

Edgar Filing: FLEXXTECH CORP - Form 10QSB

FLEXXTECH CORP  
Form 10QSB  
May 20, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB  
Quarterly Report Under Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2002  
Commission file number 000-25499

Flexxtech Corporation

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

Nevada

88-0390360

-----  
State or other jurisdiction of  
incorporation or organization

-----  
(IRS Employer Identification  
Number)

1501 W. Shady Grove Rd.  
Grand Prairie, TX

75050

-----  
(Address of principal executive offices)

-----  
(Zip Code)

(972) 986-2381

-----  
(Issuer's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports) Yes [ ] No [X], and (2) has been subject to such filing requirements for the past 90 days. Yes [X] 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:

As of March 31, 2002, the issuer had outstanding 21,292,272 shares of its Common Stock, \$0.001 par value.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

(A) BALANCE SHEET

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(B) STATEMENT OF OPERATIONS

(C) STATEMENT OF CASH FLOWS

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FLEXXTECH CORPORATION  
CONSOLIDATED BALANCE SHEET  
MARCH 31, 2002  
(UNAUDITED)

ASSETS

Current Asset:	
Cash and cash equivalents	\$ 129,393
Accounts receivable	603,564
Inventory	423,308
Prepaid expenses	43,329
Deposits & other current assets	16,578
	-----
Total Current Asset	1,216,172
	-----
Property & equipment, net	1,434,003
	-----
TOTAL ASSETS	\$ 2,650,175
	=====

LIABILITIES STOCKHOLDERS' DEFICIT

Current Liabilities:	
Accounts payable	\$ 1,381,017
Accrued expenses	329,718
Loans payable - Current	1,069,976
Loans payable related parties	1,980,824
	-----
Total Current Liabilities	4,761,535
Long-term Liabilities:	
Convertible debt	870,000
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIT	
Common stock, authorized 100,000,000 shares at \$.001 par value, issued and outstanding 21,292,272 shares	19,800
Additional paid in capital	7,934,962
Shares to be issued	41,035
Accumulated deficit	(10,401,657)
Accumulated other comprehensive income:	
Unrealized loss on securities available for sale	(575,500)
	-----
Total Stockholders' Deficit	(2,981,360)
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 2,650,175
	=====

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

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FLEXXTECH CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2002 AND 2001  
(UNAUDITED)

	2002	2001
	-----	-----
Net revenue	\$ 926,680	\$ 1,978,467
Cost of revenue	1,050,154	1,707,420
	-----	-----
GROSS PROFIT/(LOSS)	(123,474)	271,047
General and Administrative expenses	943,325	439,192
	-----	-----
LOSS FROM OPERATIONS	(1,066,799)	(168,145)
Other income (expenses)		
Realized loss on sale of marketable securities	-	(51,958)
Other income (expense)	-	1,153
Interest expense	(56,181)	(60,797)
	-----	-----
Total other income (expenses)	(56,181)	(111,602)
	-----	-----
Net loss before income tax and loss on discontinued segments	(1,122,980)	(279,747)
Provision of Income tax	1,600	1,600
	-----	-----
NET LOSS BEFORE LOSS ON DISPOSAL OF SEGMENTS	(1,124,580)	(281,347)
DISCONTINUED OPERATIONS:		
Loss from operations of discontinued subsidiary (Net of applicable income tax)	-	(22,218)
	-----	-----
	-	(22,218)
	-----	-----
NET LOSS	(1,124,580)	(303,565)
OTHER COMPREHENSIVE LOSS:		
Unrealized loss on investments available for sale	-	(115,130)
	-----	-----
COMPREHENSIVE LOSS	\$ (1,124,580)	\$ (418,695)

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	=====	=====
Basic and diluted loss per share	\$ (0.05)	\$ (0.03)
	=====	=====

Basic and diluted weighted average shares outstanding	21,707,309	10,996,457
	=====	=====

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

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FLEXXTECH CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2002 AND 2001  
(UNAUDITED)

