

Edgar Filing: PIPELINE TECHNOLOGIES INC - Form 10QSB

PIPELINE TECHNOLOGIES INC
Form 10QSB
May 22, 2002

FORM 10-QSB

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(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, 2002

OR

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

Commission file number 0-23823

PIPELINE TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Colorado

84-1313024

(State or other jurisdiction of incorporation or organization)

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

1001 Kings Avenue, Suite 200, Jacksonville, FL

32207

(Address of principal executive offices)

(Zip Code)

(904) 346-0170

(Registrant's telephone number, including area code)

(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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Edgar Filing: PIPELINE TECHNOLOGIES INC - Form 10QSB

Class of Stock	Amount Outstanding
\$.001 par value Common Stock	15,029,375 shares outstanding at May 20, 2002

PIPELINE TECHNOLOGIES, INC.

Index

	Page ----
Part I - FINANCIAL INFORMATION	
Item 1. Consolidated Balance Sheet (unaudited) at March 31, 2002	1
Consolidated Statements of Operations (unaudited) for the three and nine months ended March 31, 2002 and 2001.	2
Consolidated Statements of Cash Flows (unaudited) for the nine months ended March 31, 2002 and 2001.	3
Notes to Consolidated Financial Statements (unaudited)	4
Item 2. Management's Discussion and Analysis or Plan of Operation	6
Part II - OTHER INFORMATION	
Item 1. Legal Proceedings	9
Item 2. Changes in Securities	9
Item 6. Exhibits and Reports on Form 8-K	10
SIGNATURES	11

ii

Pipeline Technologies, Inc.
Consolidated Balance Sheet
March 31 2002
(Unaudited)

The Company did not obtain a review of the interim financial statements by an independent accountant using professional review standards and procedures.

ASSETS

Current Assets

Cash and cash equivalents	\$ 838
Accounts receivable	359,081
Allowance for doubtful accounts	(359,081)
Other current assets	546,216

Edgar Filing: PIPELINE TECHNOLOGIES INC - Form 10QSB

Total Current Assets	547,054	
Property and Equipment, net	311,223	
Other Assets	158,751	
	\$ 1,017,028	
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,565,556	
Due to related parties	376,412	
Payroll taxes	187,930	
Notes payable - related parties	3,030,331	
Notes payable	417,754	
Deferred revenue	1,475,196	
Total Current Liabilities	7,053,179	
Stockholders' (Deficit)		
Common stock, \$.001 par value, 40,000,000 shares authorized, 13,379,375 shares issued and outstanding	12,628	
Paid in capital	3,390,344	
Accumulated deficit	(9,439,123)	
	(6,036,151)	
	\$ 1,017,028	

See the accompanying notes to the consolidated financial statements

1

Pipeline Technologies, Inc.
Consolidated Statements of Operations
For Three Months & Nine Months Ended March 31, 2001, 2002
(Unaudited)

	Three Months	
	2002	2001
Net Sales	\$ 345,310	\$ 706,557
Cost of Sales	390,853	772,210

Edgar Filing: PIPELINE TECHNOLOGIES INC - Form 10QSB

Gross profit	(45,543)	(65,653)
	-----	-----
Operating expenses:		
Impairment of Goodwill	3,108,952	--
Selling, general and administrative expenses	377,356	916,624
	-----	-----
	377,356	916,624
	-----	-----
(Loss) from operations	(422,899)	(982,277)
Other (income) expense:		
Other income	--	--
Interest expense	69,255	83,897
	-----	-----
	69,255	83,897
	-----	-----
Net (loss)	\$ (492,154)	\$ (1,066,174)
	=====	=====
Per share information:		
Weighted average shares outstanding - basic and fully diluted	13,379,375	10,995,712
	=====	=====
Net (loss) per share - basic and fully diluted	\$ (0.04)	\$ (0.10)
	=====	=====

See the accompanying notes to the consolidated financial statements.

