

ERESOURCE CAPITAL GROUP INC

Form 8-K

June 29, 2001

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): June 19, 2001

eResource Capital Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

1-8662

23-2265039

(State or other
jurisdiction of
incorporation)

(Commission File Number)

(IRS Employer
Identification Number)

3353 Peachtree Road , N.E., Suite 130 Atlanta, Georgia

30326

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (404) 760-2570

TABLE OF CONTENTS

Item 2. Acquisition or Disposition of Assets

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

SIGNATURE

INDEX TO FINANCIAL STATEMENTS

COMBINED STATEMENTS OF ASSETS, LIABILITIES AND ATTRIBUTED NET ASSETS

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN ATTRIBUTED NET ASSETS

COMBINED STATEMENTS OF CASH FLOWS

NOTES TO COMBINED FINANCIAL STATEMENTS

COMBINED STATEMENTS OF ASSETS, LIABILITIES AND ATTRIBUTED NET ASSETS

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN ATTRIBUTED NET ASSETS

COMBINED STATEMENTS OF CASH FLOWS

NOTES TO COMBINED FINANCIAL STATEMENTS

eResource Capital Group, Inc. and Subsidiaries

ProForma Consolidated Balance Sheet (Unaudited)

Condensed Consolidated Statements of Operations (Unaudited)

Pro Forma Condensed Consolidated Statements of Operations (Unaudited)

Table of Contents

Item 2. Acquisition or Disposition of Assets

On June 19, 2001, eResource Capital Group, Inc., a Delaware corporation (eRCG), consummated the merger (the Closing) of Logisoft Computer Products Corp., a New York corporation (LCP), with and into Logisoft Acquisition Corporation, a New York corporation and a wholly-owned subsidiary of eRCG (Logisoft Acquisition), whereby LCP became a wholly-owned subsidiary of eRCG (the Merger) pursuant to that certain Agreement and Plan of Merger (the Merger Agreement) dated as of June 5, 2001 by and among Logisoft Acquisition, eRCG and the individuals listed on Exhibit A to the Merger Agreement (the Stockholders). LCP executed a joinder to the Merger Agreement (the Joinder) and became bound by the terms and conditions thereof.

Prior to May 15, 2001, LCP was a wholly-owned subsidiary of Team Sports Entertainment, Inc., a Delaware corporation formerly known as Logisoft Corp. (LGST). On May 15, 2001, LGST completed a restructuring transaction whereby eStorefronts.net Corp., a New York corporation and a wholly-owned subsidiary of LGST, became a wholly-owned subsidiary of LCP and all of the common stock of LCP was distributed to the Stockholders.

Pursuant to the Merger Agreement, all the issued and outstanding shares of LCP common stock were converted into the right to receive, in the aggregate, up to 6,000,000 shares (the Merger Consideration) of eRCG common stock, par value \$.04 per share (the eRCG Common Stock). At the Closing, eRCG became obligated to issue 5,500,000 shares of Merger Consideration, with the issuance of the remaining 500,000 shares, otherwise issuable to certain Stockholders specified in the Merger Agreement, contingent upon LCP meeting certain performance milestones as of June 30, 2002 as set forth in the Merger Agreement.

The Merger Consideration was determined as a result of negotiations between eRCG, LCP and the Stockholders, and the Merger was approved by the boards of directors of eRCG, LCP and Logisoft Acquisition and by the Stockholders of LCP.

Pursuant to the Merger Agreement, eRCG has agreed to file with the Securities and Exchange Commission (the SEC) within 90 days of Closing a registration statement on Form S-3 to register resales of the Merger Consideration by the Stockholders, except that such registration statement shall not include approximately 2,200,000 shares of the Merger Consideration issuable to certain Stockholders specified in the Merger Agreements, and to use commercially reasonable efforts to cause such registration statement to become effective and to maintain effectiveness until the first anniversary of Closing.

The foregoing description of the LCP Acquisition, the Merger Agreement and the Joinder are qualified in their entirety by reference to the Merger Agreement and the Joinder which are filed as Exhibit 2.1 and 2.2, respectively, to this Report and incorporated herein by reference.

The shares of eRCG Common Stock issuable in connection with the LCP Acquisition will be issued without registration under the Securities Act of 1933, as amended (the Securities Act), in reliance upon the exemption set forth in Section 4(2) of the Securities Act and Regulation D of the SEC promulgated thereunder.

Statements in this report about anticipated or expected future revenue or growth or expressions of future goals or objectives are forward-looking statements within the meaning of Section 21E of the Securities Act of 1934, as amended. All forward-looking statements in this report are based upon information available to eRCG on the date of this report. Any forward-looking statements involve risks and uncertainties, including those risks described in eRCG's filings with the SEC, that could cause actual events or results to differ materially from the events or results described in the forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on these forward-looking statements.

Table of Contents

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(a) Financial Statements of Business Acquired.

Included in this Current Report (See Index to Financial Statements attached hereto) are the combined financial statements of LCP and subsidiary, operating units of Team Sports Entertainment, Inc. (formerly known as Logisoft Corp.), for the years ended December 31, 2000 and 1999, together with the notes thereto, which have been audited by the independent accounting firm of Bonadio & Co., LLP, whose opinion thereon is included herein, and the unaudited combined financial statements of LCP and subsidiary for the three months ended March 31, 2001 and 2000.

(b) Pro Forma Financial Information.

Included in this Current Report (See Index to Financial Statements attached hereto) are the following unaudited pro forma financial statements, together with the notes thereto (the Unaudited Pro Forma Condensed Consolidated Financial Statements):

- (i) Unaudited pro forma consolidated balance sheet as of March 31, 2001;
- (ii) Unaudited pro forma condensed consolidated statement of operations for the nine months ended March 31, 2001; and
- (iii) Unaudited pro forma condensed consolidated statement of operations for the year ended June 30, 2000.

(c) Exhibits

- 2.1 The Agreement and Plan of Merger dated June 5, 2001 between eRCG, Logisoft Acquisition and the Stockholders. (Certain of the exhibits and schedules to the Merger Agreement have been omitted from this Report pursuant to Item 601(b)(2) of Regulation S-B, and eRCG agrees to furnish copies of such omitted exhibits and schedules supplementally to the SEC upon request.)(*)
- 2.2 Joinder to the Merger Agreement executed by LCP.(*)

(*) Incorporated by reference to the Current Report on Form 8-K filed by eRCG on June 12, 2001.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

eResource Capital Group, Inc.

Date: June 28, 2001 By: /s/ WILLIAM
L. WORTMAN

William L. Wortman Vice President,
Treasurer and Chief Financial Officer

Table of Contents

EXHIBIT INDEX

- 2.1 The Agreement and Plan of Merger dated June 5, 2001 between eRCG, Logisoft Acquisition and the Stockholders. (Certain of the exhibits and schedules to the Merger Agreement have been omitted from this Report pursuant to Item 601(b)(2) of Regulation S-B, and eRCG agrees to furnish copies of such omitted exhibits and schedules supplementally to the SEC upon request.)(*)
- 2.2 Joinder to the Merger Agreement executed by LCP.(*)

(*) Incorporated by reference to the Current Report on Form 8-K filed by eRCG on June 12, 2001.

Table of Contents

INDEX TO FINANCIAL STATEMENTS

Audited Financial Statements of Business Acquired:

Page

Table of Contents

4

Report of Independent Public Accountants

F-1

Combined
Statement of
Assets, Liabilities
and Attributed
Net Assets as of
December 31,
2000 and 1999
F-2

Combined
Statements of
Operations and
Changes in
Attributed Net
Assets for the
years ended
December 31,
2000 and 1999
F-3

Combined
Statements of
Cash Flows for
the years ended
December 31,
2000 and 1999
F-4

Notes to
Combined
Financial
Statements
F-5

**Unaudited
Financial
Statements of
Business
Acquired:**

Combined
Statements of
Assets, Liabilities
and Attributed
Net Assets as of
March 31, 2001
and December 31,
2000
(unaudited)
F-21

Combined
Statements of
Operations for the
three months
ended March 31,
2001 and 2000
(unaudited)
F-22

Combined
Statements of
Cash Flows for
the three months
ended March 31,

2001 and 2000
(unaudited)
F-23
Notes to
Combined
Financial
Statements
(unaudited)

F-24

**Unaudited Pro
Forma Financial
Statements:**

Introduction

F-32

Pro Forma
Consolidated

Balance Sheet at
March 31, 2001

F-33

Pro Forma
Condensed
Consolidated
Statement of
Operations for the
nine months
ended March 31,
2001

F-34

Pro Forma
Condensed
Consolidated
Statement of
Operations for the
year ended
June 30, 2000

F-35

Table of Contents

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

May 8, 2001

To the Board of Directors and Shareholders of Logisoft Corp.:

We have audited the combined statements of assets, liabilities and attributed net assets of Logisoft Computer Products Corp. and eStorefronts.net Corp. (operating units of Logisoft Corp.) as of December 31, 2000 and 1999 and the related combined statements of operations and changes in attributed net assets and cash flows for the years then ended. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of

material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Logisoft Computer Products Corp. and eStorefronts.net Corp. as of December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Logisoft Computer Products Corp. and eStorefronts.net Corp. are operating units of Logisoft Corp.; consequently, as indicated in Note 1, these combined financial statements have been derived from the consolidated and combined financial statements and accounting records of Logisoft Corp. and reflect certain assumptions and allocations. The financial position, results of operations and cash flows of Logisoft Computer Products Corp. and eStorefronts.net Corp. could differ from those that would have resulted had Logisoft Computer Products Corp. and eStorefronts.net Corp. operated as unaffiliated entities.

/s/ Bonadio & Co., LLP

Rochester, NY

F-1

Table of Contents

LOGISOFT COMPUTER PRODUCTS CORP.

ESTOREFRONTS.NET CORP.

COMBINED STATEMENTS OF ASSETS, LIABILITIES AND ATTRIBUTED NET ASSETS

	December 31,	
	1999	2000
	ASSETS	
CURRENT ASSETS:		
Cash and cash equivalents	\$59,550	\$1,003,120
Short-term investments	1,874,130	
Accounts receivable, net of allowance of \$12,600 in 2000	1,003,495	590,498
Loan receivable officer	6,909	
Unbilled revenue	12,000	83,660
Inventory	542	39,219

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 8-K

Prepaid expenses and other
current assets 4,884,175,578
Deferred tax asset 37,640,340,000

Total current assets 1,125,020,380,205

PROPERTY AND
EQUIPMENT, net 367,041,068,556
INTANGIBLE ASSETS, net 6,024,370,265
OTHER ASSETS 60,784

\$1,498,085,629,810

LIABILITIES AND
ATTRIBUTED NET ASSETS
CURRENT LIABILITIES:

Line-of-credit \$350,000
Current portion of long-term
debt 9,428,100,110
Note payable officer 12,000
Accounts payable 625,000,836,444
Accrued expenses and other
current liabilities 389,529,470,680
Advanced billings 14,800,145,311

Total current liabilities 1,400,757,152,545

LONG-TERM DEBT, net of
current portion 199,736,362,635
DEFERRED TAX LIABILITY 19,354,400,000

Total liabilities 1,619,847,195,180

MINORITY INTEREST 1,002

ATTRIBUTED NET ASSETS

(122,764)4,344,630

\$1,498,085\$6,299,810

The accompanying notes are an integral part of these statements.

