

1ST SOURCE CORP
Form 10-Q
April 21, 2011

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2011

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 0-6233

(Exact name of registrant as specified in its charter)

INDIANA
(State or other jurisdiction of
incorporation or organization)

35-1068133
(I.R.S. Employer Identification
No.)

100 North Michigan Street South Bend, IN
(Address of principle executive offices) (Zip Code)

46614

(574) 235-2000
(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="radio"/>	Smaller reporting company	<input type="radio"/>

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

Number of shares of common stock outstanding as of April 15, 2011 – 24,303,656 shares

- 1 -

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

		Page
Item 1.	Financial Statements (Unaudited)	
	<u>Consolidated statements of financial condition – March 31, 2011 and December 31, 2010</u>	3
	<u>Consolidated statements of income – three months ended March 31, 2011 and 2010</u>	4
	<u>Consolidated statements of shareholders’ equity – three months ended March 31, 2011 and 2010</u>	5
	<u>Consolidated statements of cash flows – three months ended March 31, 2011 and 2010</u>	6
	<u>Notes to the Consolidated Financial Statements</u>	7
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
Item 4.	<u>Controls and Procedures</u>	34

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	34
Item 1A.	<u>Risk Factors</u>	34
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
Item 3.	<u>Defaults Upon Senior Securities</u>	35
Item 4.	<u>(Removed and reserved)</u>	35
Item 5.	<u>Other Information</u>	35
Item 6.	<u>Exhibits</u>	35

<u>SIGNATURES</u>	36
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CERTIFICATIONS

<u>Exhibit 31.1</u>
<u>Exhibit 31.2</u>
<u>Exhibit 32.1</u>
<u>Exhibit 32.2</u>

Table of Contents

1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited - Dollars in thousands)

	March 31, 2011	December 31, 2010
ASSETS		
Cash and due from banks	\$ 57,271	\$ 62,313
Federal funds sold and interest bearing deposits with other banks	81,661	34,559
Investment securities available-for-sale (amortized cost of \$927,522 and \$952,101 at March 31, 2011 and December 31, 2010, respectively)	942,221	969,018
Other investments	20,503	21,343
Trading account securities	146	138
Mortgages held for sale	5,467	32,599
Loans and leases - net of unearned discount		
Commercial and agricultural loans	547,381	530,228
Auto, light truck and environmental equipment	416,957	396,500
Medium and heavy duty truck	156,022	162,824
Aircraft financing	601,480	614,357
Construction equipment financing	271,490	285,634
Commercial real estate	578,648	594,729
Residential real estate	386,290	390,951
Consumer loans	93,450	95,400
Total loans and leases	3,051,718	3,070,623
Reserve for loan and lease losses	(86,160)	(86,874)
Net loans and leases	2,965,558	2,983,749
Equipment owned under operating leases, net	81,304	78,138
Net premises and equipment	36,024	33,881
Goodwill and intangible assets	88,650	88,955
Accrued income and other assets	133,571	140,588
Total assets	4,412,376	4,445,281
LIABILITIES		
Deposits:		
Noninterest bearing	\$ 513,315	\$ 524,564
Interest bearing	3,095,692	3,098,181
Total deposits	3,609,007	3,622,745
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	112,914	136,028
Other short-term borrowings	19,239	19,961
Total short-term borrowings	132,153	155,989
Long-term debt and mandatorily redeemable securities	26,717	24,816
Subordinated notes	89,692	89,692
Accrued expenses and other liabilities	64,340	65,656
Total liabilities	3,921,909	3,958,898

SHAREHOLDERS' EQUITY

Preferred stock; no par value		
Authorized 10,000,000 shares; none issued or outstanding	-	-
Common stock; no par value		
Authorized 40,000,000 shares; issued 25,643,506 at March 31, 2011 and December 31, 2010	346,535	350,282
Retained earnings	164,455	157,875
Cost of common stock in treasury (1,339,860 shares at March 31, 2011 and 1,470,696 shares at December 31, 2010)	(29,655)	(32,284)
Accumulated other comprehensive income	9,132	10,510
Total shareholders' equity	490,467	486,383
Total liabilities and shareholders' equity	\$ 4,412,376	\$ 4,445,281

The accompanying notes are a part of the consolidated financial statements.

Table of Contents

1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited - Dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2011	2010
Interest income:		
Loans and leases	\$ 41,299	\$ 42,270
Investment securities, taxable	4,482	5,401
Investment securities, tax-exempt	1,186	1,467
Other	243	274
Total interest income	47,210	49,412
Interest expense:		
Deposits	8,355	12,405
Short-term borrowings	89	188
Subordinated notes	1,647	1,647
Long-term debt and mandatorily redeemable securities	259	270
Total interest expense	10,350	14,510
Net interest income	36,860	34,902
Provision for loan and lease losses	2,198	4,388
Net interest income after provision for loan and lease losses	34,662	30,514
Noninterest income:		
Trust fees	3,992	3,745
Service charges on deposit accounts	4,236	4,620
Mortgage banking income	444	777
Insurance commissions	1,142	1,465
Equipment rental income	6,038	6,745
Other income	2,971	2,689
Investment securities and other investment gains	130	881
Total noninterest income	18,953	20,922
Noninterest expense:		
Salaries and employee benefits	18,638	18,810
Net occupancy expense	2,320	2,487
Furniture and equipment expense	3,349	2,800
Depreciation - leased equipment	4,805	5,364
Professional fees	1,096	1,514
Supplies and communication	1,394	1,369
FDIC and other insurance	1,676	1,674
Business development and marketing expense	622	567
Loan and lease collection and repossession expense	1,324	1,106
Other expense	3,252	1,419
Total noninterest expense	38,476	37,110

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Income before income taxes	15,139	14,326
Income tax expense	4,531	4,647
Net income	10,608	9,679
Preferred stock dividends and discount accretion	-	(1,711)
Net income available to common shareholders	\$ 10,608	\$ 7,968
Per common share		
Basic net income per common share	\$ 0.43	\$ 0.33
Diluted net income per common share	\$ 0.43	\$ 0.33
Dividends	\$ 0.16	\$ 0.15
Basic weighted average common shares outstanding	24,271,366	24,210,242
Diluted weighted average common shares outstanding	24,279,517	24,215,506

The accompanying notes are a part of the consolidated financial statements.

