Henderson, Nevada (the Tuscany Assets) for a 50% interest in Tuscany Services. The Tuscany Assets were valued at $750,000 in the transaction. Pursuant to the Contribution Agreement, MCS contributed $375,000 in cash to Tuscany Services for a 50% interest in Tuscany Services. Upon the closing of the transaction, Tuscany Services immediately distributed $375,000 in cash to Kelley. Kelley incurred approximately $59,000 of professional fees related to this transaction.

In connection with the Contribution Agreement, Kelley and MCS also entered into an operating agreement dated April 9, 2007 with respect to the operations of Tuscany Services (the Operating Agreement). Pursuant to the Operating Agreement, Kelley and MCS each appointed a manager of Tuscany Services. The managers have equal authority and will direct the day-to-day operations of Tuscany Services. Pursuant to the Operating Agreement, Kelley and MCS are obligated to equally fund Tuscany Services cash flow shortage each month, if any, including an initial contribution by Kelley and MCS of $25,000 cash each. Additionally, the Operating Agreement contains a buy-sell provision that allows either MCS or Kelley to initiate buy-sell proceedings after the two year anniversary of the Operating Agreement; provided that the purchase price for the non-initiating member s membership interest cannot be less than that member s capital account plus a 15% annualized rate of return.

6. PAYROLL TAX LIABILITY

Payroll tax liabilities of $134,142 and $239,142 were payable at September 30, 2007 and December 31, 2006, respectively. These liabilities arose at Network and COM during 2003 and 2004. The Company has been and remains current on all payroll tax liabilities since then. On July 27, 2006, the Internal Revenue Service approved a payment plan presented by the Company whereby the Company is obligated to pay $15,000 per month through May 2008 and $25,000 per month from May 2008 until the balance is paid in full. Interest and penalties will continue to accrue until the balance is paid in full. At September 30, 2007 and December 31, 2006, this liability has been included in the Net Liabilities of Discontinued Operations in the Company s accompanying consolidated financial statements.

7. FAIR MARKET VALUE OF DERIVATIVE LIABILITIES

The fair market value of derivative liabilities consist of the following:

	September 30, 2007	December 31, 2006
Derivative liability related to the issuance of warrants in exchange for common stock in March 2006	$ 878,292	$ 1,497,416
Adjustment to record fair market value of derivative liability	(921,486)	(460,743)
Subtotal	(43,194)	1,036,673
Derivative liability related to the issuance of warrants related to private placement in November 2006	790,435	729,820
Adjustment to record fair market value of derivative liability	(750,038)	60,615
Subtotal	40,397	790,435
Derivative liability related to the issuance of warrants related to private placement in January 2007	1,045,182	
Adjustment to record fair market value of derivative liability	(969,699)	
Subtotal	75,438	
Balance	$ 72,686	$ 1,827,108

8. NOTES PAYABLE

Notes Payable Related to the Acquisition of Kelley

The Company entered into the following borrowing transactions in connection with its acquisition of Kelley:

The Company entered into a note payable to a bank dated August 30, 2005 (the B of A Note), which bears interest at a variable rate, 2% over the Prime Rate, or 10.25% per annum as of December 31, 2006. Monthly principal payments of $20,834 are due on this note through September 15, 2008. The balance of $442,449 remained outstanding as of December 31, 2006, and included a current portion of $250,008. This note payable is collateralized by amounts that have been pledged by Dutchess, a related party to the Company.

The Company entered into a note payable to a bank dated September 20, 2005 (the B of N Note) which bears interest at a fixed rate of 7.50% per annum. Monthly principal and interest payments of $32,672 are payable through September 20, 2008. The balance of $640,807 remained outstanding as of December 31, 2006, and included a current portion of $356,081. This note payable is collateralized by amounts that have been pledged by Dutchess, a related party to the Company.

On March 2, 2007, the Company refinanced the B of A Note and the B of N Note, using the proceeds from the Bank of Nevada to satisfy the B of A Note in its entirety, in the amount of $400,693. The new note with Bank of Nevada, in the principal amount of $1,090,807, dated March 2, 2007, carries interest at a fixed rate of 7.5%. Principal and interest payments of $29,098 per month are payable through September 20, 2010. The Company received proceeds of $42,418 from the Bank of Nevada from the new note at closing. The balance at September 30, 2007 was $931,477 and included a current portion of $289,118.

On September 22, 2005, the Company issued $360,000 in convertible debentures to Mr. Robert Unger, an unaffiliated individual (the Unger Debenture) and $540,000 in convertible debentures due to Mr. James Michael Kelley, a member of the Company s Board of Directors (the Kelley Debenture). The convertible debentures carried an interest rate of 0.00% and were due in September of 2006. The Unger Debenture and the Kelley Debenture were issued with a discounted price from the face value of $60,000 and $90,000 respectively. The holders were entitled to convert the face amount of their respective debentures, plus accrued interest, anytime following the issuance of these convertible debentures, into common stock of the Company at the lesser of (i) 75% of the lowest closing bid price during the fifteen trading days prior to the conversion date or (ii) 100% of the closing bid prices for the twenty trading days immediately preceding the issuance of the convertible debentures (Fixed Conversion Price), each being referred to as the Conversion Price. No fractional shares or scrip representing fractions of shares were to be issued on conversion, but the number of shares issuable were to be rounded up or down, as the case may be, to the nearest whole share. Additionally, in connection with the issuance of the Unger Debenture and the Kelley Debenture, the Company issued warrants to purchase 90,000 and 135,000 shares of the Company s common stock, respectively, at a purchase price equal to 120% of the fair market value on the date of issuance. The warrants were valued at $21,919 and $32,790, respectively, and were recorded as derivative liabilities in the Company s balance sheet. The aggregate beneficial conversion feature related to these convertible debentures was valued at $572,386 and was recorded as debt discount and derivative liabilities. The debt discount was being amortized into interest expense over the life of the loan.

Effective June 30, 2006, the Company entered into Amended and Restated Promissory Notes with Mr. Unger and Mr. Kelley, which restated and replaced in their entireties, the Unger Debenture and the Kelley Debenture, including retiring the conversion rights of the debentures and retiring all related warrants to purchase shares of the Company s common stock (the Amended Promissory Notes). The principal amounts of the Unger Debenture and the Kelley Debenture as amended are $317,500 and $476,250, respectively. Both promissory notes bear interest at 7% per annum. The Company was obligated to begin making payments on both promissory notes in January 2007 and both promissory notes are due in September 2008. The Company was obligated to make principal and interest payments in the aggregate amount of $300,000 for the 12 months ended December 31, 2007, and $588,357 for the 12 months ended December 31, 2008. On March 2, 2007, the Company entered into a Second Amended and Restated Promissory Note with Robert Unger, effective December 31, 2006, whereby the Company removed all debt service payments on the note until September 2008, at which time the note, plus all accrued interest in the total amount of $369,335 is due and payable (Unger Second Amendment).

The Amended and Restated Promissory Note for Mr. Kelley and the Unger Second Amendment (collectively referred to as the Notes) also provide:

if prior to the Company s full payment and satisfaction of the Notes, the Company borrows monies or raises capital from the sale of its common stock in excess of $3,500,000 (after the payment of all financing fees and expenses), the Company is obligated to pay to Mr. Unger 20% and Mr. Kelley 30% of such excess up to the unpaid balance on the new promissory note within 10 days after receipt of such funds and if such funds are raised prior to when the Company is obligated to begin making payments, such obligation will be accelerated and will begin one month following such financing (Effective December 31, 2006, the Unger Second Amendment, increased this threshold to $4,000,000); and

if at any time during which the Notes remain unpaid, the Company s earnings on a consolidated basis during any calendar year exceed $1,000,000 (before interest, taxes, depreciation and amortization, but after deducting of all principal and interest payments on outstanding debts, other than certain mandatory prepayments as discussed herein), the Company is obligated to pay Mr. Unger 13% and Mr. Kelley 20% of the excess earnings, up to the unpaid balance of the new promissory note as a prepayment, within 10 business days of the filing of its Annual Report on Form 10-KSB.

The Company assumed $492,856 in various notes payable to the CEO and founder of Kelley, carrying interest at a fixed rate of 5.00% per annum. These notes payable were refinanced on October 7, 2005 with a $492,856 note payable carrying interest at 6.00% per annum and requiring 24 monthly payments of $17,412 in principal and interest through September 2007. The balance of $85,138 and $152,816, all of which is current, remained outstanding as of September 30, 2007 and December 31, 2006, respectively.

The Company assumed three notes payable to banks, secured by five automobiles, carrying interest at fixed rates of 6.25% per annum on one note and 5.75% per annum on the other two notes. Aggregate monthly principal and interest payments of $1,769 are payable through March 7, 2008 and $740 through May 2009. The aggregate balance of $16,300 remained outstanding on these three note as of September 30, 2007.

During the year ended December 31, 2006, the Company entered into a capital lease obligation for warehouse equipment in the approximate amount of $25,000 with a five year term and interest rate of 6.6% per annum. The Company is obligated to make principal and interest payments in the approximate amount of $6,000 per annum for the life of the lease. At September 30, 2007, the balance was $22,155.