F-2

Table of Contents

LOGISOFT COMPUTER PRODUCTS CORP.

ESTOREFRONTS.NET CORP.

COMBINED STATEMENTS OF OPERATIONS AND
CHANGES IN ATTRIBUTED NET ASSETS

	<u>December 31,</u>	
	<u>1999</u>	<u>2000</u>
REVENUE:		
E-commerce/retail	\$3,594,497	\$4,386,372
Strategic Internet services	614,098	1,643,958
	_____	_____
	_____	_____
Total revenue	4,208,595	6,030,330
	_____	_____
	_____	_____
COST OF REVENUE:		
E-commerce/retail	3,155,878	3,874,106
Strategic Internet services	332,967	913,337
	_____	_____
	_____	_____
Total cost of revenue	3,488,845	4,787,443
	_____	_____
	_____	_____
Gross profit	719,750	1,242,887
	_____	_____
	_____	_____

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 8-K

OPERATING EXPENSES:	
Sales and marketing	297,2291,511,283
General and administrative	584,7561,474,314
Research/product development	123,255
Bad debt provision	101,583
Stock based compensation	150,00043,395
Depreciation	22,657113,449
Amortization	157338,791
<hr/>	
Total operating expenses	1,054,7993,706,070
<hr/>	
Loss from operations	(335,049)(2,463,183)
<hr/>	
OTHER INCOME (EXPENSE):	
Interest expense	(34,030)(40,544)
Interest income	170,317
Other	35(458,885)
<hr/>	
	(33,995)(329,112)
<hr/>	
Loss before income taxes and minority interest	(369,044)(2,792,295)
INCOME TAXES	(5,989)(1,434)
<hr/>	
Loss before minority interest	(375,033)(2,793,729)
MINORITY INTEREST	96,9261,002
<hr/>	
NET LOSS	(278,107)(2,792,727)
ATTRIBUTED NET ASSETS, beginning of year	86,324(122,764)
OTHER INCREASES, NET	69,0197,260,121
<hr/>	

ATTRIBUTED NET ASSETS, end of
period

\$(122,764)\$4,344,630

The accompanying notes are an integral part of these statements.

F-3

Table of Contents

LOGISOFT COMPUTER PRODUCTS CORP.

ESTOREFRONTS.NETCORP.

COMBINED STATEMENTS OF CASH FLOWS

	December 31,	
	1999	2000
	<hr/>	<hr/>
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss		
	\$(278,107)	\$(2,792,727)
Adjustments to reconcile net loss to net cash flow from operating activities:		
Minority interest	(96,926)	(1,002)
Depreciation and amortization	22,814	452,240
Bad debt provision	101,583	
Deferred taxes	(28,132)	24,286
Stock based compensation	150,000	46,895
Other non-cash charges	476,968	
Changes in:		
Accounts receivable	(758,348)	311,414
Inventory	5,632	(38,677)
Prepaid expenses and other current assets	(2,960)	(170,694)
Unbilled revenues, net of advanced billings	700	(141,149)
Accounts payable	303,659	211,444

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 8-K

Accrued expenses and other
current liabilities

373,868,511,151

Net cash flow from operating
activities

(307,800)(1,468,268)

CASH FLOW FROM
INVESTING ACTIVITIES:

Cash received from loan receivable
officer

2,842,690

Other assets

(60,784)

Purchases of short-term
investments

(2,500,000)

Sale of short-term investments

625,870

Purchases of property and
equipment

(61,046)(522,664)

Net cash flow from investing
activities

(58,204)(2,450,669)

CASH FLOW FROM
FINANCING ACTIVITIES:

Borrowings (repayments) on
line-of-credit, net

330,000(350,000)

Repayment of long-term debt

(13,873)(38,719)

Proceeds from note payable officer

12,000

Repayments of note payable
officer

(12,000)

Contribution from (to) parent
company

(8,381)5,263,226

Net cash flow from financing
activities

319,746,862,507

CHANGE IN CASH AND CASH
EQUIVALENTS

(46,258)943,570

CASH AND CASH
EQUIVALENTS beginning of

year	105,80859,550
<hr/>	
<hr/>	
CASH AND CASH EQUIVALENTS	end of year
	\$59,550\$1,003,120
<hr/>	
<hr/>	
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash interest paid	
	\$32,482\$38,244
<hr/>	
<hr/>	
Cash taxes paid	
	\$10,945\$24,559
<hr/>	
<hr/>	

The accompanying notes are an integral part of these statements.

F-4

Table of Contents

LOGISOFT COMPUTER PRODUCTS CORP.
ESTOREFRONTS.NET CORP.

NOTES TO COMBINED FINANCIAL STATEMENTS

(1) Basis of Presentation of Financial Statements

These combined financial statements include the operations of Logisoft Computer Products Corp. (LCP) and eStorefronts.net Corp. (eStorefronts , together with LCP, the Company). Both LCP and eStorefronts are wholly-owned operating units of Logisoft Corp. (the Corporation), a Delaware corporation which is publicly traded on the Over the Counter Bulletin Board. As more fully described in Note 3, a group of shareholders of the Corporation expects to exchange shares of the Corporation for all of the issued and outstanding shares of the Company (the Split-off) and that shareholder group has entered into a letter of intent to sell the Company to eResource Capital Group, Inc. (eRCG) , as described further in Note 3. In accordance with the Split-off, the information presented in these financial statements excludes the Company s CHIPS Computer service business and certain other assets and liabilities which consist primarily of cash, investments and notes receivable, which are being retained by the Corporation.

On March 10, 2000, LCP and eStorefronts were acquired by the Corporation, a public shell company, in separate merger transactions involving the exchange of all of the shares of LCP and eStorefronts for 7,500,000 and 4,500,000 shares of the Corporations common stock, respectively (the Mergers). In

conjunction with these transactions, the Corporation raised \$5,500,000 through the sale of 5,500,000 shares of its common stock in a private placement. Prior to the completion of the Mergers, the Corporation sold its only operating business for which it received a note receivable in the amount of \$720,000. At the time of the Mergers, the principals of LCP owned 56% of eStorefronts.

For accounting purposes, the March 2000 LCP transaction has been recorded as an issuance of stock by LCP in exchange for the assets of the Corporation and the eStorefronts transaction has been accounted for at historical cost for the 56% of eStorefronts controlled by LCP. The acquisition of the remaining 44% of eStorefronts was accounted for at fair value, resulting in the recording of goodwill of \$1,980,000. This goodwill is included in these combined financial statements due to the fact that LCP was considered the acquirer for accounting purposes with regard to the Mergers.

The combined statements of assets, liabilities and attributed net assets as of December 31, 1999 and the combined statements of operations and changes in attributed net assets and cash flows for the year ended December 31, 1999 are derived from the historical combined financial statements of LCP and eStorefronts giving effect to the 44% minority interest in eStorefronts. The combined financial statements as of and for the year ended December 31, 2000 are derived from the historical combined accounts of LCP and eStorefronts for the period from January 1, 2000 through March 9, 2000 and the acquisition of the minority interest in eStorefronts on March 10, 2000. Accordingly, net loss for the year ended December 31, 2000 includes 56% of the eStorefronts operations through March 9, 2000 and 100% thereafter.

All significant intercompany accounts and transactions have been eliminated in combination.

These financial statements have been derived from the combined and consolidated financial statements and accounting records of the Corporation and present the combined financial position and results of operations and cash flows of LCP and eStorefronts as they operated as units of the Corporation, including adjustments and allocations necessary for a fair presentation of the businesses. The financial statements presented may not be indicative of the results that would have been achieved had LCP and eStorefronts operated as unaffiliated entities.

F-5

Table of Contents

Business -
eStorefronts
manages the
Company's strategic
Internet services
business (LGI) and
e-commerce partner
site activities
(operated as
eStorefronts) and
LCP operates the
Company's
Computer Products
division. The

Company is headquartered in Rochester, NY. LGI is a full spectrum Internet services provider specializing in globalization. LGI creates global and localized Internet solutions for companies which require a sophisticated cost-effective Internet presence. LGI employs a comprehensive approach to Internet services engagements including up-front planning with its strategic consulting services, custom front-end architecture and web site development as well as comprehensive back end support upon web site completion. LGI's e-commerce and globalization services address business strategy, currency exchange, cultural assessment, logistical support, tax, legal and fraud issues, language requirements and micro-marketing. LGI's competitive advantage is its focus on supporting globalization of e-business through its proprietary

e-commerce solution, Global GatewaySM. eStorefronts partners with traditional and pure web-based businesses to take those businesses to the Internet through partner sites. eStorefronts participates in the development and implementation of the business plan in exchange for revenue-sharing and/or equity-based arrangements. LCP was founded in 1989 and is a leading distributor of third-party software to educational entities, including school systems and universities, as well as healthcare, government and corporate customers throughout the United States. LCP has grown consistently for the past 10 years and is being migrated to an Internet-based sales platform. The Company operates in two reportable segments, Strategic Internet Services, which encompasses LGI and e-Commerce/retail, which includes the Computer Products and partner site businesses. (2)

Summary of Significant Accounting Policies Revenue Recognition - Revenue from uncollateralized e-commerce/retail sales is recognized upon passage of title of the related goods to the customer. Strategic Internet services revenue is recognized on a percentage of completion basis for fixed fee contracts, based on the ratio of costs incurred to total estimated costs for individual projects. Revenue is recognized as services are performed for time and material contracts at the applicable billing rates. Unbilled revenue represents revenue earned under contracts in advance of billings. Such amounts are normally converted to accounts receivable within 90 days. Advanced billings represent amounts billed or cash received in advance of services performed or costs incurred under contracts. Any anticipated losses on contracts are charged to earnings

when identified.
Cost of Revenue -
Cost of revenue for
the
e-commerce/retail
business is
comprised
primarily of the
purchased cost of
products sold and
related shipping
expense. Cost of
revenue for
strategic Internet
services consists
primarily of project
personnel costs
such as salaries,
employee benefits,
training and
incentive
compensation of
billable employees
and the cost of any
third-party
hardware, software
or services included
in an Internet
solution.

F-6

Table of Contents

Sales and
Marketing - Sales
and marketing
expenses include
advertising, brand
name promotions,
lead-generation
activities as well
as salaries,
employee
benefits, and
incentive
compensation of
personnel in these
functions.

General and Administrative - General and administrative expenses are comprised of the salaries, employee benefits and incentive compensation of personnel responsible for administrative, accounting, legal, and human resources functions, the costs of the Company's facilities, accounting, legal, insurance, investor relations and other general and administrative activities.

