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GENESIS TECHNOLOGY GROUP INC
Form 10QSB
February 21, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended December 31, 2005

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

For the transition period from _____ to _____

Commission file number: 333-86347

GENESIS TECHNOLOGY GROUP, INC.

(Exact name of registrant as specified in its charter)

FLORIDA

(State or other jurisdiction of
incorporation or organization)

65-1130026

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

7900 GLADES ROAD, SUITE 420
BOCA RATON, FLORIDA 33434

(Address of principal executive offices)

(561) 988-9880

(Registrant'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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: At February 15, 2006, there were 71,496,966 outstanding shares of common stock, \$.001 par value per share.

Transitional Small Business Disclosure Format (Check one): Yes No

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities and Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, as amended. These forward-looking statements are subject to risks and uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. You should not unduly rely on these statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "project," "contemplate," "would," "should," "could," or "may." With respect to any forward-looking statement that includes a statement of its underlying assumptions or bases, we believe such assumptions or bases to be reasonable and have formed them in good faith, assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material depending on the circumstances. When, in any forward-looking statement, we express an expectation or belief as to future results, that expectation or belief is expressed in good faith and is believed to have a reasonable basis, but there can be no assurance that the stated expectation or belief will result or be achieved or accomplished. All subsequent written and oral forward-looking statements attributable to us, or anyone acting on our behalf, are expressly qualified in their entirety by the cautionary statements.

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
FORM 10-QSB
QUARTERLY PERIOD ENDED DECEMBER 31, 2005
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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 2005
(Unaudited)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 36,315
Marketable equity securities, at market	178,867
Assets from discontinued operations	1,019,974

Total Current Assets	1,235,156
----------------------------	-----------

PROPERTY AND EQUIPMENT - Net	21,764
------------------------------------	--------

OTHER ASSETS:

Other assets	67,161

Total Assets	\$ 1,324,081
	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable and accrued expenses	\$ 62,825
Deferred revenue	8,333
Liabilities of discontinued operations	951,550

Total Current Liabilities	1,022,708

MINORITY INTEREST	10,053

SHAREHOLDERS' EQUITY:

Preferred stock (\$.001 Par Value; 20,000,000 Shares Authorized)	
Convertible preferred stock Series A (\$.001 Par Value; 218,000 Shares Authorized; 85,900 shares issued and outstanding)	86
Common stock (\$.001 Par Value; 200,000,000 Shares Authorized; 70,490,097 shares issued and outstanding)	70,490
Additional paid-in capital	20,158,311

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Accumulated deficit	(19,613,044)
Less: Deferred compensation	(146,041)
Less: Subscription receivable	(15,840)
Accumulated other comprehensive loss	(162,642)

Total Shareholders' Equity	291,320

Total Liabilities and Shareholders' Equity	\$ 1,324,081
	=====

See notes to consolidated financial statements

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended December 31,	
	2005 ----- (Unaudited)	2004 ----- (Unaudited)
NET REVENUES	\$ 5,000	\$ 122,767
	-----	-----
OPERATING EXPENSES:		
Consulting	-	35,530
Salaries and non-cash compensation	194,162	496,818
Severance expense	-	332,533
Selling, general and administrative	77,080	301,110
	-----	-----
Total Operating Expenses	271,242	1,165,991
	-----	-----
LOSS FROM OPERATIONS	(266,242)	(1,043,224)
	-----	-----
OTHER INCOME:		
Gain from sale of marketable securities	40,457	-
Interest income	38	2,909
	-----	-----
Total Other Income	40,495	2,909
	-----	-----
LOSS BEFORE DISCONTINUED OPERATIONS	(225,747)	(1,040,315)
	-----	-----
DISCONTINUED OPERATIONS:		
Gain (loss) from discontinued operations	2,624	(104,401)
	-----	-----
NET LOSS	\$ (223,123)	\$ (1,144,716)
	=====	=====

BASIC AND DILUTED LOSS PER COMMON SHARE:

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Loss from continuing operations	\$ (0.00)	\$ (0.02)
Loss from discontinued operations	0.00	(0.00)
	-----	-----
Net loss per common share	\$ (0.00)	\$ (0.02)
	=====	=====
Weighted Common Shares Outstanding - Basic and Diluted	69,765,010	56,457,293
	=====	=====

See notes to consolidated financial statements

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GENESIS TECHNOLOGY GROUP, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended December 31,	
	2005	2004
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss from continuing operations	\$ (225,747)	\$ (1,040,315)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,792	2,506
Gain on sale of marketable securities	(40,457)	-
Common stock issued and forgiveness of subscription for severance	-	88,125
Severance expense	-	121,608
Stock-based compensation and consulting	193,792	340,577
Marketable securities received for services	-	(114,000)
Marketable securities distributed for settlement	-	22,800
Changes in assets and liabilities:		
Prepaid and other current assets	-	20,706
Other assets	4,249	-
Accounts payable and accrued expenses	8,649	(72,248)
Deferred revenue	(5,000)	(12,500)
	-----	-----
Net cash used in continuing operations activities	(62,722)	(642,741)
	-----	-----
Gain (loss) from discontinued operations	2,624	(104,401)
Adjustments to reconcile gain (loss) from discontinued operations to net cash used in discontinued operating activities:		
Net (increase) decrease in assets of discontinued operations	311,913	(320,345)
Net decrease in liabilities of discontinued operations	(315,705)	(78,400)
	-----	-----
Net cash used in discontinued operations	(1,168)	(503,146)
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(63,890)	(1,145,887)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities	81,151	-
	-----	-----

