
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2002

OR

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

Commission File Number: 000-27945

ASCENDANT SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

75-2900905
(I.R.S. Employer
Identification No.)

16250 Dallas Parkway, Suite 102, Dallas, Texas
(Address of principal executive offices)

75248
(Zip Code)

Registrant's telephone number, including area code: 972-250-0945

**15455 North Dallas Parkway, 5th Floor
Addison, TX 75001**
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

At March 31, 2002, there were approximately 21,230,900 shares of Ascendant Solutions, Inc. common stock outstanding.

PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ASCENDANT SOLUTIONS, INC.

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ASCENDANT SOLUTIONS, INC.
BALANCE SHEETS
(000's Omitted)

	March 31, 2002 (Unaudited)	December 31, 2001
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 3,880	\$ 4,204
Accounts receivable	26	26
Prepaid expenses.....	<u>86</u>	<u>120</u>
Total current assets	3,992	4,350
Property and equipment, net.....	5	6
Other assets.....	<u>—</u>	<u>5</u>
Total assets	<u>\$ 3,997</u>	<u>\$ 4,361</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable.....	\$ 123	\$ 234
Accrued liabilities.....	<u>26</u>	<u>116</u>
Total current liabilities.....	149	350
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.0001 par value:		
Authorized shares--7,500,000		
Issued and outstanding—none.....	—	—
Class A common stock, \$.0001 par value:		
Authorized shares--50,000,000		
Issued and outstanding shares--21,230,900 at		
March 31, 2002 and at December 31, 2001	2	2
Class B common stock, \$.0001 par value:		
Issued and outstanding—none.....	—	—
Additional paid-in capital.....	59,718	59,718
Accumulated deficit	<u>(55,872)</u>	<u>(55,709)</u>
Total stockholders' equity.....	<u>3,848</u>	<u>4,011</u>
Total liabilities and stockholders' equity	<u>\$ 3,997</u>	<u>\$ 4,361</u>

See accompanying notes.

ASCENDANT SOLUTIONS, INC.
STATEMENTS OF OPERATIONS
(000's Omitted, except per share amounts)
(Unaudited)

	Three Months Ended	
	<u>March 31,</u>	
	<u>2002</u>	<u>2001</u>
Revenues	\$ —	\$ 1,327
Operating expenses:		
Cost of revenues	—	1,832
Selling, general and administrative expenses	180	3,049
Depreciation and amortization.....	—	1,083
Total operating expenses.....	<u>180</u>	<u>5,964</u>
Operating loss	(180)	(4,637)
Interest income, net	17	179
Net loss.....	<u>\$ (163)</u>	<u>\$ (4,458)</u>
Basic and diluted net loss per share.....	<u>\$ (0.01)</u>	<u>\$ (0.21)</u>
Shares used in computing basic and diluted net loss per share.....	<u>21,231,000</u>	<u>21,231,000</u>

See accompanying notes.

ASCENDANT SOLUTIONS, INC.
STATEMENTS OF CASH FLOWS
(000's Omitted)
(Unaudited)

	Three Months Ended	
	March 31,	
	<u>2002</u>	<u>2001</u>
Operating Activities		
Net cash used in operating activities	\$ (330)	\$ (2,827)
Investing Activities		
Proceeds from sale of assets	6	350
Purchases of property and equipment	—	(2,585)
Net cash provided (used) in investing activities	<u>6</u>	<u>(2,235)</u>
Financing Activities		
Payments of long-term debt	—	(85)
Net cash used in financing activities	<u>—</u>	<u>(85)</u>
Net decrease in cash and cash equivalents	(324)	(5,147)
Cash and cash equivalents at beginning of year	<u>4,204</u>	<u>16,837</u>
Cash and cash equivalents at end of quarter	<u>\$ 3,880</u>	<u>\$ 11,690</u>
Noncash Investing Activities:		
Sale of call center operations in exchange for note receivable	<u>—</u>	<u>\$ 650</u>
Purchase of software licenses and development under contracts with deferred payment terms (included in accounts payable)	<u>—</u>	<u>\$ (1,656)</u>

See accompanying notes.