Research/Product Development Costs - Software development costs are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed". This statement requires capitalization of certain software development costs subsequent

to the establishment of technological feasibility and prior to general release of the software. Based on the Company's development process, technological feasibility is established upon completion of a working model. During the fourth quarter of 2000, the Company capitalized \$25,000 of costs related to the development of Global GatewaySM and the Logisoft World Tax Tag for Cold Fusion in accordance with SFAS No. 86. These costs will be amortized over the estimated life of the products beginning at the time of the release of the product to customers, which is expected in 2001 for both products. The capitalized cost of \$25,000 is included in other assets on the accompanying balance sheet as of December 31, 2000. Expenses relating to research are expensed as incurred. Cash

and Cash
Equivalents - The
Company
considers all
highly liquid
investments with
an original
maturity of
90 days or less to
be cash
equivalents. The
Company
maintains its cash
in bank demand
deposit accounts
which, at times,
may exceed
federally insured
limits. The
Company has not
experienced any
losses in such
accounts and
believes it is not
exposed to any
significant credit
risk on cash and
cash equivalents.
Short-Term
Investments -
Short-term
investments are
classified as
available-for-sale
and are recorded
at fair value based
on quoted market
prices. The cost of
debt securities
available-for-sale
are adjusted for
amortization of
premiums and
discounts to
maturity. Interest
and amortization
of premiums and
discounts for all
securities are
included in
interest income.

Unrealized gains and losses are reported as a component of attributed net assets. Realized and unrealized gains and losses from available-for-sale securities were not material for any year presented.

Inventory - Inventory consists of goods held for sale. Inventory is stated at the lower of cost, determined on a first-in, first-out (FIFO) basis, or market.

F-7

Table of Contents

Property and Equipment -

Property and equipment is recorded at cost. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	40
Leasehold improvements	years
7 years or term of lease, if shorter	
Computers and office equipment	
3 - 7 years	
Software	
1 - 5 years	
Furniture and fixtures	
7 - 10 years	

Computers and office equipment includes the Company's computer network, computers and general office equipment. Software includes the capitalized cost of the Company's web site and accounting and project management software that was purchased and implemented during 2000.

In May 2000, the Emerging Issues Task Force issued EITF 00-2, "Accounting for Web Site Development Costs", which is required to be adopted for web site development costs incurred in fiscal quarters beginning after June 30, 2000. The issue provides guidance on how entities should account for web site development costs, requiring that certain costs, such as planning and operating costs, be expensed and other costs, including development and initial graphics creation, be capitalized. EITF 00-2 is not intended to address the accounting for the hardware infrastructure costs (for example, servers) that are necessary to support a web site. Web site development costs may be internal or external costs. In addition, accounting for the costs of web site development conducted for others under contractual arrangements is part of reporting on contracts in general and is not covered by EITF 00-2. The Company capitalizes development costs related to its own web site in accordance with EITF 00-2.

The Company reviews quarterly its property and equipment in accordance with the Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long Lived Assets" to determine if its carrying costs will be recovered from future operating cash flows. In cases where the Company does not expect to recover its carrying costs, the Company recognizes an impairment loss. The Company has not recognized a loss on the impairment of assets in the accompanying financial statements.

Intangible Assets -

Intangible assets consist of goodwill and deferred financing costs. Goodwill is being amortized over its estimated useful life of five (5) years. Deferred financing fees are amortized on a straight-line basis over the term of the related mortgage.

The carrying value of goodwill and other intangible assets are reviewed if facts and circumstances suggest that they may be impaired. If this review indicates goodwill or other intangibles will not be recoverable, as determined based on future expected cash flows or other fair value determinations, the Company's carrying value of the goodwill or other intangibles are reduced to fair value.

Attributed Net Assets -

The increases in attributed net assets include transactions between the Corporation and LCP and eStorefronts including, but not limited to, capital investments in the Company and provision of services to/from the Company. The capital raised pursuant to the Mergers is being used to fund the operation and growth of the Company. Accordingly, the Corporation has invested a significant amount of that capital in the Company during 2000. Intercompany cash disbursements and collections, advances, loans and repayments between the Corporation and the Company have also been reflected as changes in attributed net assets in the accompanying combined financial statements.

Table of Contents

The Company provides certain services to the Corporation in the areas of finance, taxation, legal and human resources, among others. Management believes that charges and allocations of expense for these services are

reasonable. The Corporation does not provide any significant services to the Company. Earnings from investments have been allocated to the Company based on cash invested in the Company by the Corporation.

Advertising Costs -

The Company expenses advertising costs as incurred. The Company recorded advertising expense of \$6,500 and \$88,177 for the years ended December 31, 1999 and 2000, respectively.

Income Taxes -

The Company has applied the asset and liability approach for financial accounting and reporting purposes for income taxes. The Company accounts for certain items of income and expense in different time periods for financial reporting and income tax purposes. Provisions for deferred income taxes are made in recognition of such temporary differences, where applicable. A valuation allowance is established against deferred tax assets unless the Company believes it is more likely than not that the benefit will be realized.

Fair Value of Financial Instruments -

The carrying amounts of financial instruments including cash and cash equivalents, short-term investments, accounts receivable, notes receivable, accounts payable and accrued expenses approximate fair value. The carrying amount of long-term debt approximates fair value based on current rates of interest available to the Company for loans of similar maturities.

Estimates -

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying combined and consolidated financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results could differ from those estimates.

(3) Subsequent Events

In April 2001, eRCG signed a letter of intent with certain shareholders of the Corporation (the Selling Shareholders) to acquire the Company from the Selling Shareholders. Pursuant to an Agreement and Plan of Corporate Separation, the Selling Shareholders will acquire all of the issued and outstanding shares of the Company in an exchange for their shares of the Corporation, (the Split-off).

The Split-off would require that at least \$1,000,000 in cash, investments, notes receivable and other assets remain in the Corporation and that the Corporation also retain the Company's CHIPS Computer Services Business.

Prior to the Split-off, the Corporation will contribute all of the issued and outstanding shares of eStorefronts to LCP such that eStorefronts becomes a wholly-owned subsidiary of LCP.

F-9

Table of Contents

The Split-Off and the eRCG acquisition of the Company are expected to take place concurrently in May 2001.

Other expense on the accompanying Statements of Operations and Changes in Attributed Net Assets for the year ended December 31, 2000 includes a \$449,000 adjustment of goodwill to reduce the LCP net assets to the current value of the Merger Consideration excluding 500,000 shares representing Contingent Consideration in eRCG's proposed acquisition of the Company.

(4) Acquisition of e-tailing Assets and Rights

On July 1, 2000, eStorefronts purchased certain e-tailing assets and rights of Sentry Group (Sentry) related to the sale of safes and related products on-line. This business is operated under the name Safesmith.com.sm Under the contract with Sentry, LGI must provide \$200,000 of strategic Internet services to Sentry over the 18 months following July 1, 2000. Revenue is recognized as these services are delivered to Sentry. During 2000, \$157,000 of revenue was recognized from the delivery of services as required under this contract. At December 31, 2000, the Company's remaining obligation to provide services to Sentry is \$43,000, which is included in advanced billings in the accompanying financial statements.

Additionally, Sentry agreed to provide Safesmith.comsm with its initial safe inventory requirements to operate the new security site at manufactured cost plus 10% for up to \$200,000 of product at Sentry's manufactured cost for product to be delivered to Safesmith.comsm by February 2001.

(5) Short-Term Investments

Short-term investments consist of the following at December 31, 2000:

Corporate bonds		\$1,000,000
Commercial paper		
	860,023	
Other		
	14,107	
	<hr/>	
	\$1,874,130	
	<hr/>	

The market value of the Company's investments approximated their cost at December 31, 2000.

(6) Inventory

Inventory consists of the following at December 31:

	<u>1999</u>	<u>2000</u>
Goods held for resale	\$542	\$46,419
Less: Reserve against goods held for resale		
		(7,200)
	<hr/>	
	<hr/>	
	\$542	\$39,219
	<hr/>	
	<hr/>	

Table of Contents

(7) Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following at December 31:

	<u>1999</u>	<u>2000</u>
Marketing/trade-shows	\$	\$63,864
Income tax receivable		
	32,744	
Rent		23,828
Deposits		10,000
Software support		13,340
Recruiting costs		6,492
Other		4,884
	4,884	175,578
	\$4,884	\$175,578

(8) Property and Equipment

Property and equipment consists of the following at December 31:

	<u>1999</u>	<u>2000</u>
Land, building and improvements	\$290,531	\$292,945
Leasehold improvements		
	29,193	
Computer and office equipment		163,946
	665,151	
Software		122,631
Furniture and fixtures		16,584
	186,605	
	471,061	1,286,525
Less: Accumulated depreciation and amortization		
	(104,020)	(217,969)
	\$367,041	\$1,068,556

The Company has approximately \$310,000 of property and equipment held under capital lease arrangements at December 31, 2000. Accumulated amortization of approximately \$28,000 related to these leases has been recognized at December 31, 2000. Amortization of the assets recorded under capital lease obligations is included in depreciation expense in the accompanying financial statements.

In the third quarter of 2000, the Company completed the development of its own web site. Certain costs, totaling \$12,000, have been capitalized in accordance with EITF 00-2 and are included as software in these financial statements. These costs are being amortized over the estimated useful life of one year.

F-11

Table of Contents

(9) Intangible Assets

Intangible assets consist of the following at December 31:

	<u>1999</u>	<u>2000</u>
Goodwill	\$	\$2,180,000
Deferred financing costs		
	7,147,147	
	<hr/>	
	7,147,187,147	
Less: Goodwill adjustment		
	(27,968)	
Less: Accumulated amortization		
	(1,123)(788,914)	
	<hr/>	
	\$6,024\$1,370,265	
	<hr/>	
	<hr/>	

Goodwill of \$1,980,000 relating to the purchase of the 44% minority interest in eStorefronts is being amortized over five years. Other expense on the accompanying Statements of Operations and Changes in Attributed Net Assets for the year ended December 31, 2000 includes a \$449,000 adjustment of goodwill to reduce the LCP net assets to the current value of the Merger Consideration excluding the 500,000 shares of Contingent Consideration.

The \$200,000 cost of purchasing certain e-tailing assets and rights from Sentry Group was capitalized as goodwill and is being amortized over the estimated useful life of five years. Sentry Group agreed to supply Safesmith.comSM with initial inventory at manufactured cost plus 10% up to \$200,000 of manufactured cost for product to be delivered to Safesmith.comSM by February 2001. Goodwill is also reduced for the difference between the initial inventory purchases at cost plus 10% and the normal negotiated pricing of product from Sentry to Safesmith.comSM applicable after the initial inventory orders. The reduction of goodwill relating to these purchases was \$27,968 for the year ended December 31, 2000.

(10) Other Assets

Other assets consist of the following at December 31:

	<u>1999</u>	<u>2000</u>
Deposits on office space	\$	\$35,784
Capitalized software costs		
	25,000	
	<hr/>	
	<hr/>	
	\$	\$60,784
	<hr/>	
	<hr/>	

F-12

Table of Contents

(11) Accrued Expenses

Accrued expenses consists of the following at December 31:

	<u>1999</u>	<u>2000</u>
Payroll and related	\$54,794	\$87,258
Vacation		
	8,57977,929	
Legal and accounting		
	53,500	
Provision for restructuring		
	45,000	
Stock transaction costs		
	30,000	
Bonuses		
	298,20725,000	
Provision to straight-line rent expense		
	21,130	
Income taxes		
	20,844	
Other		
	7,105130,863	
	<hr/>	
	<hr/>	
	\$389,529	\$470,680
	<hr/>	
	<hr/>	

(12) Financing Arrangements

Long-Term Debt -

Long-term debt consists of the following at December 31:

<u>1999</u>	<u>2000</u>
<hr/>	

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 8-K

Mortgage payable to a bank in monthly installments of \$1,751, including interest at 7.96% through October 2015 collateralized by the building	\$ 198,154	\$ 188,503
Capital lease obligation payable in monthly installments of \$5,236, including interest at prime plus 1.0% through October 2003 collateralized by the related equipment	157,269	
Capital lease obligation payable in monthly installments of \$4,199, including interest at prime plus .5% through June 2003 collateralized by the related equipment	111,041	
Capital lease obligation payable in monthly installments of \$367, including interest at 7.00% through June 2002	11,010,932	
	<hr/>	
	209,164,462,745	
Less: Current portion	(9,428)(100,110)	
	<hr/>	
	\$199,736\$362,635	
	<hr/>	
	<hr/>	

In June 2000, the Company entered into a three year lease on furniture and computer equipment for \$131,205. The lease transfers title of these assets to the Company at the end of the lease term. Accordingly, it is being accounted for as a capital lease. The interest rate on this lease at December 31, 2000 was 9.5%.

