PIRANHA INC
Form 10QSB
May 31, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the quarterly period ended March 31, 2001

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _______________ to _______________

Commission File No. 0-20190

PIRANHA, INC.

(Exact name of registrant as specified in its charter)

Delaware	36-3859518
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2425 N. Central Expressway, Suite 480, Richardson, Texas 75080

(Address of principal executive offices) (Zip Code)

(972) 739-0373
Registrant's telephone number

APPLICABLE ONLY TO CORPORATE REGISTRANTS

As of March 31, 2001, 14,722,909 shares of Common Stock, $.001 par value, were issued and outstanding.

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

INDEX TO QUARTERLY REPORT ON FORM - 10QSB

This Quarterly Report on Form 10-QSB contains forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. These statements involve risks and uncertainties, including those risks discussed in the section entitled "Item 6, Management's Discussion and Analysis or Plan of Operations" and elsewhere in the Quarterly Report on Form 10-QSB. The actual results that the Company achieves may differ materially from the results discussed or implied in such forward-looking statements due to such risks and uncertainties. Words such as "believes," "anticipates," "expects," "future," "intends," "may" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. The Company undertakes no obligation to revise any of these forward-looking statements.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

See attached financial statements.

PIRANHA, INC.

CONSOLIDATED BALANCE SHEET

MARCH 31, 2001

(Unaudited)

ASSETS

CURRENT ASSETS:		
Cash	$	12,328
Accounts receivable		79,002
Shareholder receivable		493,059
Prepaid expenses and other current assets		704,492
TOTAL CURRENT ASSETS		1,288,881
PROPERTY AND EQUIPMENT		1,685,654
INTANGIBLES (net of $15,357 of accumulated amortization)		11,762,202
GOODWILL (net of $236,939 of accumulated amortization)		2,727,468
	$	17,464,205

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES:		
Accounts payable	$	1,198,731
Dividends payable		230,663
Accrued liabilities		1,733,249
Deferred revenue		500,000
Due to shareholders		264,179
TOTAL CURRENT LIABILITIES		3,926,822
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock		580,000
Common stock, $.001 par value; 100,000,000 shares authorized; 14,722,920 shares issued and outstanding		14,722
Additional paid-in capital		118,119,073
Stock subscription receivable		(44,500)
Accumulated deficit		(105,128,509)
Cumulative translation adjustment		(3,403)
TOTAL STOCKHOLDERS' EQUITY		13,537,383
	$	17,464,205

See notes to consolidated financial statements.

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PIRANHA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

		Three Mon
		2001
REVENUES	$	188,0
COSTS AND EXPENSES:		
General and administrative (exclusive of $7,922,928 of non-cash compensation and fees reported below)		2,919,3
Non cash compensation and fees		7,922,9
Depreciation and amortization		159,9
TOTAL COSTS AND EXPENSES		11,002,2
LOSS FROM OPERATIONS		(10,814,1
OTHER INCOME (EXPENSES)		
Interest income		35,6
Interest expense - net		(10,5
Loss on investments		(3,9
TOTAL OTHER INCOME (EXPENSES)		21,0
NET LOSS		(10,793,0
PREFERRED STOCK DIVIDENDS		(13,0
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	$	(10,806,1
Net loss per common share - Basic and Diluted	$	(0.
Weighted average common shares outstanding		13,785,5

See notes to consolidated financial statements.

PIRANHA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Thre
	20
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (10,
Adjustments to reconcile net loss to net cash used in operations:	
Depreciation	
Amortization	
Settlement of debts	
Stock issued for services	
Non cash compensation and fees	7,
Changes in assets and liabilities:	
Accounts receivable	
Prepaid expense and other assets	
Accounts payable and accrued expenses	
NET CASH USED IN OPERATING ACTIVITIES	(2,
CASH FLOWS FROM INVESTING ACTIVITIES:	
Sale of (investment in) securities	
Loan to stockholder	
Purchase of property and equipment	
Acquisition of business unit	
NET CASH USED IN INVESTING ACTIVITIES:	
CASH FLOWS FROM FINANCING ACTIVITIES:	
Collection of stock subscription receivable	
Repayment of stockholder loans and notes payable	
Proceeds from sale of stock and exercise of options and warrants	2,
NET CASH PROVIDED BY FINANCING ACTIVITIES:	2,
NET INCREASE IN CASH	
CASH AT BEGINNING OF YEAR	
CASH AT END OF PERIOD	$

See notes to the consolidated financial statements.