Table of Contents

1st SOURCE
CORPORATION
CONSOLIDATED STATEMENTS OF
SHAREHOLDERS' EQUITY
(Unaudited - Dollars in thousands,
except per share amounts)

	Total	Preferred Stock	Common Stock	Retained Earnings	Cost of Common Stock in Treasury	Accumulated Other Comprehensive Income (Loss), Net
Balance at January 1, 2010	\$ 570,320	\$ 104,930	\$ 350,269	\$ 142,407	\$ (32,380)	\$ 5,094
Comprehensive Income, net of tax:						
Net Income	9,679	-	-	(1,180,959)	(1,431,795)	
OTHER INCOME (EXPENSE)						
Derivative loss related to Series A and C convertible preferred stock	(3,750)	-				
Bad debt expense - convertible debenture	(50,000)	-				
Interest expense	(54,570)	(70,474)				
Interest expense - accretion of debt	-	(11,712)				
Gain/(loss) on marketable securities	(829,464)	300,473				
Income from litigation settlement	60,000	-				
Other income	2,362	9,268				
TOTAL OTHER INCOME	(875,422)	227,555				
LOSS BEFORE MINORITY INTEREST	(2,056,381)	(1,204,240)				
MINORITY INTEREST IN LOSS OF CONSOLIDATED	11,578	2,615				

SUBSIDIARIES

NET LOSS	\$ (2,044,803)	\$ (1,201,625)
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The accompanying notes are an integral part of these consolidated financial statements.

7

Table of Content

NEXIA HOLDINGS, INC. AND SUBSIDIARIES
 Consolidated Statements of Operations and Comprehensive Loss (Continued)
 (Unaudited)

	For the Three Months Ended March 31,	
	2008	2007
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (6.45)	\$ (111.59)
BASIC AND DILUTED WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	316,794	10,768
COMPREHENSIVE LOSS		
Net Loss	\$ (2,044,803)	\$ (1,201,625)
Change in unrealized value of marketable securities	(828,111)	(61,708)
Reclassification adjustment for permanent loss on marketable securities included in net loss	829,464	(300,473)
Comprehensive Loss	\$ (2,043,450)	\$ (1,563,806)

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

Table of Content

NEXIA HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders' Equity (Unaudited)

For the Quarter ended March 31, 2008

	Number of Preferred Shares	Preferred Stock	Number of Common Shares	Common Stock	APIC	Treasury Stock	Stock Subscriptions Receivable	Other Comprehensive Income/Loss	Retained Deficit	Total Stockholders' Equity
Balance forward, December 31, 2007	10,000,000	\$ 10,000	149,774	\$ 15	\$ 18,290,001	\$ -	\$ (168,663)	\$ (819,556)	\$ (24,181,911)	\$ (6,870,
Additional common stock issued for 69 beneficial shareholders, as a result of the reverse stock split effective December 14, 2007			-							
Receipt of cash for stock subscriptions receivable							54,374			54,
Common stock issued for options exercised			394,500	40	205,810		(102,925)			102,
Common stock issued to Fred Hunzeker			5,750	1	4,099					4,
Common stock issued to Andrew dunham for past contract services			2,100	-	10,500					10,

Convert Cortso Series C preferred stock into common stock issued to Pentony Enterprises LLC for future contract services	3,750	-	18,750	18,
Additional common stock issued for 115 beneficial shareholders, as a result of the reverse stock split effective December 14, 2007	-			
Change option price for issuance on 10/31/2007 to Jaime Catmull from 75% to 50 %			3,750	3,
Two old stock certificates returned to Nexia by R. D. Surber. Authorized common shares number is increased by this number	(228)			
Convert Jared Gold Series C Preferred stock into common stock	20,000	2	3,998	4,
Convert Sean Pasinsky Series	20,600	2	4,118	4,

C preferred
stock into
common stock

Adjust cash
received for
stock
subscriptions
receivable to
correct

amount for
first quarter
2008

3,501

3,

To adjust as a
liability to
stock recipients
amounts
received from
them

in error for
sale of the
stock. Contra
credit is in A/P
- Other

(3,048)

(3,

Adjust for
option shares
issued in the
first quarter
2008,
additional
expense

for difference
between "Fair
Value (Black
Scholes)" and
the market
value

of the option
shares issued

55,683

55,

Adjust for
market value
when common
stock was
issued for
options

exercised
and market
value when

(145,828)

145,828

common stock
was sold

Change in
comprehensive
income (loss),
three months
ended

03/31/2008

828,111

828,

Net loss for
three months
ended

03/31/2008

(2,044,803) (2,044,

Balance, March

31, 2008

10,000,000 \$ 10,000 596,246 \$ 60 \$ 18,447,131 \$ - \$ (67,183) \$ 8,555 \$(26,226,714) \$(7,828,

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

Table of Content

NEXIA HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

For the Three Months
Ended
March 31,
2008 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss	\$ (2,044,803)	\$ (1,243,212)
Adjustments to reconcile net loss to net cash used in operating activities:		
Minority interest in income	(11,578)	(2,622)
Depreciation and amortization expense	50,625	65,031
Abandonment of leasehold improvements	217,419	35,000
Preferred and common stock issued for services and contractual agreements	113,281	-
Stock options issued	110,775	157,692
Derivative loss	3,750	-
Write down investment in marketable securities	785,285	-
Loss on sale of securities	44,179	-
Bad debt expense	50,000	-
Fixed assets impaired	62,348	-
Write down goodwill	32,732	-
Expense receivables from stockholders for sales at values lower than values when stock was issued	-	434,410
Allowance for doubtful accounts receivable	-	(4,500)
Accretion of convertible debenture	-	11,712
Unrealized (gain) loss related to adjustment of derivative to fair value of underlying security	-	41,766
Changes in operating assets and liabilities:		
Receivables	(1,252)	7,578
Accounts receivable - related parties	(1,786)	9,000
Inventory	82,176	57,527
Prepaid expense	251,709	144,723
Accounts payable	134,698	(4,932)
Accounts payable - related parties	(9,556)	63,522
Accrued liabilities	134,234	122,938
Accrued liabilities - related parties	(74,645)	
Net cash used in operating activities	(70,409)	(104,367)

CASH FLOWS FROM INVESTING ACTIVITIES

Sale of marketable securities	21,200	19,345
Purchase of marketable securities	(57,654)	(32,942)
Purchase of capital assets	(3,474)	(46,548)

Net cash provided by (used in) investing activities	(39,928)	(60,145)
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Content

NEXIA HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)
(Unaudited)

	For the Three Months Ended	
	March 31, 2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt and capital lease obligations	\$ (28,699)	\$ (15,920)
Proceeds from note payable	547	-
Pay off loan for land purchase	-	(57,000)
Principal payments on short-term debt	-	(25,000)
Principal payments on short-term debt - related party	-	(45,000)
Proceeds from issuing note payable - related party	-	30,000
Stock subscriptions receivable	101,480	321,741
New loan costs	-	(1,800)
Net cash provided by financing activities	73,328	207,021
NET DECREASE IN CASH AND CASH EQUIVALENTS	(37,009)	42,509
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	95,760	124,158
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 58,751	\$ 166,667
SUPPLEMENTAL DISCLOSURE OF INFORMATION		
CASH PAID FOR:		
Interest	\$ 33,500	\$ 53,282
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for subscriptions receivable	\$ 95,675	\$ 656,830
Common stock issued to vendors applied on accounts payable	\$ -	\$ 126,250

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

Table of Content

NEXIA HOLDINGS, INC. AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
March 31, 2008
(Unaudited)

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements for Nexia Holdings, Inc. and Subsidiaries (the Company) have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted in accordance with such rules and regulations. The information furnished in the interim consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim condensed consolidated financial statements be read in conjunction with the Company's most recent annual consolidated financial statements and notes thereto included in its December 31, 2007 Annual Report on Form 10-K. Operating results for the three months ended March 31, 2008 are not indicative of the results that may be expected for the year ending December 31, 2008 or for any other period.