	2002	2001
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (1,124,580)	\$ (303,565)
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization	74,202	107,030
Amortization of goodwill	-	31,420
Issuance of stocks for consulting services & compensation	205,400	-
Loss on sale of marketable securities	-	51,958
(Increase) / decrease in current assets		
Accounts receivable	(22,187)	(136,003)
Inventory	101,574	(29,483)
Prepaid expense	(30,049)	-
Deposits & other current assets	(14,996)	(8,175)
Increase / (decrease) in current liabilities		
Accounts payable	(57,198)	180,383
Accrued expenses	93,272	37,174
Customers' deposit	-	1,923
NET CASH USED IN OPERATING ACTIVITIES	(774,562)	(67,338)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of marketable securities	-	98,443
Acquisition of property & equipment	-	(43,749)
NET CASH PROVIDED BY INVESTING ACTIVITIES	-	54,694
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sales of common stock	343,358	66,057
Proceeds from shares to be issued	10,885	-
Repayment of notes receivable	19,000	111,017
Proceeds from borrowings	213,500	-
Payments of loans	(53,572)	(524,653)
	-----	-----

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NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	533,171	(347,579)
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(241,391)	(360,223)
CASH AND CASH EQUIVALENTS -BEGINNING	370,784	519,865
	-----	-----
CASH AND CASH EQUIVALENTS -ENDING	\$ 129,393	\$ 159,642
	=====	=====

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

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### FLEXXTECH CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

#### 1. DESCRIPTION OF BUSINESS AND SEGMENTS

The Company was organized on March 24, 1998, under the laws of the State of Nevada, as Color Strategies. On December 20, 1999, the Company changed its name to Infinite Technology Corporation. The Company changed its name to Flexxtech Corporation in April 2000.

Primavera Corporation (PC) was incorporated in the state of Texas on April 26, 2000. Pursuant to an acquisition agreement, dated May 11, 2000, PC acquired one hundred percent (100%) of the common shares outstanding of North Texas Circuit Board, Inc. (NTCB). NTCB was incorporated in 1978 in the state of Texas. NTCB manufactures printed circuit boards. The products are sold through its distribution center in Irving, Texas utilizing outside sales people. Deliveries are made primarily throughout the United States.

Flexxtech Holdings, Inc., a Nevada Corporation, was formed on October 1, 1999. Flexxtech Holdings, Inc. owns majority shares ownership of Primavera, the parent company of North Texas Circuit Board, Inc.

#### 2. PRINCIPLES OF CONSOLIDATION:

The accompanying consolidated financial statements include the accounts of Flexxtech Corporation (the "Parent"), and its 100% owned subsidiary, Flexxtech Holdings, Inc., collectively referred to as the "Company". Flexxtech Holdings, Inc.'s 100% owned subsidiary, Primavera Corporation, wholly owns North Texas Circuit Board Co., Inc. (a Texas corporation). All significant inter-company accounts and transactions have been eliminated in consolidation.

#### 3. BASIS OF PREPARATION:

The accompanying unaudited condensed interim financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for the presentation of interim financial information, but do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The audited financial statements for the two years ended December 31, 2001 and 2000 was filed on April 16, 2002 with the Securities and Exchange Commission and is hereby referenced. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2002 are not necessarily indicative of the results that may be

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expected for the year ended December 31, 2002.

### USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### GOODWILL

The Company continuously monitors its goodwill to determine whether any impairment of this asset has occurred. In making such determination with respect to goodwill, the Company evaluates the performance, on an undiscounted cash flow basis, of the underlying assets or group of assets that gave rise to this amount. Goodwill had been amortized on the straight-line basis over 15 years. On

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## FLEXXTECH CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001, the Company re-evaluated value of each acquisition based upon performance and future cash flow. The Company estimated the total value of goodwill as of December 31, 2001 at zero since NTCB has been incurring losses through December 31, 2001 and did not have goodwill value associated with it. The Company wrote off goodwill balance of \$420,188 on December 31, 2001.

### BASIC AND DILUTED NET LOSS PER SHARE

Net loss per share is calculated in accordance with the Statement of financial accounting standards No. 128 (SFAS No. 128), "Earnings per share". SFAS No. 128 superseded Accounting Principles Board Opinion No.15 (APB 15). Net loss per share for all periods presented has been restated to reflect the adoption of SFAS No. 128. Basic net loss per share is based upon the weighted average number of common shares outstanding. Diluted net loss per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

### ISSUANCE OF SHARES FOR SERVICE

The Company accounts for the issuance of equity instruments to acquire goods and services based on the fair value of the goods and services or the fair value of the equity instrument at the time of issuance, whichever is more reliably measurable.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of financial accounting standard No. 107, Disclosures about fair value of financial instruments, requires that the Company disclose estimated fair values of financial instruments. The carrying amounts reported in the statements

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of financial position for current assets and current liabilities qualifying as financial instruments are a reasonable estimate of fair value.