PIRANHA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2001

(UNAUDITED)

NOTE 1 - THE COMPANY

The Company was formed in 1992. From 1996 through November 1999 the Company essentially was a non-operating entity. Beginning with the acquisition of Zideo.com, Inc. on December 8, 1999 and IBP, Inc. on December 30, 1999, the Company effectively changed its business operations. In February 2000 it changed its name to Piranha, Inc., effected a 1:3.49 reverse stock split and increased its authorized Common Stock to 100 million shares.

Piranha is a technology-based company with a line of digital asset management products and services being developed for sale and/or licensing. Piranha is in the business of providing enabling technologies in the areas of data compression, product output routing, universal file format recognition, data manipulation and custom application feature development in both the lossy data compression and lossless data compression market segments. Additionally, Piranha provides digital image acquisition services which are intended to incorporate its core data compression technologies. Piranha's data compression software products and digital asset service are designed to enhance digital workflow processes and improve data transfer speeds across the Internet and to provide high quality image clarity at compression rates which the Company believes are higher than those presently available in the marketplace on a variety of platforms. These compression products are directed to digital images and Internet applications such as full motion streaming video, lossless image and text string compression, and highly compressed, high resolution static images.

The Company's products are designed to support business-to-business, e-commerce and Internet related activities associated with professional digital archival storage, digital workflow optimization and advanced business-to-consumer on-line shopping applications.

NOTE 2 - BASIS OF PRESENTATION:

These unaudited financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of financial position and the results of operations for the interim periods presented. The results of operations for any interim periods are not necessarily indicative of the results attainable for a full fiscal year.

These statements have been prepared by the Company and are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principals have been omitted. As such, these financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000.

These financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred recurring losses, and had a working capital deficiency of approximately $2,638,000 at March 31, 2001. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with respect to these matters include, raising additional working capital through equity or debt financing and ultimately achieving profitable operations. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

NOTE 3 - ISSUANCES OF STOCK

The following issuances of Common Stock occurred during the quarter ended March 31, 2001:

a. An aggregate of 34,138 additional shares of Common Stock were issued in connection with the Company's acquisition of JJT, inc. and Comsight Imaging, Inc. in the year ended December 31, 2000. The Company recorded an additional valuation of $38,470 relayed to the JJT, Inc. purchase.

b. An aggregate of 2,259,000 shares of Common Stock were sold for $2,259,000 in cash.

c. An aggregate of 178,572 shares of Common Stock were issued in exchange for cancellation of various debt, notes payable and accrued interest of $191,076. The Company has realized a loss of $93,523 in connection with the cancellation of this debt.

d. An aggregate of 73,300 shares of Common Stock were issued for services of $116,822.

e. An aggregate of 85,423 shares of Common Stock were issued upon exercise of options and warrants for $57,375 in cash.

NOTE 4 - NON CASH COMPENSATION

During the year ended December 31, 2000, the Company issued options to purchase shares of common stock, to various officers in connection with their two year employment agreements. Of the $63,379,250 non-cash compensation attributable to these options, $31,689,625 was recognized in the year ended December 31, 2000, $7,922,928 was recognized in the quarter ended March 31, 2001, and the remaining $23,766,697, will be realized ratably in during the remainder of the year ending December 31, 2001.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

a. In July 1994, the Company discharged four officers of its inactive Dream Factory subsidiary. The officers who were discharged commenced actions against the Company seeking damages arising out of the alleged wrongful termination of their employment. The Company settled the claims of two of the officers, and has accrued a provision of $700,000 in its financial statements related to the two remaining officers. A trial has been scheduled to begin in July, 2001.

b. The Company was a defendant in a case brought by a shareholder in the United States District Court for the Northern District of Illinois, Eastern Division. This case involved a claim by the shareholder that the Company owed him 573,066 shares of Common Stock pursuant to an alleged conversion of a promissory note into said shares. The note, in the principal amount of $200,000, and the accrued interest thereon, are included in the Company's consolidated financial statements. On April 3, 2000, this case was dismissed for lack of jurisdiction. On April 12, 2000, the shareholder filed an action against the Company in the Circuit Court of Cook County, Illinois, asserting substantially the same claims as in the case which was dismissed. That action was dismissed on October 18, 2000. Subsequently an amended complaint was filed. Two counts remain of the amended complaint. The Company believes this action is without merit, has filed another motion to dismiss and intends to vigorously defend itself in this matter.