Restatement

During the second quarter of 2008, the Company realized that the March 31, 2008 financial statements needed to be revised to correct amounts in all of the financial statements. Total assets declined \$424,791. The major changes were declines in investment in marketable securities, inventory, and prepaid expenses totaling \$329,711. Total stockholders' deficit increased by \$424,791. The major cause of the deficit increase was an increase in loss on marketable securities of \$785,285 and a decrease in comprehensive loss of \$589,376. The net loss increased by \$924,023. The primary contributor to the loss increase was the increase in loss on marketable securities of \$785,285. The corrected balance sheet, statement of operations, and statement of cash flows are included in these financial statements. The effects of the restatement were as follows:

	As Originally Reported	Restatment and Reclassification	As Restated
Condensed Balance Sheet as of March 31, 2008			
Investment in marketable securities	\$ 426,509	\$ (195,909)	\$ 230,600
Inventory	334,271	(75,000)	259,271
Prepaid expenses	194,933	(58,802)	136,131
Total Current Assets	\$ 1,040,881	\$ (329,711)	\$ 711,170
Property and equipment, net of accumulated depr'n.	\$ 1,733,706	\$ (62,348)	\$ 1,671,358
Total Net Property and Equipment	\$ 3,278,600	\$ (62,348)	\$ 3,216,252
Goodwill	\$ 227,681	\$ (32,732)	\$ 194,949
Total Other Assets	273,289	(32,732)	240,557
TOTAL ASSETS	\$ 4,592,770	\$ (424,791)	\$ 4,167,979
Common stock	\$ 59,647	\$ (59,587)	\$ 60
Additional paid-in capital	18,477,688	(30,557)	18,447,131

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Accumulated comprehensive loss	(580,821)	589,376	8,555
Accumulated deficit	(25,302,691)	(924,023)	(26,226,714)
Total Stockholders' Deficit	(7,403,360)	(424,791)	(7,828,151)
Total Liabilities and Stockholders' Deficit	\$ 4,592,770	\$ (424,791)	\$ 4,167,979

Condensed Statement of Operations

For the three months ended March 31, 2008

Cost of revenue	\$ 367,230	\$ 64,692	\$ 431,922
Gross Income	448,118	(64,692)	383,426
General and administrative expense	1,040,211	(91,173)	949,038
Consulting fees	172,149	65,667	237,816
Loss on impairment of assets	-	95,079	95,079
Total Expenses	1,277,393	69,573	1,346,966
Operating Loss	(829,275)	(134,265)	(963,540)
Gain/(loss) on marketable securities	(44,179)	(785,285)	(829,464)
Loss on disposal of assets	(213,975)	(3,444)	(217,419)
Total Other Loss	(304,112)	(788,729)	(1,092,841)
Minority interest in income	12,607	(1,029)	11,578
Net Loss	(1,120,780)	(924,023)	(2,044,803)
Basic and Diluted Loss Per Common Share	\$ -	\$ (6.45)	\$ (6.45)

Statement of Cash Flows

For the three months ended March 31, 2008

Net loss	\$ (1,120,780)	\$ (924,023)	\$ (2,044,803)
Abandonment of leasehold improvements	213,975	3,444	217,419
Preferred and common stock issued for services and contractual agreements	68,349	44,932	113,281
Stock options issued	110,175	600	110,775
Derivative loss	-	3,750	3,750
Expense receivables from stockholders for sales at values lower than values when stock was issued	145,828	(145,828)	-
Write down investment in marketable securities	-	785,285	785,285
Loss on sale of securities	-	44,179	44,179
Bad debt expense	-	50,000	50,000
Fixed assets impaired	-	62,348	62,348
Write down goodwill	-	32,732	32,732
Receivables	(1,313)	61	(1,252)
Inventory	7,177	74,999	82,176
Prepaid expense	240,101	11,608	251,709
Accounts payable	131,650	3,048	134,698
Net Cash Used in Operating Activities	\$ (117,544)	\$ 47,135	\$ (70,409)
Sale of marketable securities	\$ 89,200	\$ (68,000)	\$ 21,200
Purchase of marketable securities	(81,475)	23,821	(57,654)
Purchase of capital assets	(15,326)	11,852	(3,474)
Net Cash Used in Investing Activities	\$ (7,601)	\$ (32,327)	\$ (39,928)
Proceeds from issuing note payable	\$ 62,460	\$ (61,913)	\$ 547
Stock subscriptions receivable	54,375	47,105	101,480
Net Cash Provided by Financing Activities	88,136	(14,808)	73,328
Net Decrease in Cash and Cash Equivalents	\$ (37,009)	\$ -	\$ (37,009)

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

FASB Interpretation No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" (FAS 159) - In February 2007, the FASB issued Statement No. 159. FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The provisions of FAS 159 become effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact that FAS 159 will have on our future financial statements if we elect to adopt it.

FASB Statement No. 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, and requires all entities to report noncontrolling (minority) interests in subsidiaries within equity in the consolidated financial statements, but separate from the parent shareholders' equity. Statement No. 160 also requires any acquisitions or dispositions of noncontrolling interests that do not result in a change of control to be accounted for as equity transactions. Further, the Statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. FAS 160 is effective for fiscal years beginning after December 15, 2008. We are currently assessing the impact of adopting FAS 160 on our results of operations and financial condition.

FASB Statement No. 161, "Disclosures about Derivatives Instruments and Hedging Activities", is an amendment of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 161"). In March 2008, the FASB issued SFAS No. 161, which changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures stating how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. FAS 161 requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. FAS 161 also encourages but does not require comparative disclosures for earlier periods at initial adoption. The Company is currently evaluating whether the adoption of FAS 161 will have an impact on our financial statements.

NOTE 3 - BUSINESS CONDITIONS

The Company's consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred cumulative losses from operations through March 31, 2008 of \$26,226,714, has a working capital deficit of \$2,206,242 and a stockholders' deficit of \$7,828,151 at March 31, 2008. In addition, the Company has defaulted on several of its liabilities, has closed two retail clothing stores, and has entered into agreements to sell two of its commercial real estate properties. These matters raise substantial doubt about the Company's ability to continue as a going concern.