### COMPREHENSIVE INCOME

Statement of financial accounting standards No. 130, Reporting comprehensive income (SFAS No. 130), establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity, except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS No. 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in financial statements that are displayed with the same prominence as other financial statements. Accumulated other comprehensive income as reported in the accompanying consolidated balance sheet represents unrealized loss on available for sale securities.

### REPORTING SEGMENTS

Statement of financial accounting standards No. 131, Disclosures about segments of an enterprise and related information (SFAS No. 131), which superceded statement of financial accounting standards No. 14, Financial reporting for segments of a business enterprise, establishes standards for the way that public enterprises report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements regarding products and services, geographic areas and major customers. SFAS No. 131 defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in

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## FLEXXTECH CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

deciding how to allocate resources and in assessing performances. The Company allocates resources and assesses the performance of its sales activities as one segment.

### RISKS AND UNCERTAINTIES

In the normal course of business, the Company is subject to certain risks and uncertainties. The Company provides its product on unsecured credit to most of its customers, the majority of which are in the defense industry. Consequently, the Company's ability to collect the amounts due from customers is affected by the economic fluctuations in that industry.

### COST OF GOODS SOLD

For the period ended March 31, 2002, the Company recorded \$172,781 of its wages and salaries as general & administrative expenses instead of cost of goods sold, since during the first quarter of 2002, the Company had allocated the time related to these wages and salaries of its work force on improvement of process and procedures, manufacturing improvements, waste treatment project and training of the labor force. For the period ended March 31, 2001, all such wages and salaries were recorded as cost of goods sold.

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### RECLASSIFICATIONS

For comparative purposes, prior years' consolidated financial statements have been reclassified to conform with report classifications of the current year.

### RECENT PRONOUNCEMENTS

On July 20, 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." These statements make significant changes to the accounting for business combinations, goodwill, and intangible assets.

SFAS No. 141 establishes new standards for accounting and reporting requirements for business combinations and will require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method will be prohibited. This statement is effective for business combinations completed after June 30, 2001.

SFAS No. 142 establishes new standards for goodwill acquired in a business combination and eliminates amortization of goodwill and instead sets forth methods to periodically evaluate goodwill for impairment. Intangible assets with a determinable useful life will continue to be amortized over that period. This statement became effective from January 1, 2002.

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### FLEXXTECH CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations". SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was issued in August 2001. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business.

The adoption of above pronouncements, did not materially impact the Company's financial position or results of operations.

#### 4. GOING CONCERN

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles which contemplate continuation of the Company as a going concern. However, the Company has accumulated deficit of \$10,401,657 including a net loss of \$1,124,580 for the period ended March 31, 2002. The continuing losses have adversely affected the liquidity of the Company. The Company faces continuing significant business risks, including but

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not limited to, its ability to maintain vendor and supplier relationships by making timely payments when due.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to raise additional capital, obtain financing and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Management has taken the following steps to revise its operating and financial requirements, which it believes are sufficient to provide the Company with the ability to continue as a going concern. Management devoted considerable effort during the period ended March 31, 2002, towards (i) obtaining additional equity financing through various private placements (ii) reduction of salaries and general and administrative expenses (iii) disposal of some of the non-profitable subsidiaries and (iv) evaluation of its distribution and marketing methods.

In that regard, the Company sold 2,135,749 shares for cash in the amount of \$343,358 during the period ended March 31, 2002. The company also issued convertible debentures amounting \$720,000 in the year ended December 31, 2001, due in August 2003 and issued convertible promissory notes of \$50,000 due on March 1, 2004 and \$100,000 due on April 1, 2004. The Company also disposed off three of its non-profitable subsidiaries during the year 2001.

### 5. INCOME TAXES

No provision was made for Federal income tax since the Company has significant net operating loss carryforwards. Through March 31, 2002, the Company incurred net operating losses for tax purposes of approximately \$10,400,000. The net operating loss carryforwards may be used to reduce taxable income through the year 2017. Net operating loss for carryforwards for the State of California are generally available to reduce taxable income through the year 2007. The availability of the Company's net operating loss carryforwards are subject to limitation if there is a 50% or more positive change in the ownership of the Company's stock. The provision for income taxes consists of the state minimum tax imposed on corporations.

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### FLEXXTECH CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Temporary differences that give rise to deferred tax assets and liabilities at March 31, 2002 comprised of depreciation and amortization and net operating loss carry forward. The gross deferred tax asset balance as of December 31, 2001 was approximately \$4,160,000. A 100% valuation allowance has been established against the deferred tax assets, as the utilization of the loss carryforwards cannot reasonably be assured.