ASCENDANT SOLUTIONS, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS

1. Basis of Presentation

The unaudited financial statements included herein reflect all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to fairly state Ascendant Solutions, Inc.'s ("Ascendant Solutions" or the "Company") financial position, results of operations and cash flows for the periods presented. These financial statements should be read in conjunction with the Company's audited financial statements included in the Company's Form 10-K for the year ended December 31, 2001 as filed with the Securities and Exchange Commission. The results of operations for the period ended March 31, 2002 are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire fiscal year ending December 31, 2002. The December 31, 2001 balance sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. These financial statements are presented on the basis that the Company is an on-going enterprise and do not reflect adjustments, if any, necessary if management is unable to execute its business strategy (see Note 2 - Reduction of Size and Scope of Operations).

2. Reduction of Size and Scope of Operations

After the Company reviewed its preliminary operating results for the first quarter of 2001 as well as the overall economic and market environment for e-commerce businesses, it determined that the capital requirements under its existing business plan were greater than the capital resources then currently available. As a result, beginning in May 2001, the Company reduced the size and scope of its operations and implemented a plan to preserve assets and reduce its expenditures, liabilities and commitments. In connection with this action, the Company effected a reduction in workforce, whereby all but the two remaining full time employees were terminated during 2001.

As a result of the termination of its customer contracts, beginning July 1, 2001 the Company has no revenue-producing contracts or operations.

In connection with its asset preservation plan, the Company took actions to reduce expenditures, liabilities and commitments and to preserve cash. As of March 31, 2002, the Company has substantially eliminated all liabilities and commitments associated with its prior operations that were discontinued in 2001.

In December 2001, the Company revised its strategic direction to acquire manufacturing, distribution or services companies and began actively seeking out possible acquisition candidates. The Company is currently seeking to most effectively deploy its remaining cash, debt capacity (if any) and its net operating loss carryforwards. There can be no assurance that the Company will be successful in any of its acquisition endeavors. We face all of the risks of a new business and the special risks inherent in the investigation, acquisition, or involvement in a new business opportunity. We must be regarded as a new or "start-up" venture with all of the unforeseen costs, expenses, problems, and difficulties, to which such ventures are subject.

During the second quarter, the Company invested \$400,000 cash for a 10% limited partnership interest in Ampco Partners, Ltd., a newly formed entity, which acquired the assets and intellectual property of the Ampco Safety Tools division of Ampco Metals Incorporated of Milwaukee, Wisconsin in a Chapter 11 bankruptcy proceeding. Ampco Safety Tools, founded in 1922, is a leading manufacturer of non-sparking, non-magnetic and corrosion resistant safety tools.

3. Computation of Basic and Diluted Net Loss Per Common Share

	Three Months Ended	
	March 31,	
	2002	2001
Net loss	\$ (163,000)	\$ (4,458,000)
Weighted average number of shares outstanding	21,231,000	21,231,000
Basic and diluted loss per share.....	\$ (0.01)	\$ (0.21)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our financial statements and notes thereto included elsewhere in this report together with the financial statements, notes and management's discussion contained in our Form 10-K for the year ended December 31, 2001. Except for the historical information contained herein, the discussion in this report contains certain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. In addition, the realization of our expectations depends on, among other things, our ability to successfully defend outstanding litigation, our ability to preserve the Company's assets and reduce expenditures, and our ability to successfully make one or more profitable acquisitions or investments. Our actual results could differ significantly from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below under "Risks Related to Our Business" and "Other Risks". Our forward-looking statements are based on the current expectations of management, and we assume no obligation to update this information. The cautionary statements made in this report should be read as being applicable to all related forward-looking statements, wherever they appear in this report.

The Company

Ascendant Solutions, Inc. is a Delaware corporation with principal executive offices located at 16250 Dallas Parkway, Suite 102, Dallas, Texas 75248. The Company's telephone number is (972) 250-0945.