Other Notes Payable and Convertible Debentures

During the year ended December 31, 2005, the Company issued a total of seven convertible debentures in the aggregate principal amount of $350,000 to a shareholder of the Company. During the year ended December 31, 2003, the Company had issued a convertible debenture in the aggregate principal amount of $25,000 to the same shareholder. These convertible debentures carried interest rates of 6% or 8% per annum, and were due in February 2009, December of 2009, or in April 2008. Payments were not mandatory during the term of the convertible debentures, however, the Company maintained the right to pay the balances in full without penalty at any time. The holders were entitled to convert the face amounts of the debentures, plus accrued interest, into common stock of the Company anytime following the issuance of each debenture, at the lesser of (i) 75% of the lowest closing bid price during the fifteen trading days prior to the conversion date or (ii) 100% of the average of the closing bid prices for the twenty trading days immediately preceding the issuance of such debenture, each being referred to as the Conversion Price. No fractional shares or scrip representing fractions of shares were to be issued on conversion, but the number of shares issuable were to be rounded up or down, as the case may be, to the nearest whole share. The beneficial conversion features related to the 2005 issuances of convertible debentures were recorded as derivative liabilities in the aggregate amount of $410,334, of which $60,334 was recorded as interest expense at the time of issuance. The remaining amount was recorded as a debt discount and was amortized into interest expense over the life of the loan. The beneficial conversion feature related to the 2003 issuance of a convertible debenture was recorded as a derivative liability in the amount of $30,349, of which $5,349 was recorded as interest expense at the time of issuance. The remaining amount was recorded as a debt discount and was amortized into interest expense over the life of the loan.

Effective June 30, 2006, the Company entered into a Loan Restructure Agreement with the holder of these convertible debentures pursuant to which the convertible debentures were cancelled and replaced with a promissory note in the amount of $375,000 with an interest rate at 7% per annum. The Company is obligated to make interest only payments in the amount of $2,000 per month from August 2006 through January 2008 (of which $28,000 has been paid as of September 30, 2007). Beginning in February 2008, the Company is obligated to make principal and interest payments in the amount of $8,000 per month until June of 2011. The new promissory note is due on July 1, 2011 with a balloon payment of $111,805 being due on that date.

In the event of a default on the new promissory note by the Company, the shareholder has the right to declare the full and unpaid balance of the new note due and payable, and enforce each of its rights under the aforementioned convertible debentures that have been retired, including conversion into shares of the Company s common stock.

9. RELATED PARTY TRANSACTIONS

RELATED PARTY NOTES PAYABLE and DEBT RESTRUCTURING

During the years ended December 31, 2006 and 2005, the Company issued $3,132,600 and $2,136,360, respectively, in convertible debentures to Dutchess Private Equities II, LP (Dutchess). The Company paid $100,000 to Dutchess in financing fees during the year ended December 31, 2006. During the years ended December 31, 2004 and 2003, the Company issued $1,867,718 and $338,000 in convertible debentures to Dutchess Private Equities, LP respectively. The convertible debentures carried interest rates of 8% and 6% per annum, and were due at various dates between April 2008 and June 2011. Payments were not mandatory during the term of the convertible debentures. However, the Company maintained the right to pay the balances in full without penalty at any time. The holder was entitled to convert the face amount of the debentures, plus accrued interest, into common stock of the Company anytime following the issuance of such debenture, at the lesser of (i) 75% of the lowest closing bid price during the fifteen trading days prior to the conversion date or (ii) 100% of the average of the closing bid prices for the twenty trading days immediately preceding the issuance of such debenture, each being referred to as the Conversion Price. No fractional shares or scrip representing fractions of shares will be issued on conversion, but the number of shares issuable was to be rounded up or down, as the case may be, to the nearest whole share. The beneficial conversion features embedded in these convertible debentures were treated as derivative liabilities in accordance with EITF 00-19. The 2006, 2005, 2004 and 2003 value of the derivative liabilities amounted to $3,228,422, $2,330,745, $2,465,011 and $488,801, respectively. Of such amounts $602,307, $534,385, $643,511 and $101,185 was charged to interest expense at the time of issuance for the years ended December 31, 2006, 2005, 2004 and 2003, as restated, respectively. The remaining amounts were recorded as debt discount and amortized into interest expense over the life of the debenture.

The $3,132,600, $2,136,360 and $1,867,718 of convertible debentures that were issued in 2006, 2005 and 2004, respectively were issued with a discounted price from the face value of $512,000, $340,000 and $248,600, respectively. Additionally, the Company issued warrants to purchase 2,349,000, 1,020,000 and 1,286,000 shares of the Company s common stock at varying exercise prices between $.41 and $.60 per share during 2006, $1.03 and $1.83 per share during 2005 and between $1.73 and $1.90 per share during 2004. The warrants issued in 2006, 2005 and 2004 were valued at $854,470, $2,034,073 and $2,074,222, as restated, respectively, and were charged to interest expense and derivative liabilities at the time of issuance.

Effective June 30, 2006, the Company entered into a Loan Restructure Agreement and a Promissory Note in the face amount of $6,254,960 with Dutchess, whereby it cancelled 5,729,000 warrants and convertible debentures with a face amount of $7,300,000 and Dutchess forgave approximately $500,000 of accrued interest. The new promissory note was issued at a discount of approximately $178,000 and bears interest at 7% per annum and requires monthly principal and interest payments through July 1, 2011 when the note becomes due with a balloon payment of $1,460,642. Effective December 31, 2006, the Company entered into a Second Loan Restructure Agreement with Dutchess whereby the Company is obligated to make the following monthly principal and interest payments for the years ended December 31,;

2007	$	300,000
2008		600,000
2009		900,000
2010		1,200,000
2011		1,500,000
January 1, 2012		3,817,859

Total	$	8,317,859

The Loan Restructure Agreement and the Second Loan Restructure Agreement also provides:

that the Company must obtain written consent from Dutchess, not to be unreasonably withheld, in order to grant a lien or security interest in any of its assets and to borrow money or sell shares of its common stock, which borrowing or sale either alone or aggregated during any six month period exceeds $250,000. The Second Loan Restructuring Agreement modified those terms to allow the Company to borrow money as it deems reasonable with no requirement for Dutchess consent;

if prior to full payment and satisfaction of the new promissory note, the Company borrows money or raises capital from the sale of its common stock in excess of $3,500,000 (after the payment of all financing fees and expenses), the Company is obligated to pay to Dutchess 50% of such excess up to the unpaid balance on the new promissory note within 10 days after receipt of such funds. The Second Loan Restructure Agreement changed the threshold for this repayment from $3,500,000 net proceeds to $4,000,000 in gross proceeds;

if at any time during which the new promissory note remains unpaid, the Company s earnings on a consolidated basis during any calendar year exceeds $1,000,000 (before interest, taxes, depreciation and amortization, but after deducting all principal and interest payments on outstanding debts, other than certain mandatory prepayments as discussed herein), the Company is obligated to pay Dutchess 33% of the excess earnings, up to the unpaid balance of the new promissory note as a prepayment, within 10 business days of the filing of its Annual Report on Form 10-KSB; and

that the Company must obtain written consent of Dutchess, not to be unreasonably withheld, to sell any of its assets (other than the sales of inventory or other assets sold in the normal course of business) and in the event of an asset sale, the Company shall pay to Dutchess 33% of the proceeds of the asset sale, up to the unpaid principal balance as a prepayment on the new promissory note, within 10 business days after the Company receives the funds. The Second Loan Restructure Agreement excluded the sale of the Company s broadband services system at Tuscany from the definition of an Asset Sale.

In the event of a default on the new promissory note, Dutchess has the right to declare the full and unpaid balance of the new note due and payable, and enforce each of its rights under the aforementioned convertible debentures and warrants that have been retired, including conversion into and/or purchase of shares of the Company s common stock.

During the nine months ended September 30, 2007 and the year ended December 31, 2006, the Company entered into various factoring and security agreements to sell, transfer and assign certain accounts receivable to Dutchess. For the nine months ended September 30, 2007, the Company entered into four factoring and security agreements aggregating $1,632,000 and for the year ended December 31, 2006, the Company entered into 10 factoring and security agreements aggregating to $4,560,000, all of which were paid in full by December 31, 2006. The Company incurred $20,000 and $50,000 in financing fees related to these transactions for the nine months ended September 30, 2007 and for the year ended December 31, 2006, respectively. Dutchess may in its sole discretion purchase any specific account. All accounts sold are with recourse on seller. All of the Company s assets including accounts receivable, inventories, equipment and promissory notes are collateral under these agreements. The difference between the face amount of each purchased account and advances on the purchased account shall be reserved and will be released after deductions of discount and charge backs. For nine months ended September 30, 2007 and for the year ended December 31, 2006, the Company paid interest to Dutchess amounting to approximately $31,635 and $120,000, respectively.

10. DISCONTINUED OPERATIONS

In the second quarter of 2006, the Company finalized its plans to shut down its operations at its Network and COM subsidiaries. The Company decided to close down these operations primarily because they were incurring operating losses, had low gross margins and were experiencing cash flow shortages, in addition to the fact that these businesses were not consistent with the core business of the Company s subsidiary, Kelley. In conjunction with this decision, the Company has accrued $150,000 to cover the costs of closing the subsidiary companies. The net assets and liabilities of the discontinued operations at September 30, 2007 and December 31, 2006 consists of the following;

	September 30, 2007		December 31, 2006	
Assets of discontinued operations				
Cash	$		$	
Accounts receivable, net				41,981
Inventory				
Fixed assets, net				
Security deposit				
Total assets	$		$	41,981
Liabilities of discontinued operations				
Accounts payable and accrued expenses	$	89,595	$	152,694
Payroll taxes payable		134,142		239,142
Total liabilities		223,737		391,836
Net liabilities of discontinued operations	$	223,737	$	349,855

Loss from discontinued operations in the Company s Statements of Operations consists of:

	Nine Months ended September 30				Three Months ended June 30			
	2007		2006		2007		2006	
Sales	$		$	101,913	$		$	
Cost of Goods sold				175,626				55,177
Gross Profit				(73,713)				(55,177)
Salaries				97,413				14,939
Insurance				24,931				18,000
Travel				22,206				8,413
Contingency accrual				150,000				150,000
Interest expense				39,009				16,678
Other				762,969				145,056

Loss from Discontinued Operations	$	$ (1,170,241)	$	$ (408,263)

11. INCOME TAXES

No provision was made for Federal income tax since the Company has significant net operating losses. Through September 30, 2007 and December 31, 2006, the Company incurred net operating losses for tax purposes of approximately $33,101,148 and $32,329,927, respectively. The net operating loss carry forwards may be used to reduce taxable income through the year 2024. The availability of the Company s net operating loss carry-forwards are subject to limitation if there is a 50% or more positive change in the ownership of the Company s stock. A valuation allowance for 100% of the deferred taxes asset has been recorded due to the uncertainty of its realization.