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NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	81,151	-
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	-	20,983
	-----	-----
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	-	20,983
	-----	-----
EFFECT OF EXCHANGE RATE CHANGES IN CASH	1,167	-
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18,428	(1,124,904)
CASH AND CASH EQUIVALENTS - beginning of year	17,887	1,436,188
	-----	-----
CASH AND CASH EQUIVALENTS - end of period	\$ 36,315	\$ 311,284
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	\$ -	\$ -
	=====	=====
Income taxes	\$ -	\$ -
	=====	=====
Non-cash investing and financing activities:		
Common stock issued for deferred compensation	\$ -	\$ 888,750
	=====	=====

See notes to consolidated financial statements.

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY

Genesis Technology Group, Inc. (the "Company" or "Genesis") is a business development and marketing firm that specializes in providing leadership and commerce opportunities to small and mid-sized companies in the United States and China. The Company provides and procures development projects that require marketing, manufacturing, finance, and product deployment expertise for companies in the United States and China. The Company's core competency is sourcing merger and acquisitions opportunities for both its contract clients and the Company.

On November 15, 2001, the Company entered into a Stock Purchase Agreement with Shanghai Chorry Technology Development Co., Limited ("Chorry") and Chorry's shareholder and acquired an 80% interest in Chorry. Chorry was formerly known as Shanghai Zhaoli Technology Development Company Ltd. Chorry is a Chinese company with principal offices in Shanghai, China. On November 2, 2005, the Company

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entered into a stock purchase agreement with Dragon Ventures (OTC: DRGV), a Nevada public corporation, for the sale of Chorry. The Company closed on this transaction on February 15, 2006 (See Note 2 - Discontinued Operations). Accordingly, Chorry is reported as a discontinued operation, and prior periods have been restated in the Company's financial statements and related footnotes to conform to this presentation.

Effective September 8, 2004, the Company acquired 60% of the common stock of Extrema LLC ("Extrema"), a Miami-based computer hardware wholesaler. On May 1, 2005, the shareholders of Extrema unanimously agreed to discontinue the operations of Extrema because of (a) the disappointing performance of Extrema including continuing operating losses; (b) the Company's lack of ability to obtain working capital loans to finance the purchase of inventory and to finance accounts receivable (See Note 2); and (c) the Company's decision to consolidate all trading and sourcing activities into its new subsidiary, GHK, located in Hong Kong.

Effective June 20, 2005, the Company formally established Genesis Equity Partners LLC ("GEP") in which it owns 75%, and the balance of 25% is owned by China West LLC. In the fall of 2006, GEP signed a contract with The Jin Ma Group Company, Ltd., a real estate development company in Western China, to globalize its operations in the areas of real estate, construction, and hospitality. To be known as Gold Horse International, Inc., GEP will receive a significant equity position in Gold Horse and ongoing consulting fees for coordination and oversight of its U.S. business activities.

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The accompanying consolidated financial statements for the interim periods are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the periods presented. The consolidated financial statements include the accounts of the Company and its wholly and partially owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. These consolidated financial statements should be read in conjunction with the financial statements for the year ended September 30, 2005 and notes thereto contained on Form 10-KSB of the Company as filed with the Securities and Exchange Commission. The results of operations for the three months ended December 31, 2005 are not necessarily indicative of the results for the full fiscal year ending September 30, 2006.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates. Significant estimates in 2006 and

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2005 include the valuation of stock-based compensation, and the useful life of property and equipment.

NET LOSS PER SHARE

Basic loss per share is computed by dividing net loss by weighted average number of shares of common stock outstanding during each period. Diluted loss per share is computed by dividing net loss by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. Diluted loss per common share is not presented because it is anti-dilutive. As of December 31, 2005, there were options and warrants to purchase 13,651,784 shares of common stock and 3,702,586 shares issuable upon conversion of preferred stock which could potentially dilute future earnings per share.

FOREIGN CURRENCY TRANSLATION

Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Transactions and balances in other currencies are converted into U.S. dollars in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation," and are included in determining net income or loss.

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCY TRANSLATION (CONTINUED)

For foreign operations with the local currency as the functional currency, assets and liabilities are translated from the local currencies into U.S. dollars at the exchange rate prevailing at the balance sheet date. Revenues and expenses are translated at weighted average exchange rates for the period to approximate translation at the exchange rates prevailing at the dates those elements are recognized in the financial statements. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining comprehensive loss. As of December 31, 2005, the exchange rate for the Chinese Renminbi (RMB) was \$1 US for 8.0734 RMB.