Reduction of Size and Scope of Operations

After the Company reviewed its preliminary operating results for the first quarter of 2001 as well as the overall economic and market environment for e-commerce businesses, it determined that the capital requirements under its existing business plan were greater than the capital resources then currently available. As a result, beginning in May 2001, the Company reduced the size and scope of its operations and implemented a plan to preserve assets and reduce its expenditures, liabilities and commitments. In connection with this action, the Company effected a reduction in workforce, whereby all but two remaining full-time employees were terminated during 2001.

As a result of the termination of its customer contracts, beginning July 1, 2001 the Company has no revenue-producing contracts or operations.

In connection with its asset preservation plan, the Company took actions to reduce expenditures, liabilities and commitments and to preserve cash. As of March 31, 2002, the Company has substantially eliminated all liabilities and commitments associated with its prior operations that were discontinued in 2001.

In December 2001, the Company revised its strategic direction to acquire manufacturing, distribution or services companies and began actively seeking out possible acquisition candidates. The Company is currently seeking to most effectively deploy its remaining cash, debt capacity (if any) and its net operating loss carryforwards. There can be no assurance that the Company will be successful in any of its acquisition endeavors. We face all of the risks of a new business and the special risks inherent in the investigation, acquisition, or involvement in a new business opportunity. We must be regarded as a new or "start-up" venture with all of the unforeseen costs, expenses, problems, and difficulties, to which such ventures are subject.

NASDAQ Delisting

On May 11, 2001, the Company's stock was delisted from The Nasdaq National Market and began trading on the OTC Bulletin Board ("OTCBB"). The OTCBB is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter ("OTC") securities. An OTC security is not listed or traded on Nasdaq or a national securities exchange, and Nasdaq has no business relationship with the issuers quoted in the OTCBB. Issuers of all securities quoted on the OTCBB are subject to periodic filing requirements with the Securities and Exchange Commission or other regulatory authority. OTCBB requirements include, among other things, a broker-dealer acting as a market maker willing to enter a quote for the securities and requires the Company to remain current in its periodic filings under the Securities Exchange Act of 1934, as amended. Even with OTCBB eligibility and trading, delisting adversely affects the ability or willingness of investors to purchase the common stock, which, in turn, severely affects the market liquidity of the Company's securities. There can be no assurance that the Company's stock will indefinitely continue to be traded on the OTCBB. See "Other Risks" below.

Other Recent Events

During the second quarter, the Company invested \$400,000 cash for a 10% limited partnership interest in Ampco Partners, Ltd., a newly formed entity, which acquired the assets and intellectual property of the Ampco Safety Tools division of Ampco Metals Incorporated of Milwaukee, Wisconsin in a Chapter 11 bankruptcy proceeding.

Ampco Safety Tools, founded in 1922, is a leading manufacturer of non-sparking, non-magnetic and corrosion resistant safety tools. These tools meet Occupational Safety and Health Administration and National Fire Protection Association requirements for use in locations where flammable vapors or combustible residues are present. Safety tools are used in industrial applications, primarily in manufacturing and maintenance operations. Typical safety tool users include, but are not limited to, the armed forces, federal, state and local governments, chemical manufacturers, explosives and pyrotechnics; petrochemicals handling; petroleum refining; steel and aluminum mills; hazardous material handling; confined space and grain storage facilities maintenance; shipyards and non-magnetic applications.

Results of Operations

Factors Affecting Operating Results

As a result of our reduction in operations, period-to-period comparison of our operating results is not meaningful and should not be relied upon as an indicator of future performance. Beginning July 1, 2001, the Company had no revenue-producing contracts, nor does it expect any in the foreseeable future. We expect our future operating results to fluctuate. Factors that are likely to cause these fluctuations include:

- our ability to successfully defend outstanding litigation;
- our ability to preserve the Company's assets and reduce expenditures
- our ability to effectively deploy our remaining cash, debt capacity (if any) and our net operating loss carryforwards; and
- our ability to locate and successfully acquire one or more business enterprises.

