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PRIME AIR INC
Form 10QSB
August 16, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-QSB

(Mark One)

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

For the quarter ended June 30, 2004

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 Number: 333-28249

PRIME AIR, INC.
(Exact name of Registrant as specified in charter)

Nevada -----	Not Applicable -----
State or other jurisdiction of incorporation or organization	I.R.S. Employer I.D. No.
Suite 601 - 938 Howe Street, Vancouver, British Columbia, -----	V6Z 1N9 -----
(Address of principal executive offices)	(Zip Code)

(604) 684-5700

Issuer's telephone number,
including area code:

Check whether the Issuer (1) has filed all reports required to be filed by
section 13 or 15(d) of the Exchange Act of 1934 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

State the number of shares outstanding of each of the Issuer's classes of common
equity as of the latest practicable date: At June 30, 2004, there were
30,822,000 shares of the Registrant's Common Stock outstanding.

PART 1

ITEM 1. FINANCIAL STATEMENTS

Prime Air, Inc.
(A Development Stage Company)

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June 30, 2004

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Cash Flows

Notes to the Consolidated Financial Statements

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PRIME AIR, INC.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS
(Expressed in US dollars)

	June 20 (unau -----
ASSETS	
Current Assets	
Cash	\$ 5
Prepaid expenses and deposits	
Other receivables	-----
Total Current Assets	5
Property and Equipment (Note 3)	47

Total Assets	\$ 53 =====
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 5
Accrued liabilities	
Due to related parties (Note 5)	7
Notes and advances payable (Note 4)	-----
Total Liabilities	13 -----
Contingencies and Commitments (Notes 1 and 7)	

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STOCKHOLDERS' EQUITY

Preferred Stock, 5,000,000 cumulative and convertible preferred shares authorized with a par value of \$0.001, none issued	
Common Stock, 150,000,000 common shares authorized with a par value of \$0.001, 30,822,000 and 27,084,000 issued and outstanding, respectively	3
Additional Paid In Capital	4,59
Accumulated other comprehensive income	4
Deficit accumulated during the development stage	(4,26

Total Stockholders' Equity	40

Total Liabilities and Stockholders' Equity	\$ 53
	=====

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

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PRIME AIR, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
(Expressed in US dollars)
(unaudited)

	*	*	*
	*	*	*
	Three months ended June 30 2004	Three months ended June 30 2003	Six months ended June 30 2004
	-----	-----	-----
Revenue			
Rental income	\$ 1,089	\$ -	\$ 3,222
Expenses			
Flight operations	\$ -	\$ -	\$ -
Advertising and promotion	1,099	-	1,481
Amortization	5,554	5,347	11,286
Consulting	2,714	5,000	2,714
Consulting to related parties	30,000	15,000	52,500
General and administrative	23,385	5,578	31,760
Professional fees	39,031	1,075	51,670
	-----	-----	-----
	101,783	32,000	151,411
	-----	-----	-----

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Loss from Operations	(100,694)	(32,000)	(148,189)
Gain on Settlement of Debt	11,250	-	11,250
Net Loss for the Period	\$ (89,444)	\$ (32,000)	\$ (136,939)
Other Comprehensive Income			
Foreign currency translation adjustments	(11,287)	29,275	(15,808)
Comprehensive Loss	\$ (100,731)	\$ (2,725)	\$ (152,747)
Net Loss Per Common Share - Basic and diluted	(0.00)	(0.00)	(0.00)
Weighted Average Common Shares Outstanding	28,676,000	23,319,000	27,902,000

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

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PRIME AIR, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in US dollars)
(unaudited)

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
CASH FLOWS TO OPERATING ACTIVITIES		
Net loss for the period	\$ (136,939)	\$ (148,189)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on settlement of debt	(11,250)	11,250
Amortization	11,286	
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(577)	
Decrease in deposits and prepaid expenses	730	
Increase in due to related parties	58,752	
Increase in accounts payable and accrued liabilities	65,624	
Net Cash Provided by (Used In) Operating Activities	(12,374)	(148,189)

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CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		434	
Purchase of property and equipment		(362)	
Net Cash Provided by Investing Activities		72	
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes and advances payable		-	
Proceeds from issuance of common stock		63,000	
Net Cash Provided by Financing Activities		63,000	
EFFECT OF EXCHANGE RATE CHANGES ON CASH		(349)	
INCREASE IN CASH		50,349	
CASH, BEGINNING OF PERIOD		2,691	
CASH, END OF PERIOD		\$ 53,040	\$
NON-CASH FINANCING ACTIVITIES			
Common stock issued for debt		\$ 126,426	\$
SUPPLEMENTAL DISCLOSURES			
Interest paid		\$ -	\$
Income taxes paid		\$ -	\$