Also, in September 2000, the Company entered into a three year lease on furniture and computer equipment for \$161,095. The lease transfers title of these assets to the Company at the end of the lease term. Accordingly, it is being accounted for as a capital lease. The interest rate on this lease at December 31, 2000 was 10.0%.

Subsequent to year-end, the Company repaid these capital leases.

Future maturities of the mortgage payable and capital leases are as follows at December 31, 2000:

	<u>Mortgage</u>	<u>Capital Leases</u>	<u>Total</u>
2001	\$6,235	\$ 117,619	\$ 123,854
2002			
	6,750	115,050	121,800
2003			
	7,307	82,788	90,095
2004			
	7,910	7,910	
2005			
	8,564	8,564	
Thereafter			
	151,737	151,737	
	<hr/>		
	<hr/>		
	<hr/>		
	188,503	315,457	503,960
Less: Interest portion			

(41,215)(41,215)

\$188,503\$274,242\$462,745

Line-of-Credit -

The Company may borrow up to \$500,000 under the terms of an annually renewable working capital line-of-credit agreement. Amounts borrowed bear interest at the prime rate plus 1% (10.0% at December 31, 2000) and are collateralized by all assets of the Company. There were no amounts outstanding at December 31, 2000. Subsequent to year-end, the Company terminated its line-of-credit agreement. At December 31, 1999, there was \$350,000 outstanding under the terms of a similar line-of-credit agreement.

Debt Covenants -

Certain of the financing arrangements require the Company to maintain certain financial covenants and a minimum investment to be held by the bank of \$1,000,000. The Company is in compliance with these covenants at December 31, 2000.

F-13

Table of Contents

(13) Attributed Net Assets

Other increases (decreases) in the attributed net assets consist of the following for the years ended December 31:

	<u>1999</u>	<u>2000</u>
Capital contributed from Corporation to the Company, net	\$ (8,381)	\$ 5,233,226
Stock compensation charges		
77,40046,895		
Goodwill on acquisition of eStorefronts minority interest		
1,980,000		
<hr/>		
Other increases, net		
\$69,019\$7,260,121		
<hr/>		
<hr/>		

The stock compensation charges and goodwill were non-cash contributions. The stock compensation charge in 1999 related to the issuance of shares for services rendered to eStorefronts valued at \$150,000 less the 44% minority interest. The stock compensation charge in 2000 relates to options issued below fair market value on

the date of grant to two employees and two consultants of eStorefronts. The expense associated with these options is being recognized generally over one year. As described in Note 1, the goodwill of \$1,980,000 resulted from the acquisition of the minority interest in eStorefronts by LCP. At December 31, 2000, the Company retained a \$30,000 liability related to stock transaction costs incurred by the Corporation during 2000. This is reflected as a decrease in the capital contribution from the Corporation to the Company in 2000.

(14) Income Taxes

The components of the deferred tax asset (liability) are as follows at December 31:

	<u>1999</u>	<u>2000</u>
Assets:		
Net operating loss carryforward	\$45,070	\$872,000
Accrued expenses	117,640	34,000
	<u>162,710</u>	<u>906,000</u>
Valuation allowance	(125,070)	(872,000)
	<u>37,640</u>	<u>34,000</u>
Liabilities:		
Depreciation	(19,354)	(40,000)
	<u>\$18,286</u>	<u>\$(6,000)</u>

At December 31, 1999 and 2000, a valuation allowance was provided for the portion of the deferred tax asset for which realization was not reasonably assured.

F-14

Table of Contents

At December 31, 2000, the Company had a net operating loss carryforward of approximately \$2,180,000 available to offset future taxable income, if any. This carryforward expires in 2020.

The transactions contemplated by the Plan of Corporate Separation and Reorganization and the eRCG acquisition described in Note 3 will limit the future annual use of the net operating loss deduction to the value of the Company, as defined by the Internal Revenue Code, on the date of the transactions multiplied by the applicable federal rate (approximately 5.8%) due to the change in control which will result from the transactions.

The components of the benefit (provision) for income taxes consist of the following for the years ended December 31:

	<u>1999</u>	<u>2000</u>
Current:		
Federal	\$(24,716)	\$31,000
State	(9,405)	(8,148)
	<u> </u>	<u> </u>
	(34,121)	22,852
Deferred:		
Federal	21,802	(20,643)
State	6,330	(3,643)
	<u> </u>	<u> </u>
	28,132	(24,286)
	<u> </u>	<u> </u>
	\$(5,989)	\$(1,434)
	<u> </u>	<u> </u>

F-15

Table of Contents

A reconciliation of the federal statutory rate and the effective income tax rate is as follows for the years ended December 31:

	<u>1999</u>	<u>2000</u>
Federal income tax benefit at the statutory rate (34%)	\$ 125,475	\$ 949,380
State income taxes, net of federal benefit	22,145	167,540
Non-deductible amortization	(307,200)	
Other non-deductible expenses	(68,907)	(25,718)
Change in valuation allowance	(108,056)	(746,930)
Other	23,354	(38,506)
	<u> </u>	<u> </u>
	\$(5,989)	\$(1,434)
	<u> </u>	<u> </u>

The non-deductible expenses in 1999 relate primarily to compensation expense recorded for financial statement purposes related to stock grants made during the year. The non-deductible expenses, excluding amortization of goodwill, in 2000 relate to meals and entertainment and stock compensation expense.

(15) Commitments

In 2000, the Company entered into an agreement to lease office space under a non-cancelable lease arrangement. The future minimum lease payments required under this lease are as follows:

2001		\$ 187,701
2002		
2003	207,092	
2004	215,532	
2005	215,532	
Thereafter	215,532	
	71,844	
		\$1,113,233

Rent expense is being recognized on a straight-line basis over the term of this operating lease. The Company recognized rent expense of \$136,512 during 2000.

F-16

Table of Contents

(16) Business Segments

The Company operates in two business segments: e-commerce/retail and strategic Internet services and a separate corporate services unit. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each segment requires different technology, strategic competencies and marketing strategies.

A summary of the Company's business segments are as follows:

	<u>e-commerce/ Retail</u>	<u>Strategic Internet Services</u>	<u>Corporate</u>
<i>Year ended December 31, 2000:</i>			
Revenue	\$4,386,372	\$1,643,958	\$
Income (loss) from operations	(213,677)	(1,835,625)	(413,881)
Depreciation and amortization	56,964	382,791	112,485
Identifiable assets	1,511,978	824,824	1,963,008
Capital expenditures	22,948	699,256	97,197
<i>Year ended December 31, 1999:</i>			
Revenue	\$3,594,497	\$614,098	\$
Income (loss) from operations			

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 8-K

	137,189,204,470(492,708)
Depreciation and amortization	
	5,017,297,500
Identifiable assets	
	910,373,215,214,372,498
Capital expenditures	
	29,351,113,722,17,973

The operating results for strategic Internet services in the year ended December 31, 2000 include \$319,000 of goodwill amortization related to the purchase of the minority interest in eStorefronts.

The large increase in identifiable assets related to the strategic Internet services segment as of December 31, 2000 is the result of the funding received in March 2000 and the related goodwill of \$1,980,000 from the purchase of the 44% minority interest in eStorefronts.

Corporate assets consist of short-term investments and financial accounting software. The Company's owned building and land located in Fairport, NY and related equipment is associated with the Company's e-commerce/retail segment, as it is used primarily by LCP.

Subsequent to March 2000, the Company established a corporate services group, which consists of finance, human resources and information technology staff. The costs of these departments, which benefit both LCP and eStorefronts, consisting mainly of personnel-related expenses, as well as other corporate expenses such as accounting and legal fees, are classified under Corporate. As the formation of this group occurred subsequent to March 2000 and involved the addition of new staff, segment data for prior periods has not been adjusted.

For 1999, the portion of the loss from operations attributable to corporate activity includes the \$150,000 stock compensation charge as well as special executive compensation expenses of \$334,200, paid in conjunction with the merger transactions consummated in March 2000.

F-17

Table of Contents

(17) Concentrations

Revenue from one customer accounted for 20% of total revenue in 1999. Accounts receivable included approximately \$597,000 due from this customer at December 31, 1999. During 2000, the Company did not have any individual customers that accounted for 10% or more of the Company's revenue.

(18) Non-Cash Transactions

During the year ended December 31, 2000, the Company entered into the following non-cash transactions:

- (a) fixed assets, including furniture and computer equipment, were purchased for \$292,300 and financed by two three year capital leases in the amounts of \$131,205 and \$161,095;
- (b) goodwill of \$1,980,000 was recorded as a result of the merger transactions, with a corresponding increase in attributed net assets;
- (c) during the third quarter, in conjunction with the purchase of e-tailing assets and rights from Sentry Group, the Company has agreed to provide \$200,000 of services based on standard hourly rates to Sentry

Group. This obligation has been recorded in current liabilities in the accompanying financial statements. Through December 31, 2000, \$157,000 had been recognized as revenue based on services provided;

- (d) recognized revenue totaling \$235,000 relating to barter transactions involving different services or products for services, including the \$157,000 from Sentry Group discussed above; and
- (e) Corporation shares were issued in exchange for services to the Company valued at \$3,500.
- (f) Reduced eStorefronts goodwill by \$449,000 to reflect the current value of the Merger Consideration excluding the 500,000 shares of Contingent Consideration.

In 1999, 337,500 shares of eStorefronts stock were issued to individuals for services rendered. These individuals contributed to the development of the eStorefronts business, resulting in the recording of \$150,000 in compensation expense. The compensation expense was recorded at the fair value of eStorefronts stock.

(19) Employee Benefit Plan

The Company sponsored a Simple IRA plan for employees through December 31, 2000. The Company contributed 3% on behalf of each participating employee's salary to the plan. Contributions during 1999 and 2000 were not significant.

Beginning in 2001, employees of the Company participate in a 401(k) plan sponsored by the Corporation. Under the provisions of this plan, the Company contributes amounts equal to 50% of the employees' contribution not to exceed 3% of the employees' compensation.

(20) Restructuring Charge

In December 2000, the management of the Company defined and approved a reorganization plan that included eliminating 14 staff positions primarily in the areas of marketing and administration. Total costs of the plan of \$45,000 were provided for in the fourth quarter of 2000 and included employee severance, benefits, and legal costs. These costs were included in general and administrative in the accompanying financial statements.