Comparison of the Three Months Ended March 31, 2002 to the Three Months Ended March 31, 2001

Revenues. As discussed above, the Company had no revenues during the three months ended March 31, 2002 compared with \$1.3 million for the three months ended March 31, 2001. Beginning July 1, 2001, the Company has had no revenue-producing contracts, nor does it expect any in the foreseeable future.

Cost of Revenues. As discussed above, the Company had no revenue-producing costs or operations during the three months ended March 31, 2002 compared with \$1.8 million for the three months ended March 31, 2001. Beginning July 1, 2001, the Company has no revenue-producing operations, nor does it expect any in the foreseeable future.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses which relate primarily to the payment of salaries, professional fees and insurance costs, decreased to \$180,000 for the three months ended March 31, 2002 from \$3.0 million for the three months ended March 31, 2001 as a result of the Company's reduction of size and scope of operations.

Depreciation and Amortization. As a result of the elimination of operations on July 1, 2001, the Company discontinued depreciation and amortization.

Interest income, net. For the three months ended March 31, 2002 interest income, net of expense, was approximately \$17,000 compared to approximately \$179,000 in net interest income for the three months ended March 31, 2001. The decrease is primarily due to the decrease in cash and cash equivalents from approximately \$17 million at March 31, 2001 to approximately \$4 million at March 31, 2002.

Seasonality

Our revenues and business have historically been seasonal. In view of the termination of our customer contracts, we no longer expect a seasonal component to our business, although it is possible if we are successful in acquiring a business that such business could be seasonal.

Liquidity and Capital Resources

At March 31, 2002, the Company had liquidated substantially all liabilities and commitments and had reduced the size of its work force to two personnel, David Bowe, the CEO, President and Chief Financial Officer and his executive assistant.

At March 31, 2002, the Company had approximately \$3.9 million in cash and \$3.8 million in working capital. The Company is actively pursuing the acquisition of one or more profitable business enterprises. There can be no assurance that the Company will be successful in its acquisition efforts.

The Company does not currently have any revenue-producing operations to offset current operating expenses. The adequacy of the Company's liquidity and capital resources will be largely dependent upon future acquisition activities. The Company will continue to incur expenses in connection with investigating potential acquisitions and meeting general corporate overhead expenses, including the payment of salaries for the Company's two remaining employees.

Historical Information

Since inception in January 1998, we have financed our operations principally through funds from the private and public placement of equity securities. We completed our initial public offering of 5,750,000 shares of common stock in November 1999, which yielded net proceeds of approximately \$41.9 million.

For the three months ended March 31, 2002, net cash used in operating activities was approximately \$330,000, which includes \$150,000 in cash paid to settle an Internet and data center hosting service contract in February 2002, compared to approximately \$2.8 million for the three months ended March 31, 2001. The decrease in cash used resulted primarily from reductions in operations during 2001 and the sale of the Company's fulfillment and call center operations in December 2000 and February 2001.

We had no capital expenditures during the first quarter of 2002 compared with approximately \$2.6 million for the first quarter of 2001.

At December 31, 2001, we had approximately \$48.0 million of federal and state net operating loss carryforwards which subject to limitations, are available to offset future taxable income. These NOLs, if not utilized, will fully expire from 2018 to 2021. See "Risks Related to Our Business--"Restrictions on Net Operating Loss Carryforwards" below.

Risks Related to Our Business

We have eliminated substantially all operations and have no current sources of ongoing revenues.

After the Company reviewed its preliminary operating results for the first quarter of 2001 as well as the overall economic and market environment for e-commerce businesses, it determined that the capital requirements under its existing business plan were greater than the capital resources then currently available. As a result, beginning in May 2001, the Company reduced the size and scope of its operations and implemented a plan to preserve assets and reduce its expenditures, liabilities and commitments. In connection with this action, the Company effected a reduction in workforce, whereby all but the two remaining full time employees were terminated during 2001.