	June 30, 2007	December 31, 2006
Tax benefit of net operating loss carry-forward	$ 8,937,000	$ 8,887,000
Valuation allowance	(8,937,000)	(8,887,000)
	$	$

The following is a reconciliation of the provision for income taxes at the U.S. federal income tax rate to the income taxes reflected in the Statement of Operations:

	September 30, 2007 and December 31, 2006
Tax expense (credit) at statutory rate-federal	(34)%
State tax expense net of federal tax	(6)%
Changes in valuation allowance	(40)%
Tax expense at actual rate	

The valuation allowance decreased by approximately $25,000 and increased by $1,087,000 for the nine months ended September 30, 2007 and for the year ended December 31, 2006, respectively.

12. COMMITMENTS & CONTINGENCIES

LITIGATION

On January 24, 2005, the Company filed an action in the Superior Court of California, County of Orange against the former principals of DMSI for damages and injunctive relief based on alleged fraud and breach of contract relating to the Company s purchase of DMSI. The complaint was amended on March 14, 2005 to seek rescission of the Company s purchase of DMSI from its former owners. The Defendant also filed a cross-complaint in the above action seeking recovery under various employment and contract theories for unpaid compensation, expenses and benefits totaling approximately $90,000. Defendant also sought payment of an outstanding balance of a note related to the purchase by the Company of DMSI totaling approximately $85,000. Further, Defendant was seeking injunctive relief for enforcement of the stock purchase agreement of DMSI. This case was settled and the Company agreed to pay Defendant $84,000 over a 12 month period, which has been paid in full, and also agreed to issue Defendant 300,000 shares of its common stock, which was issued with a value of $139,800 during the year ended December 31, 2006.

In March 2006, Lisa Cox sued Kelley, Network, and Kelley s CEO personally, claiming damages related to promises she alleges were made to her husband, prior to her husband s death. The alleged promises made resulted from business transactions between her husband and Kelley, prior to the Company s acquisition of Kelley. This suit was settled on February 26, 2007 (effective January 31, 2007), whereby the Company agreed to pay $90,000 to Mrs. Cox and to issue 280,000 restricted shares of the Company s common stock to her. The Company paid $30,000 to Mrs. Cox at settlement and is obligated to pay $15,000 per year for the next four years. The Company issued 280,000 restricted shares of its common stock on February 26, 2007. The shares are restricted as follows; 100,000 shares are restricted for 12 months. The restrictions on the remaining 180,000 shares are removed in 15,000 share increments on a monthly basis during months 13 to 24 from settlement.

On April 25, 2007, the Company received a summons and complaint from a company to pay them certain amounts of the profits the Company may generate in the future related to the contracts that the Company is currently performing on related to the One Las Vegas project. That company is claiming that Kelley entered into a Joint Venture with them, however, there are no signed term sheets or contracts, nor have term sheets or contracts ever been drafted. The plaintiff is basing its request on verbal and email communications Kelley had with them. The plaintiff claims that Kelley breached the joint venture agreement and usurped the opportunity for its own benefit, usurped the joint venture s opportunity, made false representations with intent to defraud, detrimental reliance, breach of good faith and fair dealing, interference with plaintiff s contract with the customer, unjust enrichment, declaratory relief to establish the joint venture and injunctive relief requiring Kelley to transfer the agreement with One Las Vegas to the joint venture. Kelley filed an Answer and Affirmative Defenses on May 24, 2007 denying all of the claims. The plaintiff filed a Request for Exemption from Arbitration and Kelley subsequently filed an opposition; however, Kelley received the Order from the Arbitration Commissioner granting plaintiff s Request to Exempt this case from Arbitration. The overall exposure of this litigation is difficult to determine at this point in time. The Company intends to defend this action vigorously.

The Company may be involved in litigation, negotiation and settlement matters that may occur in the day-to-day operations of the Company and its subsidiaries. Management does not believe the implication of these litigations will have any material impact on the Company s financial statements.

OTHER COMMITMENTS

The Company is obligated to pay rent amounts as follows:

For the 12 months ended September 30:

2008	$ 160,000
2009	$ 30,000

The Company is obligated to pay $10,000 per month through December 31, 2010 related to an exclusive reseller agreement with a software company.

Effective April 2007, Kelley sold 50% of its ownership interest in Tuscany. Kelley, along with its joint venture partner in Tuscany are obligated to complete the design and build-out of the cable television and internet system to approximately 2,000 homeowners in the Tuscany development located in Henderson, Nevada. The Company anticipates that it will cost the joint venture an additional $75,000 approximately, to complete the design and build-out of these systems. In addition, the Company anticipates additional costs once the systems are designed and built, in order to install the systems into the residential homes. The joint venture has various service agreements related to this project for programming, bandwidth, equipment co-location and storage, and administrative services, that range from three to ten years in duration. The minimum monthly obligations on these contracts amount to approximately $8,000, once all services are activated. In addition, there are additional amounts due on certain of these service contracts that are directly related to the number of subscribers. Kelley is responsible for 50% of all of the expenditures related to this joint venture.

The Company is obligated to pay its former Chief Executive Officer and its former Chief Financial Officer the remaining balance of $71,400 as of September 30, 2007 as a result of the separation agreement dated May 25, 2007.

13. STOCKHOLDERS EQUITY

EQUITY

During the nine months ended September 30, 2007, the Company issued 161,504 shares of common stock valued at $40,000 to service providers for investor relations services.

During the nine months ended September 30, 2007, the Company incurred $172,454 in employee stock option expense.

Common Stock Exchanged for a Warrant

On March 10, 2006, Dutchess Advisors, Ltd. and Dutchess Private Equities Fund L.P. (collectively Dutchess) exchanged 2,879,645 shares of the Company s common stock for a warrant to purchase 2,879,645 shares of the Company s common stock at $0.01 per share, with a fair market value of $1,526,212 or $.53 per share (the closing price of the Company s common stock on the date of the transaction). In accordance with SFAS 150, the Company has recorded a derivative liability in the amount of the aforementioned $1,526,212, less consideration of $28,796, the exercise price associated with the warrant. The fair value of the warrant has been measured with changes in fair value being recorded in the statement of operations as follows:

Gain (Loss) on Fair Value of Warrant

Q1 2006	$	316,761
Q2 2006		403,150
Q3 2006		(259,168)
Q4 2006		0
Total 2006	$	460,743
Q1 2007	$	575,929
Q2 2007	$	345,557
Q3 2007		(43,195)

Private Placements

On January 23, 2007, the Company closed on a private placement whereby the Company raised $1,157,000 in exchange for 7,231,250 shares of the Company s common stock and warrants to purchase 7,231,250 shares of the Company s common stock at $0.50 per share. The Company determined the warrants were derivative liabilities under SFAS 133 paragraph 6 and valued the warrants at $1,045,082. The warrants were recorded as a reduction of additional paid in capital and an increase in derivative liability of $1,045,082. The Company utilized the Black-Scholes option pricing model to value the warrants. Attributes used to determine the initial value of the warrants on January 23, 2007, March 31, and June 30, 2007 are below. The Company recorded a gain on the change in the fair market value of this derivative liability in the amount of $969,699 for the nine months ended September 30, 2007.

Warrant Valuation Information for the Value on:

	September 30 2007	**June 30, 2007**	**March 31, 2007**	**January 23, 2007**
Valuation Assumptions				
Stock price on grant date	$0.32	$0.32	$0.32	$0.32
Number of warrants	7,231,250	7,231,250	7,231,250	7,231,250
Expected option term (in years)	4.25	4.5	4.75	5
Expected duration from grant to expiration date (in years)	10	10	10	10
Option vesting term (in years)	1.82	1.88	1.94	2.00
Expected volatility	72.54%	66.97%	61.07%	60.75%
Risk-free interest rate	4.2%	4.92%	4.56%	4.60%
Expected forfeiture rate	5%	5%	5%	5%
Estimated corporate tax rate	40%	40%	40%	40%
Expected dividend yield	0%	0%	0%	0%

On November 13, 2006, the Company closed on a private placement whereby the Company raised $1,000,000 in exchange for 5,000,000 shares of the Company s common stock and warrants to purchase 5,000,000 shares of the Company s common stock at $0.60 per share. The Company recorded the issuance of the common stock (par value $.001) as a credit to Common Stock, par value of $5,000 and a credit to Additional Paid In Capital of $995,000, net of financing costs associated with this particular private placement of $401,027. The Company determined the warrants were derivative liabilities under SFAS 133 paragraph 6 and valued the warrants at $729,820. The warrants were recorded as a reduction of additional paid in capital and an increase in derivative liability of $729,820. The Company utilized the Black-Scholes option pricing model to value the warrants and has calculated a loss on derivative liability of $60,615 for the year ended December 31, 2006. The Company recorded a gain on the change in the fair market value of this derivative liability in the amount of $750,038 for the nine months ended September 30, 2007. Attributes used to determine the initial value of the warrants are below.