The functional and reporting currency is the U.S. dollar. The functional currency of the Company's Chinese subsidiaries is the local currency. The financial statements of the subsidiaries are translated into United States dollars using year-end rates of exchange for assets and liabilities, and average rates of exchange for the period for revenues, costs, and expenses. Net gains and losses resulting from foreign exchange transactions are included in the consolidated statements of operations and were not material during the periods presented because the Chinese dollar (RMB) fluctuates with the United States dollar. The cumulative translation adjustment and effect of exchange rate changes on cash at December 31, 2005 was not material.

On July 21, 2005, China allowed the Chinese RMB to fluctuate ending its decade-old valuation peg to the U.S. dollar. The new RMB rate reflects an approximately 2% increase in value against the U.S. dollar. Historically, the Chinese government has benchmarked the RMB exchange ratio against the U.S.

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dollar, thereby mitigating the associated foreign currency exchange rate fluctuation risk. The Company does not believe that its foreign currency exchange rate fluctuation risk is significant.

STOCK-BASED COMPENSATION

Effective October 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment ("SFAS No. 123R"). SFAS No. 123R establishes the financial accounting and reporting standards for stock-based compensation plans. As required by SFAS No. 123R, the Company recognized the cost resulting from all stock-based payment transactions including shares issued under its stock option plans in the financial statements. As a result of adopting SFAS No. 123R, the Company's net loss for the three months ended December 31, 2005 was \$15,816 higher than if we had continued to account for stock-based compensation under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and its related interpretations ("APB Opinion No. 25").

Prior to October 1, 2005, the Company accounted for stock-based employee compensation plans (including shares issued under its stock option plans) in accordance with APB Opinion No. 25 and followed the pro forma net income, pro forma income per share, and stock-based compensation plan disclosure requirements set forth in the Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123").

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 December 31, 2005
 (Unaudited)

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STOCK-BASED COMPENSATION (CONTINUED)

The following table sets forth the computation of basic and diluted income per share for the three months ended December 31, 2004 and illustrates the effect on net loss and loss per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	2004

Net loss as reported	\$(1,144,716)
Less: stock-based employee compensation included in reported net loss	32,452
Add: stock-based employee compensation expense determined under fair-value based method, net of related tax effect	(57,655)

Pro forma net loss	\$(1,169,919)
	=====
Basic loss per share:	
As reported	\$ (.02)
	=====
Pro forma	\$ (.02)

=====

MARKETABLE EQUITY SECURITIES

Marketable equity securities consist of investments in equity of publicly traded and non-public domestic and foreign companies and are stated at market value based on the most recently traded price of these securities at December 31, 2005. All marketable securities are classified as available for sale at December 31, 2005. Unrealized gains and losses, determined by the difference between historical purchase price and the market value at each balance sheet date, are recorded as a component of Accumulated Other Comprehensive Income in Stockholders' Equity. Realized gains and losses are determined by the difference between historical purchase price and gross proceeds received when the marketable securities are sold. Restricted marketable equity securities are shown as long-term assets. For the purpose of computing realized gains and losses, cost is identified on a specific identification basis. For marketable securities for which there is an other-than-temporary impairment, an impairment loss is recognized as a realized loss.

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005
(Unaudited)

NOTE 2 - DISCONTINUED OPERATIONS

Effective September 8, 2004, the Company acquired 60% of the common stock of Extrema LLC ("Extrema"), a Miami-based computer hardware wholesaler with a 22-year history. The Company accounted for this acquisition using the purchase method of accounting in accordance with SFAS No. 141. In fiscal 2004, in connection with the acquisition, the Company issued 1,369,697 shares of common stock to the seller. The value of the 1,369,697 common shares issued of \$.16 per share or \$219,151 was determined based on the average market price of the Company's common shares over the 5-day period before and after the acquisition date of September 8, 2004 and paid cash of \$63,500. Additionally, in connection with the acquisition, the seller retained accounts receivable in the amount of approximately \$106,000 which was applied to the purchase price. The purchase price exceeded the fair value of net assets acquired by \$395,062. The Company applied \$150,000 of the excess to customer lists based on the present value of future cash flows of pending sales orders, which was being amortized over a 36 month period and \$15,000 to the fair market value of property and equipment acquired. The remaining excess of \$293,562 was applied to goodwill. As described in Note 1, on May 1, 2005, the shareholders of Extrema unanimously agreed to discontinue the operations of Extrema. Extrema is reported as a discontinued operation and prior periods have been restated in the Company's financial statements and related footnotes to conform to this presentation.

As a material subsequent event, on November 2, 2005, the Company entered into a stock purchase agreement with Dragon Ventures (Pink sheets symbol: DRGV), a Nevada public corporation, for the sale of its majority-owned subsidiary Chorry. The Company closed on this transaction on February 15, 2006. The agreement includes the following provisions:

- (1) The Company delivered 100% of its shares in Chorry, representing its 80% ownership of that subsidiary, to DRGV.
- (2) DRGV paid to the Company \$500,000 in DRGV's common stock at a price calculated at the average closing price for the 10 days prior to the closing date.