F-18

Table of Contents

(21) Related Party Transactions

In 1999, an officer of LCP loaned \$12,000 to LCP bearing interest at 10%. The total amount borrowed plus applicable interest was repaid in full in the quarter ended March 31, 2000. The amount outstanding at December 31, 1999 is included under the caption Note payable - officer in the accompanying balance sheet.

At December 31, 1999, the Company had \$6,909 due from an officer which was repaid in full in 2000.

F-19

Table of Contents

(22) Summary of Quarterly Results of Operations (Unaudited)

For the year ended December 31, 1999

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 8-K

	3/31/99	6/30/99	9/30/99	12/31/99
REVENUE:				
E-commerce/retail	\$550,719	\$1,066,133	\$1,017,017	\$960,628
Strategic Internet services	80,320	138,651	193,040	202,087
<hr/>				
<hr/>				
<hr/>				
Total revenue	631,039	1,204,784	1,210,057	1,162,715
<hr/>				
<hr/>				
<hr/>				
COST OF REVENUE:				
E-commerce/retail	467,879	924,857	896,380	866,762
Strategic Internet services	69,126	77,557	90,373	95,911
<hr/>				
<hr/>				
<hr/>				
Total cost of revenue	537,005	1,002,414	986,753	962,673
<hr/>				
<hr/>				
<hr/>				
Gross profit	94,034	202,370	223,304	200,042
<hr/>				
<hr/>				
<hr/>				
OPERATING EXPENSES:				
Sales and marketing	65,542	64,277	70,646	96,764
General and administrative	56,768	67,575	53,549	406,864
Research/product development				
Bad debt provision				
Stock based compensation			150,000	
Depreciation	6,759	5,051	5,462	5,385
Amortization	87	191	(11)	(110)
<hr/>				

Total operating expenses
129,156287,094129,646508,903

Income (loss) from operations
(35,122)(84,724)93,658(308,861)

OTHER INCOME (EXPENSE):

Interest expense
(6,069)(5,978)(10,349)(11,634)

Interest income

Other
325364(182)(472)

(5,744)(5,614)(10,531)(12,106)

Income (loss) before income taxes and minority interest
(40,866)(90,338)83,127(320,967)

BENEFIT FROM (PROVISION FOR) INCOME TAXES
(637)(2,289)(1,897)(1,166)

NET INCOME (LOSS) BEFORE
MINORITY INTEREST
(41,503)(92,627)81,230(322,133)

MINORITY INTEREST
18,24169,7773,4145,494

NET INCOME (LOSS)
\$(23,262)\$(22,850)\$84,644\$(316,639)

[Additional columns below]

[Continued from above table, first column(s) repeated]

For the year ended December 31, 2000

	<u>3/31/00</u>	<u>6/30/00</u>	<u>9/30/00</u>	<u>12/31/00</u>
REVENUE:				
E-commerce/retail	\$878,814	\$1,272,271	\$1,175,433	\$1,059,854
Strategic Internet services	266,721	288,467	566,637	522,133
<hr/>				
<hr/>				
<hr/>				
Total revenue	1,145,535	1,560,738	1,742,070	1,581,987
<hr/>				
<hr/>				
<hr/>				
COST OF REVENUE:				
E-commerce/retail	773,041	1,091,328	1,063,345	946,392
Strategic Internet services	107,228	174,779	328,484	302,846
<hr/>				
<hr/>				
<hr/>				
Total cost of revenue	880,269	1,266,107	1,391,829	1,249,238
<hr/>				
<hr/>				
<hr/>				
Gross profit	265,266	294,631	350,241	332,749
<hr/>				
<hr/>				
<hr/>				
OPERATING EXPENSES:				
Sales and marketing	106,411	130,353	14,034	590,485
General and administrative	103,287	418,012	486,528	466,487
Research/product development				

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 8-K

	38,51484,741
Bad debt provision	
	115,000(16,250)2,833
Stock based compensation	
	8,03115,19720,167
Depreciation	
	11,43119,88532,65649,477
Amortization	
	22,08999,060109,527108,115
<hr/>	
<hr/>	
<hr/>	
<hr/>	
Total operating expenses	
	243,218960,3411,180,2061,322,305
<hr/>	
<hr/>	
<hr/>	
<hr/>	
Income (loss) from operations	
	22,048(665,710)(829,965)(989,556)
<hr/>	
<hr/>	
<hr/>	
<hr/>	
OTHER INCOME (EXPENSE):	
Interest expense	
	(13,495)(5,482)(5,175)(16,392)
Interest income	
	19,06954,18151,81945,249
Other	
	83(5,407)(2,059)(451,503)
<hr/>	
<hr/>	
<hr/>	
<hr/>	
<hr/>	
	5,65743,29244,585(422,646)
<hr/>	
<hr/>	
<hr/>	
<hr/>	
Income (loss) before income taxes and minority interest	
	27,705(622,418)(785,380)(1,412,202)
BENEFIT FROM (PROVISION FOR) INCOME TAXES	
	(12,212)10,806694(722)
<hr/>	
<hr/>	
<hr/>	
<hr/>	
<hr/>	
<hr/>	
NET INCOME (LOSS) BEFORE MINORITY INTEREST	
	15,493(611,612)(784,686)(1,412,924)
MINORITY INTEREST	
	1,002
<hr/>	

NET INCOME (LOSS)
 \$16,495\$(611,612)\$(784,686)\$(1,412,924)

F-20

Table of Contents

LOGISOFT COMPUTER PRODUCTS CORP.

ESTOREFRONTS.NET CORP.

COMBINED STATEMENTS OF ASSETS, LIABILITIES AND ATTRIBUTED NET ASSETS

(Unaudited)

	December 31, 2000	March 31, 2001
	<u> </u>	<u> </u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$1,003,120	\$1,696,201
Short-term investments	1,874,130	10,000
Accounts receivable, net of allowance of \$12,600 in 2000	590,498	953,463
Unbilled revenue	83,660	56,586
Inventory	39,219	39,589
Prepaid expenses and other current assets	175,578	203,710
Deferred tax asset	34,000	34,000
	<u> </u>	<u> </u>
Total current assets	3,800,205	2,993,549
PROPERTY AND EQUIPMENT, net	1,068,556	1,105,865

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 8-K

INTANGIBLE ASSETS, net
 1,370,265 1,271,072
 OTHER ASSETS
 60,784 80,184

\$6,299,810 \$5,450,670

LIABILITIES AND
 ATTRIBUTED NET ASSETS
 CURRENT LIABILITIES:
 Current portion of long-term debt
 \$100,110 \$100,346
 Accounts payable
 836,444 863,105
 Accrued expenses and other current
 liabilities
 470,680 518,258
 Advanced billings
 145,311 113,457

Total current liabilities
 1,552,545 1,595,166

LONG-TERM DEBT, net of
 current portion
 362,635 337,785

DEFERRED TAX LIABILITY
 40,000 40,000

Total liabilities
 1,955,180 1,972,951

ATTRIBUTED NET ASSETS
 4,344,630 3,477,719

\$6,299,810 \$5,450,670

The accompanying notes are an integral part of these statements.

F-21

Table of Contents

LOGISOFT COMPUTER PRODUCTS CORP.

ESTOREFRONTS.NET CORP.

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN ATTRIBUTED NET ASSETS

(Unaudited)

	Three Months Ended March 31,	
	2000	2001
REVENUE:		
E-commerce/retail	\$878,814	\$1,332,266
Strategic Internet services	266,721	527,371
	<hr/>	
Total revenue	1,145,535	1,859,637
	<hr/>	
COST OF REVENUE:		
E-commerce/retail	773,041	1,170,735
Strategic Internet services	107,228	319,465
	<hr/>	
Total cost of revenue	880,269	1,490,200
	<hr/>	
Gross profit	265,266	369,437
	<hr/>	
OPERATING EXPENSES:		
Sales and marketing	106,411	1546,904
General and administrative	103,287	452,860
Research/product development	65,358	
Bad debt provision	7,500	
Stock based compensation	21,524	
Depreciation	11,431	64,500
Amortization	22,089	107,693
	<hr/>	
Total operating expenses	243,218	1,266,339
	<hr/>	

Income (loss) from operations	22,048(896,902)
<hr/>	
OTHER INCOME (EXPENSE):	
Interest expense	(13,495)(9,880)
Interest income	19,06921,854
Other	833,586
<hr/>	
<hr/>	
5,65715,560	
<hr/>	
<hr/>	
Income (loss) before income taxes and minority interest	27,705(881,342)
INCOME TAXES	(12,212)
<hr/>	
<hr/>	
Income (loss) before minority interest	15,493(881,342)
MINORITY INTEREST	1,002
<hr/>	
<hr/>	
NET INCOME (LOSS)	16,495(881,342)
ATTRIBUTED NET ASSETS, beginning of period	(122,764)4,344,630
OTHER INCREASES, net	7,100,18714,431
<hr/>	
<hr/>	
ATTRIBUTED NET ASSETS, end of period	\$6,993,918\$3,477,719
<hr/>	
<hr/>	

The accompanying notes are an integral part of these statements.

F-22

Table of Contents

LOGISOFT COMPUTER PRODUCTS CORP.
ESTOREFRONTS.NET CORP.

COMBINED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31,	
	2000	2001
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income (loss)		
	\$16,495	\$(881,342)
Adjustments to reconcile net income (loss) to net cash flow from operating activities:		
Minority interest		
	(1,002)	
Depreciation and amortization		
	33,520	172,193
Bad debt provision		
	7,500	
Deferred taxes		
	8,477	
Stock based compensation		
	21,524	
Other non-cash charges		
	14,000	
Changes in:		
Accounts receivable		
	14,537	(370,465)
Inventory		
	(316)	(370)
Prepaid expenses and other current assets		
	(8,590)	(28,132)
Unbilled revenues, net of advanced billings		
	1,100	(4,780)
Accounts payable		
	(225,442)	26,661
Accrued expenses and other current liabilities		
	(254,614)	47,578
Net cash flow from operating activities		
	(415,835)	(995,633)
CASH FLOW FROM INVESTING ACTIVITIES:		
Cash received from notes receivable officer		
	6,909	
Net proceeds from sales of short-term investments		
	1,864,130	

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 8-K

Purchases of property and equipment	(16,011)(101,809)
Increase in intangible assets	(22,500)
Other assets	(28,684)(19,400)

Net cash flow from investing activities	(37,786)1,720,421
---	-------------------

CASH FLOW FROM FINANCING ACTIVITIES:

Borrowings (repayments) on line-of-credit, net	50,000
Repayment of long-term debt	(3,597)(24,614)
Repayments of note payable officer	(12,000)
Contribution from (to) parent company	5,120,187(7,093)

Net cash flow from financing activities	5,154,590(31,707)
---	-------------------

CHANGE IN CASH AND CASH EQUIVALENTS

	4,700,969693,081
CASH AND CASH EQUIVALENTS beginning of period	59,5501,003,120

CASH AND CASH EQUIVALENTS end of period	\$4,760,519\$1,696,201
---	------------------------

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash interest paid	\$14,034\$10,189
--------------------	------------------

Cash taxes paid	\$1,212\$
-----------------	-----------

The accompanying notes are an integral part of these statements.