2

Pipeline Technologies, Inc.
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2002 and 2001
(Unaudited)

	Nine Months	
	2002	2001
	-----	-----
OPERATING ACTIVITIES		
Net cash (used in) operating activities	\$ 214,340	\$ (1,451,739)
	-----	-----
INVESTING ACTIVITIES		
Purchase of property and equipment	(26,800)	59,091
	-----	-----
Net cash (used in) investing activities	(26,800)	59,091
	-----	-----
FINANCING ACTIVITIES		
Proceeds from issuance of stock	--	1,447,651
Repayments on notes payable-related party	--	(100,268)
	-----	-----

Edgar Filing: PIPELINE TECHNOLOGIES INC - Form 10QSB

Net cash provided by financing activities	(189,014)	1,347,383
	-----	-----
Net increase (decrease) in cash	(1,474)	(163,447)
Beginning - cash and cash equivalents	2,312	228,055
	-----	-----
Ending - cash and cash equivalents	\$ 838	\$ 64,608
	=====	=====

See the accompanying notes to the consolidated financial statements.

3

PIPELINE TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(UNAUDITED)

(1) Basis Of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and Item 310(b) of Regulation S-B. They do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included.

The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements of the Company as of June 30, 2001 and for the periods then ended, including notes thereto, included in the Company's Form 10-KSB.

These financial statements have not been reviewed by an independent accountant using professional review standards and procedures, even though that review is required by Regulation S-B.

(2) Earnings Per Share

The Company calculates net income (loss) per share as required by SFAS No. 128, "Earnings per Share." Basic earnings (loss) per share are calculated by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share are calculated by dividing net income (loss) by the weighted average number of common shares and dilutive common stock equivalents outstanding. During periods when anti-dilutive, common stock equivalents are not considered in the computation.

(3) Impairment of Long Lived Assets

Long lived assets and certain identifiable intangibles held and used by the Company are reviewed for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable or is impaired. Management has not identified any impairment losses as of March 31, 2001 other than those described in Note 5.

(4) Income Taxes

Edgar Filing: PIPELINE TECHNOLOGIES INC - Form 10QSB

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109 (FAS 109), "Accounting for Income Taxes", which requires use of the liability method. FAS 109 provides that deferred tax assets and liabilities are recorded based on the differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, referred to as temporary differences. Deferred tax assets and liabilities at the end of each period are determined using the currently enacted tax rates applied to taxable income in the periods in which the deferred tax assets and liabilities are expected to be settled, or realized.

4

The Company's deferred tax asset resulting from net operating loss carryforwards is fully offset by a valuation allowance. The Company has recorded a valuation allowance to state its deferred tax assets at estimated net realizable value due to the uncertainty related to realization of these assets through future taxable income.

The provision for income taxes differs from the amount computed by applying the statutory rate of 34% to income before income taxes due to the effect of the net operating loss.

(5) Acquisition

During December 2001, the Company completed the acquisition of Achieve Networks, Inc. ("Achieve"), a company that operates a private IP network for transmission of voice and data communications. The Company issued 2,449,012 shares of its common stock in exchange for 83% of the issued and outstanding shares of Achieve. An additional 550,988 shares were subsequently issued pursuant to an amendment to the acquisition agreement. The business combination was accounted for as a purchase. The results of operations for Achieve are included in the accompanying financial statements since the acquisition date. The total purchase price of the acquisition was \$2,449,012, which represents the fair market value of the common shares issued. The acquisition price exceeded the fair value of the net liabilities acquired of \$659,940 by \$3,108,952. This excess has been recorded as goodwill and has been charged to operations as an impairment loss.

The net liabilities acquired consisted of the following:

Cash	\$ 3,510
Other current assets	97,276
Property and equipment, net	221,298
Other assets	20,000
Current liabilities	(1,002,024)

	\$ (659,940)

(6) Operating Leases

The Company leases office space and certain equipment pursuant to leases classified as operating leases. Subsequent to its fiscal year end of June 30, 2001, the Company either entered into or assumed responsibility pursuant to the acquisition of Achieve of various operating leases ranging in terms from 24 to 36 months. The leases require monthly payments aggregating approximately \$23,000 and future minimum payments of approximately \$752,000.

(7) Legal Proceedings

On January 14, 2002, Mark Roberts, a former shareholder of Achieve, brought

Edgar Filing: PIPELINE TECHNOLOGIES INC - Form 10QSB

a civil action against our President, Timothy J. Murtaugh, and us alleging breach of contract and other claims in connection with the acquisition of Achieve. The claim was brought in the District Court of Dallas County, Texas in the G-134th Judicial District. The complaint seeks damages suffered by the Plaintiff and other relief.