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- (3) For the year ended September 30, 2005, the Company and DRGV shall equally divide the cost of the audit of Chorry.

Accordingly, Chorry is reported as a discontinued operation, and prior periods have been restated in the Company's financial statements and related footnotes to conform to this presentation.

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 December 31, 2005
 (Unaudited)

NOTE 2 - DISCONTINUED OPERATIONS (CONTINUED)

The assets and liabilities of Extrema and Chorry are presented in the balance sheet under the captions "Assets of discontinued operation" and "Liabilities of discontinued operation". The approximate carrying amounts of the major classes of these assets and liabilities as of December 31, 2005 are summarized as follows:

Assets:	

Cash	\$ 267,000
Accounts receivable	35,000
Inventory	298,000
Other assets	420,000

Assets of discontinued operation	\$1,020,000
	=====
Liabilities:	

Loan payable	\$ 124,000
Accounts payable and accrued expenses	210,000
Due to related party	585,000
Minority interest	33,000

Liabilities of discontinued operation	\$ 952,000
	=====

The following table sets forth for the three months ended December 31, 2005 and 2004 indicated selected financial data of the Company's discontinued operations.

	2005	2004
	----	----
Revenues	\$ 7,398,000	\$ 6,929,000
Cost of sales	7,259,000	6,776,000
	-----	-----
Gross profit	139,000	153,000
Operating and other non-operating expenses ...	136,000	257,000
	-----	-----
Gain (loss) from discontinued operations	3,000	(104,000)
Loss from disposal of discontinued operations	-	-
	-----	-----

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Total gain (loss) from discontinued operations	\$ 3,000	\$ (104,000)
	=====	=====

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 December 31, 2005
 (Unaudited)

NOTE 3 - STOCKHOLDERS' EQUITY

COMMON STOCK

On November 30, 2005, in connection with the exercise of stock options, the Company issued 528,000 shares of common stock to an employee for a subscription receivable of \$15,840 due in March 2006.

On December 9, 2005, Series A preferred stockholders' converted 11,600 share of Series A Preferred Stock into 500,000 shares of common stock.

For the three months ended December 31 2005, the Company recorded stock-based compensation of \$167,416 from the amortization of deferred compensation.

STOCK OPTIONS AND WARRANTS

On November 30, 2005, the Company granted 528,000 stock options to an employee at an exercise price of \$.03 per share. These options were immediately exercised for a subscription receivable of \$15,840. The Company accounts for stock options issued to employees in accordance with the provisions of SFAS 123R and related interpretations. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions dividend yield of -0- percent; expected volatility of 54 percent; risk-free interest rate of 3.75 percent and an expected holding periods of 3.00 years. In connection with these options, the Company recorded stock-based compensation expense of \$26,376.

A summary of the stock options and warrants as of December 31, 2005 and changes during the period is presented below:

	Number of Options and Warrants	Weighted Average Exercise Price
	-----	-----
Stock options and warrants		
Balance at beginning of year	15,309,216	\$0.095
Granted	528,000	0.030
Exercised	(528,000)	0.030
Forfeited	(1,657,432)	0.268
	-----	-----
Balance at December 31, 2005	13,651,784	\$0.075
	=====	=====
Options exercisable at end of period	13,651,784	\$0.075
	=====	=====
Weighted average fair value of options granted during the period		\$ 0.03

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 December 31, 2005
 (Unaudited)

NOTE 3 - STOCKHOLDERS' EQUITY (CONTINUED)

STOCK OPTIONS AND WARRANTS (CONTINUED)

The following table summarizes information about employee stock options and consultant warrants outstanding at December 31, 2005:

Options and Warrants Outstanding			Options and Warrants Exercisable		
Range of Exercise Price	Number Outstanding at December 31, 2005	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2005	Weighted Average Exercise Price
\$0.28-0.34	751,034	2.00 Years	\$ 0.31	751,034	\$ 0.31
0.12-0.15	540,000	2.60 Years	0.14	540,000	0.14
0.05-0.10	6,892,000	2.50 Years	0.07	6,892,000	0.07
0.03-.041	5,468,750	2.25 Years	0.04	5,468,750	0.04
	13,651,784		\$ 0.075	13,651,784	\$ 0.075

NOTE 4 - GOING CONCERN

The accompanying consolidated financial statements are prepared assuming the Company will continue as a going concern. During the three months ended December 31, 2005, the Company incurred net losses of \$223,123 and had negative cash flows from operations in the amount of \$63,890. While the Company is attempting to increase sales and cash flows and reduce costs, the growth has not been significant enough to support the Company's daily operations. While the Company believes in the viability of its strategy to improve sales volume and in its ability to raise additional funds, there can be no assurances to that effect. The Company's limited financial resources have prevented the Company from aggressively advertising its products and services to achieve consumer recognition. The ability of the Company to continue as a going concern is dependent on the Company's ability to further implement its business plan, generate increased revenues, reduce costs or merge with a profitable company. Additionally, the Company has marketable securities with a market value of \$178,867 at December 31, 2005 which it plans on selling to obtain cash for working capital purposes. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. Management believes that the actions presently being taken to further implement its business plan and generate additional revenues provide the opportunity for the Company to continue as a going concern.

