

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2002

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-32711

UNIVERSAL ICE BLAST, INC.

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

Nevada

88-0360067

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification No.)

533 6th Street South, Kirkland, WA 98033

(Address of principal executive offices)

(425) 893-8424

(Issuer's telephone number)

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common  
equity, as of the latest practicable date: 34,166,654 at April 30, 2002.

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(a) There are no issues requiring disclosure for these items and they have therefore been omitted

UNIVERSAL ICE BLAST, INC.

FORM 10-QSB  
For the period ended March 31, 2002

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

UNIVERSAL ICE BLAST, INC.  
CONSOLIDATED BALANCE SHEETS

	March 31, 2002 (Unaudited)	December 31, 2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 25,768	\$ 54,455
Accounts receivable - trade	263,409	347,147
Interest receivable on shareholder notes	18,746	-
Inventory	383,900	322,090
Prepaid expenses and other	12,227	-
Total current assets	704,050	723,692
EQUIPMENT, net	204,185	230,166
OTHER ASSETS	10,525	10,525
Total assets	\$ 918,760	\$ 964,383

UNIVERSAL ICE BLAST, INC.  
CONSOLIDATED BALANCE SHEETS

	March 31, 2002 (Unaudited)	December 31, 2001
	<u>          </u>	<u>          </u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$ 378,263	\$ 467,982
Notes payable	217,810	123,000
Accrued liabilities	28,570	40,087
Customer deposits	25,000	-
Advances from officers	32,847	62,087
Deferred revenue	420,852	341,327
Current portion of capital lease obligations and long-term debt	101,666	108,335
	<u>1,205,008</u>	<u>1,142,818</u>
LONG-TERM LIABILITIES		
Capital lease obligations, net of current portion	44,685	57,109
Long-term debt, net of current portion	129,557	141,964
Deferred gains from sale/leasebacks	25,712	28,895
Deferred officers' compensation	116,262	116,262
	<u>316,216</u>	<u>344,230</u>
STOCKHOLDERS' DEFICIT		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, none issued	-	-
Common stock, \$0.001 par value, 100,000,000 shares authorized, 34,166,654 and 33,109,654 shares issued and outstanding in 2002 and 2001, respectively	34,166	33,109
Additional paid-in capital	4,227,925	4,085,370
Shareholder notes receivable	(1,169,650)	(1,169,650)
Stock options and warrants	103,654	84,738
Accumulated deficit	(3,798,559)	(3,556,232)
	<u>(602,464)</u>	<u>(522,665)</u>
Total liabilities and stockholders' deficit	<u>\$ 918,760</u>	<u>\$ 964,383</u>

UNIVERSAL ICE BLAST, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months Ended March 31,	
	2002	2001
REVENUE		
Sales of machines and accessories	\$ 3,594	\$ 3,183
Service and rental income	42,906	65,464
Total Revenue	46,500	68,647
COST OF REVENUE		
Machines and accessories	625	-
Service and rental	36,087	35,719
Total Cost of Revenue	36,712	35,719
Gross Profit	9,788	32,928
OPERATING EXPENSES		
General and administrative	184,590	124,931
Research and development	42,416	46,174
Selling and marketing	20,795	13,455
Total Operating Expenses	247,801	184,560
OPERATING LOSS	(238,013)	(151,632)
INTEREST INCOME	19,098	-
INTEREST EXPENSE	(23,412)	(9,753)
NET LOSS	\$ (242,327)	\$ (161,385)
BASIC AND DILUTED NET LOSS PER SHARE	\$ (0.01)	\$ (0.01)
WEIGHTED AVERAGE SHARES OUTSTANDING USED IN BASIC AND DILUTED PER-SHARE CALCULATION	33,207,432	20,919,560