Warrant Valuation Information for the Value on:

	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006	November 13, 2006
Valuation Assumptions					
Stock price on grant date	$ 0.37	$ 0.37	$ 0.37	$ 0.37	$ 0.37
Number of warrants	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Expected option term (in years)	4.08	4.25	4.58	5	5
Expected duration from grant to expiration date (in years)	9	9	9	10	10
Option vesting term (in years)	2.08	2.25	2.9	3	3
Expected volatility	72.54%	66.97%	61.07%	55.12%	55.12% %
Risk-free interest rate	4.19%	4.92%	4.58%	4.60%	4.60% %
Expected forfeiture rate	5%	5%	5%	5%	5% %
Estimated corporate tax rate	40%	40%	40%	40%	40% %
Expected dividend yield	0%	0%0	0%	0%	0% %

On August 1, 2006, the Company entered into a non-exclusive contract with a licensed broker-dealer for financial advisory services. The Company has agreed to pay a commission of 7% on all units sold by this broker-dealer.

Additionally, during the year ended December 31, 2006, the Company:

Issued 294,871 shares of common stock, valued at $110,000 for financial advisory services rendered on behalf of the Company, such shares were issued in November 2006;

Wrote off $48,991 related to the fair market value of derivative liabilities for beneficial conversion features that were converted into common stock;

Issued 300,000 shares of common stock related to the DMSI settlement;

Issued 265,152 shares of common stock valued at $105,125 for services rendered on behalf of the Company;

Retired approximately 5,954,000 million warrants to purchase common stock of the Company related to the aforementioned debt restructurings. As a result, the Company wrote off $1,149,412 in unamortized discounts against Additional Paid in Capital; and

Issued 434,484 shares of common stock to Dutchess upon Dutchess conversion of a convertible debenture, valued at $153,783.

On September 22, 2005, the Company issued 300,000 warrants each, to two Kelley employees, to purchase the Company s common stock. The warrants have a term of five years and are exercisable at $.85 per share. The warrants vest, subject to certain performance criteria, on February 17, 2007 and the employees must be employed by Kelley at December 31, 2006. The amount of the Company s common stock obtained by the employees as a result of exercise of the warrants, is subject to a two year leak-out agreement, restricting the number of shares of the Company s common stock the employees can sell during that time frame. The warrants were valued using the Black Scholes model at $118,838 and have been included in stock based compensation expense over the term of the warrants.

14. BASIC AND DILUTED NET INCOME (LOSS) PER SHARE

Net income (loss) per share is calculated in accordance with the Statement of Financial Accounting Standards No. 128 (SFAS No. 128), Earnings per share. Basic net income (loss) per share is based upon the weighted average number of common shares outstanding. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potential common stock (including common stock equivalents) had all been issued, and if such additional common shares were dilutive. Under SFAS No. 128, when the Company incurs a net loss, if the additional common shares are dilutive, they are not added to the denominator in the calculation.

The Company s significant components of common stock equivalents are its convertible debentures (which were retired effective June 30, 2006), warrants to purchase the Company s common stock and stock options.

Prior to the retirement of all convertible debentures effective June 30, 2006, the convertible debentures which could be exercised on any date subsequent to the issuance of the convertible debentures, would have had an anti-dilutive effect on the net income per common share once and if the holders elected to exchange the convertible debentures for shares of the Company s common stock. The number of common shares which could be exchanged by the Company for a full release of the obligation to repay the principal and interest balances associated with all convertible debentures could possibly have been based in part on the Company s price per common share as quoted on the OTC bulletin board on the date of conversion. Since the Company was not able to determine the price per common share of its common stock in the future, it did not believe it could reasonably determine the number of common shares to be issued pursuant to an exchange of its convertible debentures for common shares. Therefore, the Company could not accurately determine the number of common shares which could be exchanged by the Company that are related to the convertible debentures through June 30, 2007, at which time all convertible debentures were retired.

Stock options that have an anti-dilutive effect on the net income per common share once exercised to purchase 1,755,500 (at strike prices ranging from $.21 to $.79 per share) and 3,770,000 (at strike prices ranging from $.37 to $.79 per share) shares of common stock remained outstanding as of September 30, 2007 and September 30, 2006, respectively. These stock options have various vesting periods between two and three years from the date of grant.

Warrants that have an anti-dilutive effect on the net income per common share once exercised, to purchase 16,710,895 (at strike prices ranging from $.01 per share to $.85 per share) and 7,034,645 (at strike prices ranging from $.01 to $.85 per share) shares of common stock remained outstanding as of September 30, 2007 and September 30, 2006, respectively.

15. SUBSEQUENT EVENTS

On October 24, 2007 the Company entered into a factoring and security agreements to sell, transfer and assign certain accounts receivable to Dutchess in the amount of $275,000. The Company incurred $5,000 in financing fees related to this transaction. Dutchess may on its sole discretion purchase any specific account. All accounts sold are with recourse on seller. All of the Company s assets including accounts receivable, inventories, equipment and promissory notes are collateral under these agreements.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The discussion and financial statements contained herein are for the three and nine months ended September 30, 2007 and September 30, 2006. The following discussion should be read in conjunction with our financial statements and notes included herewith.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that involve risks and uncertainties. We generally use words such as believe, may, could, will, intend, expect, anticipate, plan, and similar expressions to identify forward-lo statements, including statements regarding our ability to continue to create innovative technology products, our ability to continue to generate new business based on our sales and marketing efforts, referrals and existing relationships, our financing strategy and ability to access the capital markets and other risks discussed in our Risk Factor section included in our Form 10-KSB at and for the year ended December 31, 2006. Although we believe the expectations expressed in the forward-looking statements included in this Form 10-QSB are based on reasonable assumptions within the bounds of our knowledge of our business, a number of factors could cause our actual results to differ materially from those expressed in any forward-looking statements. We cannot assure you that the results or developments expected or anticipated by us will be realized or, even if substantially realized, that those results or developments will result in the expected consequences for us or affect us, our business or our operations in the way we expect. We caution readers not to place undue reliance on these forward-looking statements, which speak only as of their dates. We do not intend to update any of the forward-looking statements after the date of this document to conform these statements to actual results or to changes in our expectations, except as required by law.

CRITICAL ACCOUNTING POLICIES

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations are discussed throughout this section where such policies affect our reported and expected financial results. Our preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. Our actual results may differ from those estimates.

Our accounting policies that are the most important to the portrayal of our financial condition and results of operations, and which require the highest degree of management judgment relate to revenue recognition (specifically, related to the estimated gross margins on long term construction contracts), the provision for the uncollectible accounts receivable, analysis of the value of goodwill, the issuance of derivative financial instruments such as convertible debt, stock options and warrants, the issuance of our common stock for services, and useful lives for depreciable and amortizable assets.

The estimates that relate to the accounting for derivative financial instruments embedded in our convertible debentures are made to be in conformity with EITF 00-19, whereby we are required to bifurcate the conversion feature of our convertible debentures from the debt hosts and account for the convertible feature as a derivative liability with changes in fair value being reported in the statement of operations. In addition, the warrants issued along with the convertible debentures are also required to be classified as derivative liabilities with changes in fair value being reported in the statement of operations as well. Effective June 30, 2006, all convertible debentures and associated warrants were retired.

Revenue Recognition

Our revenue recognition policies are in compliance with all applicable accounting regulations, including American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Revenues from design, fabrication of racked equipment, project management and delivery generated by Kelley, are recognized using the percentage-of-completion method of accounting. Accordingly, income is recognized in the ratio that costs incurred bears to estimated total costs. Adjustments to cost estimates are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. The aggregate of costs incurred and income recognized on uncompleted contracts in excess of related billings is shown as a current asset, and the aggregate of billings on uncompleted contracts in excess of related costs incurred and income recognized is shown as a current liability.

Generally, we extend credit to our customers and do not require collateral. We perform ongoing credit evaluations of our customers and historic credit losses have been within management s expectations.

We estimate the likelihood of customer payment based principally on a customer s credit history and our general credit experience. To the extent our estimates differ materially from actual results, the timing and amount of revenues recognized or bad debt expense recorded may be materially misstated during a reporting period.

Accounts Receivable and Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts, when appropriate, for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, our actual losses may exceed our estimates, and additional allowances would be required.

Goodwill

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142, or SFAS 142, Goodwill and Other Intangible Assets. As required by SFAS 142, goodwill is subject to annual impairment tests, or earlier if indicators of potential impairment exist and suggest that the carrying value of goodwill may not be recoverable from estimated discounted future cash flows. Because we have one reporting segment under SFAS 142, we utilize the entity-wide approach to assess goodwill for impairment and compare our market value to our net book value to determine if an impairment exists. These impairment tests may result in impairment losses that could have a material adverse impact on our results of operations in the future.

Stock-Based Compensation

We have historically accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. Compensation cost for stock options, if any, is measured as the excess of the fair value of our stock at the date of grant over the amount an employee must pay to acquire the stock. Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans.

In December 2004, the FASB issued SFAS No. 123 (Revised), Share-Based Payment (SFAS 123(R)). SFAS 123(R) replaces SFAS 123 and supersedes APB 25. SFAS 123(R) is effective as of the beginning of the first interim period or annual reporting period that begins after December 15, 2005. SFAS 123(R) requires that the costs resulting from all share-based payments transactions be recognized in the financial statements. SFAS 123(R) applied to all awards granted after the required effective date and shall not apply to awards granted in periods before the required effective date, except if prior awards are modified, repurchased, or cancelled after the effective date.