(The accompanying notes are an integral part of the consolidated financial statements)

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PRIME AIR, INC.
(A Development Stage Company)
Notes to Consolidated Financial Statements
(Expressed in US dollars)
(unaudited)

1. Development Stage Company

The Company was incorporated under the laws of the State of Nevada on November 10, 1996, for the purpose of changing the domicile of the Company from the State of Delaware to the State of Nevada. This change was approved by the shareholders of both corporations on November 26, 1997 and effected through a "Plan and Agreement of Merger" with the surviving corporation being Prime Air, Inc. (Nevada). The articles of merger were filed with the appropriate State

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authorities on December 15, 1997, which became the effective date of the merger.

The Delaware Corporation was incorporated on April 4, 1995, for the purpose of changing the domicile of the Company from the State of Utah to the State of Delaware by acquiring all of the assets and liabilities of the Utah Corporation, and issuing shares of the Delaware Corporation to the shareholders of the Utah Corporation on a one for one basis. The Utah Corporation was voluntarily dissolved by the State of Utah on May 18, 1995.

The Utah Corporation was incorporated on August 30, 1993 as Astro Enterprises, Inc. ("Astro"). On June 28, 1994, pursuant to appropriate shareholder agreements, the Utah Corporation acquired all outstanding shares of Prime Air (BC) Inc., a private Canadian corporation ("the Canadian Corporation") in exchange for shares of its capital stock on a .787796 to 1 basis, thereby providing the shareholders of the Canadian Corporation with 90% of the outstanding common shares of Astro. The acquisition was a capital transaction in substance and therefore was accounted for as a recapitalization of Astro. The Canadian Corporation was incorporated on March 10, 1989. Astro then changed its name to Prime Air, Inc., which subsequently was acquired as a wholly owned subsidiary by the Delaware Corporation, as described above. Prior to the acquisition, Astro had no principal operations and had nominal net assets.

The Company is a development stage company as defined by Statement of Financial Accounting Standards ("SFAS") No. 7. In a development stage company, management devotes most of its activities in developing a market for its products and/or services. The Company is presently in its developmental stage and currently has minimal sources of revenue to provide incoming cash flows to sustain future operations. The Company's present activities relate to the construction and ultimate exclusive operation of an international passenger and cargo air terminal facility in the Village of Pemberton, British Columbia and the operation of scheduled flight services between that facility and certain major centers in Canada and the United States in conjunction with Voyageur Airways Limited. Terminal building construction was substantially completed in May 1996.

The future successful operation of the Company is dependent upon its ability to obtain the financing required to complete the terminal facility and commence operations on an economically viable basis. The ability of the Company to emerge from the development stage with respect to any planned principal business activity is dependent upon its successful efforts to raise additional equity financing and/or attain profitable operations. Management believes the Company will be able to generate sufficient funds to meet its obligations for a period of at least twelve months from the balance sheet date. There is no guarantee that the Company will be able to raise any equity financing or sell any of its services at a profit. There is substantial doubt regarding the Company's ability to continue as a going concern.

2. Summary of Significant Accounting Policies

a) Basis of Presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned operating subsidiary, Prime Air Inc. (the Canadian corporation). All intercompany transactions and balances have been eliminated.

b) Year End

The Company's fiscal year end is December 31.

c) Use of Estimates

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The preparation of consolidated 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 periods. Actual results could differ from those estimates.

d) Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents.

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PRIME AIR, INC.
(A Development Stage Company)
Notes to Consolidated Financial Statements
(Expressed in US dollars)
(unaudited)

2. Summary of Significant Accounting Policies (Continued)

e) Other Comprehensive Income (Loss)

Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," establishes standards for the reporting and display of comprehensive loss and its components in the financial statements. As at June 30, 2004 and 2003, the Company's only component of comprehensive income (loss) were foreign currency translation adjustments.

f) Property and Equipment

Property and equipment is carried at cost less accumulated amortization. Amortization is computed on the following methods over the estimated useful life of the asset at the following annual rates:

Air terminal - Straight-line over 30-year term of land and airport facilities lease