Item 2. Management's Discussion and Analysis or Plan of Operation

The following Plan of Operations should be read in conjunction with the Financial Statements and the Notes thereto appearing in this report.

Piranha is a technology-based company with a line of digital asset management products and services being developed for sale and/or licensing. Piranha is in the business of providing enabling technologies in the areas of data compression, product output routing, universal file format recognition, data manipulation and custom application feature development in both the lossy data compression and lossless data compression market segments. Additionally, Piranha provides digital image acquisition services which are intended to incorporate its core data compression technologies. Piranha's data compression software products and digital asset service are designed to enhance digital workflow processes and improve data transfer speeds across the Internet and to provide high quality image clarity at compression rates which the Company believes are higher than those presently available in the marketplace on a variety of platforms. These compression products are directed to digital images and Internet applications such as full motion streaming video, lossless image and text string compression, and highly compressed, high-resolution static images.

The Company is continuously involved in the development of new products and related technology. The Company's products are designed to support business-to-business, e-commerce and Internet related activities associated with professional digital archival storage, digital workflow optimization and advanced business-to-consumer on-line shopping applications. Piranha technology and its resulting application developments are expected to provide a methodology to support the emerging e-commerce market demand for solutions to the traditional bottlenecks and time delays associated with the e-commerce shopping experience that the Company believes are superior to those presently available. The Company believes that its products and services provide measurable quantitative and qualitative advantages over related products and services.

On April 9, 2001, the Company announced that the Board of Directors approved the spin-off of its wholly-owned Zideo subsidiary. On May 25, 2001, the Company announced its intention to initiate the sale of its wholly-owned subsidiary, Impact Solutions, Inc. The spin off of Zideo, Inc. and the sale of Impact Solutions, Inc., will significantly reduce the workforce required to maintain Piranha's operations. Upon completion of the foregoing, Piranha will focus its efforts entirely on research and development of its science and related technologies.

The Company may experience rapid growth, which would place a significant strain on the Company's managerial, financial and operational resources. The Company is required to manage multiple relationships with numerous outside parties. These requirements will be exacerbated in the event of further growth of the Company or in the number of third party relationships, and there can be no assurance that the Company's systems, procedures or controls will be adequate to support the Company's operations or that Company management will be able to manage any growth effectively. To effectively manage its potential growth, the Company must continue to implement and improve its operational, financial and management information systems and to expand, train and manage its employee base.

Liquidity and Capital Resources

As of March 31, 2001, the Company had cash of $12,328 and a working capital deficiency of $2,637,941.

The Company needs to raise funds in the next twelve months in order to meet its cash requirements and fund its current operations as well as to engage in more aggressive brand promotion and more rapid expansion, to develop new or enhanced products, to respond to competitive pressures or to acquire complementary businesses or technologies. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of the stockholders of the Company will be reduced, stockholders may experience dilution and such securities may have rights, preferences or privileges senior to those of the rights of the Company's Common Stock. There can be no assurance that additional financing will be available on terms favorable to the Company, or at all. If adequate funds are not available or not available on acceptable terms, the Company may not be able to meet its cash requirements and fund its

current operations as well as to engage in more aggressive brand promotion and more rapid expansion, to develop new or enhanced products, to respond to competitive pressures or to acquire complementary businesses or technologies. Any such inability would have a material adverse effect on the Company's business, results of operations and financial condition.

Forward-Looking Statements

This Quarterly Report on Form 10-QSB contains forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. These statements involve risks and uncertainties, including the risks discussed in this section and elsewhere in the Quarterly Report on Form 10-QSB. The actual results that the Company achieves may differ materially from the results discussed or implied in such forward-looking statements due to such risks and uncertainties. Word such as "believes," "anticipates," "expects," "future," "intends," "may" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, among other things, the following:

(1) changes in general economic conditions in the United States and elsewhere;

(2) the Company's failure to develop or otherwise successfully introduce its products;

(3) decreases in the current or planned levels of spending for products under development by the Company's anticipated customer base;

(4) increased competition in the markets in which the Company's products are intended;

(5) the Company's inability to successfully integrate its products with those of other software and technology providers;

(6) changes in the regulatory environment; and

(7) various other factors beyond the Company's control.