Going Concern

Our unaudited consolidated financial statements at and for the nine months ended September 30, 2007 reflect an accumulated deficit of ($33,101,148) and net operating losses of ($771,222). These conditions raise substantial doubt about our ability to continue as a going concern if we do not acquire sufficient additional funding or alternative sources of capital to meet our working capital needs. Without such external funding, we would have to materially curtail our operations and plans for expansion.

Cash and Cash Equivalents

We consider all highly liquid debt instruments, purchased with an original maturity at date of purchase of three months or less, to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates market value.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets, e.g. computers (5 years), software (3 years), office furniture and equipment (3 to7 years), and tenant improvements (life of the lease-approximately 60 months).

Inventory

Inventory consists of hardware, equipment and system networking materials that are primarily to be used for existing customer projects at years end. We generally do not buy or keep inventory on hand for stock. Inventories are stated at the lower of cost or market. Cost is determined by the average cost method at the Kelley subsidiary. We have reviewed our inventory for obsolescence on a quarterly basis since operations began and have written-off $529,097 at our Kelley subsidiary, for the year ended December 31, 2006, due to obsolescence.

Fair Value of Financial Instruments

Our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are carried at cost, which approximates their face value, due to the relatively short maturity of these instruments. As of September 30, 2007 and December 31, 2006, our notes payable have stated borrowing rates that are consistent with those currently available to us and, accordingly, we believe the carrying value of these debt instruments approximates their fair value.

Accounting for Impairments in Long-Lived Assets

Long-lived assets and identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of assets may not be recoverable. We periodically evaluate the carrying value and the economic useful life of our long-lived assets based on our operating performance and the expected future undiscounted cash flows and will adjust the carrying amount of assets which may not be recoverable. At September 30, 2007 and at December 31, 2006, we wrote down the carrying amounts of our Tuscany asset held for sale in the amount of $42,503 and $477,295, respectively.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and 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. Significant estimates made in preparing these financial statements include estimates that are required to be made in reporting revenue recognition (specifically, related to the estimated gross margins on long term construction contracts), the provision for the uncollectible accounts receivable, analysis of the value of goodwill, the issuance of derivative financial instruments such as convertible debt, stock options and warrants, the issuance of our common stock for services, and useful lives for depreciable and amortizable assets. Actual results could differ from those estimates.

The estimates that relate to the accounting for derivative financial instruments embedded in the Company s convertible debentures are made to be in conformity with EITF 00-19, whereby the Company is required to bifurcate the conversion feature of its convertible debentures from the debt hosts and account for the convertible feature as a derivative liability with changes in fair value being reported in the statement of operations. In addition, the warrants issued along with the convertible debentures are also required to be classified as derivative liabilities with changes in fair value being reported in the statement of operations as well. Effective June 30, 2006, all convertible debentures and associated warrants were retired.

Basic and Diluted Net Income (Loss) Per Share

Net income (loss) per share is calculated in accordance with the Statement of Financial Accounting Standards No. 128 (SFAS No. 128), Earnings per share . Basic net income (loss) per share is based upon the weighted average number of common shares outstanding. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potential common stock (including common stock equivalents) had all been issued, and if such additional common shares were dilutive. Under SFAS No. 128, when we incur a net loss, if the additional common shares are dilutive, they are not added to the denominator in the calculation.

The Company s significant components of common stock equivalents are its convertible debentures (which were retired effective June 30, 2006), warrants to purchase the Company s common stock and stock options.

Prior to the retirement of all convertible debentures effective June 30, 2006, the convertible debentures which could be exercised on any date subsequent to the issuance of the convertible debentures, would have had an anti-dilutive effect on the net income per common share once and if the holders elected to exchange the convertible debentures for shares of the Company s common stock. The number of common shares which could be exchanged by the Company for a full release of the obligation to repay the principal and interest balances associated with all convertible debentures could possibly have been based in part on the Company s price per common share as quoted on the OTC bulletin board on the date of conversion. Since the Company was not able to determine the price per common share of its common stock in the future, it did not believe it could reasonably determine the number of common shares to be issued pursuant to an exchange of its convertible debentures for common shares. Therefore, the Company could not accurately determine the number of common shares which could be exchanged by the Company that are related to the convertible debentures through June 30, 2006, at which time all convertible debentures were retired.

Stock options that have an anti-dilutive effect on the net income per common share once exercised to purchase 1,755,500 (at strike prices ranging from $.21 to $.79 per share) and 3,770,000 (at strike prices ranging from $.37 to $.79 per share) shares of common stock remained outstanding as of September 30, 2007 and September 30, 2006, respectively. These stock options have various vesting periods between two and three years from the date of grant.

Warrants that have an anti-dilutive effect on the net income per common share once exercised, to purchase 16,710,895 (at strike prices ranging from $.01 per share to $.85 per share) and 7,034,645 (at strike prices ranging from $.01 to $.85 per share) shares of common stock remained outstanding as of September 30, 2007 and September 30, 2006, respectively.

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2007 AS COMPARED TO THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2006, AS RESTATED

RESULTS OF OPERATIONS

SALES

Sales for the nine months ended September 30, 2007 were $5,032,524 compared to $15,919,577 for the nine months ended September 30, 2006. The decrease by 68.4% in sales for this period when compared to the same period last year is primarily due to approximately $8 million of sales attributed to a contract with Station Casinos, Inc., with no corresponding contract for the nine months ended September 30, 2007. In addition, many of the new business prospects we have been pursuing have either cancelled or delayed their construction projects in Las Vegas and as a result, we have experienced a decrease in sales.

COST OF GOODS SOLD

Cost of goods sold for the nine months ended September 30, 2007 were $3,534,071 compared to $12,805,115 for the nine months ended September 30, 2006. The decrease by 72.4% in cost of goods sold for this period when compared to the same period last year is primarily due to cost of goods sold related to the work performed on the $8 million Station Casino during the nine months ended September 30, 2006, with no corresponding contract for the nine months ended September 30, 2007 and a decrease in our sales as stated above.

GROSS PROFITS

Gross profits for the nine months ended September 30, 2007 were $1,498,454 or 29.8% compared to $3,114,462 or 19.6% for the nine months ended September 30, 2006. The increase in margin percentage is due to management s focus on improved contract pricing, better vendor terms and improved efficiencies in operating procedures related to servicing and delivering on our customer contracts. In addition, a greater percentage of the company s business is attributed to design contracts which on average carry gross margin of 50% as compared to building projects which currently receive 28% gross margin.

OPERATING EXPENSES

Operating expenses for the nine months ended September 30, 2007 amounted to $4,086,723 compared to $4,157,476 for the nine months ended September 30, 2006. The increase by 1.7% was primarily due to an increase in salaries from $1,698,215 for the nine months ended September 30, 2006 to $2,325,181 for the nine months ended September 30, 2007. While head count remained relatively constant for the two periods, salaries for our personnel directly related to customer jobs are included in cost of goods sold. Therefore as a result of our decrease in sales, we have lower personnel costs included in cost of goods sold, and more personnel costs included in operating expenses for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006. In addition, we have accrued approximately $200,000 of separation costs at September 30, 2007 related to the resignations of our Chief Executive Officer and Chief Financial Officer, of which $55,000 remains outstanding as of September 30, 2007. Additionally, investor relations costs decreased from $243,985 for the nine months ended September 30, 2006 to $181,777 for the nine months ended September 30, 2007. We also had decreases in other operating expenses from $2,215,276 for the nine months ended September 30, 2006 to $1,579,765 for the nine months ended September 30, 2007. Significant components of other operating expenses for the nine months ended September 30, 2007 included insurance of $386,490, bad debt expense of $130,523 due to write offs of uncollectible receivables resulting from the cancellation of a customer project, professional fees of $207,163 and rent of $138,274.

OTHER INCOME (EXPENSE)

Other income for the nine months ended September 30, 2007 was $1,817,048 compared to $(2,215,800) for the nine months ended September 30, 2006. The change in other income is primarily due to a decrease in interest expense from $1,419,690 for the nine months ended September 30, 2006 to $569,283 for the nine months ended September 30, 2007, which was a result of the debt restructurings that were completed the second and fourth quarters of 2006. The decrease in interest expense was partially offset by gain on the change in fair value of derivative liabilities of $2,598,028 for the nine months ended September 30, 2007, compared to $2,865,881 for the nine months ended September 30, 2006, primarily as a result of a continued decrease in the price of our common stock, loss on debt restructuring of $45,149 and impairment of assets held for sale of $28,401 for the nine months ended September 30, 2007 compared to gain on debt restructuring of $1,229,954 for the nine months ended September 30, 2006, and a loss on disposition of assets of $(298,799) for the nine months ended September 30, 2007.

NET (LOSS) INCOME

Net Loss for the nine months ended September 30, 2007 was ($771,222) compared to Net Income of $764,523 for the nine months ended September 30, 2006 due to the reasons set forth above in addition to a loss from discontinued operations for the nine months ended September 30, 2006 of ($408,263) compared to $0 for the nine months ended September 30, 2007.

BASIC AND DILUTED NET (LOSS) INCOME PER SHARE

Our basic net (loss) income per share for the nine months ended September 30, 2007 and September 30, 2006 was ($0.019) and $0.02, respectively as a result of our net loss for the nine months ended September 30, 2007 compared to our net income for the nine months ended September 30, 2006 and an increase in our weighted average shares outstanding from 35,837,851 for the nine months ended September 30, 2006 to 39,942,075 for the nine months ended September 30, 2007.

