PIPELINE TECHNOLOGIES INC
Form 10QSB/A
June 25, 2002

FORM 10-QSB/A
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)
[X] 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)

Commission file number 0-23823

PIPELINE TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Colorado
(State or other jurisdiction of incorporation or organization)

84-1313024
(I.R.S. Employer Identification No.)

1001 Kings Avenue, Suite 200, Jacksonville, FL
(Address of principal executive offices)

32207
(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 XX

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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.

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

PIPELINE TECHNOLOGIES, INC.

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

ASSETS	
Current Assets	
Cash	$ 838

Other current assets	4,538
Total Current Assets	5,376
Property and Equipment, net	89,924
Other Assets	155,123
	$ 250,423
LIABILITIES AND STOCKHOLDERS' (DEFICIT)	
Current Liabilities	
Accounts payable and accrued expenses	$ 2,048,359
Due to related parties	279,201
Payroll taxes	187,930
Notes payable - related parties	2,756,481
Deferred revenue	1,475,196
Total Current Liabilities	6,747,167
Stockholders' (Deficit)	
Common stock, $.001 par value, 15,000,000 shares authorized, 13,379,375 shares issued and outstanding	13,379
Paid in capital	4,660,580
Accumulated (deficit)	(11,170,703)
	(6,496,744)
	$ 250,423

See the accompanying notes to the consolidated financial statements.

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

	Three Months	
	2002	2001
Net Sales	$ 364,418	$ 177,130
Cost of Sales	332,008	413,345

Gross profit (loss)	32,410	(236,215)
Operating expenses:		
Write off of investment	768,740	--
Selling, general and administrative expenses	1,091,055	586,235
	1,859,795	586,235
(Loss) from operations	(1,827,385)	(822,450)
Other (income) expense:		
Other income	(4,755)	(555)
Interest expense	75,371	50,591
	70,616	50,036
Net (loss)	$ (1,898,001)	$ (872,486)
Per share information:		
Weighted average shares outstanding - basic and fully diluted	13,379,375	10,149,383
Net (loss) per share - basic and fully diluted	$ (0.14)	$ (0.09)

See the accompanying notes to the consolidated financial statements.

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

	2002	2001
Cash flows from operating activities:		
Net cash (used in) operating activities	$ (52,135)	$(1,451,739)
Cash flows from investing activities:		
Net cash (used in) investing activities	(28,664)	(59,091)
Cash flows from financing activities:		
Net cash provided by financing activities	79,325	1,347,383
Net (decrease) in cash	(1,474)	(163,447)
Beginning - cash and cash equivalents	2,312	228,055
Ending - cash and cash equivalents	$ 838	$ 64,608

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See the accompanying notes to the consolidated financial statements.

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 two years then ended, including notes thereto included in the Company's Form 10-KSB.

(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 is calculated by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share is 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 commons 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, 2002 other than those described in Note 5.

(4) Income Taxes

The Company accounts for income taxes under SFAS 109, "Accounting for Income Taxes", which requires use of the liability method. SFAS 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.

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.

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(5) Acquisition

During November 2001 the Company completed the acquisition of Achieve Networks, Inc. ("Achieve") a company that operates a private 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. The business combination was to be accounted for as a purchase. The total purchase price of the acquisition was $2,449,012 which represents the fair market value of the common shares issued. In addition, during January 2002 the Company agreed to issue an additional 750,988 shares of common stock to a former officer of Achieve. These shares were valued at $750,988.

During December 2001 the Company filed a Form 8-K discussing the acquisition of Achieve. Subsequently, Mark Roberts, a former shareholder of Achieve, brought a civil action against the Company and its President, alleging breach of contract and fraud in connection with the acquisition of Achieve. The complaint sought to rescind the original contract between Achieve and the Company.

Because of the uncertainty created by the lawsuit and the fact that the plaintiff sought to rescind the contract, the Company did not include the financial information for Achieve in its financial statements as of December 31, 2001 and the period then ended. The Company executed a Settlement and Release Agreement with the Plaintiff to resolve the dispute during April 2002. The Settlement provides that the plaintiff dismiss the lawsuit and the acquisition be completed. The Company will include the financial information for Achieve commencing on April 1, 2002 in its consolidated financial statements. Because Achieve has no net assets and has incurred substantial losses from operations, the Company has charged its investment of $2,449,012 in Achieve, the value attributed to the additional shares issued of $750,988 and its advances to Achieve aggregating $546,216 at March 31, 2002 to operations during the period.

