

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-Q

APPIANT TECHNOLOGIES INC
Form 10-Q
February 19, 2002

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 December 31, 2001

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

COMMISSION FILE NUMBER 0-21999

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

DELAWARE 84-1360852
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

6663 OWENS DRIVE
PLEASANTON, CALIFORNIA 94588
(Address of principal executive offices)

(925) 251-3200
(Registrant's telephone number)

Check 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 past 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

As of January 31, 2002, there were 15,983,000 shares of Common Stock outstanding.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets at December 31,
2001 and September 30, 2001 3

Condensed Consolidated Statements of Operations and
Comprehensive Loss for the three months ended December
31, 2001 and 2000 4

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-Q

Condensed Consolidated Statements of Cash Flows for the three months ended December 31, 2001 and 2000	5
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3. Quantitative and Qualitative Disclosures about Market Risk	32
PART II. OTHER INFORMATION	33
Item 1. Legal Proceedings	33
Item 2. Changes in Securities and Use of Proceeds	34
Item 3. Defaults on Senior Securities	35
Item 4. Submission of Matters to a Vote of Security Holders	35
Item 5. Exhibits and Reports on Form 8-K	35
Signatures	36

2

PART I. FINANCIAL INFORMATION
ITEM 1. Condensed Consolidated Financial Statements

APPIANT TECHNOLOGIES INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2001	September 30, 2001
	-----	-----
ASSETS	(unaudited)	
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,678,000	\$ 3,379,000
Restricted cash	112,000	117,000
Accounts receivable, less allowance for doubtful accounts of \$328,000 and \$335,000	2,276,000	1,123,000
Inventory	1,239,000	890,000
Equipment at customers under integration	127,000	206,000
Prepaid expenses and other	541,000	418,000
	-----	-----
TOTAL CURRENT ASSETS	5,973,000	6,133,000
Property and equipment, net	4,305,000	5,381,000
Capitalized software, net	17,460,000	16,664,000
Goodwill and other intangible assets, net	8,981,000	10,255,000
Other assets	1,900,000	1,933,000
	-----	-----
TOTAL ASSETS	\$ 38,619,000	\$ 40,366,000
	=====	=====

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-Q

LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED		
STOCK AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Lines of credit	\$ 300,000	\$ 300,000
Accounts payable	9,112,000	8,834,000
Accrued liabilities	2,221,000	3,209,000
Deferred revenue	1,396,000	1,041,000
Income tax payable	302,000	302,000
Accrued liability related to warrants	812,000	1,818,000
Convertible promissory notes payable, net of discounts	3,830,000	2,700,000
Notes payable	5,547,000	5,726,000
Capital lease obligations, current portion	294,000	4,085,000
	-----	-----
TOTAL CURRENT LIABILITIES	23,814,000	28,015,000
Long term notes payable	419,000	379,000
Capital lease obligations, net of Current portion	112,000	93,000
Other	25,000	39,000
	-----	-----
TOTAL LIABILITIES	24,370,000	28,526,000
REDEEMABLE CONVERTIBLE PREFERRED STOCK	253,000	253,000
STOCKHOLDERS' EQUITY		
Common stock	157,000	157,000
Additional paid-in capital	82,691,000	80,657,000
Unearned stock-based compensation	(368,000)	(401,000)
Accumulated deficit	(68,160,000)	(68,364,000)
Accumulated other comprehensive loss	(324,000)	(462,000)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	13,326,000	11,587,000
	-----	-----
TOTAL LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY	\$ 38,619,000	\$ 40,366,000
	=====	=====

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

APPIANT TECHNOLOGIES INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(unaudited)

Three Months Ended
December 31,
2001 2000

NET REVENUES:

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-Q

Products and integration services	\$ 307,000	\$ 1,273,000
Other services	3,076,000	4,842,000
	-----	-----
TOTAL NET REVENUES	3,383,000	6,115,000
Cost of revenues:		
Products and integration services	195,000	1,490,000
Other services	2,073,000	2,871,000
	-----	-----
TOTAL COST OF REVENUES	2,268,000	4,361,000
GROSS PROFIT	1,115,000	1,754,000
OPERATING EXPENSES		
Selling, general and administrative	1,074,000	4,483,000
Research and development	617,000	684,000
Amortization of goodwill and other intangibles	1,042,000	201,000
Release of capitalized lease obligation	(2,839,000)	--
	-----	-----
TOTAL OPERATING EXPENSES	(106,000)	5,368,000
INCOME (LOSS) FROM OPERATIONS	1,221,000	(3,614,000)
OTHER INCOME (EXPENSE)		
Interest income	391,000	108,000
Interest expense	(1,556,000)	(464,000)
Other	172,000	104,000
	-----	-----
Total other expense	(993,000)	(252,000)
Income (loss) from continuing operations before income tax	228,000	(3,866,000)
Provision for income tax	24,000	115,000
	-----	-----
NET INCOME (LOSS)	204,000	(3,981,000)
Preferred dividends	--	(7,626,000)
	-----	-----
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	\$ 204,000	\$ (11,607,000)
	=====	=====
BASIC AND DILUTED NET INCOME (LOSS) PER COMMON SHARE	\$ 0.01	\$ (0.92)
	=====	=====
COMPREHENSIVE INCOME (LOSS)		
Net income (loss)	\$ 204,000	\$ (3,981,000)
Other comprehensive income		
Translation gain	138,000	100,000
	-----	-----
COMPREHENSIVE INCOME (LOSS)	\$ 342,000	\$ (3,881,000)
	=====	=====