NOTE 5 - SUBSEQUENT EVENTS

In January 2006, the Company issued 1,006,869 shares of common stock to its chief financial officer for services rendered. The Company valued these common shares at the fair market value on the dates of grant of \$.05 per share or \$50,343 based on the trading price of common shares. Accordingly, the Company

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recorded stock-based compensation expense of \$35,343 and reduced accounts payable by \$15,000.

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

The following analysis of our consolidated financial condition and results of operations for the three months ended December 31, 2005 and 2004, should be read in conjunction with the consolidated financial statements, including footnotes, and other information presented in our Form 10-KSB as filed with the Securities and Exchange Commission.

OVERVIEW

We are a business development and marketing firm that specializes in providing leadership and commerce opportunities to small and mid-sized companies in the United States and China. We provide and procure development projects that require marketing, manufacturing, finance, and product deployment expertise. Our core competency is sourcing merger and acquisitions opportunities for both our contract clients and Genesis respectfully. The majority of our commercial proceedings involve China in a significant capacity. Historically our clients range from global 1000 companies, emerging high-growth organizations, to venture-backed start-ups. Genesis, and through its subsidiaries, creates and fosters a unique framework for business collaboration between companies and organization in United States and China.

Genesis and The YaSheng Group, Ltd. ("YaSheng") signed a Letter of Intent dated December 13, 2005. YaSheng is a Chinese biotech/agribusiness conglomerate in Gansu Province, China with annual revenues exceeding USD 665 million, profits exceeding USD 83 million, and assets exceeding USD 1.3 billion. The merger would consist of a YaSheng subsidiary merging into GTEC, and the succeeding entity possibly having a majority ownership by YaSheng. The anticipated merger candidate has revenues of approximately \$40,000,000 annually and is cash flow positive. A final merger agreement would require the approval of the GTEC Board of Directors and Shareholders. We are actively seeking acquisitions or business opportunities to, among other things, increase revenues and improve stockholder value, which businesses or lines of business may or may not relate to the current core business of the Company.

Genesis Equity Partners, LLC, signed a contract with The Jin Ma Group Company, Ltd., a real estate development company in Western China, to globalize its operations in the areas of real estate, construction, and hospitality. To be known as Gold Horse International, Inc., the three divisions reportedly grossed over \$20 million in revenues, almost \$2 million in net profits in 2005, plus net assets exceeding \$10 million. Genesis Equity Partners will receive a significant equity position in Gold Horse and ongoing consulting fees for coordination and oversight of its U.S. business activities.

We intend to continue to pursue acquisitions that we believe could complement or expand our business, or augment our market coverage. We seek companies or product lines that we believe have consistent historical cash flow and brand growth potential and can be purchased at a reasonable price. We also may acquire businesses that we feel could provide us with important relationships or otherwise offer us growth opportunities. We plan to fund our future acquisitions through bank financing, seller debt or equity financing and public or private equity financing. Although we are actively seeking acquisitions that will expand our existing products or add new lines of business, as of the date of this we have no agreements with respect to any such acquisitions, and there can be no assurance that we will be able to identify and acquire such businesses or obtain necessary financing on favorable terms. While

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we are seeking acquisitions that we believe would improve our financial results, a completed acquisition may not provide the anticipated financial results, thus leading to continuing net losses. Even if we achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

On November 15, 2001, we entered into a Stock Purchase Agreement with Shanghai Chorry Technology Development Co., Limited ("Chorry") and Chorry's shareholder and acquired an 80% interest in Chorry. Chorry was formerly known as Shanghai Zhaoli Technology Development Company Ltd. Chorry is a Chinese company with principal offices in Shanghai, China. On November 2, 2005, the Company entered into a stock purchase agreement with Dragon Ventures (OTC: DRGV), a Nevada public corporation, for the sale of Chorry. The Company closed on this transaction on February 13, 2006. Accordingly, Chorry is reported as a discontinued operation, and prior periods have been restated in the Company's financial statements and related footnotes to conform to this presentation.

In June 2005, we formally established Genesis Equity Partners, LLC (GEP) in which we own 75% and the balance (25%) is owned by China West, LLC. China West is a private limited liability partnership in which neither the Company nor anyone affiliated with it holds any ownership interest. We formed GEP to assist Chinese and Western companies in formulating strategies to increase equity value, targeting western stock exchanges as a source of capital and shareholder support. Our partnership specializes in assisting private companies in the People's Republic of China seeking direct public offering opportunities in the United States. Management anticipates higher profitability from GEP and by pursuing a qualified merger candidate in China, a plan that has been actively pursued during 2005 with promising results.