F-23

Table of Contents

LOGISOFT COMPUTER PRODUCTS CORP.
ESTOREFRONTS.NET CORP.
NOTES TO COMBINED FINANCIAL STATEMENTS

(Unaudited)

(1) Basis of Presentation of Financial Statements

These combined financial statements include the operations of Logisoft Computer Products Corp. (LCP) and eStorefronts.net Corp. (eStorefronts , together with LCP, the Company). Both LCP and eStorefronts are wholly-owned operating units of Team Sports Entertainment, Inc. formerly known as Logisoft Corp. (the Corporation), a Delaware corporation which is publicly traded on the Over the Counter Bulletin Board. As more fully described in Note 3, a group of shareholders of the Corporation expects to exchange shares of the Corporation for all of the issued and outstanding shares of the Company (the Split-off) and that shareholder group subsequently entered into an agreement to sell the Company to eResource Capital Group, Inc. (eRCG), as described further in Note 3. In accordance with the Split-off, the information presented in these financial statements excludes the Company s CHIPS Computer service business and certain other assets and liabilities which consist primarily of cash, investments and notes receivable, which are being retained by the Corporation.

On March 10, 2000, LCP and eStorefronts were acquired by the Corporation, a public shell company, in separate merger transactions involving the exchange of all of the shares of LCP and eStorefronts for 7,500,000 and 4,500,000 shares of the Corporations common stock, respectively (the Mergers). In

conjunction with these transactions, the Corporation raised \$5,500,000 through the sale of 5,500,000 shares of its common stock in a private placement. Prior to the completion of the Mergers, the Corporation sold its only operating business for which it received a note receivable in the amount of \$720,000. At the time of the Mergers, the principals of LCP owned 56% of eStorefronts. For accounting purposes, the March 2000 LCP transaction has been recorded as an issuance of stock by LCP in exchange for the assets of the Corporation and the eStorefronts transaction has been accounted for at historical cost for the 56% of eStorefronts controlled by LCP. The acquisition of the remaining 44% of eStorefronts was accounted for at fair value, resulting in the recording of

goodwill of \$1,980,000. This goodwill is included in these combined financial statements due to the fact that LCP was considered the acquirer for accounting purposes with regard to the Mergers. The combined statements of assets, liabilities and attributed net assets as of December 31, 1999 and the combined statements of operations and changes in attributed net assets and cash flows for the year ended December 31, 1999 are derived from the historical combined financial statements of LCP and eStorefronts giving effect to the 44% minority interest in eStorefronts. The combined financial statements as of and for the year ended December 31, 2000 are derived from the historical

combined accounts of LCP and eStorefronts for the period from January 1, 2000 through March 9, 2000 and the acquisition of the minority interest in eStorefronts on March 10, 2000. Accordingly, net loss for the year ended December 31, 2000 includes 56% of the eStorefronts operations through March 9, 2000 and 100% thereafter. Business - eStorefronts manages the Company's strategic Internet services business (LGI) and e-commerce partner site activities (operated as eStorefronts) and LCP operates the Company's Computer Products division. The Company is headquartered in Rochester, NY. LGI is a full spectrum Internet services provider specializing in globalization. LGI creates global and localized Internet solutions for

companies which require a sophisticated cost-effective Internet presence. LGI employs a comprehensive approach to Internet services engagements including up-front planning with its strategic consulting services, custom front-end architecture and web site development as well as comprehensive back end support upon web site completion. LGI's e-commerce and globalization services address business strategy, currency exchange, cultural assessment, logistical support, tax, legal and fraud issues, language requirements and micro-marketing. LGI's competitive advantage is its focus on supporting globalization of e-business through its proprietary e-commerce solution, Global GatewaySM. eStorefronts partners with

traditional and pure web-based businesses to take those businesses to the Internet through partner sites. eStorefronts participates in the development and implementation of the business plan in exchange for revenue-sharing and/or equity-based arrangements.

F-24

Table of Contents

LCP was founded in 1989 and is a leading distributor of third-party software to educational entities, including school systems and universities, as well as healthcare, government and corporate customers throughout the United States. LCP has grown consistently for the past 10 years and is being migrated to an Internet-based sales platform.

The Company operates in two reportable segments, Strategic Internet Services, which encompasses LGI and e-Commerce/retail, which includes the Computer Products and partner site businesses. (2) Summary of significant accounting policies Revenue Recognition - Revenue from uncollateralized e-commerce/retail sales is recognized upon passage of title of the related goods to the customer. Strategic

Internet services revenue is recognized on a percentage of completion basis for fixed fee contracts, based on the ratio of costs incurred to total estimated costs for individual projects. Revenue is recognized as services are performed for time and material contracts at the applicable billing rates. Unbilled revenue represents revenue earned under contracts in advance of billings. Such amounts are normally converted to accounts receivable within 90 days. Advanced billings represent amounts billed or cash received in advance of services performed or costs incurred under contracts. Any anticipated losses on contracts are charged to earnings when identified. Cost of Revenue - Cost of revenue for the e-commerce/retail business is comprised primarily of the purchased cost of products sold and related shipping expense. Cost of revenue for

strategic Internet services consists primarily of project personnel costs such as salaries, employee benefits, training and incentive compensation of billable employees and the cost of any third-party hardware, software or services included in an Internet solution. Sales and Marketing - Sales and marketing expenses include advertising, brand name promotions, lead-generation activities as well as salaries, employee benefits, and incentive compensation of personnel in these functions. General and Administrative - General and administrative expenses are comprised of the salaries, employee benefits and incentive compensation of personnel responsible for administrative, accounting, legal, and human resources functions, the costs of the Company's facilities, accounting, legal, insurance, investor relations and other general and

administrative
activities. Research/Product
Development Costs

- Software
development costs
are accounted for in
accordance with
Statement of
Financial
Accounting
Standards
(SFAS) No. 86,

Accounting for the
Costs of Computer
Software to be
Sold, Leased, or
Otherwise
Marketed". This
statement requires
capitalization of
certain software
development costs
subsequent to the
establishment of
technological
feasibility and prior
to general release of
the software. Based
on the Company's
development
process,
technological
feasibility is
established upon
completion of a
working model.

During the quarter
ended March 31,
2001, the Company
capitalized \$15,000
of costs related to
the development of
Global GatewaySM
and the Logisoft
World Tax Tag for
Cold Fusion in
accordance with
SFAS No. 86.

These costs will be
amortized over the
estimated life of the

products beginning at the time of the release of the product to customers, which is expected in 2001 for both products. The capitalized cost of \$40,000 is included in other assets on the accompanying balance sheet as of March 31, 2001. Expenses relating to research are expensed as incurred.

F-25

Table of Contents

Cash and Cash Equivalents -

The Company considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. The Company maintains its cash in bank demand deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash

equivalents. Short-Term
Investments

- Short-term
investments are
classified as
available-for-sale
and are recorded
at fair value based
on quoted market
prices. The cost
of debt securities
available-for-sale
are adjusted for
amortization of
premiums and
discounts to
maturity. Interest
and amortization
of premiums and
discounts for all
securities are
included in
interest income.

Unrealized gains
and losses are
reported as a
component of
attributed net
assets. Realized
and unrealized
gains and losses
from
available-for-sale
securities were
not material for
any year

presented. Inventory

- Inventory
consists of goods
held for sale.

Inventory is
stated at the lower
of cost,

determined on a
first-in, first-out
(FIFO) basis, or
market. Property

and Equipment

- Property and
equipment is
recorded at cost.

Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized.

Expenditures for maintenance and repairs are charged to operations as incurred.

Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	40 years
Leasehold improvements	7 years or term of lease, if shorter
Computers and office equipment	3 - 7 years
Software	1 - 5 years
Furniture and fixtures	7 - 10 years

Computers and office equipment includes the Company's computer network, computers and general office equipment. Software includes the capitalized cost of the Company's web site and accounting and project management software that was purchased and implemented during 2000.

In May 2000, the Emerging Issues Task Force issued EITF 00-2, Accounting for Web Site Development Costs, which is required to be adopted for web site development costs incurred in fiscal quarters beginning after

June 30, 2000.

The issue provides guidance on how entities should account for web site development costs, requiring that certain costs, such as planning and operating costs, be expensed and other costs, including development and initial graphics creation, be capitalized. EITF 00-2 is not intended to address the accounting for the hardware infrastructure costs (for example, servers) that are necessary to support a web site. Web site development costs may be internal or external costs. In addition, accounting for the costs of web site development conducted for others under contractual arrangements is part of reporting on contracts in general and is not covered by

EITF 00-2. The Company capitalizes development costs related to its own web site in accordance with EITF

00-2. The Company reviews quarterly its property and equipment in accordance with the Statement of Financial Accounting Standards No. 121

Accounting for the Impairment of Long Lived Assets to determine if its carrying costs will be recovered from future operating cash flows. In cases where the Company does not expect to recover its carrying costs, the Company recognizes an impairment loss. The Company has not recognized a loss on the impairment of assets in the accompanying financial statements. Intangible Assets
- Intangible assets consist of goodwill and

deferred financing costs. Goodwill is being amortized over its estimated useful life of five (5) years. Deferred financing fees are amortized on a straight-line basis over the term of the related mortgage. The carrying value of goodwill and other intangible assets are reviewed if facts and circumstances suggest that they may be impaired. If this review indicates goodwill or other intangibles will not be recoverable, as determined based on future expected cash flows or other fair value determinations, the Company's carrying value of the goodwill or other intangibles are reduced to fair value.

F-26

Table of Contents

Attributed Net Assets -

The increases in attributed net assets include transactions between the Corporation and LCP and eStorefronts including, but not limited to, capital investments in the Company and provision of services to/from the Company. The capital raised pursuant to the Mergers is being used to fund the operation and growth of the Company. Accordingly, the Corporation has invested a significant amount of that capital in the Company during 2000 and through the quarter ended March 31, 2001. Intercompany cash disbursements and collections, advances,

loans and repayments between the Corporation and the Company have also been reflected as changes in attributed net assets in the accompanying combined financial statements. The Company provides certain services to the Corporation in the areas of finance, taxation, legal and human resources, among others. Management believes that charges and allocations of expense for these services are reasonable. The Corporation does not provide any significant services to the Company. Earnings from investments have been allocated to the Company based on cash invested in the Company by the Corporation. Advertising Costs - The

Company expenses advertising costs as incurred. The Company recorded advertising expense of \$37,600 and \$3,300 for the three month periods ended March 31, 2001 and 2000, respectively. Income Taxes - The Company has applied the asset and liability approach for financial accounting and reporting purposes for income taxes. The Company accounts for certain items of income and expense in different time periods for financial reporting and income tax purposes. Provisions for deferred income taxes are made in recognition of such temporary differences, where applicable. A valuation allowance is

established against deferred tax assets unless the Company believes it is more likely than not that the benefit will be realized. Fair Value of Financial Instruments - The carrying amounts of financial instruments including cash and cash equivalents, short-term investments, accounts receivable, notes receivable, accounts payable and accrued expenses approximate fair value. The carrying amount of long-term debt approximates fair value based on current rates of interest available to the Company for loans of similar maturities. Estimates - The preparation of financial statements in

conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying combined and consolidated financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results could differ from those estimates. (3) Subsequent Events In April 2001, eRCG signed a letter of intent with certain shareholders of the Corporation (the Selling Shareholders) to acquire the Company from

the Selling Shareholders. Pursuant to an Agreement and Plan of Corporate Separation, the Selling Shareholders acquired all of the issued and outstanding shares of the Company in an exchange for their shares of the Corporation, (the Split-off). The Split-off required that at least \$1,000,000 in cash, investments, notes receivable and other assets remain in the Corporation and that the Corporation also retain the Company's CHIPS Computer Services Business. Prior to the Split-off, the Corporation contributed all of the issued and outstanding shares of eStorefronts to LCP such that eStorefronts becomes a

wholly-owned
subsidiary of
LCP.