The following is a reconciliation of the provision for income taxes at the U.S. federal income tax rate to the income taxes reflected in the Consolidated Statements of Operations:

March 31, 2002	March 31, 2001
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Tax expense (credit) at statutory rate-federal	(34)%	(34)%
State tax expense net of federal tax	(6)	(6)
Permanent differences	1	1
Changes in valuation allowance	(39)	(39)
	-----	-----
Tax expense at actual rate	-	-
	=====	=====

### 6. STOCKHOLDERS' EQUITY

#### STOCK SPLIT

On December 29, 2000, the Board of Directors of the Company declared a 13.09322865 to 1 forward stock split of the Company's common stock. The stockholders approved an increase in the authorized number of shares of common stock from 26 million to 100 million. On April 14, 2000, the Company effected a 2-for-1 forward stock split of its common stock. On April 29, 2000, the Company effected a reverse stock split of 1:3 and on March 26, 2001, the Company effected a 3:2 forward stock split. The financial statements have been retroactively restated for the effects of stock splits.

#### COMMON STOCK:

During the three month period ended March 31, 2002, the Company sold 2,135,749 shares for cash in the amount of \$343,358. Through March 31, 2002, the Company has received subscription of \$41,035 for 86,435 shares of common stock to be issued. The Company issued 226,670 shares of common stock for consulting services amounting \$113,000 to related parties. The Company issued 210,000 shares of common stock for compensation amounting \$92,400.

During the three month period ended March 31, 2002, the Company issued 850,000 shares of common stock to a related party, related by common major shareholders, as a collateral against a debt of \$283,700. The Company has not recorded any value for such shares since the shares are issued as collateral and are returnable.

#### CONVERTIBLE DEBENTURES:

In the year ended December 31, 2001, the company issued debentures amounting \$720,000, carrying an interest rate of 6% per annum, due in August 2003. The holders are entitled to, at any time or from time to time, convert the conversion amount into shares of common stock of the Company, par value \$.001 per share at a conversion price for each share of common stock equal to the lower of (a) 120% of the losing bid price per share (as reported by Bloomberg, LP) on the closing date, and (b) 80% of the lowest closing bid price per share (as reported by Bloomberg, LP) of the Company's common stock for the five trading days immediately preceding the date of conversion.

#### CONVERTIBLE PROMISSORY NOTES PAYABLE

In the year ended December 31, 2001, the Company issued convertible promissory

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notes of \$59,200 due on March 1, 2004 and \$100,000 due on April 1, 2004, carrying an interest rate of 10% per annum. The holder of \$50,000 promissory notes is entitled to convert the conversion amount into shares of common stock of the Company, par value \$.001 at any time, per share at a conversion price for each share of common stock equal \$4.66 per share of common stock. The notes are secured and collateralized by shares of common stock of the Company at one share per every three dollars and twenty-five cents (\$3.35) of the principal. The holder of \$100,000 promissory notes is entitled to convert the conversion amount into shares of common stock of the Company, par value \$.001, at any time, per share at a conversion price for each share of common stock equal \$7.00 per share of common stock. The notes are secured and collateralized by shares of common stock of the Company at one share per every five dollars (\$5.00) of the principal.

### STOCK OPTION PLAN

The Company has adopted a Stock option plan for the granting of options to employees, consultants and other providers of goods and services to the Company. The Company has set aside 1,000,000 shares of common stock under the plan. No option has been granted under the plan through March 31, 2002.

### 7. LITIGATION

In April 2001, a suit was brought against the Company and certain officers and directors for alleged breach of contract. The Company has denied all the claims and believes it is a frivolous suit. The Company settled the litigation by agreeing to pay the plaintiffs a sum of \$8,000, 82,500 shares of restricted common stock and 90,000 options to purchase common stock of the Company at \$1.66 per share, with an expiration date of January 1, 2004. Management does not believe implication of this litigation will have any other material impact on the Company's financial statements.

### 8. COMMITMENT

Lease - NTCB leases its office and business facilities in Grand Prairie, Texas under a lease agreement for two years beginning May 2000 for \$10,000 per month, with an option to renew the lease for three additional years at a rental rate of \$12,500 per month. The Company shall have an option to purchase the property for \$690,000 during the initial two-year rental term and for \$750,000 during the 3-year renewal period.