Primarily, revenues have not been sufficient to cover the Company's operating costs. Management's plans to enable the Company to continue as a going concern include the following:

- Increase retail sales of Landis Salons, Inc. and Style Perfect
 - Closing underperforming retail locations
 - Using stock and option-based compensation to cover payroll and other permissible labor costs
- Raise capital through the Company's equity line of credit upon the effectiveness of a pending S-1 Registration Statement
- Increasing revenues from rental properties by implementing new marketing programs

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- Making certain improvements to certain rental properties in order to make them more marketable
- Reduce expenses through consolidating or disposing of certain subsidiary companies
- Convert certain debt into shares of the Company's common stock
- Purchasing revenue producing real estate

There can be no assurance that the Company can or will be successful in implementing any of its plans or that it will be successful in enabling the Company to continue as a going concern. The Company's consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Table of Content

NOTE 4 - COMMON STOCK

Nexia Holdings, Inc. issued a board resolution dated July 2, 2008 authorizing a one post reverse share for one thousand pre-reverse shares in a stock split to be effective on July 25, 2008. The Company's Common Stock with a par value of \$0.0001 will retain the number of authorized shares of Common Stock at 5,500,000,000. There were 2,362,995,732 shares of common stock outstanding on the date of the reverse stock split. The financial statements have been restated on a retro-active basis for the effect of the reverse stock split for all periods presented.

The Company has issued options to purchase Common Stock and straight shares to employees and outside contractors for services during the years 2008 and 2007. The majority of stock issued is from the exercise of stock options. Options are issued with either a "floating" exercise price, usually set at 75% of the market price on the sale date, or the options are granted with a fixed price set by the Board of Directors when the option is granted to the recipient. The floating exercise price is determined when the employee or service provider finalizes the exercise of the option by a sale of the shares underlying the option or pays the exercise price. In accordance with SFAS No. 123 (R), the value of shares issued, based upon the options, is equal to the fair value (market price) on the date of issuance.

During the three months ended March 31, 2008, the Company issued 402,350 shares (All shares are reflecting the post reverse split on 7-25-08) of common stock, valued at \$220,450. Included are 339,500 of the above shares that were issued as option shares to employees with a value of \$148,900 in exchange for services rendered. The Company had a decrease in its receivable from stockholders of \$101,480 for the exercise price due to the Company from outstanding option shares. Nexia received \$61,625 in cash for its receivable from stockholders. The Company recorded an expense of \$145,828 from decreases in the receivable from stockholders in the first quarter of 2008. Nexia also recorded an adjustment of \$3,048 to the receivable from stockholders for overpayments of the stock option price. The ending balance of stock subscriptions receivable at March 31, 2008 was \$67,183.

NOTE 5 - RELATED PARTY TRANSACTIONS

In 2007, the President of the Company loaned \$112,908 as a short-term, interest-free advance for the purchase of inventory and operational expenses which remains outstanding and is reported in accounts payable – related parties on the March 31, 2008 balance sheet. In addition, \$111,661 of accrued interest was owed to the President of the Company as of March 31, 2008 for interest earned on past related party loans and \$295,458 on unpaid salaries included on the balance sheet under accrued interest – related parties and accrued liabilities.

NOTE 6 - INVESTMENT IN MARKETABLE EQUITY SECURITIES

The following is a summary of the Company's investment in available-for-sale securities as of March 31, 2008 and December 31, 2007:

	March 31, 2008	December 31, 2007
Equity securities, free trading:		
Gross unrealized gains	\$ 8,665	\$ 2,227
Gross unrealized losses	(110)	(821,783)
Net unrealized loss	\$ 8,555	\$ (819,556)
Fair market value	\$ 23,600	\$ 195,499

Change in the unrealized loss on available-for-sale securities during the three months ended March 31, 2008 is as follows:

Beginning balance	\$	(819,556)
Decrease in unrealized holding loss		828,111
Ending balance	\$	8,555

Change in the unrealized loss on available-for-sale securities during the three months ended March 31, 2008 is as follows:

The Company recognized an other-than-temporary loss on its investments during the three months ended March 31, 2007 and 2008 in the amount of \$0 and \$785,285, respectively. Gross realized losses of \$44,179 from the sale of marketable securities during the three months ended March 31, 2008 that were based on the specific identification of the securities sold. Proceeds from the sale were \$21,200.

NOTE 7 - INVENTORY

The Company calculates its inventory on a first-in, first-out basis. Below shows the inventory broken out by class:

	March 31, 2008	December 31, 2007
Raw Materials	\$ -	\$ 20,529
Work in Process	21,454	41,454
Finished Goods	237,817	271,698
Total Inventory	\$ 259,271	\$ 333,681

The Company determined that \$75,000 worth of its inventory does not have a full realizable value when it will be sold and has reclassified that amount as cost of goods sold for the three months ended March 31, 2008.

Table of Content

NOTE 8 - SEGMENT INFORMATION

Nexia Holdings, Inc has three reportable segments in which it operates using the guidelines set forth in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". The reportable segments are as follows: Salon businesses; the Black Chandelier clothing manufacturing and retail sales operations and Real Estate and General including the purchase, sale and rental of commercial real estate.

Summarized financial information concerning reportable segments is shown in the following table:

	Period Ended March 31,	Salon	Retail	Real Estate & General	Total
Revenues	2008	\$ 577,511	\$ 177,909	\$ 59,928	\$ 815,348
	2007	424,863	267,978	45,933	738,774
Net income (loss) applicable to segment	2008	67,168	(580,186)	(1,531,785)	(2,044,803)
	2007	(20,350)	(252,061)	(929,214)	(1,201,625)
Total assets (net of intercompany accounts)	March 31, 2008	548,191	(934,869)	4,554,657	4,167,979
	December 31, 2007	465,608	(632,609)	5,012,486	4,845,485

NOTE 9 - LOSS ON DISPOSAL OF ASSETS

During the quarter ended March 31, 2008, two Black Chandelier stores, operated by Gold Fusion Laboratories, Inc., a wholly-owned subsidiary, were closed. The leasehold improvements at both store locations were expensed when abandoned. The schedule below shows the amounts that were expensed:

	Fashion Place, Salt Lake City	Riverwods, Provo	Total
Cost of leasehold improvements	\$ 191,746	\$ 71,568	\$ 263,314
Deposits Forfeited	549	2,895	3,444
Accumulated depreciation	(33,655)	(15,684)	(49,339)
Loss on abandonment	\$ 158,640	\$ 58,779	\$ 217,419

NOTE 10 – IMPAIRMENT OF ASSETS

The Company performed an evaluation of its assets for impairment as of December 31, 2007 and March 31, 2008. The Company determined that goodwill was impaired by \$254,396 and \$32,731, respectively, and leasehold improvements and equipment was impaired by \$0 and \$62,348, respectively.

NOTE 11 - NOTE PAYABLE – MARSHALL HOLDINGS INTERNATIONAL

The Company's subsidiary, Diversified Holdings 1, Inc. ("DH1"), gave to Marshall Holdings International a \$50,000 promissory note payable dated March 4, 2008. The note carries an interest rate of 10%. The monthly payment is \$5,000 for 10 months to December 5, 2008. One payment was made by March 31, 2008. The note is unsecured and has not been written off.