F-27

Table of Contents

The Split-Off was completed on May 15, 2001 and eRCG's acquisition of the Company was completed on June 19, 2001. The number of shares to be issued to the Selling Shareholders in connection with eRCG's acquisition of the Company is 6,000,000 shares (the Merger Consideration). A portion of the merger consideration, 500,000 shares, that otherwise would have been issued to certain of the Selling Shareholders in connection with the acquisition will only be issued if the Company achieves certain revenue and profitability objectives during the fiscal year ended June 30, 2002 (the Contingent Consideration).

(4) Acquisition of e-tailing Assets and Rights On July 1, 2000, Logisoft purchased certain e-tailing assets and rights of Sentry Group (Sentry) related to the sale of safes and related products on-line. This transaction was completed by eStorefronts, the Company's e-commerce partnerships division and is operated under the name Safesmith.comSM. Under the contract with Sentry, Logisoft must provide \$200,000 of strategic Internet services to

Sentry over the 18 months following July 1, 2000. Revenue is recognized as these services are delivered to Sentry. The Company recognized \$14,400 of revenue from the delivery of services as required under this contract during the three months ended March 31, 2001. As of March 31, 2001, the Company's remaining obligation to provide services to Sentry is \$29,000, which is included in advanced billings in the accompanying financial statements. Additionally, Sentry agreed to provide Logisoft with its initial safe inventory requirements to operate the new security site at manufactured cost plus 10% for up to \$200,000 of product at Sentry's manufactured

cost for product
to be delivered
to Logisoft by
February 2001. (5) Property
and
Equipment Property
and equipment
consists of the
following:

	December 31, 2000	March 31, 2001
	<u> </u>	<u> </u>
Land, building and improvements	\$292,945	\$292,945
Leasehold improvements		
29,19329,193		
Computer and office equipment		
655,151712,253		
Software		
122,631161,085		
Furniture and fixtures		
186,605192,858		
	1,286,5251,388,334	
Less: Accumulated depreciation and amortization		
(217,969)(282,469)		
	\$1,068,556\$1,105,865	

(6) Intangible Assets

	December 31, 2000	March 31, 2001
	<u> </u>	<u> </u>
Goodwill	\$2,180,000	\$2,202,500
Deferred financing costs		
7,1477,147		
	2,187,1472,209,647	
Less: Goodwill adjustment		
(27,968)(41,968)		
Less: Accumulated amortization		
(788,914)(896,607)		
	\$1,370,265\$1,271,072	

Table of Contents

Intangible assets consist of the following:

Goodwill of \$1,980,000 relating to the purchase of the 44% minority interest in eStorefronts is being amortized over five years. In 2000, goodwill was reduced by an additional \$449,000 to reduce the LCP net assets to the current value of the Merger Consideration excluding the 500,000 shares of Contingent Consideration, at the time of the issuance of the Company's combined financial statements as of December 31, 2001. The \$200,000 cost of purchasing certain e-tailing assets and rights from Sentry Group was capitalized as goodwill and will be amortized over the estimated useful life of five years. Sentry

Group agreed to supply Safesmith.comSM s initial inventory at manufactured cost plus 10% up to \$200,000 of manufactured cost. Goodwill is also reduced for the difference between the initial inventory purchases at cost plus 10% and the normal negotiated pricing to Safesmith.com applicable after the initial inventory orders. This goodwill adjustment was \$14,000 for the three months ended March 31, 2001. In February 2001, the Company purchased the assets of a Rochester-based creative firm for \$26,500, of which \$22,500 was allocated to goodwill. This goodwill is being amortized over its estimated useful life of two years beginning March 2001. (7) Other Assets Consists of deposits on office space and the capitalized costs for development of Global

GatewaySM and
 World Tax Tag
 for Cold
 Fusion. (8) Financing
 Arrangements Long-Term
 Debt
 - Long-term
 debt consists of
 the following at:

	December 31, 2000	March 31, 2001
	<hr/>	<hr/>
Mortgage payable to a bank in monthly installments of \$1,751, including interest at 7.96% through October 2015 collateralized by the building.	\$ 188,503	\$ 186,479
Capital lease obligation payable in monthly installments of \$5,236, including interest at prime plus 1.0% through October 2003 collateralized by the related equipment.	157,269,145,588	
Capital lease obligation payable in monthly installments of \$4,199, including interest at prime plus .5% through June 2003 collateralized by the related equipment.	111,041,101,139	
Capital lease obligation payable in monthly installments of \$367, including interest at 7.00% through June 2002.	5,932,492,5	
	<hr/>	
	<hr/>	
Less: Current portion	462,745,438,131	
	(100,110)(100,346)	
	<hr/>	
	<hr/>	
	\$362,635\$337,785	
	<hr/>	
	<hr/>	

The Company paid off its capital leases in full, including all accrued interest, on April 2, 2001.

F-29

Table of Contents

Line-of-Credit -

At
 December 31,
 2000, the
 Company had
 available an
 annually
 renewable
 working

capital
line-of-credit
agreement in
which the
Company
could borrow
\$500,000.
This
line-of-credit
agreement
was
terminated by
the
Corporation
during the
three months
ended
March 31,
2001. Debt
Covenants
- Certain of
the financing
arrangements
require the
Company to
maintain
certain
financial
covenants.
The Company
is in
compliance
with all of
these
covenants as
of March 31,
2001. (9) Attributed
Net
Assets Other
increases
(decreases) in
the attributed
net assets
consist of the
following for
the three
month periods
ended
March 31,
2001 and
2000:

	2001	2000
Capital contributed from Corporation to the Company, net	\$(7,093)	\$5,120,187
Stock compensation charges		
21,524		
Goodwill on acquisition of eStorefronts minority interest		
1,980,000		
<hr/>		
Other increases, net		
\$14,431	\$7,100,187	
<hr/>		
<hr/>		

The stock compensation charges and goodwill were non-cash contributions. The stock compensation charge in 2001 relates to options issued below fair market value on the date of grant to two employees and two consultants of eStorefronts. The expense associated with these options is being recognized generally over one year. As described in Note 1, the goodwill of \$1,980,000 resulted from the acquisition of the minority interest in eStorefronts by LCP.

(10) Income Taxes Income taxes for the three months ended March 31, 2000 and 2001 have been provided at the effective income tax rate expected for the calendar year, adjusted for valuation allowances. (11) Business Segments The Company operates in two business segments: e-commerce/retail and strategic Internet services. The Company's reportable segments are strategic business units that offer different products and services. They

are managed separately because each segment requires different technology, strategic competencies and marketing strategies.

F-30

Table of Contents

A summary of the Company's two business segments are as follows:

	e-Commerce/ Retail	Strategic Internet Services	Corporate
	<u> </u>	<u> </u>	<u> </u>
<i>Three months ended March 31, 2001:</i>			
Revenue	\$1,352,631	\$574,371	\$
Income (loss) from operations	(56,144)	(642,659)	(194,348)
Depreciation and amortization	15,300	148,693	9,000
Identifiable assets	1,441,539	4,070,465	1,021,622
Capital expenditures	94,531	7,278	
<i>Three months ended March 31, 2000:</i>			
Revenue	\$924,520	\$266,721	\$
Income (loss) from operations	(32,088)	61,910	(3,986)
Depreciation and amortization	27,627	7,073	986
Identifiable assets	2,891,697	2,180,500	3,133,492
Capital expenditures	8,042	13,489	

The operating results for strategic Internet services in the three months ended March 31, 2000 and 2001 include \$22,000 and \$99,000, respectively, of goodwill amortization related to the purchase of the minority interest in eStorefronts.

Corporate assets consist primarily of cash and cash equivalents, the notes receivable arising from the March 2000

merger transactions and a loan receivable from an officer. The Company's owned building and land located in Fairport, NY and related equipment is associated with the Company's e-commerce/retail segment, as it is used primarily by the computer products resale business. Subsequent to March 2000, the Company established a corporate services group, which consists of finance, human resources and information technology staff. The costs of these departments, consisting mainly of personnel-related expenses, as well as other corporate expenses such as accounting and legal fees, public and investor relations, are classified under Corporate. As the formation of this group occurred subsequent to March 2000 and involved the addition of new staff, segment data for the three months ended March 31, 2000

has not been adjusted. (12) Concentrations Revenue from one customer accounted for 15% of the total Company revenue for the three months ended March 31,

2000. Revenue from a different customer accounted for 16% of the total Company revenue for the three months ended March 31, 2001.

Accounts receivable at March 31, 2001 included \$113,000 from this

customer. (13) Non-Cash Transactions During the three months ended March 31, 2001, the Company entered into the following non-cash transactions: (a) Recognized revenue totaling \$35,700 related to barter

transactions. (b) Issued 48,000 shares of the Corporation's common stock to two vendors in lieu of payment valued at \$15,000.

The entities that received these shares were Selling Shareholders with regard to eRCG's acquisition of the Company. (14) Related-party Transactions During

the three months ended March 31, 2001, the Company recognized revenue of \$35,000 from eRCG and its subsidiaries.

F-31

Table of Contents

INTRODUCTION Pro Forma Financial Statements

On September 7, 2000, the Company completed the acquisition of DM Marketing, Inc. (DMM) in accordance with a definitive purchase agreement dated August 16, 2000, which provided for the exchange of 8,450,000 shares of the Company s Common Stock for all of the common stock of DMM. On August 16, 2000, the 8,450,000 shares of common stock issued for DMM had a market value of \$5,281,250. Including direct acquisition costs, the aggregate purchase price for DMM was \$6, 210,897 and the transaction was recorded using the purchase method of accounting. The excess value of the purchase price over the fair value of DMM s net assets on the acquisition date aggregating \$5,722,267 has been allocated to goodwill which is being amortized over five years.

On February 13, 2001, the Company acquired 100% of Avenel Ventures, Inc. (Avenel) in exchange of 6.7 million shares of Common Stock pursuant to a share exchange purchase agreement dated as of November 8, 2000. The total purchase price aggregated \$6,834,000 and the transaction was recorded using the purchase method of accounting. The excess value of the purchase price over the fair value of Avenel s net assets on the acquisition date aggregating \$5,610,144 has been allocated to goodwill which is being amortized over five years.

On April 3, 2001, the Company acquired LST, Inc. d/b/a Lifestyle Technologies, Inc. (LST) in exchange of 8,074,675 million shares of Common Stock pursuant to certain stock purchase agreements. The total purchase price aggregated \$7,617,208 and the transaction was recorded using the purchase method of accounting. The excess value of the purchase price over the fair value of LST s net assets on the acquisition date aggregating \$7,991,291 has been allocated to goodwill which is being amortized over five years.