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially and adversely from those expected, estimated or projected. The Company undertakes no obligation to revise any of these forward-looking statements to reflect future events or circumstances.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In July 1994, the Company discharged four officers of its Dream Factory subsidiary. The officers who were discharged commenced actions against the Company seeking damages arising out of the alleged wrongful termination of their employment. The Company subsequently settled the claims of two of the officers, and has accrued a provision of $700,000 in its financial statements related to the two remaining officers. A trial has been scheduled to begin in July 2001.

The Company was a defendant in the case of Benjamin B. LeCompte, III, a stockholder, v. Classics International Entertainment, Inc., in the United States District Court for the Northern District of Illinois, Eastern Division. This case involved a claim by LeCompte that the Company owed him 573,066 shares of Common Stock pursuant to an alleged conversion of a promissory note into said shares. The note, in the principal amount of $200,000, and the accrued interest thereon, are included in the Company's consolidated financial statements. On April 3, 2000, this case was dismissed for lack of jurisdiction. On April 12, 2000, LeCompte filed an action against the Company in the Circuit Court of Cook County, Illinois, asserting substantially the same claims as in the case which was dismissed. That action was dismissed on October 18, 2000. Subsequently an amended complaint was filed. Two counts remain of the amended complaint. The Company believes this action is without merit, has filed another motion to dismiss and intends to vigorously defend itself in this matter.

The Company is subject to various federal, state and local laws affecting its business. We believe that we are in material compliance with all applicable laws and regulations.

Item 2. Changes in Securities

During the period covered by this Report an aggregate of 2,545,010 shares of Company Common Stock were offered and sold without registration under the Securities Act of 1933, as amended ("Act"), as not involving any public offering in reliance upon the exemption from registration contained in Section 4(2) of the Act.

In January 2001, 10,000 shares of Common Stock were issued to a stockholder of Comsight Imaging Inc. in connection with the Company's acquisition of this company.

In January and February 2001, an aggregate of 2,259,000 shares of Common Stock were sold to twenty eight persons or entities for $2,259,000 in cash.

An aggregate of 73,300 shares of Common Stock were issued for services of $116,822.

The Company issued an additional 24,138 shares of Common Stock in connection with the acquisition of JJT, Inc. in November 2000. The Company has valued these additional shares at $38,470.

An aggregate of 178,572 shares of Common Stock were issued in exchange for cancellation of various debt, notes payable and accrued interest of $191,076.

In January and February 2001, an aggregate of 22,923 shares of Common Stock were issued to an individual upon exercise of warrants for $40,000 in cash.

In January and February 2001, an aggregate of 62,500 shares of Common Stock were issued to an individual upon exercise of options for $17,375 in cash.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable. No matters were submitted to a vote of the Company's security-holders in the first quarter.

Item 5. Other Information

On May 17, 2001, the Company announced the appointment of Larry E. Greybill as Chief Executive Officer. Greybill also was been appointed to the Piranha, Inc. Board of Directors. The Company also announced that Richard S. Berger stepped down as Chief Financial Officer, but will continue as a member of the

Board of Directors. He will serve in a consulting role for mergers, acquisitions and funding activities, while Director Michael Steele, who is also the Company's Chief Information Officer and a former Ernst & Young employee, will serve as interim CFO.

In addition, on May 17, 2001, two members of the Board of Directors, Barger Tygart and Joseph Sherrill, resigned. Mr. Tygart noted that he was reducing his Board activities because of his heavy workload on a few remaining boards. Mr. Sherrill noted that his other business interests and travel schedule would interfere with increased time commitments to the Piranha board.

Item 6. Exhibits and Reports on Form 8-K

Exhibits

Exhibit Number	Description
3.1.	Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Form SB-2, File No. 33-62762).
3.2.	Amendment to Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K, filed March 15, 2000).
3.3.	Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.4 of the Registrant's Form SB-2, File No. 33-62762).

Reports on Form 8-K:

No reports on Form 8-K were filed during the period covered by this report.

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.

PIRANHA, INC.

Dated: May 31, 2001

/s/ Edward W. Sample

Edward W. Sample
Chairman of the Board and
Chief Executive Officer