As a result of the termination of its customer contracts, since July 1, 2001 the Company has had no revenue-producing contracts or operations.

In connection with its asset preservation plan, the Company took actions to reduce expenditures, liabilities and commitments and to preserve cash. As of March 31, 2002, the Company has substantially eliminated all liabilities and commitments associated with its prior operations that were discontinued in 2001.

In December 2001, the Company revised its strategic direction to acquire manufacturing, distribution or services companies and began actively seeking out possible acquisition candidates. The Company is currently seeking to most effectively deploy its remaining cash, debt capacity (if any) and its net operating loss carryforwards. There can be no assurance that the Company will be successful in any of its acquisition endeavors. We face all of the risks of a new business and the special risks inherent in the investigation, acquisition, or involvement in a new business opportunity. We must be regarded as a new or "start-up" venture with all of the unforeseen costs, expenses, problems, and difficulties, to which such ventures are subject.

We have a history of losses and negative cash flow and anticipate continued losses.

Since our formation on January 1, 1998, we have incurred operating losses and negative cash flow. As of March 31, 2002, we had an accumulated deficit of approximately \$55.9 million. In addition, for the periods ended October 13, 1997 and December 31, 1997, predecessors to the Company also experienced net losses. We have not achieved profitability and expect to continue to incur operating losses for the foreseeable future.

We have terminated certain contracts and we may be exposed to potential liability for actual or perceived failure to provide required services.

The Company has terminated all of its ongoing revenue-generating contracts. We may be exposed to potential claims for damages caused to an enterprise, as a result of an actual or perceived failure of our services or breach of the contracts that were in place. The Company may be unable to pay expenses or liabilities that may arise out of any possible legal claims. We cannot predict the outcome of any potential legal claims.

We are currently in litigation and may be subject to additional litigation in the future.

See Part II. Other Information (Item 1 - Legal Proceedings) for a discussion of current pending litigation.

Our current litigation, plus any future claims, with or without merit, may result in substantial costs and divert management's attention and resources, which may seriously harm our business, prospects, financial condition and results of operations and may also harm our reputation, all of which may have a material adverse effect on our ability to pursue various strategic and financial alternatives as well as have a material adverse effect on our stock price. The Company may be unable to pay expenses or liabilities that may arise out of any possible legal claims. We cannot predict the outcome of any potential legal claims.

We have limited funds and may require additional financing.

We have very limited funds, and such funds may not be adequate to take advantage of available business opportunities. Even if our funds prove to be sufficient to acquire an interest in, or complete a transaction with, an operating company, we may not have enough capital to exploit the opportunity. Our ultimate success may depend upon our ability to raise additional capital. We have not investigated the availability, source, or terms that might govern the acquisition of additional capital and will not do so until we determine a more definitive and specific need for additional financing. If additional capital is needed, there is no assurance that funds will be available from any source or, if available, that they can be obtained on terms acceptable to us. If not available, our operations will be limited to those that can be financed with our existing capital.

We have no operating business.

As of December 31, 2001, we had terminated our prior operations and have no relevant operating history. We face all of the risks of a new business and the special risks inherent in the investigation, acquisition, or involvement in a new business opportunity. We must be regarded as a new or "start-up" venture with all of the unforeseen costs, expenses, problems, and difficulties to which such ventures are subject.

We cannot provide any assurance of success or profitability.

There is no assurance that we will acquire a favorable business opportunity. Even if we should become involved in a business opportunity, there is no assurance that such acquisition will be successful or profitable or that the market price of our stock will be increased thereby.

We are subject to reporting requirements that may delay or preclude acquisition.

Section 13 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires companies subject thereto to provide certain information about significant acquisitions, including certified financial statements for the company acquired, covering one or two years, depending on the relative size of the acquisition. The time and additional costs that may be incurred by some target entities to prepare such statements may significantly delay or essentially preclude consummation of an otherwise desirable acquisition by us. Acquisition prospects that do not have or are unable to obtain the required audited statements may not be appropriate for acquisition so long as the reporting requirements of the Exchange Act are applicable.