(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) Basis of Presentation

The Company's financial statements are presented on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

The Company has experienced significant losses from operations. For the period ended March 31, 2002 the Company incurred a net loss of $6,193,530. In addition, the Company has a working capital deficit of $6,741,791, an accumulated deficit of $11,170,703 and a stockholders' deficit of $6,496,744 at March 31, 2002.

The Company's ability to continue as a going concern is contingent upon its

ability to expand its operations and secure additional financing. The Company is pursuing financing for its operations and seeking to expand its operations. Failure to secure such financing or expand its operations may result in the Company not being able to continue as a going concern.

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

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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 $1,898,001, or $.14 per share, on total revenue of $364,418. This compares to a net loss of $872,486, or $.09 per share, on revenue of $177,130 for the quarter ending March 31, 2001. Our loss for the nine months ended March 31, 2002 was $6,193,530, or $.55 per share, on revenue of $2,683,930, compared to a loss of $2,579,283, or $.26 per share, on revenue of $263,416 for the nine months ended March 31, 2001. The substantial increase in the net loss for the first nine months of 2002 is attributable to the write-off associated with the acquisition of Achieve Networks, Inc., discussed in more detail below. The substantial increase in the net loss also occurred despite the gross profit on sales that we reported during this period compared to the prior nine month period when we reported a negative gross profit.

Revenue. Our revenue during the first nine months of 2002 increased significantly from the corresponding period in 2001. Our revenue during the first nine months of 2002 increased 919% 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.

After thorough investigation, we have decided to enter the fax broadcast business in a continuing effort to boost sales revenue. We intend to offer this service utilizing our VoIP equipment that we hope will allow us to do it at substantially less cost than current vendors who use different networks. Our investigation suggests that we can sell our service profitably at approximately 25% less than current market rates. This will require an investment of approximately $150,000 and it is hoped that funding will be secured from private investors in the near future. Subject to receipt of this financing, we hope to begin offering this service in July of 2002. We believe that this is a highly

profitable business and in great demand.

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 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.

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 that will not use outbound telemarketing in its efforts. As a result, we do not anticipate a recurrence of the unauthorized charges that we encountered with our prior third-party marketing entity. This new entity has committed to incorporate only inbound telemarketing as well as internet-based marketing to eliminate our reliance on outbound methods. We are also increasing our agent-based and direct marketing efforts that we hope will increase sales volume and customer retention.

Gross Profit. We reported a gross profit of $301,159 or the first nine months of this year, compared to a negative gross profit of $339,395 for the first nine months of 2001. We also reported a small gross profit for the third quarter of this fiscal year. None-the-less, we still reported a net loss for the three and nine- month periods, as our gross profit was insufficient to cover the write-off and other expenses.

The relatively small gross profit results from a new dealer arrangement which we commenced for marketing our service which provides for front-loaded commissions. However, we have decided to withdraw that program and pay commissions on a monthly basis only on the actual business generated in the preceding month. We anticipate that this new arrangement will produce more favorable results in the future as the customers renew.

Write-Off of Investment. The write off recorded for the three and nine month period ended March 31, 2002 resulted from the acquisition of Achieve. We originally completed this acquisition in November 2001 by issuing 2,449,012 shares of our common stock valued at $2,449,012 for 83% of the outstanding stock of Achieve. We subsequently issued another 750,988 shares in connection with this acquisition. In February 2002, the principal shareholder of Achieve filed a civil lawsuit against us and our President alleging breach of contract and fraud in connection with the acquisition. We settled that lawsuit effective March 31, 2002, and the suit was dismissed. As a result, the operations of Achieve will be included with our operating results beginning April 1, 2002.

Because Achieve has no net assets and has incurred substantial losses from operations in the past, we have charged our investment of $3,200,000 and our

advances to Achieve aggregating $546,216 at December 31, 2001 to operations during the period. These charges totaling $3,746,216 have been charged to operations for the nine months ended March 31, 2001. The write-off for the three-month period was $768,740.

General and Administrative Expenses. General and administrative expenses of $1,091,055 for the three-month period ended March 31, 2002 consisted primarily of operating expenses, salaries, payroll expenses and professional fees. This represents a substantial increase of $504,820 from the third quarter of last year. This increase is attributable to the acquisition of Achieve Networks. General and administrative expenses for the first nine months of this fiscal year also increased from the comparable period 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 $6,741,791, a decrease of $3,085,897, or 84%, 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 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 our service and potential cancellations by customers.

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. At this time we can report that the majority of our creditors have agreed to our proposed payment schedule that is expected to allow the company to satisfy them from revenue. We anticipate substantial revenue from the fax broadcast service that we intend to offer in approximately July of this year.

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 dismissed 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: June 18, 2002

By: /s/ Timothy J. Murtaugh

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