### 9. SUPPLEMENTAL DISCLOSURE OF CASH FLOWS

The Company prepares its statements of cash flows using the indirect method as defined under the Financial Accounting Standard No. 95.

The Company paid income taxes of \$-0- and interest of \$15,100 during the three month period ended March 31, 2002. The Company paid income taxes of \$-0- and interest of \$41,720 during the three month period ended March 31, 2001.

The statement of cash flows does not include effect of non-cash transaction of issuance of shares (note 6) for consulting services and compensation.

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### CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Report on Form 10-QSB contains forward-looking statements, including (without limitation) statements concerning possible or assumed future results of operations and those preceded by, followed by or that include the words "believes," "could," "expects," "anticipates," or similar expressions. For those statements, we assert the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You should understand that various events could cause those results to differ materially from those expressed in such forward-looking statements: materially adverse changes in economic conditions in the markets that we and our subsidiaries serve; competition from others in the markets and industry segments occupied by us and our subsidiaries; the ability to enter, the timing of entry and the profitability of entering new markets; greater than expected costs or difficulties related to the integration of the businesses acquired by our subsidiaries; and other risks and uncertainties as may be detailed from time to time in our public announcements and SEC filings.

The discussion and financial statements contained herein are for the three months ended March 31, 2002 and March 31, 2001. The following discussion regarding the financial statements of the Company should be read in conjunction with the financial statements of the Company included herewith.

#### Overview:

We changed our business focus in 2001. Our focus was based on, and engaged in the business of developing, operating and investing in technology growth companies, through our wholly-owned subsidiary, Flexxtech Holdings. In June 2001, we decided to concentrate our efforts and our resources on our wholly-owned subsidiary North Texas Circuit Board, Co. ("NTCB") and divest from other investments that we were engaged in, that in our view, were not performing due to needed resources that were not available. In July 2001, we sold both Mardock, Inc. and OpiTV.com to focus our resources on NTCB and the acquisition of other contract manufacturing and government related businesses. Our objective is to build long-term capital appreciation for our shareholders.

#### GENERAL PLAN OF OPERATION

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Our principal acquisition and investment strategy has changed considerably due to our own research and to economic and political events that have occurred throughout the year of 2001. Because of limited capital, we have focused our resources, since July 2001, on our wholly-owned subsidiary NTCB. We are working on returning NTCB to profitability. We believe that our strategy also promotes opportunities for investment in undervalued situations and synergistic business relationships among the companies in which we have investments.

Our acquisition or investment candidates are characterized by being both profitable, and potentially profitable businesses. Companies with explosive growth potential, but limited by a lack of capital and industry contacts, including turnarounds, will greatly benefit from a carefully timed acquisition by Flexxtech Holdings, Inc. We concentrate on companies that our own research suggests have potential for gaining the dominant role in their markets and for producing extraordinary price appreciation over time.

There is no limit on the market capitalization of the companies that our subsidiary, Flexxtech Holdings, Inc., may acquire or invest in, or in the length of operating history for the companies. Our subsidiary may invest without limit in private as well as public companies, initial public offerings, private

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placements, bridge financing, debt securities, foreign securities and purchase and sell options. Our subsidiary may also margin up to 100% of its marginable securities.

In seeking new business opportunities our management, and that of our subsidiary, Flexxtech Holdings, Inc., may consider:

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(1) the potential for growth and profitability, indicated by new technology anticipated market expansion or new products:

(2) its perception of how any particular business opportunity will be received by the investment community and by the company's stockholders;

(3) the extent to which the business opportunity can be advanced;

(4) capital requirements and anticipated availability of funds;

(5) competitive position as compared to other companies of similar size and experience within the industry segment as well as within the industry as a whole;

(6) strength and diversity of existing management or new management that are scheduled to be recruited in connection with the new business prospect;

We have initiated a program with special interest in the acquisition of printed circuit board companies. We have called this program a circuit board plan or a circuit board roll-up plan, although the term roll-up is used in a plain meaning non-securities, non-technical sense.

In addition to the circuit board plan, we intend to seek, through our subsidiary, Flexxtech Holdings, Inc., additional industries where efficiencies through consolidation will greatly benefit the Company. The thrust will be to:

- o Acquire "islands of excellence" in attractive, complementary markets.
- o Efficiently acquire and integrate new companies while preserving their entrepreneurial spirit.
- o Use the greater purchasing power to obtain improved vendor deals.
- o Keep and integrate only those superior managers.