In exchange for the promissory note payable, DH1 received from Marshall a convertible debenture for \$50,000 dated March 5, 2008. The debenture carries an interest rate of 24%, and it is due in full by March 5, 2009. The debenture can be converted into common stock any time 360 days following execution of the agreement. As of March 31, 2008, the debenture was considered uncollectible, and was written off to bad debt expense

NOTE 12 - SUBSEQUENT EVENTS

In April of 2008, the Company cancelled 30,000 shares of Series C convertible preferred stock that were issued during 2007. The shares were issued to an individual for compensation of future services. Upon termination of employment the unvested shares were voluntarily returned for which no compensation was given.

Subsequent to March 31, 2008, the Company issued 925,150 shares (post reverse stock split 7-28-08) of common stock under its 2008 benefit plan as follows:

Issuance of 105,000, common shares for options exercised - issued to four contractors for services. Issuance of 730,150 common shares for options exercised shares - issued to ten employees for past services. Issuance of 50,000 common shares for options exercised - issued to two consultants for past services. Issuance of 40,000 straight common shares – issued to a contractor for past services rendered.

The Company has also issued an additional 959,750 shares of common stock from conversions of Series C Preferred stock from March 31, 2008 through August 4, 2008. There was an additional 888 shares added for fractional shares rounded up as a result of the reverse stock split.

Nexia Holdings, Inc. issued a board resolution dated July 2, 2008 authorizing a one post reverse share for one thousand pre-reverse shares in a stock split to be effective on July 25, 2008. The Company's Common Stock with a par value of \$0.0001 will retain the number of authorized shares of Common Stock at 5,500,000,000. There were 2,362,995,732 shares of common stock outstanding on the date of the reverse stock split. The financial statements have been restated on a retro-active basis for the effect of the reverse stock split for all periods presented.

On August 14, 2008 the board of directors authorized the issuance of 38,600,000 shares to Diversified Holdings X, Inc., a related party for payment in full for a note and accrued interest in the amount of \$385,728 owed by Gold Fusion.

On August 14, 2008 the board of directors authorized the issuance of 333,400 shares of restricted common stock for consulting services.

Fashion Place, L.L.C., a Delaware limited liability company vs. Gold Fusion Laboratories, Inc., a Nevada corporation and Nexia Holdings, Inc., a Nevada corporation. This action was filed on March 31, 2008 in the Third Judicial District Court of Salt Lake County, State of Utah, Civil case No. 080905398. The suit seeks recovery from Nexia as a Guarantor of the lease obligations of Gold Fusion Laboratories for space lease in the Fashion Place Mall. The suit

alleges damages of \$25,676, plus late fees, interest, attorney's fees and costs. Additional claims for unpaid rent are asserted until the space can be leased to a replacement tenant. Plaintiff filed a Motion for Summary Judgment that has been granted by the trial court, final damages to be awarded in the Judgment have not yet been determined but are expected to be in the amount of not less than \$76,000.

Table of Contest

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Regarding Forward-Looking Statements

The information herein contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Investors are cautioned that all forward looking statements involve risks and uncertainty, including, without limitation, the ability of Nexia to continue its business strategy, changes in the real estate markets, labor and employee benefits, as well as general market conditions, competition, and pricing. Although Nexia believes that the assumptions underlying the forward looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward looking statements included in the Form 10-Q will prove to be accurate. In view of the significant uncertainties inherent in the forward looking statements included herein, the inclusion of such information should not be regarded as a representation by Nexia or any other person that the objectives and plans of Nexia will be achieved.

General

Nexia's current operations consist of three principal areas: (1) operation of the design and retail operations of Black Chandelier fashion lines through the Company's subsidiary Gold Fusion Laboratories, Inc. (GFL); (2) the operation of the Landis Lifestyle Salon through Nexia's ownership interest in Landis, LLC and Newby Salons, LLC and (3) the acquisition, leasing and selling of real estate. The following discussion examines Nexia's financial condition as a result of operations for the three month period ended March 31, 2008 and compares those results with the comparable periods in 2007.

Gold Fusion Laboratories Retail Operations

In August of 2006, Gold Fusion Laboratories, Inc., a 100% owned subsidiary of the Company signed an asset purchase agreement with Diversified Holdings X, Inc. (DHX) to acquire the rights, assets, inventories and receivables of the Black Chandelier retail design and manufacturing operations. This acquisition closed on September 20, 2006.

Black Chandelier operations as of March 31, 2008 include two retail outlets operated under the Black Chandelier label, Trolley Square (Salt Lake City, Utah) and the Gateway shopping center (Salt Lake City, Utah) as well as the online shopping site, www.blackchandelier.com.

Gold Fusion had sales of \$177,909 during the three months ended March 31, 2008 compared to \$267,978 for the same period in 2007. The decrease in revenue of \$90,069, or 34% was created from the two stores that were closed in the first quarter of 2008.

Net losses for Gold Fusion operations were \$580,186 for the three month period ended March 31, 2008 compared to \$252,061 for the same period in 2007. The increase in losses for the first quarter of 2008 compared with 2007 was \$328,125 or 130%, and was due to a large decrease in sales at all locations. The Company felt that they needed to close two of the stores to reduce further losses.

Black Chandelier is a lifestyle company that produces clothing, candles and active wear. The mission of Black Chandelier is to offer products designed with deliberateness and wild inspiration that indulge an individual's innate drive to be unique. The overarching concept is to provide the consumer with an affordable alternative to "mass-market" offerings by extending a product that conveys a sense of eccentricity that stands apart in quality, style and price, from most of the homogenous fare being offered consumers by the mainstream apparel market. The clothing items are

produced in small runs keeping merchandise offered in the stores fresh.

Landis, LLC Salon Operations

Nexia currently owns 85% of Landis, LLC (“Landis”). In November 2005, the Company acquired a 20% equity interest in Landis for a \$100,000 cash payment. Landis operates an Aveda™ lifestyle salon that features Aveda™ products for retail sale. Landis is controlled by Nexia’s Chief Executive Officer. Nexia has consolidated Landis for accounting purposes, because of its ownership interest and common control with our president. Nexia signed an agreement to acquire Mr. Surber’s 60% ownership interest in Landis in the third quarter of 2006. As consideration for that acquisition, Nexia and Diversified Holdings I, Inc. delivered to Mr. Surber (1) a promissory note in the amount of \$250,000, bearing interest at the rate of 24% per annum, due in five annual payments, (2) issuance of 75,000 shares of Nexia’s Series A Preferred Stock and (3) issuance of 2,000,000 shares of Nexia’s Series B Preferred stock. A 5% interest was acquired from Seth Bullough in exchange for the issuance by Nexia of 5,000 shares of Series A Preferred Stock.

Landis Salon has two locations in Salt Lake City, Utah and Bountiful, Utah. They reported revenue of \$577,511 during the three months ended March 31, 2008 compared to \$424,863 for the same period in 2007. The increase in revenue of \$152,648, or 36% came from the growth in customer base at the Salt Lake City location and the addition of a new store in Bountiful that was not yet purchased during the first quarter of 2007.