We are seeking to invest in one or more business opportunities.

While we are reviewing various acquisition opportunities, other than our investment in Ampco Partners, Ltd. discussed previously, we have made no commitments to enter into or acquire a specific business opportunity and therefore we cannot disclose the risks and hazards of a business or opportunity that we may enter into except in a general manner. An investor can expect a potential business opportunity to be quite risky. Our acquisition of or participation in a business opportunity will likely be highly illiquid and could result in a total loss to us and our stockholders if the business or opportunity proves to be unsuccessful. It is possible that we may elect to enter into a transaction with a business entity having no significant or only limited operating history, may have a cumulative deficit and operating or other losses, limited or no potential for immediate earnings, limited assets, negative net worth or other characteristics which may be considered negative by the investment community. There is no assurance that we will be able to negotiate a transaction on favorable terms and conditions, if at all.

We are not likely to conduct an exhaustive investigation in connection with an acquisition opportunity.

Our limited funds and limited management personnel will likely make it impracticable to conduct a complete and exhaustive investigation and analysis of a business opportunity before we commit our capital or other resources thereto. Management decisions, therefore, will likely be made without detailed feasibility studies, independent analysis, market surveys and the like which, if we had more funds or personnel available to us, would be desirable. We will be particularly dependent in making decisions upon information provided by the promoter, owner, sponsor, or others associated with the business opportunity seeking our participation. A significant portion of our available funds may be expended for investigative expenses and other expenses related to preliminary aspects of completing an acquisition transaction, whether or not any business opportunity investigated is eventually acquired.

We are not likely to be able to diversify our acquisitions or operations.

Because of the limited financial resources that we have, it is unlikely that we will be able to diversify our acquisitions or operations. Our probable inability to diversify our activities into more than one area will subject us to economic fluctuations within a particular business or industry and therefore increase the risks associated with our operations.

We may enter into a leveraged transaction in connection with an acquisition opportunity.

There is a possibility that any acquisition of a business opportunity by us may be leveraged, i.e., we may finance the acquisition of the business opportunity by borrowing against the assets of the business opportunity to be acquired, or against the projected future revenues or profits of the business opportunity. This could increase our exposure to larger losses. A business opportunity acquired through a leveraged transaction is profitable only if it generates enough revenues to cover the related debt and expenses. Failure to make payments on the debt incurred to purchase the business opportunity could result in the loss of a portion or all of the assets acquired. There is no assurance that any business opportunity acquired through a leveraged transaction will generate sufficient revenues to cover the related debt and expenses.

We are dependent upon management.

The Company currently has only one individual who is serving as its CEO, President and Chief Financial Officer. The Company is heavily dependent upon his skills, talents and abilities to implement its business plan. Because investors will not be able to evaluate the merits of possible business acquisitions by the Company, they should critically assess the information concerning the Company's management and Board of Directors.

There is a scarcity of and competition for business opportunities and combinations.

We are and will continue to be an insignificant participant in the business of seeking mergers with and acquisitions of operating business entities. A large number of established and well-financed entities, including venture capital firms, are active in seeking mergers and acquisitions of operating companies, some of which may also be potential merger or acquisition candidates for the Company. Many such entities targeting business acquisition transactions have significantly longer operating history, greater financial resources, technical expertise and managerial capabilities than we have and, consequently, we may be at a competitive disadvantage in identifying possible business opportunities and successfully completing a transaction on acceptable terms and conditions. Moreover, we may also compete with numerous other small public companies in seeking merger or acquisition candidates. These competitive conditions may exist in any industry in which we may become interested. In addition, some acquisition candidates may negatively regard our prior history.

Restrictions on net operating loss carryforwards.