### MERGER & ACQUISITION TENETS

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- o Build on our organizational skill in performing acquisitions; develop systems for managing the process from lead evaluation, negotiation, contracting, and post-closing integration.
- o Pay reasonable multiples with extra incentives to ensure seller commitment.
- o Exercise complete due diligence to ensure smooth integration of personnel and operations.
- o Achieve rapid returns on investment by implementing the best practices in the acquired operation.
- o Reduce overhead by vacating unneeded premises.
- o Centralize any duplicated support functions into the headquarters location.

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In June 2001 we changed the direction and business plan of our Company to its current model.

We continue to raise money for our operations and those of NTCB and our acquisition candidate, T.S. Group. Funds are being raised on private placements pursuant to Regulation D, Rule 506, as amended and Regulation S, as amended. During the quarter ended March 31, 2002, the Company sold 2,135,749 shares for cash in the amount of \$343,358. The Company issued 3,119 shares for money received in 2001. As of March 31, 2002, the Company received subscription of \$41,035 for 86,435 shares of common stock to be issued. The Company issued 226,670 shares of common stock for consulting services amounting \$113,000. The Company issued 210,000 shares of common stock to North Texas Circuit Board on a no-interest loan at a value of \$92,400. The Company also issued convertible debentures amounting to \$720,000 in the year ended December 31, 2001, due in August 2003 and issued convertible promissory notes of \$50,000 due on March 1, 2004 and \$100,000 due on April 1, 2004. The Company also disposed off three of its non-profitable subsidiaries during the year 2001.

The Company issued 850,000 shares of common stock as collateral against a loan of \$283,700. The Company has not recorded any value for such shares since the shares are issued as collateral and are returnable once the loan amount is fully paid.

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While there is no assurance that we will be successful in raising additional capital, we are actively seeking private equity financing to assure that we will be capable of financing the continuation of our business. Any additional capital raised above and beyond what we need as our monthly expenditure would be used in increasing marketing and sales efforts and future investments and acquisitions. Should we fail to raise additional funding, we will be forced to curtail our growth, both through internal development and through investments and acquisitions. As only a holding company to date, we do not generate our own revenues, but we rely on additional financing to pay our operating expenses.

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

### Results of Operations

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We have generated consolidated revenues of \$926,680 for the three months ended March 31, 2002 as compared to \$1,978,467 for the three months ended March 31, 2001. Currently, our cash needs include, but are at no means limited to, rent, salaries and wages, cash raising expenses and to fund operation of our subsidiary, and for future acquisitions. All of our revenues are attributed from the Company's subsidiary, North Texas Circuit Board Company (NTCB). If we are unable to continue to raise additional funds in the immediate future to fund North Texas Circuit Board, it is unlikely that NTCB will remain as a going concern.

### Net Revenues

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We had net revenues of \$926,680 for the quarter ended March 31, 2002 as

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compared to \$1,978,467 for the quarter ended March 31, 2001.

### Cost of Revenue

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We incurred Cost of Revenue of \$1,050,154 for the quarter ended March 31, 2002 as compared to \$1,707,420 for the quarter ended March 31, 2001.

### General, Administrative and Selling Expenses

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We incurred costs of \$943,325 for the quarter ended March 31, 2002 as compared to \$439,192 for the quarter ended March 31, 2001.

### Net loss before income taxes and loss on discontinued segments

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We had a loss before taxes and discontinued segments of \$1,122,980 for the quarter ended March 31, 2002 as compared to a loss of \$279,747 for the quarter ended March 31, 2001. \$113,000 of the loss came from the issuance of common stock for consulting services.

### Unrealized loss on investments available for sale

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We did not have an unrealized loss on investments available for sale for the three months ending March 31, 2002.

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### Net loss

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We had a net loss of \$1,124,580 for the quarter ended March 31, 2002 as compared to a net loss of \$303,565 for the quarter ended March 31, 2001.

### Comprehensive Loss.

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We had a Comprehensive Loss of \$1,124,580 for the quarter-end March 31, 2002 as compared to a Comprehensive Loss of \$418,695 for the quarter-end March 31, 2000.

### Basic and diluted loss per share

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Our basic and diluted loss per share for the three month period ended March 31, 2002 was \$.05 as compared to \$.03 for the three month period ended March 31, 2001.