Net income for Landis operations was \$67,168 for the three month period ended March 31, 2008 compared to a loss of \$20,350 for the same period in 2007. The increase in income for the first quarter of 2008 compared with 2007 was \$87,518 or 430%, due to increased sales at the Salt Lake location and better control over operating expenses.

Additional information on the Landis Salon can be found on its website at www.landissalon.com.

Table of Content

Real Estate Operations

Nexia's objective, with respect to real estate operations, is to acquire, through subsidiaries, properties which management believes to be undervalued and which Nexia is able to acquire with limited cash outlays. Nexia will consider properties anywhere within the continental United States. Nexia attempts to acquire such properties by assuming existing favorable financing and paying the balance of the purchase price with nominal cash payments or through the issuance of shares of common stock. Once such properties are acquired, Nexia leases them to primarily commercial tenants. Nexia also makes limited investments to improve the properties with the objective of increasing occupancy and cash flows. Management believes that, with limited improvements and effective management, properties can be sold at a profit within a relatively short period of time. Nexia currently operates three real estate subsidiaries: Wasatch Capital Corporation, Salt Lake Development Corporation and Kearns Development Corporation.

Nexia recorded rental revenues of \$59,928 for the three months ended March 31, 2008 as compared to \$45,933 for the comparable period in 2007. The increase in the three month rental revenue of \$13,995, or 30%, was due to increases in most of the rental properties and an additional tenant in the Downtown building.

Nexia had a net loss from real estate operations of \$8,985 for the three months ended March 31, 2008, compared to a loss of \$33,269 for the comparable period in 2007. The decrease in the three month losses of \$24,284, or 73%, is attributable to the additional income that was generated by increased rents, a new tenant in the Downtown building, and reduction in depreciation for the properties held for sale.

Nexia will continue efforts to improve profitability and cash flow by working to increase occupancy and rental income from those properties currently held and to seek new investment opportunities as they can be located and evaluated. Accordingly, Nexia hopes to not only minimize any real estate cash flow deficit, but also generate sufficient cash to record a substantial profit upon property disposition.

Company Operations as a Whole:

Revenue

Gross revenue for the three month period ended March 31, 2008, was \$815,348 as compared to \$738,774 for the same period in 2007. The increase in the three month revenue of \$76,574, or 10%, is due to an additional salon location and a new tenant at one of the buildings.

Operating Losses

Nexia recorded operating losses of \$1,180,959 for the three month period ended March 31, 2008, compared to losses of \$1,431,795 for the comparable period in the year 2007. The decrease in three month operating losses of \$250,836, or 18%, was the result of reducing the amount of outside services being paid for with stock, reduction in Company stock promotion, reduced payroll expenses and property rental from closing two locations of the Black Chandelier operations.

Net Loss

Nexia recorded net losses of \$2,044,803 for the three month period ended March 31, 2008, as compared to net losses of \$1,201,625 for the comparable period in 2007. The increase in the three month net losses of \$843,178, or 70%, compared to the same period in 2007, reported above. The three main reasons for the increased losses were from losses on marketable securities and losses from impairment and disposal of assets.

Nexia may not operate at a profit through fiscal 2008. Since Nexia's activities are tied to its ability to operate its retail and salon operations and real estate properties at a profit, future profitability or its revenue growth tends to follow changes in the markets for these activities. There can be no guarantee that profitability or revenue growth can be realized in the future.

Expenses

General and administrative expenses for the three month period ended March 31, 2008, were \$949,038 compared to \$1,470,964 for the same period in 2007. The decrease in three month expenses of \$521,926, or 35%, was due primarily from reducing the amount of outside services being paid for with stock, reduction in Company stock promotion, reduced payroll expenses and property rental from closing two locations of the Black Chandelier operations.

Depreciation and amortization expenses for the three months ended March 31, 2008, were \$50,625 compared to \$51,902 for same period in 2007. The decrease in the three month expense of \$1,277, or 2%, was attributable two properties are being held for sales and did not receive any depreciation in the first quarter of 2008.

Table of Contents

Capital Resources and Liquidity

On March 31, 2008, Nexia had current assets of \$711,170 and \$4,167,979 in total assets compared to current assets of \$1,036,555 and total assets of \$4,845,485 as of December 31, 2007. Nexia had net working capital deficit of \$2,206,242 at March 31, 2008, as compared to a net working capital deficit of \$1,694,448 at December 31, 2007. The increase in working capital deficit of \$511,794 is due primarily from increases in accounts payable, accrued interest, and a reduction in prepaid expenses.

Cash used by operating activities was \$70,409 for the three months ended March 31, 2008, compared to cash used by operating activities of \$104,367 for the comparable three month period in 2007. The decrease in cash used of \$33,958 was attributable mostly to the increases in accrued liabilities, accounts payable, and prepaid expenses for March 31, 2008 compared to the same period for 2007. There was also a large write-down of marketable securities during the first three months of 2008.

Net cash used by investing in activities was \$39,928 for the three months ended March 31, 2008, compared to net cash used by investing activities of \$60,145 for the three months ended March 31, 2007. The decrease of cash used in the sum of \$20,217 was attributable primarily to less capital assets being purchased during the first quarter of 2008.

Cash provided by financing activities was \$73,328 for the three months ended March 31, 2008, compared to cash provided of \$207,021 for the three months ended March 31, 2007. The decrease of \$133,693 was due primarily to a larger receipt of stock subscriptions receivable during the first quarter of 2007.

Nexia may experience occasional cash flow shortages due to debt service on real estate holdings and willingness to acquire properties with negative cash flow. To cover these shortages, Nexia may need to issue shares of its common stock in payment for services rendered. The Company is currently experiencing challenges with regard to cash flows. We are looking at several options to improve this situation, including having signed for an equity line of credit with Dutchess Private Equities Fund. The agreement with Dutchess provides that, following notice to Dutchess, Nexia may put to Dutchess up to \$10 million in shares of our common stock for a purchase price equal to 95% of the lowest closing best bid price on the Over-the-Counter ("OTC") Bulletin Board of our common stock during the five day period following that notice. The number of shares that we will be permitted to put pursuant to the agreement will be either: (a) 200% of the average daily volume of our common stock for the ten trading days prior to the applicable put notice, multiplied by the average of the three daily closing "best bid" prices immediately preceding the day we issue the put, or (b) \$100,000; provided that in no event will the put amount be more than \$1,000,000 with respect to any single put. (Best Bid is a defined term in the agreement as the highest posted bid price for the common stock.) In turn, Dutchess has indicated that it will resell the shares of common stock in the open market, resell our shares to other investors through negotiated transactions or hold our shares in its portfolio. These shares are made the subject of an S-1 Registration Statement that has not yet been declared effective and for which the Company is currently drafting an S1-1 amendment.