UNIVERSAL ICE BLAST, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Three Months Ended March 31,	
	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (242,327)	\$ (161,385)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation and amortization	26,569	21,339
Common stock and warrants issued for goods and services	42,566	-
Stock options issued as compensation	3,000	-
Amortization of deferred stock-based compensation	-	1,500
Amortization of deferred gain on sale/leaseback transactions	(3,183)	(3,183)
Changes in operating assets and liabilities		
Accounts receivable - trade	83,738	(3,835)
Accounts receivable - related parties	-	(4,131)
Interest receivable on shareholder notes	(18,746)	-
Inventory	(61,810)	(4,210)
Prepaid expenses and other	(12,227)	(29,940)
Accounts payable	(18,169)	(1,517)
Accrued liabilities	(11,517)	(16,891)
Due to related parties	-	(50)
Deferred revenue	79,525	-
Deferred officers' compensation	-	24,221
Customer deposits	25,000	-
	(107,581)	(178,082)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of equipment	(588)	-
	(588)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital lease obligations	(18,063)	(14,596)
Proceeds from borrowings on notes payable	56,260	-
Proceeds from issuance of common stock	116,962	168,649
Payments on advances from officers	(29,240)	(27,984)
Payments on long-term debt	(13,437)	(5,927)
Payments of notes payable	(33,000)	-
	79,482	120,142
DECREASE IN CASH AND CASH EQUIVALENTS	(28,687)	(57,940)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of period	54,455	66,413

UNIVERSAL ICE BLAST, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
(UNAUDITED)

	Three Months Ended March 31,	
	2002	2001
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Interest paid	\$ 15,609	\$ 7,514
Income taxes paid	\$ -	\$ -
NON-CASH INVESTING AND FINANCING TRANSACTIONS		
Conversion of accounts payable to note payable	\$ 71,550	\$ -
Stock options issued as compensation	\$ 3,000	\$ -
Common stock and warrants issued for goods and services	\$ 42,566	\$ -

UNIVERSAL ICE BLAST, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2002  
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION OF UNAUDITED INTERIM FINANCIAL INFORMATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with instructions to Form 10-QSB pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information required by accounting principles generally accepted in the United States of America for complete financial statements. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements of the Company included in the Company's December 31, 2001 Annual Report on Form 10-KSB.

In the opinion of management, all adjustments, consisting only of normal recurring accruals considered necessary for a fair presentation, have been included. The results of operations for the three-month period ended March 31, 2002 are not necessarily representative of operating results to be expected for the entire fiscal year.

NOTE 2 - USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 3 - FINANCIAL CONDITION, LIQUIDITY AND GOING CONCERN

The Company's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business for the foreseeable future. Since inception in 1995, the Company has accumulated losses aggregating \$3,798,000, including a loss of \$242,000 for the three-month period ended March 31, 2002.

The Company had a working capital deficit of \$500,000 and a stockholders' deficit of \$602,000 at March 31, 2002. Management's plans for continued existence include a focus towards rental and sale of ice blast machines and away from services. The Company is actively pursuing marketing arrangements for their products in the precision, environmental and industrial cleaning markets. These efforts include the arrangement with Ford Motor Company as more fully described in Note 5. The Company's future success is dependent upon its ability to achieve profitable operations and generate cash from operating activities, and upon obtaining additional financing. There is no assurance that the Company will be able to generate sufficient cash from operations or through the sale of additional shares of common stock or from additional borrowings.

As further described in Note 9, during the three months ended March 31, 2002, the Company converted approximately \$72,000 in trade accounts payable to one supplier to a short-term note payable bearing interest at an annual rate of 18%. The Company's ability to obtain additional cash could have a material adverse effect on its financial position, results of operations and its ability to

UNIVERSAL ICE BLAST, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2002  
(UNAUDITED)

NOTE 4 - COMMON STOCK

During the three months ended March 31, 2002, the Company issued 780,000 shares of common stock through private placements under Section 4(2) of the Securities Act in the aggregate amount of \$116,962 to four investors, all of whom were accredited investors and/or existing shareholders of the Company. During the same period, under Section 4(2) of the Securities Act the Company issued 277,000 shares of common stock and 100,000 warrants to four investors for goods and services having a fair market value of \$42,566. All common shares issued above are restricted subject to Rule 144.

NOTE 5 - STOCK OPTIONS AND WARRANTS

The Company has a stock option plan under which employees, consultants and others may be awarded incentive or non-statutory stock options. The plan authorizes the grant of options for the purchase of up to 6 million shares of common stock. At December 31, 2001 options outstanding, all of which were non-statutory, totaled 1,021,175. New options to purchase 650,000 shares of stock were granted to employees at prices from \$0.20 to \$0.25 during the quarter ended March 31, 2002. Of the options granted, 350,000 vested immediately, with the balance vesting over four years. Based on the intrinsic value method, 150,000 of the vesting options included a compensation element in the amount of \$3,000.