### Litigation

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In April 2001, a suit was brought against the Company and certain officers and directors for alleged breach of contract. The Company has denied all the claims and believes it is a frivolous suit. The management of the Company plans to rigorously defend the Company. Management does not believe implication of this litigation will have any material impact on the Company's

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financial statements. In 2002, the Company settled the litigation by agreeing to pay the plaintiffs a sum of \$8,000, 82,500 shares of restricted common stock and 90,000 options to purchase common stock of the Company at \$1.66 per share, with an expiration date of January 1, 2004.

During day-to-day operations, the Company may be involved in litigation matters that are immaterial from time to time.

### Change in Securities

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We have sold shares of common stock of the Company periodically pursuant to Regulation D, Rule 506, as amended, and Regulation S, as amended. In the three months ended March 31, 2002, pursuant to Regulation D, we sold 232,000 shares at \$0.25 per share for proceeds of \$58,000. We sold 3,115 shares for a net amount of \$980. We also sold 18,285 shares at \$0.65 for which shares are yet to be issued. In the three months ended March 31, 2002, pursuant to Regulation S, we sold 1,400,634 shares at 13.17 cents per share for proceeds of \$184,378.12 and 500,000 shares at \$0.20 for proceeds of \$100,000.

In the three months ended March 31, 2002, we sold a total of 250,285 shares pursuant to the exemptions afforded by Regulation D resulting in gross proceeds of \$69,885. Of the 250,285 shares, 18,285 shares have yet to be issued for total amount of \$11,885. In the three months ended March 31, 2002, we sold a total of 1,900,634 shares pursuant to the provisions of Regulation S resulting in gross proceeds of \$284,378.12. We utilized the services of finders in placing the Offering. We did not utilize the services of brokers or underwriters. The Offering was self-underwritten. The Offering expenses were approximately \$53,139.47 or %15 of the gross Offering proceeds. The balance of the Offering expenses were related to general sales expenses, including, but not limited to, due diligence, accounting and legal expenses.

The Shares are being offered to persons who are "accredited investors," as defined under Rule 506 of Regulation D of the Securities Act of 1933 as amended (the "Act"). An additional thirty-five (35) non-accredited investors may participate in the Offering. Accredited investors must have a net worth or joint net worth with their spouse of \$1,000,000.00 or more, or have individual income in excess of \$200,000.00 (or \$300,000.00 joint income with a spouse) in each of the two most recent years and who reasonably expects an income of \$200,000.00 (or \$300,000.00 joint income with a spouse) in the current year.

The Offering is being conducted by us as a self underwriting. Shares in the Offering are available only through us. We have the option to extend the Offering up to an additional three months. We are making the Offering on a best efforts basis. This means that we have not established any minimum amount of proceeds that must be generated in the Offering. Accordingly, investors who subscribe for Shares in the earlier stages of the Offering will assume a substantially greater risk than investors who subscribe for Shares later in the Offering.

Even if we sell all of the Shares covered by the Offering and raise maximum proceeds, such proceeds may be insufficient to implement our business investment plan. There is no guarantee that the funds generated by the Offering will be sufficient to cover the financial requirements for our growth.

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We have arbitrarily set the price of the Shares in the Offering. The price of the Shares is based upon the amount of capital that we desire to raise and the percentage of our outstanding capital stock that we are willing to sell at this point in our development. We have established the price of the Shares and the value of our company without an independent appraisal. The price has no relationship to book value per share, current earnings or other generally accepted measurements of value. The Offering may involve immediate and substantial dilution.

During the quarter ended March 31, 2002, the Company issued 226,670 shares of common stock for consulting services amounting \$113,000. The Company issued 210,000 shares of common stock to North Texas Circuit Board on a no-interest loan at a value of \$92,400.

The Company issued 850,000 shares of common stock as collateral against a loan of \$283,700. The Company has not recorded any value for such shares since the shares are issued as collateral and are returnable once the loan amount is fully paid.

### Liquidity and Capital Resources

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The Company must continue to raise capital to fulfill its plan of acquiring companies and assisting in the development of those companies internally. If the Company is unable to raise any additional capital its operations will be curtailed and it may have to liquidate its current investments for operating capital. As of March 31, 2002, the Company had total Current Assets of \$1,216,172 and Current Liabilities of \$4,761,535. Cash and cash equivalents were \$129,393. Stockholder's Deficit was \$2,981,360. In its acquisition of North Texas Circuit Board, Management continues to make necessary cost cutting efforts to reduce the debt and increase productivity of the Company. In its turn-around effort, management feels additional capital will be needed to complete a full turnaround. The Company will continue to raise capital for North Texas Circuit Board and its acquisitions. Should the company be unable to raise immediate funding for North Texas Circuit Board it is unlikely the company will continue as a going concern.