THREE MONTH PERIOD ENDED SEPTEMBER 30, 2007 AS COMPARED TO THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2006, AS RESTATED

RESULTS OF OPERATIONS

SALES

Sales for the three months ended September 30, 2007 were $2,239,018, a 46.4% decrease, as compared to $4,174,364 for the three months ended September 30, 2006 primarily as a result of the final sales that were recorded in the three months ended September 30, 2006 on an $8 million contract. In addition, many of the new business prospects we have been pursuing have either cancelled or delayed their construction projects in Las Vegas and as a result, we have experienced a decrease in our sales.

COST OF GOODS SOLD

Cost of goods sold for the three months ended September 30, 2007 were $1,651,929 compared to $3,165,793 for the three months ended September 30, 2006, or a 47.8% decrease, due to the comparable decrease in sales as stated above.

GROSS PROFITS

Gross profits for the three months ended September 30, 2007 were $587,089 or 26.2% compared to $1,008,571 or 24.23% for the three months ended September 30, 2006.

OPERATING EXPENSES

Operating expenses for the three months ended September 30, 2007 amounted to $887,093 compared to $1,278,994 for the three months ended September 30, 2006. The decrease of 30.6% was due to the effects of the corporate restructuring whereby salaries were decreased from $612,978 for the three months ended September 30, 2006, to $363,962 for the three months ended September 30, 2007. In addition, during the quarter we have paid down approximately $140,000 of the $200,000 of severance costs at June 30, 2007 related to the resignations of our Chief Executive Officer and Chief Financial Officer.

OTHER INCOME (EXPENSE)

Other expenses for the three months ended September 30, 2007 totaled $299,982 compared to $684,430 for the three months ended September 30, 2006. The decrease of 56% in other expenses is primarily due to a gain on debt restructuring in the amount of $14,102 for the three months ended September 30, 2007 compared to ($201,407) for the three months ended September 30, 2006, and a in the change in fair value of derivative instruments of ($100,866) compared to $(259,168) experienced in the third quarter ended September 30, 2006.

NET (LOSS) INCOME

Net loss for the three months ended September 30, 2007 was ($799,124) compared to ($954,853) for the three months ended September 30, 2006, or an increase by 47.7%.

BASIC AND DILUTED (LOSS) INCOME PER SHARE

Our basic loss per share for the three months ended September 30, 2007 was ($0.02) compared to basic loss per share of ($0.03) for the three months ended September 30, 2006 due to a net loss for the three months ended September 30, 2007 compared to net loss for the three months ended September 30, 2006, in addition to an increase in our weighted average number of shares outstanding from 29,180,914 for the three months ended September 30, 2006 to 42,636,991 for the three months ended September 30, 2007.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2007, our current assets were $2,026,134 and current liabilities were $3,474,271. Cash and cash equivalents were $39,855. Our stockholders deficit at September 30, 2007 was ($3,490,577). We had a net usage of cash from operating activities for the nine months ended September 30, 2007 and 2006 of ($3,961,455) and ($1,262,479), respectively. We had net cash used by investing activities for the nine months ended September 30, 2007 of ($364,851) and net cash used in investing activities of ($793,207) for the nine months ended September 30, 2006. We had net cash provided by financing activities of $1,031,541 and $1,997,518 for the nine months ended September 30, 2007 and 2006, respectively.

Historically, we have operated from a cash flow deficit funded by outside debt and equity capital raised including funds provided by Dutchess Private Equities, L.P., Dutchess Private Equities Fund II, L.P. and Preston Capital Partners, Inc. In 2006 and 2007, we raised $2,157,000 in gross proceeds through two separate private placement offerings with high net worth, accredited investors. Without the continued availability of external funding, we would have to materially curtail our operations and plans for expansion. Our plan to continue operations in relation to our going concern opinion is to continue to secure additional equity or debt capital although there can be no guarantee that we will be successful in our efforts.

FINANCING ACTIVITIES

On May 29, 2007, June 19, 2007, June 25, and July 2, 2007, we entered into factoring and security agreements to sell, transfer and assign certain accounts receivable to Dutchess in the amounts of $725,000, $214,000, $483,000 and $215,000, respectively. Dutchess is able to, in its sole discretion, purchase any specific account. All accounts sold are with recourse. All of our assets including accounts receivable, inventories, equipment and promissory notes are pledged as collateral under these agreements. The difference between the face amount of each purchased account and the amount advanced on the purchased account is reserved and released after deductions for discounts and charge backs. In addition, Dutchess charges finance fees in connection with these agreements and we have paid $15,000 in financing fees on these four transactions. At July 2, 2007, we owed approximately $577,000 to Dutchess, plus accrued interest, related to these factoring transactions and substantially all of our accounts receivable have been factored with Dutchess.

COMMITMENTS

During the year ended December 31, 2006, we entered into a capital lease obligation for warehouse equipment in the approximate amount of $25,000 with a five year term and interest rate of 6.6% per annum. We are obligated to make principal and interest payments in the approximate amount of $6,000 per annum for the life of the lease.

We entered into the following borrowing transactions in connection with our acquisition of Kelley:

Upon the acquisition of Kelley, we assumed $492,856 in various notes payable to Michael Kelley, who is now a member of our Board of Directors. At the time of the transaction, Michael Kelley was not affiliated with us. The notes payable carried interest at a fixed rate of 5.00%. These notes payable were refinanced on October 7, 2005 with a $492,856 note payable carrying interest at 6.00% and requiring 24 monthly payments of $17,412 in principal and interest through September 2007. The balance of $85,138 and $152,816, all of which is current, remained outstanding as of June 30, 2007 and December 31, 2006, respectively. As of September 30, 2007, the Company is four months in arrears with regard to payments due to Mr. Kelley, however, Mr. Kelley has waived any default under the agreement.

Upon the acquisition of Kelley, we assumed three notes payable to banks, secured by five automobiles, which bear interest at fixed rates of 6.25% per annum on one note and 5.75% per annum on the other two notes. Monthly principal and interest payments of $1,769 are payable through March 7, 2008 and $740 through May 2009. The balance of $34,780 remained outstanding as of December 31, 2006. The balance of $16,300 remained outstanding as of September 30, 2007.

Effective June 30, 2006, we entered into Amended and Restated Promissory Notes with Robert Unger, an unaffiliated individual, and James Michael Kelley, a member of our Board of Directors, which restated and replaced in their entireties, convertible debentures in the amount of $360,000 to Mr. Unger and $540,000 to Mr. Kelley, including retiring the conversion rights of the debentures and retiring all related warrants to purchase shares of our common stock. The principal amounts as amended are $317,500 and $476,250, respectively. Both promissory notes bear interest at 7% per annum. We were obligated to begin making payments on both promissory notes in January 2007 and both promissory notes are due in September 2008. We were obligated to make principal and interest payments in the aggregate amount of $300,000 for the 12 months ended December 31, 2007, and $588,357 for the 12 months ended December 31, 2008. On March 2, 2007, we entered into a Second Amended and Restated Promissory Note with Robert Unger, effective December 31, 2006, whereby we removed all debt service payments on the note until September 2008, at which time the note, plus all accrued interest in the total amount of $369,335 is due and payable. As of November 14, 2007, the Company is six months in arrears with regard to payments due to Mr. Kelley, however, Mr. Kelley has waived any default under the agreement.

The Amended and Restated Promissory Notes also provide:

- if prior to our full payment and satisfaction of the Amended and Restated Promissory Notes, we borrow monies or raise capital from the sale of our common stock in excess of $3,500,000 (after the payment of all financing fees and expenses), we are obligated to pay to Mr. Unger 20% and Mr. Kelley 30% of such excess up to the unpaid balance on the new promissory note within 10 days after receipt of such funds and if such funds are raised prior to when we are obligated to begin making payments, such obligation will be accelerated and will begin one month following such financing (Effective December 31, 2006, the Second Amendment and Restated Promissory Note with Robert Unger, increased this threshold to $4,000,000); and

- if at any time during which the Amended and Restated Promissory Notes remain unpaid, our earnings on a consolidated basis during any calendar year exceed $1,000,000 (before interest, taxes, depreciation and amortization, but after deducting of all principal and interest payments on outstanding debts, other than certain mandatory prepayments as discussed herein), we are obligated to pay to Mr. Unger 13% and Mr. Kelley 20% of the excess earnings, up to the unpaid balance of the new promissory note as a prepayment, within 10 business days of the filing of our Annual Report on Form 10-KSB.

Effective June 30, 2006, we entered into a Loan Restructure Agreement with Preston Capital Partners, LLC, the holder of convertible debentures in the aggregate amount of $375,000 with interest rates of 6% or 8% per annum, pursuant to which all convertible debentures were cancelled. In connection with the Loan Restructure Agreement, we issued Preston Capital Partners, LLC a promissory note in the principal amount of $375,000 with an interest rate of 7% per annum. We are obligated to make interest only payments in the amount of $2,000 per month from August 2006 through January 2008. Beginning in February 2008, we are obligated to make principal and interest payments in the amount of $8,000 per month until June of 2011. The new promissory note is due on July 1, 2011 with a balloon payment of $111,805 being due on that date.

In the event of a default on the new promissory note, Preston has the right to declare the full and unpaid balance of the new note due and payable, and enforce each of its rights under the aforementioned convertible debentures that have been retired, including conversion into shares of our common stock.