NOTE 6 - CONTRACT WITH THE FORD MOTOR COMPANY

During 2001 the Company designed, assembled, and installed a precision gear cleaning ice blast system under the terms of a purchase order from Ford Motor Company. The purchase order is for a price of approximately \$341,000 with commitments for an additional three similar systems. Ford's commitments will be automatically triggered upon Ford's acceptance of the first system, which is required within 90 days of installation. The gear cleaning system became fully operational in March 2002 after several factory-induced delays. The system is required to undergo three months of testing as part of the Six Sigma Implementation Ready process.

The Company has recognized no revenue from the Ford system during the quarter ended March 31, 2002. Likewise, during the year ended December 31, 2001, the Company recognized no revenue with the exception of approximately \$55,000 of engineering design fees that are in addition to the price of the system. The remaining \$341,000 has been deferred and will be recognized as sales upon acceptance of the Ice Blast precision cleaning system by the customer.

NOTE 7 - FOREIGN OPERATIONS

During the three month period ended March 31, 2002, the Company reached an agreement in principle to acquire certain assets of its Dutch distributor. The Company is in the process of forming a Dutch subsidiary in order to consummate the transaction. Terms are still being negotiated and no definitive agreements have been signed. The Company expects to finalize the formation of its Dutch subsidiary and the acquisition of these assets during the second quarter of fiscal 2002.

UNIVERSAL ICE BLAST, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2002  
(UNAUDITED)

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Certain vendors of the Company have threatened to bring legal action for payment of overdue amounts. One suit has been filed. The Company is working to resolve these issues. In addition, a former sales representative is attempting to collect disputed commissions. All reasonable amounts relating to these past due and disputed liabilities have been accrued in the accompanying financial statements.

NOTE 9 - SUBSEQUENT EVENTS

Subsequent to March 31, 2002, The Company received payments on accounts receivable from Ford of approximately \$77,000. Approximately \$32,000 of these proceeds were used to repay a note payable as further described below.

Subsequent to March 31, 2002, the Company repaid a note payable in the amount of approximately \$32,000 and subsequently borrowed an additional \$32,000 from the same lender. The new note is collateralized by accounts receivable from Ford and bears interest at an annual rate of 12%. The note is to be repaid upon the receipt of accounts receivable payments from Ford. The Company also issued a note payable to another lender subsequent to March 31, 2002 in the amount of \$25,000. The note is also collateralized by accounts receivable from Ford and bears interest at an annual rate of 12%. This note is to be repaid upon the receipt of accounts receivable payments from Ford. The terms of the note include conversion rights allowing the note holder to convert any or all of the note balance to common stock in the Company at a value of \$0.15 per share.

Subsequent to March 31, 2002 the Company extended the term of the short term note payable to a supplier described in Note 3. The new note payable is in the amount of approximately \$72,000 and bears interest at an annual rate of 18%. One half of the principal balance is due on August 1, 2002 with the remaining balance due on November 1, 2002. The note is secured by personal guarantees of the two founders of Universal Ice Blast, Inc.

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

The following discussion and analysis should be read in conjunction with the Company's interim consolidated financial statements included elsewhere in this Quarterly Report on Form 10-QSB (the "Quarterly Report") and with the Company's consolidated annual financial statements and management's discussion and analysis included in the Company's December 31, 2001 Annual report on Form 10-KSB (the "Annual Report").

Certain forward-looking statements contained herein regarding the Company's business and prospects are based upon numerous assumptions about future conditions, which may ultimately prove to be inaccurate and actual results may materially differ from anticipated results described in such statements. The Company's ability to achieve such results is subject to certain risks and uncertainties, such as the impact of competition and pricing, changing market conditions, general economic conditions, the Company's history of losses and need for additional capital and other risks. Forward-looking statements are identified by words such as "believe", "anticipate", "expect", "intend", "plan", "will", "may", "confident" and other similar expressions. Any forward-looking statements contained herein represent the Company's judgment as of the date hereof. The Company disclaims, however, any intent or obligation to update such forward-looking statements. As a result, the reader is cautioned not to place undue reliance on any forward-looking statements contained herein.