### Subsidiaries

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Flexxtech Holdings, Inc. is a wholly-owned subsidiary of our Company. At March, 2002, the only major holding for Flexxtech was Primavera Corporation, the parent company of North Texas circuit Board. Mardock, Inc. and OpiTV.com were sold in July 2001. OpiTV had no sales to date and Mardock, Inc. had no growth prospects with the changing economy.

Listed below are the subsidiaries of Flexxtech Holdings, Inc. Various smaller investments are not listed because they represent in total less than five percent (5%) of the total portfolio assets and management may change them from time to time.

### PRIMAVERA CORPORATION

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On August 15, 2000 we, through our wholly-owned subsidiary Flexxtech Holdings, Inc. acquired 67% of Primavera Corporation, the parent company of North Texas Circuit Board Company. Flexxtech Holdings was issues 203 newly issued shares of Primavera Corporation in consideration of \$1,575,000. On October 31, 2000, the ownership was increased to 80% of Primavera Corporation. The consideration was payable in cash in the amount of \$1,250,000 by installments through January 15, 2001 and in the form of 130,000 shares of our

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common stock valued for purposes of the transaction at \$2.50 per share. As of December 31, 2001, the 130,000 shares were issued to Primavera shareholders. We have delivered \$1,250,000 to Primavera and North Texas Circuit Board for working capital. All terms of the Primavera acquisition have been satisfied.

Primavera Corporation was formed in Texas on April 26, 2000. The company is a holding company, which operates primarily through its wholly-owned subsidiary, North Texas Circuit Board Company ("NTCB"), which was formed in 1978 in the state of Texas. NTCB manufacturers printed circuit boards on a quick-turn basis. On May 11, 2000, Primavera acquired 100% of the common stock of NTCB.

### Plans to Raise Capital

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We currently plan to raise additional capital during at least the first two quarters of the fiscal year ending December 31, 2002. We expect to use the proceeds from any such capital raising transactions for general corporate purposes, including working capital. A portion of the proceeds may also be used for the acquisition of businesses and technologies that are anticipated to be complementary to our existing business. If we do not successfully address the need to raise capital, our ability to continue to conduct business would be seriously harmed.

### Substantial Indebtedness

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We have a substantial amount of indebtedness. As a result of our level of debt and the terms of our debt instruments:

- o our vulnerability to adverse general economic conditions is heightened;
- o we will be required to dedicate a substantial portion of our cash flow from operations to repayment of debt, limiting the availability of cash for other purposes;

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- o we are and will continue to be limited by financial and other restrictive covenants in our ability to borrow additional funds, consummate asset sales, enter into transactions with affiliates or conduct mergers and acquisitions;
- o our flexibility in planning for, or reacting to, changes in its business and industry will be limited; o we are sensitive to fluctuations in interest rates because some of our debt obligations are subject to variable interest rates; and
- o our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired.

Our ability to pay principal and interest on our indebtedness and to satisfy our other debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, some of which are beyond our control. If we are unable to service our indebtedness, we will be forced to take actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness, or seeking additional equity capital. There is no assurance that we can effect any of these remedies on satisfactory terms, or

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at all.

Item 3. Subsequent Events

The Company, under the Securities Act of 1933, as amended, filed Registration Statement on Form SB-2 with the U.S. Securities & Exchange Commission (SEC) on January 14, 2002 for common stock amounting \$23,828,571 (based on the offering of 31,771,428 common shares at \$0.75). On March 8, 2002, the Company applied to withdraw the Registration Statement on Form SB-2 This application for withdrawal was made on the grounds that the Company concluded the revisions requested by SEC as indicated in the comment letter dated February 15, 2002 were both material and extensive, and warranted a material redrafting of the prospectus in its entirety. The Company further advised SEC that no shares of common stock sought to be registered pursuant to the Registration Statement have been offered or sold.

Item 4. Defaults Upon Senior Securities

Not Applicable.

Item 5. Submission of Matters to a Vote of Security Holders

Not Applicable.

Item 6. Other Information.

Not Applicable.

Item 7. Exhibits and Reports on Form 8-K.

(a) Exhibits filed with this Report

(b) Reports on Form 8-K

Not Applicable

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FLEXXTECH CORPORATION  
(Registrant)

Date: May 21, 2002

By: /s/ Greg Mardock

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Greg Mardock  
President