On May 1, 2005, the shareholders of Extrema unanimously agreed to discontinue the operations of Extrema because of (a) the disappointing performance of Extrema including continuing operating losses; (b) the Company's lack of ability to obtain working capital loans to finance the purchase of inventory and to finance accounts receivable; and (c) the Company's decision to consolidate all trading and sourcing activities into its new subsidiary located in Hong Kong, GHK. Our 60% owned subsidiary, Extrema LLC, ceased U.S. operations which will contribute to the costs savings. For the periods discussed, Extrema is reported as a discontinued operation, and prior periods have been restated in the Company's financial statements and related footnotes to conform to this presentation.

In October of 2005, Genesis established the Genesis Distance Learning Division (GDLD) to implement the China Vocational Education Satellite Network's (CVE) global distance learning program. With a curriculum covering medical, management, engineering, spirituality, marketing, accounting, business and finance, and more, CVE will create global classrooms through distance learning programs that target a registered student body numbering in the millions. As of November 2005, the World Bank Group had invested \$4.6 million in the China Vocational Education Satellite Network. Genesis is also a contract partner to the China Vocation Education Satellite Network. To date, we have not recognized any revenues or incurred any expenses in the division.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

Effective June 20, 2005, we formally established Genesis Equity

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Partners LLC ("GEP") in which we own 75% and the balance of 25% is owned by China West LLC. In the fall of 2006, GEP signed a contract with The Jin Ma Group Company, Ltd., a real estate development company in Western China, to globalize its operations in the areas of real estate, construction, and hospitality. To be known as Gold Horse International, Inc., the three divisions reportedly grossed over \$20 million in revenues, almost \$2 million in net profits in 2005, plus net assets exceeding \$10 million. GEP will receive a significant equity position in Gold Horse and ongoing consulting fees for coordination and oversight of its U.S. business activities. We intend to repeat this strategy and secure similar contracts with other qualified Chinese companies. Presently, we have five such candidates in the due diligence phase. Previously, Genesis benefited from such a merger and acquisition program by earning a significant equity position in Sunwin Pharmaceuticals (OTCBB: SUWN), Dragon Capital Corporation (OTC: DRGV), Dragon International (OTCBB: DRGG), Telecom Telecommunications (OTCBB: TCOM), and Innova Holdings (OTCBB: IVHG).

We believe that as we further develop our consulting services segment, more opportunities to expand our operations through acquisitions will also be presented to us. It is critical to our long-term business model to both increase our revenues from the consulting services segment of our existing business, as well as to diversify our revenue base. By virtue of the nature of our consulting services and the professional experience of our management and directors, we interact with a number of both U.S. and Chinese companies. Through this broadening of our relationship base, we believe that we will be able to not only provide better services to our client companies, but we will have certain advantages over other companies our size when it comes to identifying and closing acquisitions.

The fee-based structure of our consulting services division is such that if our client company is successful in its particular venture, we can earn additional fees. These fees could range from a flat cash fee, to a fee which includes a combination of equity in our client and a success fee payable upon the completion of transactions such as acquisitions, formations of joint ventures, or licensing or selling technologies in China, to a solely performance based fee upon the completion of the project. We do not intend to operate as an investment company or become subject to the Investment Company Act of 1940. However, in order to materially grow our business we will need to raise additional working capital. Capital will typically be needed not only for the acquisition of additional companies, but also for the effective integration, operation and expansion of these businesses. There are no assurances we will be able to raise additional capital. If we are unable to secure additional capital as need, this inability will in all likelihood hamper or restrict our ability to acquire and integrate additional companies and to otherwise increase our revenues in future periods.

We are engaged in a series of discussions for the purpose of entering into technology and sales alliances or possible acquisitions. Such discussions are ongoing and the Company anticipates that these negotiations will lead to the consummation of several critical contracts, agreements and/or alliances in the foreseeable future that will provide the Company with the ability to increase revenues and attain profitability through fiscal year 2006 and thereafter.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the

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United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A summary of significant accounting policies is included in Note 1 to the audited consolidated financial statements included in this Form 10-KSB. Management believes that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about the company's operating results and financial condition.

Accounting for Stock Based Compensation - Effective October 1, 2005, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment ("SFAS No. 123R"). SFAS No. 123R establishes the financial accounting and reporting standards for stock-based compensation plans. As required by SFAS No. 123R, the Company recognized the cost resulting from all stock-based payment transactions including shares issued under its stock option plans in the financial statements. As a result of adopting SFAS No. 123R, our net loss for the three months ended December 31, 2005 was \$15,816 higher than if we had continued to account for stock-based compensation under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and its related interpretations ("APB Opinion No. 25"). We expect the adoption of SFAS No. 123R to have a negative impact on our operations.