On June 19, 2001, the Company acquired Logisoft Computer Products, Inc. (LCP) in exchange of 5,500,000 million shares of Common Stock pursuant to certain stock purchase agreements. The total purchase price aggregated \$5,490,000 and the transaction was recorded using the purchase method of accounting. The excess value of the purchase price over the fair value of LCP s net assets on the acquisition date aggregating approximately \$3,185,000 has been allocated to goodwill which is being amortized over five years.

The acquisition of each DMM, Avenel, and LST has been reported by the Company in current reports on Form 8-K and 8-K/A filed prior to this Current Report. Therefore, the following unaudited pro forma consolidated financial statements of the Company and LCP are derived from, and should be read in conjunction with the audited financial statements of LCP included in item 7(a) herein and the audited consolidated financial statements of the Company as previously filed on Form 10-KSB for the year ended June 30, 2000 with the Securities and Exchange Commission, the audited consolidated financial statements of the Company as previously filed on Form 10-KSB/A on June 15, 2001 for the year ended June 20, 2000, the unaudited consolidated financial statements of the Company as previously filed on Form 10-QSB for the quarters ended December 31, 2000, September 30, 2000, and March 31, 2001 and the financial statements as previously filed on Form 8-K/A on November 10, 2000, March 28, 2001, May 15, 2001 and June 15,

2001. The pro forma consolidated financial statements do not purport to be indicative of the results of operations or financial position that would have actually been reported had the acquisition been consummated on the dates indicated, or which may be reported in the future.

The unaudited pro forma consolidated balance sheet reflects adjustments as if the acquisition had been consummated on March 31, 2001.

The pro forma statements of operations reflect adjustments as if the acquisition had been consummated at the beginning of the period of each statement (i.e. July 1, 1999 for the twelve-month statement of operations and July 1, 2000 for the nine-month statement of operations).

F-32

Table of Contents

eResource Capital Group, Inc. and Subsidiaries

ProForma Consolidated Balance Sheet (Unaudited)

March 31, 2001

(In thousands, except share amounts)

ASSETS	eResource Capital Group, Inc. Actual	LST, Inc. Pro Forma Eliminations	Pro Forma Adjustments and SubTotal	LCP Actual	Pro Forma Adjustments and Eliminations	eResource Capital Group, Inc. Pro Forma
Cash and cash equivalents	\$ 442	\$	\$	\$442	\$1,696	\$ 2,138
Investments	1,423	(350)	1,073	10		
Accounts and notes receivable	155	327	482	953		1,435
Inventories		113	113	40		153
Prepaid expenses	1,046	26	1,072	295		1,367
<hr/>						
<hr/>						
<hr/>						
<hr/>						
<hr/>						
<hr/>						
<hr/>						
Total current assets	3,066	466	(350)	3,182	994	6,176
Net assets of discontinued operations		68	68	68		
Deferred costs and other assets		232	72	304	80	384
Property and equipment, net	8,618	209	8,827	1,106		9,933

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 8-K

Goodwill 11,356 7,991 19,347 1,271 1,982 (1) 22,600

Total assets \$23,340 \$747 \$7,641 \$31,728 \$5,451 \$1,982 \$39,161

LIABILITIES AND SHAREHOLDERS EQUITY

Notes payable \$7,616 \$ 7,616 \$100 \$ 7,716

Accrued interest payable 848 848 848

Accounts payable and accrued expenses 1,014 567 1,581 1,382 70(5) 3,033

Customer deposits 3484 352 113 465

Total current liabilities 9,826 571 10,397 1,595 701 2,062

Notes payable 338 338

Deferred tax liability 40 40

Due to affiliates, net 265 50 576 576

Commitments and contingent liabilities

Shareholders equity:

Common stock, \$.04 par value, 100,000,000 shares authorized, 51,324,584 and 68,099,259 issued, respectively 2,469 832 32,792 220(1) 3,012 (8)(2)

Additional paid-in capital 96,776 2,591 6,944 103,720 3,478 5,170(1) 108,890 (2,591)(2)(3,478)(2)

Accumulated deficit (85,681)(2,973) 2,973(2)(85,681) (85,681)

Unrealized loss on marketable securities (65) (65) (65)

Treasury stock at cost (435,930 shares) (11) (11) (11)

Total shareholders' equity
13,488(374)7,64120,7553,4781,91226,145

Total liabilities and shareholders' equity
\$23,340\$747\$7,641\$31,728\$5,451\$1,982\$39,161

F-33

Table of Contents

eResource Capital Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations (Unaudited)

Nine Months Ended March 31, 2001
(In thousands, except share amounts)

	DM Marketing, Inc.	Avenel Ventures, Inc.
eResource Capital Group, Inc	Pro Forma Adjustments and Actual	Pro Forma Adjustments and Actual
Actual	Actual Eliminations	Actual Eliminations

Revenues:
Sales
\$6,547\$34\$ 545(23)(3)

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 8-K

Lease income commercial real estate	778
Cost of sales	7,32534 545(23)
	6,020
Gross profit	1,30534 545(23)
Selling, general and administrative expenses compensation related to issuance of stock options and warrants	6,922
Selling, general and administrative expenses other	3,85556 910(23)(3)
Depreciation and amortization	1,418 192(4)13655(4)
Interest expense, net	629 (1)
Loss on investments	156 263
Write off of Web site development costs	754
Write down of goodwill	
Write off of pre-development costs	1,164
Net loss	\$(13,593)\$ (22)\$ (192)\$ (640)\$ (655)
Basic and diluted net loss per share	\$(.28)
Weighted average shares outstanding used in computing basic and diluted loss per share	48,740,469

[Additional columns below]

[Continued from above table, first column(s) repeated]

	<u>LST, Inc.</u>			
	Pro Forma	Pro Forma	eResource Capital Group, Inc. Pro Forma	
	Adjustments and Actual	LCP Adjustments and Actual	Eliminations	SubTotal
	Eliminations	Eliminations	Eliminations	Eliminations
Revenues:				
Sales				
	\$1,425	\$8,528	\$5,183	\$(49)(3)\$13,662
Lease income commercial real estate				778 778
Cost of sales	1,425	9,306	5,183	(49)(3)14,440
				1,554 7,574 4,131 11,705
Gross profit				
		(129)	1,732	1,052(49)2,735
Selling, general and administrative expenses - compensation related to issuance of stock options and warrants				6,922 6,922
Selling, general and administrative expenses other				
	2,124	6,922	3,297	(49)(3)10,170
Depreciation and amortization				261,199(4)3,503 472 164(1)4,139
Interest expense, net				21 649(87) 562
Loss on investments				419 419
Write off of Web site development costs				754 754
Write down of goodwill				449 449
Write off of pre-development costs				

1,164 1,164

Net loss
 \$(2,300)\$(1,199)\$(18,601)\$(3,079)\$(164)\$(21,844)

Basic and diluted net loss per share
 \$(.31)

Weighted average shares outstanding used in computing
 basic and diluted loss per share
 69,961,347

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

- (1) The 5,500,000 shares of common stock issued by the Company for the LCP acquisition had a value of \$5,390,000 based upon the fair market value of the Company's common stock based upon the fair market value of the Company's stock over a reasonable period of time prior and subsequent to June 5, 2001 which is the date the definitive purchase agreement was executed. Including direct acquisition costs, the aggregate purchase price for LCP was \$5,460,000. The excess value of the aggregate purchase price over the historical value of LCP's net tangible assets on the acquisition date of \$3,253,000 has been allocated to goodwill which is being amortized over five years. Pro forma goodwill adjustment at March 31, 2001 is \$1,982,281, which is the net adjustment required to reflect the total goodwill related to the LCP acquisition. The pro forma goodwill amortization adjustment related to the LCP acquisition is \$164,000 for nine the months ended March 31, 2001.
- (2) Elimination of equity acquired.
- (3) Elimination of intercompany transactions.
- (4) Pro forma goodwill amortization.
- (5) Accrual of direct acquisition costs.

Table of Contents

eResource Capital Group, Inc. and Subsidiaries

Pro Forma Condensed Consolidated Statements of Operations (Unaudited)

Year Ended June 30, 2000
(In thousands, except share amounts)

	eResource Capital Group, Inc	DM Marketing, Inc.	Avenel Ventures, Inc.	LST, Inc.
	Actual	Pro Forma Adjustments and Eliminations(2)	Pro Forma Adjustments and Eliminations(2)	Actual(2)
Revenues				
Sales	\$ 10	\$ 355	\$	\$
Lease income commercial real estate				\$ 154
	1,108			
	1,183			
	55			
	154			
Cost of sales				
	93	294		
	Gross profit	1,025	355	(140)
Selling, general, and administrative- compensation related to issuance of stock options and warrants		48,996		
Selling, general and administrative expenses other		7,023	298	127
Depreciation and amortization		467	71,200	(4)
Interest expense, net		863	4	
Loss on investment		1,012		

Net loss before discontinued operations	
	\$(57,336)\$50\$(1,200)\$(127)\$(83)\$(674)
Basic net loss and diluted net loss net loss per share	
	\$(1.81)
Weighted average shares outstanding used in computing basic and diluted loss per share	
	31,596,541

[Additional columns below]

[Continued from above table, first column(s) repeated]

	LST, Inc.		Pro Forma		eResource Capital Group, Inc.	
	Pro Forma Adjustments and Eliminations(2)	SubTotal	LCP Actual	Pro Forma Adjustments and Eliminations(2)	Pro Forma	
	\$	\$	\$	\$	\$	\$
Revenues Sales						
Lease income commercial real estate		1,108	1,108			
Cost of sales		1,627,079	6,706			
		387,096	4,483			
Gross profit		1,240,983	2,223			

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 8-K

Selling, general, and administrative- compensation related to issuance of stock options and warrants	48,996	48,996
Selling, general and administrative expenses other	7,971,679	9,650
Depreciation and amortization	433(4)2,197	163530(3)2,890
Interest expense, net	867(32)	835
Loss on investment	1,012	1,012
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
Net loss before discontinued operations	\$(433)	\$(59,803)
	\$(827)	\$(530)
	\$(61,160)	
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
Basic net loss and diluted net loss net loss per share	\$(1.27)	
<hr/>		
Weighted average shares outstanding used in computing basic and diluted loss per share	48,206,267	
<hr/>		

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

- (1) Includes the period from June 6, 2000 (date of incorporation) through June 30, 2000.
- (2) Includes the period from March 24, 2000 (date of incorporation) thru June 30, 2000.
- (3) The 5,500,000 shares of common stock issued by the Company for the LCP acquisition had a value of \$5,390,000

based upon the fair market value of the Company's common stock over a reasonable period of time prior and subsequent to June 5, 2001 which is the date the definitive purchase agreement was executed. Including direct acquisition costs, the aggregate purchase price for LCP was \$5,460,000. The excess value of the aggregate purchase price over the historical value of LCP's net tangible assets on the acquisition date has been allocated to goodwill which is being amortized over five years. The pro forma goodwill adjustment at June 30, 2000 is \$1,982,281, which is the net adjustment required to reflect the total goodwill

related to the
LCP
acquisition.
The pro forma
goodwill
amortization
adjustment
related to the
LCP
acquisition is
\$530,000 for
the year ended
June 30,
2000.(4) Pro
forma
goodwill
amortization.

F-35