Stock and Options To Employees and Contractors

Nexia's subsidiary, Diversified Holdings I, Inc. relied on the issuance of Nexia stock under Nexia's S-8 Registration Statement and 2008 Employee Benefit Plan for a large portion of employee salary payments during the first quarter of 2008. During the three month period ended March 31, 2008, the Company issued, pursuant to S-8 Registration Statements, 339,500 shares (post reverse stock split 7-25-08) as compensation to ten persons in exchange for services provided to the Company. These services/shares were valued at \$148,900 and have been expensed in the current period. If the Company's stock is sold for less than when it was issued, there will be an additional expense. If the stock is sold for more than when it was issued, there will not be an additional expense. The differences in values of the services/shares in future periods may be higher or lower than the \$145,828 due to the shares being sold at a lower or

higher price.

Impact of Inflation

Nexia believes that inflation has had a negligible effect on operations over the past three years. Nexia believes that it can offset inflationary increases in the cost of materials and labor by increasing sales and improving operating efficiencies.

Off Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements.

Known Trends, Events, or Uncertainties

General Real Estate Investment Risks

Nexia's investments are subject to varying degrees of risk generally incident to the ownership of real property. Real estate values and income from Nexia's current properties may be adversely affected by changes in national or local economic conditions and neighborhood characteristics, changes in interest rates and in the availability, cost and terms of mortgage funds, the impact of present or future environmental legislation and compliance with environmental laws, the ongoing need for capital improvements, changes in governmental rules and fiscal policies, civil unrest, acts of God, including earthquakes and other natural disasters which may result in uninsured losses, acts of war, adverse changes in zoning laws and other factors which are beyond the control of Nexia.

Value and Illiquidity of Real Estate

Real estate investments are relatively illiquid. The ability of Nexia to vary its ownership of real estate property in response to changes in economic and other conditions is limited. If Nexia must sell an investment, there can be no assurance that Nexia will be able to dispose of it in the time period it desires or that the sales price of any investment will recoup the amount of Nexia's investment.

Property Taxes

Nexia's real property is subject to real property taxes. The real property taxes may increase or decrease as property tax rates change and as the property is assessed or reassessed by taxing authorities. If property taxes increase, Nexia's operations could be adversely affected.

Table of Contest

ITEM 3. CONTROLS AND PROCEDURES

Nexia's president acts both as the Company's chief executive officer and chief financial officer ("Certifying Officer") and is responsible for establishing and maintaining disclosure controls and procedures for Nexia. The Certifying Officer has concluded (based on his evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that the design and operation of Nexia's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934) are not effective and adequate in areas disclosed below.

As of the end of the period covered by this report, the Company conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the Company's internal control, disclosure controls, and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the 1934 Act. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that there were a number of adjusting entries initiated by the Company after the auditors' field work was completed. This is evidence of material deficiencies in the Company's disclosure controls and procedures. The Company also performed procedures in completing these financial statements for the period ended March 31, 2008 to ensure that the amounts and disclosures included were fairly presented in all material respects in accordance with GAAP.

This quarterly report does not include an attestation report of the Company's registered public accounting firm regarding internal controls over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Nexia is currently designing procedures to test and validate the quality of our internal controls. Management will take measures at the end of each quarter in 2008 to review the numbers carefully for errors and adjustments, if needed. We perform inventory counts at each quarter and adjust inventory accordingly. Accounting personnel look for discrepancies from our pre-count inventory numbers and our post-count numbers and fix weaknesses in the control process. We balance our bank statements to our daily sales and deposits made to verify sales are being recorded correctly, and cash and inventory are secured from most kinds of fraud. All checks are signed and approved by Richard Surber, the President and CEO of the Company. He is the only signer on all bank accounts. All use of credit cards is approved by Richard Surber, and they are usually used for payment of bills. Someone in accounting, other than those authorized to use the credit cards, reconciles the balances.

We review each account balance for all subsidiaries in the consolidation, after we have completed recording all transactions and adjusting balances. This is done to verify that the accounts reflect the correct balance and that required adjustments have been made. We are working to improve our procedures in this area.

We plan to hire another Sr. Accountant in 2008. This will give the controller the ability to spend significantly more time reviewing accounting records and financial statements before a quarterly review and year-end audit. This should enable us to reduce errors in accounting and, ultimately, it should eliminate material mistakes within our financial statements. It will also enable us to review more frequently accounting procedures and controls and make improvements. The additional Sr. Accountant should enable us to timely file our reports with the SEC.

In conclusion management has found a material weakness in its internal controls and procedures. On July 23, 2008 Hansen, Barnett & Maxwell has advised management that the internal controls necessary for the Company to develop reliable financial statements do not exist. Management's goals are to make the changes stated above, along with others that management may find necessary, and to complete a written, comprehensive document on our internal control and management procedures.

Table of Content

PART II-OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Since the filing of Nexia's 10-K for the year ended December 31, 2007, no material changes have occurred to the legal proceedings reported therein. For more information, please see Nexia's Form 10-K for the year ended December 31, 2007 filed May 15, 2008.

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

There were no unregistered shares sold during the period.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits. Exhibits required to be attached by Item 601 are listed in the Index to Exhibits on page 27 of this Form 10-Q, and are incorporated herein by this reference.

(b) Reports on Form 8-K During the period covered by this report, Nexia filed 1 Form 8-K report.

1. On February 12, 2008, the Company filed a form 8-K reporting on the closing of two retail stores by the fashion subsidiary of the Company.

Subsequent to the end of the quarter ended June 30, 2007, Nexia has filed 1 Form 8-K reports

1. On May 1, 2008, the Company filed a form 8-K reporting on the reorganization of its salon business and the transfer of ownerships in Landis Salons, Inc. and Newby Salons, LLC to Green Endeavors, Ltd.

Table of Content

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 4st day of August, 2008.

Date: August 4, 2008

Nexia Holdings, Inc.