RESULTS OF OPERATIONS

*THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001*

During the three months ended March 31, 2002, revenues decreased by 28% to \$46,000 as compared to the three months ended March 31, 2001. First quarter 2002 sales of machines and accessories increased to \$4,000 from \$3,000 during the comparable three month period of 2001, while service and rental income decreased 52% to \$43,000 during the three months ended March 31, 2001 from \$65,000 during the comparable period of 2001. The Company sold no machines during the first three months of both 2002 and 2001. However, orders were received and assembly initiated on three machines for customers other than Ford. The Company has invoiced customers for approximately \$80,000 on these orders but all revenue has been deferred until the machines are complete, shipped and accepted by the customers. Machine revenue represents the amortization of deferred gains on sale/leaseback transactions originating in 1999. The decrease in service and rental income is attributable to a fewer service jobs performed during 2002 as well as the Company's focus on installation and support of the Ford system during 2002 at the expense of potential rental opportunities.

Gross profit decreased to \$10,000 during the three months ended March 31, 2002 as compared to \$33,000 during the comparable period of the prior year. As a percent of sales, gross profit decreased to 21% during the three months ended March 31, 2002 as compared to 48% during the comparable period of 2001. Gross profits from sales of machines and accessories remained unchanged at \$3,000 during the first three months of 2002 compared to the comparable 2001 period due primarily to the fact that no machine were sold during either period. Gross

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For the three months ended March 31, 2002, general and administrative expense increased 47% to \$184,000 from \$125,000 during the comparable period of 2001. The \$59,000 increase is the result of increased payroll costs, which include the appointment of a Chief Engineer, as well as increased fees paid to financing and public relations consultants.

Research and development expenses decreased 9% to \$42,000 during the three months ended March 31, 2002 as compared to \$46,000 during the comparable period of 2001. The \$4,000 decrease in research and development expenses is the result of lower patent expenses in 2002. The Company expects to incur additional R&D costs in connection with the Ford project throughout the manufacturing process, as new engineering and operational issues arise. The actual amount of such costs, while expected to be significant, cannot be determined at this time. All costs of engineering consulting and prototype development related to the Ford project are being expensed as research and development costs.

Selling and marketing expenses increased \$8,000 to \$21,000 during the three months ended March 31, 2002 as compared to \$13,000 for the comparable prior year period. The increase in selling and marketing expenses is attributable to the hiring of a Vice President of Sales & Marketing in early 2002.

The Company's operating losses increased by \$86,000 to \$238,000 for the three months ended March 31, 2002 from \$152,000 for the comparable 2001 period. The \$23,000 decrease in gross profit on service and rental sales combined with the \$59,000 increase in general and administrative expenses accounted for the increase in operating losses. Management anticipates incurring additional future operating losses through the remainder of 2002.

During the quarter ended March 31, 2002, the Company recorded interest income in the amount of \$19,000 in connection with Shareholder notes receivable in the aggregate amount of approximately \$1,170,000. The Shareholder notes receivable resulted from the Company's issuance of common stock to a officers and employees during the year ended December 31, 2001. The Company reported no interest income during the three month period ended March 31, 2001.

Interest expense increased by \$13,000 to \$23,000 during the three months ended March 31, 2002 as compared to \$10,000 for the comparable three months of the prior year. This increase is the result of interest on new long-term debt and notes payable which the company incurred in late 2001 and early 2002. As a result of the Company's working capital deficit of \$500,000, interim financing necessary to settle operating liabilities arising from the assembly and installation of the Ford gear cleaning system as well as to cover other operating expenses is anticipated to be expensive if adequate equity capital cannot be raised. Should the Company be required to finance anticipated future operations with debt as opposed to equity, future interest expense can be expected to increase significantly.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2002, the Company had cash and cash equivalents of \$26,000. During the quarter ended March 31, 2001, operating activities used cash of \$108,000 as compared to \$178,000 during 2001. Cash used by operating activities resulted primarily from the Company's net loss reduced by depreciation and