Marketable equity securities consist of investments in equity of publicly traded and non-public domestic companies and are stated at market value based on the most recently traded price of these securities at December 31, 2005. All marketable securities are classified as available for sale at December 31, 2005. Unrealized gains and losses, determined by the difference between historical purchase price and the market value at each balance sheet date, are recorded as a component of Accumulated Other Comprehensive Income in Stockholders' Equity. Realized gains and losses are determined by the difference between historical purchase price and gross proceeds received when the marketable securities are sold. Realized gains or losses on the sale or exchange of equity securities and declines in value judged to be other than temporary are recorded in gains (losses) on equity securities, net. Marketable equity securities are presumed to be impaired if the fair value is less than the cost basis continuously for three consecutive quarters, absent evidence to the contrary.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 2005 COMPARED THE
THREE MONTHS ENDED DECEMBER 31, 2004

REVENUES

For the three months ended December 31, 2005, we had consolidated revenues of \$5,000 as compared to \$122,767 for the three months ended December 31, 2004, a decrease of \$117,767 or 96%. During the three months ended December 31, 2005, we spent a substantial amount of time with discussions with potential candidates for acquisition, and the sale of our Chorry subsidiary. This

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diversion of time had a negative effect on our consulting revenues. However, we entered into contracts with clients in China with enormous potential for significant revenues and profit. We expect our revenues to increase during fiscal 2006 as we modified our model, changed management, and reduced our cost tremendously.

OPERATING EXPENSES

For the three months ended December 31, 2005, operating expenses which include consulting fees, rent, salaries and non-cash compensation, severance expense, professional fees and other selling, general and administrative, were \$271,242 compared to \$1,165,991 for the three months ended December 31, 2004, a decrease of \$894,749 or 77%.

The decrease in operating expenses was primarily attributable to the following:

* Our consulting expense decreased to \$0 for the three months ended December 31, 2005 from \$35,530 for the three months ended December 31, 2004, a decrease of \$35,530 or 100%. The decrease was due to a decline in the use of consultants and a change in our business model and the sectors of our focus.

* Salaries and stock-based compensation expense decreased to \$194,162 for the three months ended December 31, 2005 from \$496,818 for three months ended December 31, 2004, a decrease of \$302,656 or 61%. The decrease in salaries and stock-based compensation expense was attributable to a decrease in the recording of stock-based compensation in connection with the granting of common stock and stock options to officers, employees, and directors and the amortization of deferred compensation. Additionally, we had a decrease of approximately \$156,000 attributable to a decrease in staff in our US and China business development offices and a decrease in cash payment paid to executives under employment agreements due to the issuance of common shares in lieu of cash. Additionally, at December 31, 2005, we had deferred compensation of \$146,041, which will be amortized into expense during fiscal 2006.

* During the three months ended December 31, 2004, we recorded severance expense of \$332,533 related to a severance and separation agreement we signed with a former officer/director of the Company. In connection with this agreement, we paid cash of \$100,000, issued common shares with a value of \$61,875, reduced a subscription receivable of \$26,250, distributed marketable securities with a value of \$22,800, and incurred severance expense of \$121,608 related to the distribution of the net assets of Yastock.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

o Other selling, general and administrative expenses decreased to \$77,080 for the three months ended December 31, 2005 from \$301,110 for the three months ended December 31, 2004, a decrease of \$224,030 or 74%. Other selling, general and administrative expenses included the following:

	2005	2004
	----	----
Professional fees	\$ 33,833	\$ 97,978
Rent	11,100	23,382
Travel and entertainment	14,040	35,212
Other selling, general and administrative	18,107	144,538
	-----	-----
Total	\$ 77,080	\$301,110

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In fiscal 2005, professional fees decreased by \$64,145 or 66% due to a decrease in legal fees of \$17,151 related to general corporate matters and acquisition activity, a decrease in accounting and auditing fees of approximately \$47,000. In connection with the sale of Chorry, the acquirer agreed to pay 50% of the audit fees related to the audit of Chorry for fiscal 2005. Additionally, in the 2004 period, we incurred auditing fees of approximately \$15,000 in connection with the audit of an acquisition.

Rent expense decreased to \$11,100 for the three months ended December 31, 2005 from \$23,382 for three months ended December 31, 2004, a decrease of \$12,282. The decrease in rent was attributable to the relocation of our offices to a smaller, less expensive office facility, the closing of our office in Shanghai, China.

During the three months ended December 31, 2005, travel related expenses decreased by \$21,172 or 60% as compared to the 2004 period and was attributable to a decrease in the number of staff traveling to China.

Other selling, general and administrative expenses include office expenses and supplies, telephone and communications, and other expenses. For the three months ended December 31, 2005, other selling, general and administrative expenses amounted to \$18,107 compared to \$144,538 during the three months ended December 31, 2004, a decrease of \$126,431 or 87%. The decrease was attributable to the closing of our Shanghai office, the reduction in marketing activities, and cost cutting measures.

GAIN FROM SALE OF MARKETABLE SECURITIES

For the three months ended December 31, 2005, we recorded a gain from the sale of marketable securities of \$40,457 compared to a \$0 for the three months ended December 31, 2004.