By:

/s/ Richard Surber
Richard Surber
President and Director

20

Table of Contest

INDEX OF EXHIBITS

Exhibit No.	Exhibit Page No.	Description
3(i)(a)	*	Articles of Incorporation of the Company in Colorado, 1987. (Incorporated by reference to the Company's Form SB-2 as filed with the Securities and Exchange Commission on January 12, 2006).
3(i)(b)	*	Articles of Amendment to change the name of the Company. (Incorporated by reference to the Company's Form SB-2 as filed with the Securities and Exchange Commission on January 12, 2006).
3(i)(c)	*	Articles of Incorporation of Kelly's Coffee Group, Inc. filed with the Secretary of State of Nevada on August 3, 2000. (Incorporated by reference to the Company's Form SB-2 as filed with the Securities and Exchange Commission on January 12, 2006).
3(i)(d)	*	Articles of Merger merging Kelly's Coffee Group, Inc., a Colorado Corporation into Kelly's Coffee Group, Inc., a Nevada Corporation, filed with the Secretary of State of Colorado on September 22, 2000, and with the Secretary of State of Nevada on October 5, 2000. (Incorporated by reference to the Company's Form SB-2 as filed with the Securities and Exchange Commission on January 12, 2006).
3(i)(e)	*	Restated Articles of Incorporation of the Company. (Incorporated by reference to the Company's Form SB-2 as filed with the Securities and Exchange Commission on January 12, 2006).
3(i)(f)	*	Amendment to the Articles of Incorporation changing the Company's name from Kelly's Coffee Group, Inc. to Nexia Holdings, Inc. (Incorporated by reference to the Company's Form SB-2 as filed with the Securities and Exchange Commission on January 12, 2006).
3(ii)	*	Bylaws of Nexia Holdings, Inc. (Incorporated by reference to the Company's Form SB-2 as filed with the Securities and Exchange Commission on January 12, 2006).
4	*	Form of certificate evidencing shares of "Common Stock" in the Company. (Incorporated by reference to the Company's Form SB-2 as filed with the Securities and Exchange Commission on January 12, 2006).
10(i)	*	February 1, 2007 Consulting Agreement with Target IR of Bigfork, Montana to provide services including marketing, strategic planning and financial matters for a period of one month in exchange for a cash payment in the sum of \$50,000. (Incorporated by reference from the 10-KSB for the year ended December 31, 2006 filed by the Company on April 19, 2007.)
10(ii)	*	April 10, 2007 Consulting Agreement with Target IR of Bigfork, Montana to provide services including marketing, strategic planning and financial matters for a period of two months in exchange for a cash payment in the sum of \$50,000. (Incorporated by reference from the 10-KSB for the year ended December 31, 2006 filed by the Company on April 19, 2007.)
31.1		<u>CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.</u>
31.2		<u>CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.</u>
31.2		<u>CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.</u>

Other		
99(i)	*	January 2, 2008, a Stock Option Agreement between the Company and Andrew Dunham granting 2,100,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(ii)	*	January 11, 2008, a Stock Option Agreement between the Company and Shauna Postma granting 5,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(iii)	*	January 11, 2008, a Stock Option Agreement between the Company and Fredrick Hunzeker granting 5,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(iv)	*	January 11, 2008, a Stock Option Agreement between the Company and Pamela Kushlan granting 5,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(v)	*	January 11, 2008, a Stock Option Agreement between the Company and Morgen Swenson granting 5,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(vi)	*	January 11, 2008, a Stock Option Agreement between the Company and John Mortensen granting 5,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(vii)	*	January 11, 2008, a Stock Option Agreement between the Company and Guy Cook granting 5,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(viii)	*	January 11, 2008, a Stock Option Agreement between the Company and Michael Golightly granting 5,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(ix)	*	January 25, 2008, a Stock Option Agreement between the Company and Jared Gold granting 5,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(x)	*	January 25, 2008, a Stock Option Agreement between the Company and Jaime Catmull granting 5,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)

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- 99(xi) * January 25, 2008, a Stock Option Agreement between the Company and Morgen Swenson granting 5,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xii) * January 25, 2008, a Stock Option Agreement between the Company and Megan M. Jesse granting 5,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xiii) * January 25, 2008, a Stock Option Agreement between the Company and Michael Golightly granting 5,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately.
- 99(xiv) * February 4, 2008, a Stock Option Agreement between the Company and Andrew Dunham granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xv) * February 6, 2008, a Stock Option Agreement between the Company and Jared Gold granting 5,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xvi) * February 6, 2008, a Stock Option Agreement between the Company and Pamela Kushlan granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xvii) * February 6, 2008, a Stock Option Agreement between the Company and Fredrick Hunzeker granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xviii) * February 6, 2008, a Stock Option Agreement between the Company and Shauna Postma granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xix) * February 6, 2008, a Stock Option Agreement between the Company and John Mortensen granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xx) * February 14, 2008, a Stock Option Agreement between the Company and Richard N. Smith granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xxi) *

		February 14, 2008, a Stock Option Agreement between the Company and Michael Golightly granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxii)	*	February 22 2008, a Stock Option Agreement between the Company and Jared Gold granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxiii)	*	February 22 2008, a Stock Option Agreement between the Company and Shauna Postma granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxiv)	*	February 22 2008, a Stock Option Agreement between the Company and Fredrick Hunzeker granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxv)	*	February 22 2008, a Stock Option Agreement between the Company and Pamela Kushlan granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxvi)	*	February 22 2008, a Stock Option Agreement between the Company and John Mortensen granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxvii)	*	February 22 2008, a Stock Option Agreement between the Company and Guy Cook granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxviii)	*	February 22 2008, a Stock Option Agreement between the Company and Michael Golightly granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxix)	*	February 22 2008, a Stock Option Agreement between the Company and Jaime Catmull granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxx)	*	February 22 2008, a Stock Option Agreement between the Company and Anthony Newby granting 19,500,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxxi)	*	

		March 20 2008, a Stock Option Agreement between the Company and Shauna Postma granting 20,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxxii)	*	March 20 2008, a Stock Option Agreement between the Company and Fredrick Hunzeker 25,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxxiii)	*	March 20 2008, a Stock Option Agreement between the Company and Pamela Kushlan granting 20,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxxiv)	*	March 20 2008, a Stock Option Agreement between the Company and John Mortensen granting 25,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxxv)	*	March 20 2008, a Stock Option Agreement between the Company and Guy Cook granting 25,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxxvi)	*	March 20 2008, a Stock Option Agreement between the Company and Michael Golightly granting 25,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxxvii)	*	March 20 2008, a Stock Option Agreement between the Company and Andrew Dunham granting 20,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
		Subsequent Events
99(xxxviii)	*	April 4 2008, a Stock Option Agreement between the Company and Bradley F. Edwards granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xxxix)	*	April 4 2008, a Stock Option Agreement between the Company and Kristian Bankston granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
99(xl)	*	April 4 2008, a Stock Option Agreement between the Company and Jared Gold granting 10,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)

- 99(xli) * April 14 2008, a Stock Option Agreement between the Company and Shauna Postma granting 20,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xlii) * April 14 2008, a Stock Option Agreement between the Company and Fredrick Hunzeker granting 35,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xliii) * April 14 2008, a Stock Option Agreement between the Company and Pamela Kushlan granting 25,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xliv) * April 14 2008, a Stock Option Agreement between the Company and John Mortensen granting 40,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xlv) * April 14 2008, a Stock Option Agreement between the Company and Guy Cook granting 30,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xlvi) * April 14 2008, a Stock Option Agreement between the Company and Michael Golightly granting 30,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xlvii) * April 14 2008, a Stock Option Agreement between the Company and Jaime Catmull granting 30,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)
- 99(xlviii) * April 14 2008, a Stock Option Agreement between the Company and Anthony Newby granting 20,000,000 options with an option set at 50% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the period ended December 31, 2007 filed by the Company)