5

As a result of satisfaction of claims alleged by the Plaintiff and certain actions taken by us, we have recently agreed to settle the lawsuit and to resolve the dispute. As part of that settlement, Plaintiff has filed a motion to dismiss the suit.

6

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

Introduction

The following discussion and analysis covers (i) material changes in the financial condition and liquidity of Pipeline Technologies, Inc. ("us" or the "Company") since fiscal year end June 30, 2001 and (ii) the results of operations for the three and nine months ended March 31, 2002 and 2001. This discussion and analysis should be read in conjunction with the audited financial statements and "Management's Discussion and Analysis or Plan of Operation" included in the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 2001 as filed with the Securities and Exchange Commission ("Commission").

Reference is made to the exhibits to this report or otherwise filed by the Company with the Commission. The discussion contained herein is qualified in its entirety by reference to those exhibits.

Results of Operations

Overview. For the three months ended March 31, 2002, we reported a net loss of \$492,154, or \$.04 per share, on total revenue of \$345,310. This compares to a net loss of \$1,066,174, or \$.10 per share, on revenue of \$706,557 for the quarter ending March 31, 2001. Our loss for the nine months ended March 31, 2002 was \$4,981,950 on revenue of \$2,664,822. Thus, while our revenue during the first nine months of 2002 increased slightly from the corresponding period in 2001, our net loss also increased substantially. The substantial increase in the net loss for the period ended in 2002 is attributable to an impairment of goodwill that resulted from the acquisition of Achieve, recorded in the second fiscal quarter of this year.

Our revenue during the first nine months of 2002 increased 15% from the first nine months of fiscal 2001. The increase in our revenue is attributable to additional customers that we have added with new and renewed marketing efforts during the fourth quarter of last fiscal year and the first three quarters of this year.

Unearned Revenue. We have recorded a substantial amount of unearned revenue during the last nine months. This results from two factors: (i) our fees for long distance telephone service are charged in advance and we recognize revenue ratably over the period that services are provided; and (ii) we suspect that a substantial portion of the new customers for which cash was received by us may have been signed up involuntarily ("slammed") as the result of the efforts of a

Edgar Filing: PIPELINE TECHNOLOGIES INC - Form 10QSB

third-party entity marketing our service. Accordingly, these customers may demand cancellation of the service and we may be forced to refund any unauthorized credit card charges. We terminated the services of the third party during our first fiscal quarter, after learning of the situation.

7

We have carefully evaluated our new customer accounts in an effort to determine the appropriate amount of the reserve, using our previous cancellation experience and information from our credit card servicing company as a gauge. We are still unable to determine the exact amount of unauthorized charges. However, we believe that they will be substantial and that we have adequately reserved for these charge backs.

Marketing. We have retained a new entity to market our services. Although this new entity will use outbound telemarketing in its efforts, we do not anticipate a recurrence of the unauthorized charges we encountered with our prior third-party marketing entity due to the initiation of more stringent controls. Furthermore, this entity has committed to incorporate inbound telemarketing as well as internet-based marketing to reduce our reliance on outbound methods. We are also increasing our agent-based and direct marketing efforts which should increase sales volume and customer retention.

Gross Profit. Costs of revenue for the third quarter of 2002 exceeded our revenue by \$45,543. This results from a new dealer arrangement which we recently commenced for marketing our service which provides for front-loaded commissions. However, we anticipate that this arrangement will produce more favorable results in the future as the customers renew and the commissions are reduced. We did report positive gross profit for the first nine months of the year. None-the-less, we still reported a net loss for the nine-month period, as our gross profit was insufficient to cover the impairment in goodwill and general and administrative expenses.

General and Administrative Expenses. General and administrative expenses of \$377,356 for the three-month period ended March 31, 2002 consisted primarily of salaries, payroll expenses and professional fees. This represents a substantial decrease of \$539,268 from the third quarter of last year. We have pared our staff and reduced our overhead significantly in an effort to improve operations and conserve working capital. Professional fees are related to the expenses of maintaining the Company's status as a public reporting entity, pursuing the marketing entity for its perceived improper conduct and other routine business matters. The Company also incurred advertising and marketing related expenses.