Effective June 30, 2006, we entered into a Loan Restructure Agreement and a Promissory Note in the face amount of $6,254,960 with Dutchess, whereby we cancelled 5,729,000 warrants and convertible debentures with a face amount of $7,300,000 and Dutchess forgave approximately $500,000 of accrued interest. The new promissory note was issued at a discount of approximately $178,000 and bears interest at 7% per annum and requires monthly principal and interest payments through July 1, 2011 when the note becomes due with a balloon payment of $1,460,642. Effective December 31, 2006, we entered into a Second Loan Restructure Agreement with Dutchess whereby we are obligated to make the following monthly principal and interest payments for the years ended December 31:

2007	$	300,000
2008		600,000
2009		900,000
2010		1,200,000
2011		1,500,000
January 1, 2012		3,817,859

Total	$	8,317,859

The Loan Restructure Agreement and the Second Loan Restructure Agreement also provides:

- that we must obtain written consent from Dutchess, not to be unreasonably withheld, in order to grant a lien or security interest in any of our assets and to borrow money or sell our common stock, which borrowing or sale either alone or aggregated during any six month period exceeds $250,000. The Second Loan Restructuring Agreement modified those terms to allow us to borrow money as we deems reasonable with no requirement for Dutchess consent;

- if prior to our full payment and satisfaction of the new promissory note, we borrow money or raise capital from the sale of our common stock in excess of $3,500,000 (after the payment of all financing fees and expenses), we are obligated to pay to Dutchess 50% of such excess up to the unpaid balance on the new promissory note within 10 days after receipt of such funds. The Second Loan Restructure Agreement changed the threshold for this repayment from $3,500,000 net proceeds to $4,000,000 in gross proceeds;

- if at any time during which the new promissory note remains unpaid, our earnings on a consolidated basis during any calendar year exceeds $1,000,000 (before interest, taxes, depreciation and amortization, but after deducting all principal and interest payments on outstanding debts, other than certain mandatory prepayments as discussed herein), we are obligated to pay Dutchess 33% of the excess earnings, up to the unpaid balance of the new promissory note as a prepayment, within 10 business days of the filing of our Annual Report on Form 10-KSB; and

- that we must obtain written consent of Dutchess, not to be unreasonably withheld, to sell any of our assets (other than the sales of inventory or other assets sold in the normal course of business) and in the event of an asset sale, we shall pay to Dutchess 33% of the proceeds of the asset sale, up to the unpaid principal balance as a prepayment on the new promissory note, within 10 business days after we receive the funds. The Second Loan Restructure Agreement excluded the sale of our broadband services system at Tuscany from the definition of an Asset Sale.

In the event of a default on the new promissory note, Dutchess has the right to declare the full and unpaid balance of the new note due and payable, and reinstate and enforce each of its rights under the aforementioned convertible debentures and warrants that have been retired, including conversion into and/or purchase of shares of our common stock. All other rights, representations and warranties would survive and be governed as agreed pursuant to the loan documents. In the event of a default, we would be obligated to issue to Dutchess stock and warrants for stock of the Company as provided in the loan agreements.

On July 2, 2007 and October 24, 2007, we entered into two factoring and security agreements to sell, transfer and assign certain accounts receivable to Dutchess in the amounts of $215,000 and $275,000, respectively. Dutchess is able to, in its sole discretion, purchase any specific account. All accounts sold are with recourse on seller. All of our assets including accounts receivable, inventories, equipment and promissory notes are pledged as collateral under these agreements. The difference between the face amount of each purchased account and advances on the purchased account would be reserved and would be released after deductions of discount and charge backs. In addition, Dutchess charges finance fees in connection with these agreements and we have paid $10,000 in financing fees on these two transactions. At November 11, 2007, we owed approximately $227,161 to Dutchess, plus accrued interest, related to these factoring transactions.

OTHER COMMITMENTS

On April 1, 2003, Kelley entered into a lease agreement with RMS Limited Partnership, for office and warehouse space located at 5625 South Arville Street, Las Vegas, Nevada. The lease term is for 66 months and ends on September 30, 2008. We acquired this obligation with the acquisition of Kelley. Rent expense for the three months ended September 30, 2007 amounted to approximately $48,000. Kelley is obligated to pay rent amounts as follows:

For the twelve months ended June 30,:	
2008	$ 160,000
2009	$ 30,000

Kelley may extend the lease for two additional terms of three years from October 1, 2008 to September 30, 2011 and from October 1, 2011 to September 30, 2014, at a 4% annual increase in rent.

The Company is obligated to pay $120,000 at $10,000 per month, for the years ended December 31, 2007, through December 31, 2010 related to an exclusive five year reseller agreement with Simplikate, a software company, dated December 30, 2005.

Payroll tax liabilities of $134,142 are payable at June 30, 2007. These liabilities arose at Network and COM during 2003 and 2004. We have been and remain current on all payroll tax liabilities since then. On July 27, 2006, the Internal Revenue Service approved a payment plan presented by us whereby we are obligated to pay $15,000 per month through May 2008 and $25,000 per month from May 2008 until the balance is paid in full. Interest and penalties will continue to accrue until the balance is paid in full.

Effective April 2007, Kelley sold 50% of its ownership interest in Tuscany. Kelley, along with its joint venture partner in Tuscany are obligated to complete the design and build-out of the cable television and internet system to approximately 2,000 homeowners in the Tuscany development located in Henderson, Nevada. We anticipate that it will cost the joint venture an additional $75,000 approximately, to complete the design and build-out of these systems. In addition, we anticipate additional costs once the systems are designed and built, in order to install the systems into the residential homes. The joint venture has various service agreements related to this project for programming, bandwidth, equipment co-location and storage, and administrative services, that range from three to ten years in duration. The minimum monthly obligations on these contracts amount to approximately $8,000 per month, once all services are activated. In addition, there are additional amounts due on certain of these service contracts that are directly related to the number of subscribers that we provide services to. Kelley is responsible for 50% of all of the expenditures related to this joint venture.

In March 2006, Lisa Cox sued Kelley, Mr. Kelley personally and us, claiming damages related to promises she alleges were made to her husband, prior to her husband s death. The alleged promises made resulted from business transactions with Kelley and/or its affiliates and/or subsidiaries, prior to our acquisition of Kelley. The suit was filed in Clark County, Nevada. This suit was settled on February 26, 2007, (effective January 31, 2007) whereby we agreed to pay $90,000 to Mrs. Cox and to issue 280,000 restricted shares or our common stock to her as well. We paid $30,000 to Mrs. Cox at settlement and we are obligated to pay her $15,000 per year for the next four years on January 31, 2008, 2009, 2010 and 2011. We issued 280,000 restricted shares of our common stock on February 26, 2007. The shares are restricted as follows: 100,000 shares are restricted for 12 months. The restrictions on the remaining 180,000 shares are removed in 15,000 share increments on a monthly basis during months 13 to 24 from settlement.

On April 25, 2007, we received a summons and were sued by a company to pay them certain amounts of the profits we may generate in the future related to our contracts that we are currently performing on related to the One Las Vegas project. That company is claiming that we entered into a Joint Venture with them, however, there are no signed term sheets or contracts, nor have term sheets or contracts ever been drafted. The company is basing its request on verbal and email communications we had with them. The plaintiff claims that Kelley breached the joint venture agreement and usurped the opportunity for its own benefit, usurped the joint venture s opportunity, made false representations with intent to defraud, detrimental reliance, breach of good faith and fair dealing, interference with plaintiff s contract with the customer, unjust enrichment, declaratory relief to establish the joint venture and injunctive relief requiring Kelley to transfer the agreement with One Las Vegas to the joint venture. We filed an Answer and

Affirmative Defenses on behalf of Kelley on May 24, 2007 denying all of the claims. The plaintiff filed a Request for Exemption from Arbitration and we subsequently filed an opposition; however, we received the Order from the Arbitration Commissioner granting plaintiff s Request to Exempt this case from Arbitration. The overall exposure of this litigation is difficult to determine at this point in time. We intend to defend this action vigorously.

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MATERIAL TRENDS AND UNCERTAINTIES

During the second quarter of 2007 we accepted the resignations of our Chief Executive Officer and our Chief Financial Officer. We have hired an Interim Chief Executive Officer to assist us in our period of transition. While the second quarter of 2007 showed revenue growth when compared to the first quarter of 2007, we continue to face cash flow shortages resulting from successive quarters marked by a continued decrease in new business contracts and opportunities. The slow down in sales can be attributed to a confluence of factors. For example, our sales cycle can take as long as six to twelve months, or sometimes longer, for the large dollar value construction contracts on which we bid. Historically, Kelley has not had a formal sales staff and has relied upon existing relationships, word of mouth and in-bound requests for proposals to generate its sales. Many factors have changed in the gaming and real estate industries in Las Vegas, which has resulted in fewer and fewer relationship sales, and word of mouth and inbound sales opportunities. In addition, many of the projects on which we have been actively bidding, have been cancelled, put on hold, or delayed, particularly in the Las Vegas market.

During the second quarter of 2007 and into July 2007, we had to rely on factoring our receivables with Dutchess, a related party, in order to meet our obligations as they came due. While we continue to seek permanent financing solutions, we have not successfully consummated any permanent financing transactions that will provide us with the requisite cash to meet our needs and obligations. Our remaining accounts receivable that are not factored, are not sufficient to meet our cash needs even if we were to factor them. As a result, the new management team is working on a new operating plan that will entail a multiple approach solution, however, the formal operating plans have not yet been finalized. Some of the strategies that management is currently considering are as follows; a) streamlining the operations at Kelley to focus on core business competencies of design and build of low voltage systems for commercial buildings in the hospitality, gaming and MDU marketplaces, b) leveraging its existing technologies including its Patent Pending Race & Sports Book platform and certain exclusive rights to sell Techchierge™ and finding new ways to monetize these assets into higher margin, recurring revenue types of opportunities, c) reduction of head count resulting from an exit of non core businesses and related reductions in general and administrative costs, and d) sale of non core business assets, such as our contracts to provide cable, internet and voice services at Tuscany (our remaining 50% interest in Tuscany Services LLC) and One Las Vegas, which will result in cash infusions into the Company and reductions in capital requirements for these contracts, while reducing our overhead costs by eliminating of the head count associated with these assets, and allowing Kelley a small profit participation percentage in the future based on the performance of these assets. In addition, we are in conversations with Dutchess about permanent financing solutions in the form of debt and or equity, however no agreement has been reached at this time. There can be no assurance that management s new operating plan will be executed timely enough to solve the challenges we face, nor can there be any assurances that the new operating plan will be successful, if implemented timely. We cannot accurately predict the impact these new plans will have on our relationships with our remaining employees, our customers or our vendors and we cannot predict if we will successfully raise the additional capital that we need to continue to move forward and execute on the new strategies outlined above.

