HEROES INC
Form 10QSB
November 19, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

OR

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

For the transition period from _________ to ___________

Commission File No. 0-12597

HEROES, INC.
(Exact name of registrant as specified in its charter)

Nevada	11-1843262
(State of Incorporation)	(I.R.S. Employer Identification No.)

1915 - B Chain Bridge Road, Suite 506, McLean, Virginia 22102
(Address of principal executive offices)

(703) 627-4479
(Registrant's telephone number, including area code)

1980 Gallows Road, Suite 200, Vienna, Virginia 22182
(Former name, former address and former fiscal year, if changed since last report)

Check whether the registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by court. Yes[ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, $0.001 par value per share, 99,213,109 shares issued and outstanding as of September 30, 2002.

Transitional Small Business Disclosure Format (check one):
YES [ ] NO [X]

HEROES, INC.

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PART I

FORWARD-LOOKING STATEMENTS

Certain statements contained in this filing are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements relating to financial results and plans for future business development activities, and are thus prospective. These statements appear in a number of places in this Form 10-QSB and include all statements that are not statements of historical fact regarding intent, belief or our current expectations, with respect to, among other things: (i) our financing plans; (ii) trends affecting our financial condition or results of operations; (iii) our growth strategy and operating strategy; and (iv) the declaration and payment of dividends. The words "may," "would," "could," "will," "expect," "estimate," "anticipate," "believe," "intend," "plans," and similar expressions and variations thereof are intended to identify forward-looking statements.

Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, many of which are beyond our ability to control. Actual results may differ materially from those projected in the forward-looking statements as a result of various factors. Among the key risks, assumptions and factors that may affect operating results, performance and financial condition are changes in technology, fluctuations in our quarterly results, ability to continue and manage our growth, liquidity and other capital resources issues, competition and the other factors discussed in detail in our filings with the Securities and Exchange Commission.

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HEROES, INC.

BALANCE SHEET
AS OF SEPTEMBER 30, 2002
(Unaudited)

ASSETS	
CURRENT ASSETS - Cash	$ 41
OTHER ASSETS	100
Total Assets	$ 141
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 7,555,659
Line of credit, including accrued interest	3,929,912
Notes payable, including accrued interest - related party	1,171,440
Notes payable, including accrued interest	192,590
Accrued compensation	767,328
Deferred maintenance and training revenue	415,997
Total Current Liabilities	14,032,926
STOCKHOLDERS' DEFICIT:	
Common stock, 500 million shares authorized; $.001 par value, 99,213,109 shares issued and outstanding	99,213
Paid-in capital	6,166,833
Accumulated deficit	(20,298,831)
Total Stockholders' Deficit	(14,032,785)
Total Liabilities and Stockholders' Deficit	$ 141

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See notes to financial statements.

HEROES, INC.

STATEMENTS OF OPERATIONS
(Unaudited)

	For the Nine-Months Ended September 30, 2002	For the Nine-Months Ended September 30, 2001	For the Three-Months Ended September 30, 2002	
Revenue	$ -	$ -	$ -	$
Direct Costs	-	55,291	-	
Gross Margin	-	(55,291)	-	
Other Operating Expenses:				
Consulting fees	24,000	704,933	24,000	
Interest	356,687	-	113,636	
Insurance	-	-	-	
Legal and accounting	37,026	-	5,699	
Payroll taxes	39,833	-	26,188	
Salaries and wages	322,500	1,296,472	107,500	
Other operating expenses	1,601	1,527,954	284	
Total other operating expenses	781,647	3,529,359	277,307	
LOSS BEFORE PROVISION FOR INCOME TAXES	(781,647)	(3,584,650)	(277,307)	
PROVISION FOR INCOME TAXES	-	-	-	
NET LOSS	$ (781,647)	$ (3,584,650)	$ (277,307)	$
NET LOSS PER SHARE - basic and diluted	$ (.008)	$ (0.06)	$ (.003)	$
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - basic and diluted	99,213,100	64,032,000	99,213,100	

See notes to financial statements.

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HEROES, INC.

STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine-Months Ended September 30, 2002	For the Nine-Months Ended Septemb 30, 2001
Net Loss	$ (781,647)	$ (3,584,650)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	-	6,300
Forfeited security deposit	-	46,572
Issuance of common stock for services	-	602,196
Changes in operating assets and liabilities:		
Decrease in other receivables	-	9,549
Increase in employee advances	-	(11,786)
Decrease in prepaid maintenance costs	-	464,164
Increase in bank overdraft	-	204
Increase in accounts payable and accrued expenses	18,940	488,509
Increase in line of credit accrued interest	265,671	462,147
Increase in note payable accrued interest	91,016	22,103
Decrease in employee accounts payable	-	(3,693)
Increase in accrued compensation	362,333	190,777
Decrease in deferred maintenance and training revenues	-	(415,997)
NET CASH USED IN OPERATING ACTIVITIES	(43,687)	(1,723,605)
CASH FLOWS FROM INVESTING ACTIVITIES - Acquisition of equipment	-	(332,455)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	43,728	1,155,792
Proceeds from issuance of common stock	-	830,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	43,728	1,985,792
NET CHANGE IN CASH AND CASH EQUIVALENTS	41	(70,268)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-	70,268
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 41	$ -

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	$ -	$ -
Interest paid	$ -	$ -

See notes to financial statements.

HEROES, INC.

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

NOTE A - FORMATION AND OPERATIONS OF THE COMPANY

Heroes, Inc. ("we", "us", "our"), formerly known as Penn-Akron Corporation (Penn-Akron), was in the business of providing turnkey installations of an internet-based video distribution and multimedia network to school districts primarily in metropolitan Atlanta, Savannah and Brunswick, Georgia. On December 7, 2000, we changed our name from Penn-Akron Corporation to Heroes, Inc.

Use of Estimates

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

Basis of Presentation

Our accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-QSB and Rule 10-1 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Accordingly, these financial statements do not include all of the footnotes required by accounting principles generally accepted in the United States of America. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2002 are not necessarily indicative of the results for the year ending December 31, 2002. The accompanying financial statements and notes thereto should be read in conjunction with our audited financial statements as and for the year ended December 31, 2001 contained in our Form 10-KSB.

NOTE B - GOING CONCERN

On December 4, 2001, we filed for protection under Chapter 11 of the Bankruptcy Code. The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We have an accumulated stockholders' deficit of approximately $14,033,000 through September 30, 2002, and anticipate incurring net losses for the foreseeable future and will require a significant amount of capital to commence our planned principal operations and proceed with our business plan. Accordingly, our ability to continue as a going concern is dependent upon our ability to secure an adequate amount of capital, through either additional equity funding or loans with appropriate repayment terms, to finance our planned principal operations and/or implement the business plan which we are currently developing. Our major plan is to devote appropriate resources to obtain a quick and favorable resolution of the matters related to our MRESAnet 2000 Project. We recognize that additional working capital will be required for us to be successful in achieving these goals. These factors, among others, may indicate that we will be unable to continue as a going concern for a reasonable period of time.

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

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

Liquidity And Capital Resources

On December 4, 2001, we filed for protection under chapter 11 of the Bankruptcy Code.

As of September 30, 2002, we had cash of $41, a working capital deficit and stockholders deficit of approximately $14,033,000. These deficits continue to increase while we develop and market our products. Our continuation as a going concern is dependent upon our ability to obtain additional working capital. If adequate financing is not available or is not available on acceptable terms, our ability to meet our capital requirements may be significantly limited and could have a material adverse effect on us and ultimately could impair our ability to continue as a going concern.

Results of Operations

We did not have any revenues for the three-month or nine-month periods ended September 30, 2002 and 2001. This is primarily due to the fact that no additional work has been performed in Year 2 and 3 of our three-year contract with the Metropolitan Regional Educational Service Agency ("MRESA").

Other operating expenses decreased to approximately $277,000 for the three months ending September 30, 2002 from approximately $505,000 for the same period in 2001 and to approximately $782,000 for the nine-month period ending September 30, 2002 from approximately $3,529,000 for the same period in 2001. Our salary expense decreased to approximately $108,000 for the three months ending September 30, 2002 from approximately $244,000 for the same period in 2001 and to approximately $323,000 for the nine-month period ending September 30, 2002 from approximately $1,296,000 for the same period in 2001, primarily due to the reduction of operations.

ITEM 3.

Controls and Procedures

Within 90 days prior to the filing of this report, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer (who also effectively serves as our Principal Financial Officer), of the design and operation of our disclosure controls and procedures. Based on this evaluation, or Chief Executive Officer concluded that our disclosure controls and procedures are effective for the gathering, analyzing and disclosing the information we are required to disclose in the reports we file under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of this evaluation.

PART II

Item 1. Legal Proceedings.