GAIN (LOSS) FROM DISCONTINUED OPERATIONS

For the three months ended December 31, 2005, we recorded a gain from discontinued operations of \$2,624 associated with the discontinuation of our Chorry which was sold on February 13, 2006. For the three months ended December 31, 2004, we recorded a loss from discontinued operations of \$104,401 due to the closure of our Extrema subsidiary and the discontinuation of our Chorry subsidiary.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

On November 2, 2005, we entered into a stock purchase agreement with Dragon Ventures (OTC: DRGV), a Nevada public corporation, for the sale of our majority-owned subsidiary Chorry. The agreement includes the following provisions:

1. We will deliver 100% of our shares in Chorry, representing our 80% ownership of that subsidiary, to DRGV.
2. DRGV will pay to us \$500,000 in DRGV's common stock at a price calculated at the average closing price for the 10 days prior to the closing date.
3. For the three months ended December 31, 2005, the Company and DRGV shall equally divide the cost of the audit of Chorry.

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We closed on this transaction on February 15, 2006. Accordingly, Chorry is reported as a discontinued operation, and prior periods have been restated in our financial statements and related footnotes to conform to this presentation.

OVERALL

We reported a net loss for the three months ended December 31, 2005 of \$223,123 compared to a net loss for the three months ended December 31, 2004 of \$1,144,716. This translates to an overall per-share loss available to shareholders of \$.00 for the three months ended December 31, 2005 compared to per-share loss of \$.02 for three months ended December 31, 2004.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2005, we had a cash balance of \$36,315 and working capital of \$212,448. During the three months ended December 31, 2005, we received cash amounting to approximately \$81,000 from the sale of marketable equity securities. We will continue to sell marketable equity securities to obtain cash for working capital purposes. We are presently meeting our current obligations from cash proceeds received from the sale of marketable equity securities. However, due to insufficient cash generated from operations, we currently do not internally generate cash sufficient to pay all of our incurred expenses and other liabilities. As a result, we may be dependent on investor capital and loans to meet our expenses and obligations. Although investor funds and proceeds from sales of marketable equity securities have allowed us to meet our obligations in the recent past, there can be no assurances that our present methods of generating cash flow will be sufficient to meet future obligations. Historically, we have, from time to time, been able to raise additional capital from sales of our capital stock, but there can be no assurances that we will be able to raise additional capital in this manner.

Net cash used in operations was \$63,890 for the three months ended December 31, 2005 as compared to net cash used in operations of \$1,145,887 for the three months ended December 31, 2004. For the three months ended December 31, 2005, we used cash to fund our loss of \$(223,123) and recorded a gain from the sale of marketable securities of \$40,457 offset by non-cash items such as stock-based compensation of \$193,792 and depreciation and amortization expense of \$1,792, as well as changes in assets and liabilities of \$7,898. For the three months ended December 31, 2004, we used cash to fund our net loss of \$(1,144,716) offset by non-cash items such as stock-based compensation of \$340,577, depreciation expenses of \$2,506 and severance expense of \$232,533 as well as other non-cash items and changes in assets and liabilities of \$(576,787).

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

Net cash provided by investing activities for the three months ended December 31, 2005 was \$81,151 as compared to net cash provided by investing activities for the three months ended December 31, 2004 of \$0. For the three months ended December 31, 2005, we received cash from the sale of marketable securities of \$81,151.

Net cash provided by financing activities was \$0 for the three months ended December 31, 2005 as compared to net cash provided by financing activities of \$20,983 for the three months ended December 31, 2004. For the three months ended December 31, 2004, net cash provided by financing activities related to proceeds received from the exercise of stock options of \$20,983.

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We currently have no material commitments for capital expenditures.

Our future growth is dependent on our ability to raise capital for expansion, and to seek additional revenue sources. If we decide to pursue any acquisition opportunities or other expansion opportunities, we may need to raise additional capital, although there can be no assurance such capital-raising activities would be successful. There are no assurances that such capital will be available to us when needed or upon terms and conditions which are acceptable to us. If we are able to secure additional working capital through the sale of equity securities, the ownership interests of our current stockholders will be diluted. If we raise additional working capital through the issuance of debt or additional dividend paying securities our future interest and dividend expenses will increase. If we are unable to secure additional working capital as needed, our ability to grow our sales, meet our operating and financing obligations as they become due and continue our business and operations could be in jeopardy and we could be forced to limit or cease our operations.

RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has recently issued several new accounting pronouncements:

In May 2005, FASB issued FASB Statement 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("FAS 154"). FAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. The provisions of FAS 154 require, unless impracticable, retrospective application to prior periods' financial statements of (1) all voluntary changes in principles and (2) changes required by a new accounting pronouncement, if a specific transition is not provided. FAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate, which requires prospective application of the new method. FAS 154 is effective for all accounting changes made in fiscal years beginning after December 15, 2005.

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ITEM 3. CONTROLS AND PROCEDURES

Our principal executive officer and principal financial officer evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our controls and procedures are effective.

There was no change in our internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) 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

None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

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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

Exhibit

Number Description

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

GENESIS TECHNOLOGY GROUP, INC.

February 21, 2006

By: /s/ Gary Wolfson

Gary Wolfson
Chief Executive Officer

February 21, 2006

By: /s/ Adam Wasserman

Adam Wasserman
Chief Financial and Accounting Officer

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