At December 31, 2001, the Company had accumulated approximately \$48 million of federal and state net operating loss carryforwards, which may be used to offset taxable income and reduce income taxes in future years. The use of these losses to reduce future income taxes will depend on the generation of sufficient taxable income prior to the expiration of the net operating loss carryforwards. The carryforwards, if not fully utilized, will expire from 2018 to 2021. Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), imposes an annual limitation on the portion of the Company's net operating loss carryforwards that may be used to offset taxable income. The Company believes that the issuance of shares of common stock pursuant to the initial public offering on November 15, 1999 caused an "ownership change" for purposes of Section 382 of the Code on such date. Consequently, the Company believes that utilization of the portion of the Company's net operating loss carryforwards attributable to the period prior to November 16, 1999 is limited by Section 382 of the Code. The date of an "ownership change" is based upon a factual determination of the value of the stock of the Company on such date. If the "ownership change" was determined to have occurred at a date after November 15, 1999, additional net operating loss carryforwards would be limited by Section 382 of the Code. In addition, a second "ownership change" may occur in the future as a result of future changes in the ownership of the Company's stock, including the issuance by the Company of stock in connection with the acquisition of a business by the Company. A second "ownership change" would result in Code Section 382 limiting the Company's deduction of its future net operating loss carryforwards.

We are controlled by principal stockholders, officers and directors.

Our principal stockholders, officers and directors beneficially own approximately 50% of our Common Stock. As a result, such persons may have the ability to control and direct our affairs and business. Such concentration of ownership may also have the effect of delaying, deferring or preventing a change in control.

Other Risks

Our stock has been delisted from The Nasdaq National Market.

On May 11, 2001 the Company's stock was delisted from The Nasdaq National Market for failure to satisfy the minimum bid price requirement for continued listing set forth in Marketplace Rule 4450(a) or (b) and commenced trading on the OTC Bulletin Board ("OTCBB"). The OTCBB is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter ("OTC") securities. An OTC security is not listed or traded on Nasdaq or a national securities exchange, and Nasdaq has no business relationship with the issuers quoted in the OTCBB. Issuers of all securities quoted on the OTCBB are subject to periodic filing requirements with the Securities and Exchange Commission or other regulatory authority.

Even with OTCBB eligibility and trading, delisting adversely affects the ability or willingness of investors to purchase the common stock, which, in turn, severely affects the market liquidity of the Company's securities. The delisting of our common stock means that, among other things, fewer investors have access to trade our common stock, which will limit our ability to raise capital through the sale of our securities.

In addition, our common stock is subject to penny stock regulations, which could cause fewer brokers and market makers to execute trades in our common stock. This is likely to hamper our common stock trading with sufficient volume to provide liquidity and could cause our stock price to further decrease. The penny stock regulations require that broker-dealers who recommend penny stocks to persons other than institutional accredited investors must make a special suitability determination for the purchaser, receive the purchaser's written consent to the transaction prior to the sale and provide the purchaser with risk disclosure documents which identify risks associated with investing in penny stocks. These requirements have historically resulted in reducing the level of trading activity in securities that become subject to the penny stock rules. Holders of our common stock may find it more difficult to sell their shares of common stock, which is expected to have an adverse effect on the market price of the common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We currently do not engage in commodity futures trading or hedging activities and do not enter into derivative financial instrument transactions for trading or other speculative purposes. We also do not currently engage in transactions in foreign currencies or in interest rate swap transactions that could expose us to market risk.

We may be exposed, in the normal course of doing business, to market risk through changes in interest rates. We currently minimize such risk by investing our temporary cash in overnight money market instruments. As a result, we do not believe that we have a material interest rate risk to manage.

PART II.

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On April 21, 2000, The Original Honey Baked Ham Company of Georgia, Inc. (HBH) filed suit against the Company in the United States District Court of the Northern District of Georgia for alleged injuries sustained as a result of the Company's alleged breach of contract. HBH claimed it was entitled to compensatory, incidental and consequential damages in an amount HBH alleged to be in excess of \$10.0 million. The Company denied any liability, and in February 2001 filed a counterclaim against HBH to collect approximately \$1.1 million in outstanding receivables from HBH.