Should our cash flow shortfalls continue, and should we be unsuccessful in raising capital, it will have an adverse impact on our relationships with our vendors and may impact our ability to service our clients and deliver our projects on time and on budget, which will have an adverse impact on our financial condition and results of operations. While we are actively assessing our cash flow needs and pursuing certain avenues of financing and cash flow generation, there can be no assurance that our activities will be successful. If our fundraising efforts are not successful, it is likely that we will not be able to meet our obligations as they come due and we will then seek to scale back operations, including further reductions in head count in addition to those already being discussed and other general and administrative expenses, which may have a detrimental impact on our ability to continue as a going concern.

Additionally, if our fundraising efforts are unsuccessful, we may default under the terms of all of our loan agreements. If we default under the terms of our loan agreements with Dutchess, James Michael Kelley or Robert Unger, the other party to such agreement has the right to reinstate the previous terms of our loans with that party prior to the debt restructuring. Therefore, if we default under the terms of our Debt Restructuring agreements with Dutchess, James Michael Kelley or Robert Unger, the 5,954,000 warrants that were cancelled will be reissued, which, if exercised could cause substantial dilution to our other shareholders. Additionally, our Loan Restructure Agreement with Dutchess and our Loan Restructure Agreement with Preston cancelled an aggregate of $7,675,000 face amount of convertible debentures that had been issued to Dutchess and Preston. If we default under the terms of these Debt Restructuring agreements, the other party to such agreement has the right to reinstate the terms of our loans with that party prior to the Debt Restructuring. Therefore, if we default under our Debt Restructuring agreements with Dutchess or Preston, the convertible debentures could be reissued, which could create substantial dilution to our shareholders.

It is our intention to continue to focus our sales and marketing efforts on our core competencies in the design and build of low voltage systems and deploy our expertise in hi-end design, build and project management for our hotel and casino customers, our high rise MDU customers as well as other commercial and residential buildings that are using smart building technologies similar to those that we provide. In addition, we will continue to focus our sales efforts on exploiting our exclusive rights to sell Techcierge™, a building amenity and management software and our reseller rights to sell building security hardware and software to building owners, developers and management companies. However, there can be no assurance that we will be successful in our sales efforts, nor can there be any assurance given that even if we are successful in attracting new customers, that we will be able to finance our short term capital needs or that we will be able to deliver our services with sufficient gross margins and profits.

SUBSIDIARIES

As of June 30, 2007, we had three wholly owned subsidiaries, Kelley Communication Company, Inc., Com Services, Inc. and Network Installation Corporation. Com Services, Inc. and Network Installation Corporation have both been discontinued, and Kelley Communication Company, Inc. remains our only active operating subsidiary.

ITEM 3. CONTROLS AND PROCEDURES.

As of July 6, 2007, an evaluation was performed under the supervision and with the participation of our management, including the individuals serving as both our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934) which existed as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our disclosure controls and procedures include components of our internal control over financial reporting. Management s assessment of the effectiveness of our internal control over financial reporting is expressed at the level of reasonable assurance that the control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system s objectives will be met.

There was no change in our internal controls, which are included within disclosure controls and procedures, during our most recently completed fiscal year that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

In March 2006, Lisa Cox sued Kelley, Mr. Kelley personally and us, claiming damages related to promises she alleges were made to her husband, prior to her husband s death. The alleged promises made resulted from business transactions with Kelley and/or its affiliates and/or subsidiaries, prior to our acquisition of Kelley. The suit was filed in Clark County, Nevada. This suit was settled on February 26, 2007, (effective January 31, 2007) whereby we agreed to pay $90,000 to Mrs. Cox and to issue 280,000 restricted shares of our common stock to her as well. We paid $30,000 to Mrs. Cox at settlement and we are obligated to pay her $15,000 per year for the next four years on January 31, 2008, 2009, 2010 and 2011. We issued 280,000 restricted shares of our common stock on February 26, 2007.

The shares are restricted as follows; 100,000 shares are restricted for 12 months. The restrictions on the remaining 180,000 shares are removed in 15,000 share increments on a monthly basis during months 13 to 24 from settlement.

On April 25, 2007, we received a summons and were sued by a company to pay them certain amounts of the profits we may generate in the future related to our contracts that we are currently performing on related to the One Las Vegas project. That company is claiming that we entered into a Joint Venture with them, however, there are no signed term sheets or contracts, nor have term sheets or contracts ever been drafted. The company is basing its request on verbal and email communications we had with them. The plaintiff claims that Kelley breached the joint venture agreement and usurped the opportunity for its own benefit, usurped the joint venture s opportunity, made false representations with intent to defraud, detrimental reliance, breach of good faith and fair dealing, interference with plaintiff s contract with the customer, unjust enrichment, declaratory relief to establish the joint venture and injunctive relief requiring Kelley to transfer the agreement with One Las Vegas to the joint venture. We filed an Answer and Affirmative Defenses on behalf of Kelley on May 24, 2007 denying all of the claims. The plaintiff filed a Request for Exemption from Arbitration and we subsequently filed an opposition; however, we received the Order from the Arbitration Commissioner granting plaintiff s Request to Exempt this case from Arbitration. The overall exposure of this litigation is difficult to determine at this point in time. We intend to defend this action vigorously.

We may be involved in litigation, negotiation and settlement matters that may occur in our day-to-day operations. Management does not believe the implication of this type of litigation will, including those discussed above, have a material impact on our financial statements.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On May 29, June 19, June 22 and July 2, 2007, we entered into four separate Factoring and Security Agreements (the Agreements) in the amounts of $725,000, $214,000, $483,000 and $215,000, respectively, which permit Dutchess to convert the remaining amount owed by the Company under the Agreements into a Convertible Debenture upon an event of default by the Company. The Convertible Debenture will be convertible into shares of the Company s common stock at the lesser of (i) fifty percent (50%) of the lowest closing bid price of the Company s common stock during the fifteen (15) trading days immediately preceding the date of conversion or (ii) 100% of the lowest bid price for the twenty (20) trading days immediately preceding the conversion. The $725,000 and the $214,000 borrowings plus accrued interest were paid in full on June 23, 2007. As of July 3, 2007, we owe Dutchess approximately $577,000 on the $483,000 and $215,000 borrowings, plus accrued interest.

The Agreements were issued relying upon the exemption from registration provided by Section 4(2) of the Securities Act for transactions by the issuer not involving a public offering, in transactions that fell within the safe harbor provided by Rule 506 of Regulation D of the Securities Act of 1933, as amended (the 4(2) Exemption). If the

Convertible Debenture is issued, it will be issued pursuant to the 4(2) Exemption. Unless the shares of common stock issuable upon exercise of the Convertible Debenture have been registered with the Securities and Exchange Commission prior to their issuance, such shares will also be issued in transactions by the issuer not involving a public offering, in reliance upon the exemption from registration provided by the 4(2) Exemption.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

As of July 6, 2007, we are two months in arrears on each of the two loans that are due and payable to Mr. Kelley, a member of our Board of Directors, however, Mr. Kelley has waived any event of default on both of these loans. Please refer to the Commitments section of Management s Discussion and Analysis or Plan of Operation above for further information.

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

NONE.

ITEM 5. OTHER INFORMATION.

NONE.

ITEM 6. EXHIBITS.

Exhibits.

No	**Description**
10.1	Factoring and Security Agreement dated July 2, 2007 between the Company and Dutchess Private Equities Fund, Ltd. (incorporated by reference to Exhibit 10.20 of the Company s Form 8-K filed July 6, 2007).
10.2	Promissory Note issued by the Company to Dutchess Private Equities Find, Ltd., dated July 11, 2007 (incorporated by reference to Exhibit 10.1 of the Company s Form 8-K filed July 16, 2007).
10.3	Agreement between the Company and Dutchess Private Equities Find, Ltd., dated July 17, 2007 (incorporated by reference to Exhibit 10.1 of the Company s Form 8-K filed August 1, 2007).
10.4	Addendum to Note between the Company and Dutchess Private Equities Fund, Ltd., dated July 17, 2007 (incorporated by reference to Exhibit 10.2 of the Company s Form 8-K filed August 1, 2007).
10.5	Amended and Restated Security Agreement between the Company and Dutchess Private Equities Fund, Ltd., dated July 17, 2007 (incorporated by reference to Exhibit 10.3 of the Company s Form 8-K filed August 1, 2007)..
10.6	Warrant No. July 2007 101 issued by the Company to Dutchess Private Equities Fund, Ltd., dated July 17, 2007 (incorporated by reference to Exhibit 10.4 of the Company s Form 8-K filed August 1, 2007).
10.7	

	Negative Pledge, dated July 17, 2007 (incorporated by reference to Exhibit 10.5 of the Company s Form 8-K filed August 1, 2007).
31.1	Certification of the Interim Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certification of Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SIENA TECHNOLOGIES, INC.
(Registrant)

Date: November 19, 2007	By	/s/ Anthony Delise
		Anthony Delise Interim Chief Executive Officer (Principal Accounting Officer)

INDEX TO EXHIBITS

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