Liquidity and Capital Resources

Overview. Our financial condition deteriorated substantially from fiscal year end June 30, 2001, a trend that continued from last year. At March 31, 2002, we reported negative working capital of \$6,506,125, a decrease of \$3,002,911, or 85%, from fiscal year end June 30, 2001. The Company continues to suffer from a serious lack of liquidity and capital. The decrease in working capital since fiscal year end is primarily attributable to cash applied to operations and the vendor payments associated with the acquisition of Achieve.

Current Assets and Liquidity. Current assets reported at March 31, 2002 increased from fiscal year end; current liabilities, however, increased in a much greater amount. The largest increase in our current liabilities was accounts payable, which increased approximately \$1,000,000, or 190% from fiscal year end. The increase in accounts payable is primarily attributable to expenses assumed in connection with the acquisition of Achieve and our increased sales this period. Deferred revenue also increased substantially. As discussed above, this amount results primarily from our concern about the unauthorized sales of

Edgar Filing: PIPELINE TECHNOLOGIES INC - Form 10QSB

our service and potential cancellations by customers.

8

We remain dependent on future operations or cash from outside sources to continue as a going concern. Our most significant obligations are notes payable, all of which are due on demand. We also have a significant amount of accounts payable. Our representatives have had discussions with certain of these vendors and lenders in an effort to restructure and extend or convert the debt. However, there is no assurance that these discussions will be successful.

The Company is currently exploring other financing options as well. It is anticipated that any new financing would take the form of private equity financing, as the Company is not a candidate for conventional debt financing due to its limited cash flow and limited assets with which to secure such debt.

Forward-Looking Statements. This Report (including any documents incorporated herein by reference) and other oral statements subsequently made by or on behalf of the Company may contain "forward-looking statements" within the meaning of the Federal securities laws. Such forward-looking statements include, without limitation, statements regarding the Company's plans for working capital, future revenues, acquisitions and plan of operation and are identified by words such as "anticipates," "plans," "expects" and "estimates." A variety of factors could cause the Company's actual results to differ materially from those contemplated by these forward-looking statements, including, without limitation, the Special Factors discussed in our Form 10-KSB for the fiscal year ended June 30, 2001. Most of these factors are beyond the control of the Company. Investors are cautioned not to put undue reliance on any forward-looking statements. The Company hereby disclaims any intent or obligation to update publicly these forward-looking statements.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On January 14, 2002, Mark Roberts, a former shareholder of Achieve, brought a civil action against our President, Timothy J. Murtaugh, and us alleging breach of contract and other claims in connection with the acquisition of Achieve Networks Inc. The claim was brought in the District Court of Dallas County, Texas in the G-134th Judicial District. The complaint seeks damages suffered by the Plaintiff and other relief.

As a result of satisfaction of claims alleged by the Plaintiff and certain actions taken by us, we have recently agreed to settle the lawsuit and to resolve the dispute. As part of that settlement, Plaintiff has filed a motion to dismiss the suit.

Item 2. Changes in Securities

(c) In a transaction related to the acquisition of Achieve, we issued 750,988 shares of our common stock to a former owner of Achieve in a transaction exempt from the registration requirements of the Securities Act of 1933 pursuant to the provisions of Regulation D and Rule 506. In connection with the transaction, the Company obtained a written representation that the recipient was an "accredited investors" within the meaning of Rule 501 and that such individual had such knowledge and experience in financial and business matters that he was capable of evaluating the merits and risks of the investment. The Company also restricted transfer of the certificate representing the shares by placing a legend thereon and by issuing stop transfer orders to its transfer agent.

The shares were issued directly by the Company, and accordingly, no commissions or discounts were paid or allowed in connection with the transaction.

Item 6. Exhibits and Reports on Form 8-K

The Company filed a report on Form 8-K dated April 11, 2002 reporting the settlement of a lawsuit commenced in connection with the acquisition of Achieve.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PIPELINE TECHNOLOGIES, INC.

Date: May 21, 2002

By: /s/ Timothy J. Murtaugh

Timothy J. Murtaugh, President, Chief
Executive and Chief Financial Officer