On June 28, 2001, in order to avoid the costs, resources, and distractions of protracted litigation, as well as the inherently uncertain outcome of litigation, the Company settled its lawsuit with HBH for payment by the Company of \$850,000 and the forgiveness of outstanding receivables of approximately \$1.1 million. Under the terms of the settlement agreement, all pending litigation was resolved to the satisfaction of both parties. Costs related to this litigation and settlement have been reflected in selling, general and administrative expenses.

Between January 23, 2001 and February 21, 2001, five putative class action lawsuits were filed in the United States District Court for the Northern District of Texas, against the Company, certain of its directors, and a limited partnership of which a director is a partner. The five lawsuits assert causes of action under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, for an unspecified amount of damages on behalf of a putative class of individuals who purchased the Company's common stock between various periods ranging from November 11, 1999 to January 24, 2000. The lawsuits claim that the Company and the individual defendants made misstatements and omissions concerning the Company's products and customers. The Company denies the plaintiffs' allegations and intends to vigorously defend against the lawsuits.

The Company is also occasionally involved in other claims and proceedings, which are incidental to its business. We cannot determine what, if any, material affect these matters will have on our future financial position and results of operations.

ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS

Use of Proceeds

(1) On November 10, 1999, the Securities and Exchange Commission declared effective the Registration Statement on Form S-1 (File No. 333-85983) relating to our initial public offering. Net offering proceeds to us from this offering were approximately \$41,880,000.

(2) From November 10, 1999 (the effective date of the Registration Statement) to March 31, 2002 (the ending date of this report), we expended net offering proceeds for the following uses:

• Construction of plant, building and facilities.....	\$ 0
• Purchase and installation of machinery, equipment and software.....	\$ 8,648,000
• Purchase of real estate	\$ 0
• Acquisition of other businesses	\$ 0
• Repayment of indebtedness.....	\$ 4,135,000
• Working capital.....	\$25,217,000
• Temporary investments.....	\$3,880,000*

All of the payments referenced above were direct or indirect payments to others.

* Pending final application of the net proceeds of the offering, we have invested such proceeds primarily in cash and cash equivalents.

As of March 31, 2002, we have approximately \$3.9 million remaining from the proceeds derived from the offering. Our management has broad discretion in the application of these remaining proceeds and may use them to acquire manufacturing, distribution or service companies. Our stockholders will not have the opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use the proceeds.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

During the second quarter, the Company invested \$400,000 cash for a 10% limited partnership interest in Ampco Partners, Ltd., a newly formed entity which acquired the assets and intellectual property of the Ampco Safety Tools division of Ampco Metals Incorporated of Milwaukee, Wisconsin in a Chapter 11 bankruptcy proceeding.

Ampco Safety Tools, founded in 1922, is a leading manufacturer of non-sparking, non-magnetic and corrosion resistant safety tools. These tools meet Occupational Safety and Health Administration and National Fire Protection Association requirements for use in locations where flammable vapors or combustible residues are present. Safety tools are used in industrial applications, primarily in manufacturing and maintenance operations. Typical safety tool users include, but are not limited to, the armed forces, federal, state and local governments, chemical manufacturers, explosives and pyrotechnics; petrochemicals handling; petroleum refining; steel and aluminum mills; hazardous material handling; confined space and grain storage facilities maintenance; shipyards and non-magnetic applications.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 3.1 Certificate of Incorporation of the Company (incorporated by reference from Exhibit 3.1 to the Company's Form 8-K filed October 23, 2000, File no. 0-27945).
- 3.2 Bylaws of the Company (incorporated by reference from Exhibit 3.2 to the Company's Form 8-K filed October 23, 2000, File no. 0-27945).

(b) Reports on Form 8-K

On March 22, 2002, the Company filed a report on Form 8-K regarding the appointment of a new Chairman of the Board and a director.