Furniture and equipment - 20% Declining-balance

Computer equipment - 30% Declining-balance

g) Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets", the carrying value of long-lived assets is reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. The Company recognizes impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

h) Foreign Currency Translation

The functional currency of the Company's Canadian subsidiary is the Canadian dollar. The financial statements of this subsidiary are translated to United States dollars in accordance with SFAS No. 52 "Foreign Currency Translation" using period-end rates of exchange for assets and liabilities, and average rates of exchange for the year for revenues and expenses. Translation gains (losses)

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are recorded in accumulated other comprehensive income (loss) as a component of stockholders' equity. Foreign currency transaction gains and losses are included in current operations.

i) Revenue Recognition

The Company recognizes revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements". Revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectibility is reasonably assured. The Company receives income from the rental of the air terminal located in Pemberton, BC, Canada.

j) Basic and Diluted Net Income (Loss) Per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, "Earnings per Share" which requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period including stock options, using the treasury stock method, and convertible preferred stock, using the if-converted method. In computing Diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti dilutive.

k) Stock-Based Compensation

The Company records stock-based compensation in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation". Common stock issued by the Company for services is recognized as compensation expense based on the fair market value of the stock award or fair market value of the goods and services received, whichever is more reliably measurable. The Company does not currently have a stock option plan.

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PRIME AIR, INC.
(A Development Stage Company)
Notes to Consolidated Financial Statements
(Expressed in US dollars)
(unaudited)

2. Summary of Significant Accounting Policies (Continued)

1) Financial Instruments

The fair values of cash, prepaid expenses, other receivables, notes payable, advances payable, accounts payable and accrued liabilities were estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments. The Company's operations are in Canada and virtually all of its assets and liabilities are giving rise to significant exposure to market risks from changes in foreign currency rates. The financial risk is the risk to the Company's operations that arise from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

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m) Income Taxes

The Company utilizes the liability method of accounting for income taxes as set forth in SFAS No. 109, "Accounting for Income Taxes". Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

n) Recent Accounting Pronouncements

In December 2003, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 104, "Revenue Recognition" (SAB 104), which supersedes SAB 101, "Revenue Recognition in Financial Statements". The primary purpose of SAB 104 is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables". While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. The adoption of SAB 104 did not have a material impact on the Company's financial statements.

In January 2003 the FASB issued FIN 46, Consolidation of Variable Interest Entities (FIN 46), which was amended in December 2003. FIN 46 requires an investor with a majority of the variable interests (primary beneficiary) in a variable interest entity ("VIE") to consolidate the entity and also requires majority and significant variable interest investors to provide certain disclosures. A VIE is an entity in which the voting equity investors do not have a controlling financial interest or the equity investment at risk is insufficient to finance the entity's activities without receiving additional subordinated financial support from the other parties. Development stage entities that have sufficient equity invested to finance the activities they are currently engaged in and entities that are businesses, as defined in FIN 46, are not considered VIE's. The provisions of FIN 46 were effective immediately for all arrangements entered into with new VIE's created after January 31, 2003. For arrangements entered into with VIE's created before January 31, 2003, the provisions of FIN 46 are effective at the end of the first reporting period ending after March 15, 2004. The Company does not have VIE's.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The requirements of SFAS No. 150 apply to issuers' classification and measurement of freestanding financial instruments, including those that comprise more than one option or forward contract. SFAS No. 150 does not apply to features that are embedded in a financial instrument that is not a derivative in its entirety. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of non-public entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of this standard did not have a material effect on the Company's results of operations or financial position.

o) Reclassifications

Certain amounts and/or disclosures in the prior year consolidated financial

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statements have been reclassified or disclosure revised to conform with the current year presentation.

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PRIME AIR, INC.
(A Development Stage Company)
Notes to Consolidated Financial Statements
(Expressed in US dollars)
(unaudited)

2. Summary of Significant Accounting Policies (Continued)

p) Interim Financial Statements

These interim unaudited financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cash flows for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for a full year or for any future period.

3. Property and Equipment

	June 30, 2004		December 31, 2003	
	* Cost	Accumulated Amortization	Net Book Value	Net Book Value
Air terminal	\$662,005	\$ 185,435	\$ 476,570	\$ 506,489
Computer equipment	1,107	495	612	747
Furniture and equipment	5,344	4,544	800	922
	\$668,456	\$ 190,474	\$ 477,982	\$ 508,158

4. Notes and Advances Payable

The notes and advances payable are unsecured, non-interest bearing and are without specific terms of repayment.