UNIVERSAL ICE BLAST, INC.  
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Financing activities provided cash of \$79,000 during the quarter ended March 31, 2001 as compared to \$120,000 during 2001. Cash has been provided primarily from sale of Company Common Stock, which provided \$117,000 and \$169,000 during 2002 and 2001, respectively. Payments on capital lease obligations used cash of \$18,000 and \$15,000 during 2002 and 2001. Proceeds from notes payable provided cash of \$56,000 in 2002 while repayments of notes payable used cash of \$33,000. No notes payable activity occurred in the three months ended March 31, 2001. Long-term debt repayments were \$13,000 in 2002 as compared to \$6,000 in 2001. The Company borrows and repays, on a revolving basis, cash advances from its two Founders and Officers. Repayment of such advances totaled \$29,000 and \$28,000 in 2002 and 2001, respectively.

The Company had a working capital deficit of \$500,000 and a stockholders' deficit of \$602,000 at March 31, 2002. Management's plans for continued existence include a focus towards rental and sale of ice blast machines and away from services. The Company is actively pursuing marketing arrangements for their products in the precision, environmental and industrial cleaning markets. These efforts include the arrangement with Ford Motor Company as more fully described in Note 6. The Company's future success is dependent upon its ability to achieve profitable operations and generate cash from operating activities, and upon obtaining additional financing. There is no assurance that the Company will be able to generate sufficient cash from operations or through the sale of additional shares of common stock or additional borrowings.

The current expansion of the Company's business demands that significant financial resources be raised to fund capital expenditures, working capital needs, debt service and the cash flow deficits expected to be generated over the next three to six months by operating losses. Current cash balances and the realization of accounts receivable will not be sufficient to fund the Company's current business plan beyond the next two months. Consequently, the Company is currently seeking convertible debt and/or additional equity financing as well as the placement of a credit facility, in the aggregate amount of at least \$250,000, to fund the Company's immediate liquidity needs. Management is currently negotiating with existing shareholders as well as other individuals and organizations in order to obtain the working capital necessary to meet both current and future obligations and commitments. To further supplement these activities, the Company has engaged two investment-banking firms to assist in securing funding, with an objective of raising at least \$2 million. Management is confident that these efforts will produce financing to further the growth of the Company. Nevertheless, there can be no assurance that the Company will be able to raise additional capital on satisfactory terms or at all. In the event that the Company is unable to obtain such additional capital or to obtain it on acceptable terms or in sufficient amounts, the impact thereof would have a material adverse effect on the Company's business, operating results and financial condition as well as its ability to service debt requirements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As disclosed in an explanatory paragraph in the Report of Independent Accountants on the Company's December 31, 2001 consolidated financial statements, the foregoing liquidity and financial conditions raise substantial doubt about the Company's ability to continue as a going concern.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company believes that it does not have any material exposure to interest or commodity risks. The Company does not own any derivative instruments and does not engage in any hedging transactions.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Certain vendors of the Company have threatened to bring legal action for payment of overdue amounts. One suit has been filed. The Company is working to resolve these issues. In addition, a former sales representative is attempting to collect disputed commissions. All reasonable amounts relating to these past due and disputed liabilities have been accrued in the accompanying financial statements.

ITEM 2. CHANGES IN SECURITIES

During the three months ended March 31, 2002, the Company issued 780,000 shares of common stock through private placements under Section 4(2) of the Securities Act in the aggregate amount of \$116,962 to four investors, all of whom were accredited investors and/or existing shareholders of the Company. During the same period, under Section 4(2) of the Securities Act the Company issued 277,000 shares of common stock and 100,000 warrants to four investors for goods and services having a fair market value of \$42,566. All common shares issued above are restricted subject to Rule 144.

ITEM 6. EXHIBITS AND REPORTS ON FROM 8K.

(a) Exhibits - None.

(b) Reports on Form 8K. No reports on Form 8-K were filed by the Company during the quarter ended March 31, 2002.

On April 8, 2002 the Company filed a report on Form 8-K disclosing that Moss Adams, LLP had declined to stand for re-appointment as the Company's independent accountants. This report also disclosed the fact that the Company had appointed Williams & Webster, P.S. as its independent accountants.

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SIGNATURES

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

Universal Ice Blast, Inc.

By:       /s/       David A. Saporta

DAVID A. SAPORTA, CHIEF FINANCIAL OFFICER

Date: May 17, 2002