Lynxus, Inc. v. Penn-Akron Corporation n/k/a Heroes, Inc. On September 7, 2000, one of our subcontractors, Lynxus, Inc., filed suit against us in the United States District Court for the Northern District of Georgia. The claim arises out of a network implementation agreement between us and Metropolitan Regional Education Services Agency ("MRESA"). We are the general contractor under the agreement, and Lynxus agreed to act as a subcontractor on the project. Lynxus claims that we have breached the subcontract, that Lynxus has performed work under the contract, and that Lynxus is entitled to approximately $483,000 plus interest.

We have denied liability and have asserted a counterclaim for the damages we have suffered as a result of breach of the subcontract by Lynxus. We believe our damages exceed $2.8 million.

In the early stages of this litigation, Lynxus filed a bankruptcy petition in the United States Bankruptcy Court for the Northern District of Georgia, thereby staying action in the lawsuit.

Maurice Delamont v. Penn-Akron Corporation n/k/a Heroes, Inc. On August 24, 2000, Maurice Delamont, one of our former employees, filed two related actions in state courts in Cobb and Fulton Counties, Georgia. The two actions have been consolidated and are pending as a single arbitration proceeding. Mr. Delamont claims that we owe him $1,050,000 arising out of (i) a right to redemption of his stock in the Company, and (ii) a bonus. He also seeks access to certain books and records of the Company. We have asserted a counterclaim against Mr. Delamont, claiming that he breached his fiduciary duty and his employment agreement with us. We maintain that our damages for Mr. Delamont's actions are a defense to his claims and that its actual damages exceed the amount of Mr. Delamont's claims.

On November 13, 2000, we entered into a consent scheduling order with the Plaintiff, which, among other things, ordered the action to be decided by binding arbitration. Mr. Delamont filed a motion for summary judgment on June 15, 2001. On August 14, 2001, the Arbitrator denied the motion as untimely.

In August 2001, Mr. Delamont filed a motion to enforce settlement agreement or for the entry of a summary judgment in the State Court of Cobb County. On, November 9, 2001, the Court denied the motions. Based on oral arguments heard on

September 17, 2001, the Court found that Mr. Delamont had failed to establish as a matter of law that there was an enforceable settlement. The Court also found that Mr. Delamont had failed to provide evidence that is sufficient to allow the court to grant summary judgment. Due to our Chapter 11 petition filing on December 4, 2001, action on this lawsuit has been stayed.

Heroes, Inc. v. Sanswire.Net. We are the plaintiff in an action against Sanswire.Net in the Superior Court of Fulton County, Georgia. We filed the lawsuit in March 2001, seeking to recover $200,000 in principal, together with accrued interest and attorneys' fees, under the terms of a promissory note. The promissory note was executed by Sanswire.Net on March 1, 2000.

Mastermind, Inc. v Heroes, Inc. On May 31, 2001, Mastermind Marketing filed a civil action in the State Court of Fulton County, Georgia. On September 19, 2001 Mastermind Marketing was awarded a default judgment in the amount of $169,246.41, including interest, for the preparation of presentations, marketing strategies, and other promotional programs and delivered intellectual property and other products, services and expenses. We are currently evaluating whether to appeal this judgment.

Item 2. Changes in Securities.

NONE

Item 3. Defaults upon Senior Securities.

NONE

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

NONE

Item 5. Other Information.

NONE

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

Exhibit 99.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

NONE

SIGNATURE

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

Heroes, Inc.

By:/s/ Amer A. Mardam-Bey

Amer A. Mardam-Bey
(President, CEO & Chief Accounting Officer)
Date: November 19, 2002

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CERTIFICATION

I, Amer A. Mardam-Bey, certify that:

1. I have reviewed this quarterly report on Form 10QSB of Heroes, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this quarterly report.

4. I am responsible for establishing and maintaining disclosure controls and procedures for the issuer and have:

(i) Designed such disclosure controls and procedures to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the periodic reports are being prepared;

(ii) Evaluated the effectiveness of the issuer's disclosure controls and procedures as of September 30, 2002 ("Evaluation Date");

(iii) Presented in the report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. I have disclosed, based on our most recent evaluation, to the issuer's auditors and the audit committee of the board of directors (or persons fulfilling the equivalent function):

(i) All significant deficiencies in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize and report financial data and have identified for the issuer's auditors any material weaknesses in internal controls;

(ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls;

(6) I have indicated in the report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 19, 2002

/s/ *Amer A. Mardam-Bey*
Amer A. Mardam-Bey
Chief Financial Officer and CEO