5. Related Party Transactions

a) Included in due to related parties is an amount of \$19,500 (December 31, 2003 - \$12,846) which has been advanced to the Company by a shareholders and/or a corporation controlled by that shareholder. This shareholder controls 100% of the related corporation. During the six months ended June 30, 2004, cash advances of \$19,500 were made. This amount is unsecured, non-interest bearing and has no specific terms of repayment.

b) Included in due to related parties is an amount of \$35,050 (December 31, 2003 - \$26,402) which represents consulting fees and expenses incurred on behalf of the Company by directors and officers. These amounts are unsecured, non-interest bearing and have no specific terms of repayment.

6. Common Shares

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a) During the three month period ended June 30, 2004, the Company issued 1,220,000 shares of common stock at \$0.05 per share for cash proceeds of \$61,000.

b) During the three month period ended June 30, 2004, the Company issued 20,000 shares of common stock at \$0.10 per share for cash proceeds of \$2,000.

c) During the three month period ended June 30, 2004, the Company issued 2,408,000 shares of common stock at \$0.05 per share for debt settlement of \$131,179 which resulted in debt settlement gain of \$11,250.

d) During the three month period ended March 31, 2004, the Company issued 50,000 shares of common stock at \$0.05 per share for debt settlement of \$2,497, and issued 40,000 shares of common stock at \$0.10 per share for debt settlement of \$4,000.

7. Commitments

The Company's wholly owned Canadian subsidiary ("subsidiary") entered into an Airport Lease and Operating Agreement ("the "Agreement") with The Corporation of The Village of Pemberton in British Columbia in 1993 whereby it was granted an exclusive and irrevocable lease over the lands and airport facilities associated with the Pemberton Airport. The initial lease term commenced on October 29, 1993 and ended on October 31, 1996. The subsidiary exercised its option for extensions of the Agreement, which currently expires in 2004, however the Company has two ten-year options for extension available, which require written notice within six months prior to the expiry of the Extension Term. The Company plans to file written notice with the Village of Pemberton to exercise the first 10 year option extension.

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PRIME AIR, INC.
(A Development Stage Company)
Notes to Consolidated Financial Statements
(Expressed in US dollars)
(unaudited)

7. Commitments (continued)

Rent payable under the Agreement is based on 5% of gross receipts per annum derived from the operation of the terminal facilities, excluding amounts received in connection with the sale of airline tickets and other forms of transportation. The Company paid rent expense of \$165 for the year ended December 31, 2003 (2002: NIL), which represented 5% of gross rental receipts. The lease commitment amounts for 2003 through 2007 cannot be quantified as the amount of gross receipts for those years cannot be determined and active operation of the terminal facilities has not yet commenced. The Company paid property taxes imposed by municipal authorities amounting to \$9,383 for the year ended December 31, 2003 (2002: \$9,859). The Village of Pemberton in the event of a material default or bankruptcy by the Company may terminate the Agreement. The terminal facilities shall become the property of the Village of Pemberton at the expiration of the Agreement.

8. Subsequent Events

a) The Company issued 429,200 shares of common stock to settle debt of \$36,460, resulting in a gain on settlement of debt of \$15,000.

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b) The Company issued 60,000 shares of common stock for consulting services to be rendered for the three month period ended October 2004, and issued 60,000 shares of common stock for accounting services to be rendered over a one year term.

c) The Company issued 350,000 shares of common stock to directors for services to be rendered for the three month period ended September 2004.

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

General

Management's Discussion and Analysis of Financial Condition and Results of ----- Operation -----

Some of the information presented in this report constitutes "forward-looking statements." Although the Company believes that its expectations are based upon reasonable assumptions within the bounds of its knowledge of its proposed business and operations, it is possible that actual results may differ materially from its expectations. Factors that could cause actual results to differ from expectations include the inability of the Company to raise the additional capital necessary to commence its principal operations or the failure to consummate a definitive agreement with Voyageur Airways Limited.

The Company is the parent of a wholly owned subsidiary, Prime Air, Inc. ("Prime Air (BC)"), a company originally incorporated under the laws of the Province of British Columbia, Canada, on March 10, 1989, under the name "High Mountain Airlines Inc." for the purpose of establishing air service to serve the Whistler, British Columbia, Canada, area. Prime Air (BC) has entered into a lease and operating agreement with the Village of Pemberton, British Columbia, Canada, to plan, develop, construct, manage, and operate a terminal facility at the Pemberton Airport.

To the present date, Prime Air (BC) has constructed the basic terminal building and proposes to facilitate regular, scheduled air service to Pemberton Airport to serve the nearby resort community of Whistler. However, sufficient funding has not been secured to provide for costs for completion of certain infrastructure items including landing lights, airside and groundside related equipment, advance marketing and working capital requirements.

The results of the operations for the quarter ended June 30, 2004 show substantially greater expenses incurred than the same period of the previous year. Because the Company is in its "development stage," these figures will not be representative of the Company's future operations.

Results of Operations

Six months ended June 30, 2004 compared to June 30, 2003.

During the six months ended June 30, 2004, the Company earned revenues of \$3,222 from the rental of retail space at its terminal facility. No similar revenues were earned during the same period of the prior year.

Total expenses for the six months ended June 30, 2004 were \$151,411 compared to \$66,174 for the six months ended for June 30, 2003.

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During the six months ended June 30, 2004, the Company incurred professional expenses, consulting fees to related parties, and general expenses of \$51,670, \$52,500 and \$31,760, respectively, compared to professional expenses, consulting fees to related parties, and general expenses of \$2,068, \$30,000 and \$9,817, respectively for the same period of the prior year. During the six months ended June 30, 2004, professional expenses increased primarily in accounting and legal fees in an effort to bring the Company in compliance with its SEC filings. Consulting fees to related parties increased due to the increased activity of two directors who are providing consulting services to the Company, and general and administrative expenses increased due to the Company's anticipation of operations for chartered flights.

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Liquidity and Capital Resources

As of June 30, 2004, the Company's negative working capital was (\$74,372) compared to a negative working capital of (\$141,227) as of December 31, 2003.

The Company currently has limited revenues and will not generate substantial revenue until it begins its operation at Pemberton. Historically, the Company has funded its operations through loans from related parties and issuance of its common stock. No assurance can be given that the Company will be able to continue to receive such loans for its operations.

ITEM 3. CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our management, including our Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined by Exchange Act Rule 13a-15(e)) as of the end of our second fiscal quarter pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have been no changes in our internal control over financial reporting identified in connection with our evaluation as of the end of the second fiscal quarter that occurred during such quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

Neither the Company nor any of its properties is a party to any legal proceedings.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the three months ended June 30, 2004, the Company sold the following unregistered shares.

1. On May 4, 2004, the Company issued 100,000 shares of its common stock at \$.05 per share to one subscriber. The issuance of the shares was exempt from

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registration pursuant to Section 4(2).

2. On May 4, 2004, the Company issued 20,000 shares of its common stock at \$.10 per share to one subscriber. The issuance of the shares was exempt from registration pursuant to Section 4(2).

3. On May 4, 2004, the Company issued 2,005,000 shares of common stock at \$0.05 per share to four persons in settlement of \$99,851 in debt and for services rendered. The issuances of the shares were exempt from registration pursuant to Regulation S and Section 4(2).

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4. On May 27, 2004, the Company issued 120,000 shares of its common stock at \$.05 per share to one subscriber. The issuance of the shares was exempt from registration pursuant to Section 4(2).

5. On May 31 2004, the Company issued 178,000 shares of common stock at \$0.05 per share to three persons in settlement of \$8,829 for services rendered. The issuances of the shares were exempt from registration pursuant to Regulation S.

6. On June 16 2004, the Company issued 225,000 shares of common stock at \$0.05 per share for \$11,250 in consulting services to three directors. The issuances were exempt from registration pursuant to Regulation S and Section 4(2).

7. On June 28, 2004, the Company issued 1,000,000 shares of its common stock at \$.05 per share to one subscriber. The issuance was exempt from registration pursuant to Regulation S.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

No matters were submitted to a vote of the shareholders during the quarter ended June 30, 2004.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) Exhibits

Exhibit No.

31.1 Certification by the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act

31.2 Certification by the Principal Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act

32 Certification by the Principal Executive and Financial Officers Pursuant to Section 906 of the Sarbanes-Oxley Act

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(B) Reports on Form 8-K.

1. Form 8-K filed June 23, 2004 announcing Dr. Albert Bruno as CEO.
2. Form 8-K filed July 15, 2004 announcing Jan Gossing as a director and CFO

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Form 10-QSB to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Seattle, Washington, on the 16th day of August, 2004.

Prime Air, Inc.

By: /s/ Dr. Albert Bruno

Dr. Albert Bruno
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Jan Gossing

Jan Gossing
Chief Financial Officer
(Principal Accountant and Financial Officer)

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