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

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-Q

APPIANT TECHNOLOGIES INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (unaudited)

	Three Months Ended December 31,	
	2001	2000
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 204,000	\$ (3,981,000)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	351,000	435,000
Accretion of discounts on notes payable	1,549,000	--
Amortization of goodwill and other intangible assets	1,019,000	201,000
Stock-based compensation relating to stock options and warrants	--	(1,445,000)
Release of capitalized lease obligation	(2,839,000)	--
Changes in operating assets and liabilities:		
Accounts receivable	(1,109,000)	(45,000)
Inventory	(271,000)	(186,000)
Prepaid expenses and other	(164,000)	(378,000)
Other assets	123,000	16,000
Accounts payable and other current liabilities	(1,138,000)	951,000
Income tax payable	(1,000)	78,000
Deferred revenue	355,000	278,000
	-----	-----
CASH USED IN OPERATING ACTIVITIES	(1,921,000)	(4,076,000)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash	5,000	(1,000)
Proceeds loaned to related party	--	(250,000)
Capitalization of software development costs	(1,210,000)	(272,000)
Purchase of property and equipment	(101,000)	(260,000)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(1,306,000)	(783,000)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment under line of credit	--	(343,000)
Proceeds from issuance of notes, convertible notes and warrants	1,390,000	--
Proceeds from issuance of Series B preferred Stock, net of issuance costs	--	4,959,000
Proceeds from warrants and options exercised for common stock	--	784,000
Principal payments on capital lease obligations	--	(1,729,000)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,390,000	3,671,000
Effect of exchange rate changes on cash	136,000	100,000
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,701,000)	(1,088,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,379,000	5,603,000
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,678,000	\$ 4,515,000
	=====	=====

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-Q

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

5

APPIANT TECHNOLOGIES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

Supplemental disclosures for cash flow information:

Cash paid during the period for:

Interest	\$ 7,000	\$ 441,000
Income taxes	\$ 24,000	\$ 37,000

NONCASH TRANSACTIONS:

Beneficial conversion feature on convertible promissory Notes payable	\$727,000	\$ --
Reclassification of warrant liability to equity	\$670,000	\$ --
Release of capitalized lease obligation and write-off of related assets	\$682,000	\$ --
Property and equipment acquired under capital leases	\$ --	\$3,483,000
Deemed dividend on beneficial conversion feature of Series B Preferred Stock	\$ --	\$7,626,000
Issuance of warrants to underwriters in conjunction with sale of Series B Preferred Stock	\$ --	\$1,107,000
Modification of warrant exercise price in conjunction with sale of Series B Preferred Stock	\$ --	\$1,847,000
Liability for future issuance of common stock to underwriters in conjunction with sale of Series B Preferred Stock	\$ --	\$ 573,000
Payable for purchases of property and equipment financed under capital leases during quarter	\$ --	\$1,503,000
Software assets acquired under capital leases	\$ --	\$ 563,000

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

6

APPIANT TECHNOLOGIES INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. The

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-Q

balance sheet as of September 30, 2001 is derived from the Company's audited financial statements included in its Form 10-K for the fiscal year ended September 30, 2001 but does not include all disclosures required by generally accepted accounting principles in the United States. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001.

The unaudited condensed consolidated financial statements included herein reflect all adjustments (which include only normal recurring adjustments) which are, in the opinion of management, necessary to state fairly the results for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for the fiscal year ending September 30, 2002.

The consolidated financial statements include our results as well as the results of our significant operating subsidiaries: Appiant Technologies North America, Inc. ("Appiant NA") and Infotel Technologies (Pte) Ltd ("Infotel").

Appiant NA revenues were 28% and 39% of consolidated net revenues for the three months ended December 31, 2001 and 2000. Infotel revenues were 72% and 61% of consolidated net revenues for the three months ended December 31, 2001 and 2000. No revenues have been recorded through December 31, 2001 from the Company's hosted internet inUnison-TM- unified communication and unified information portal services.

LIQUIDITY

The consolidated financial statements of the Company and its subsidiaries contemplate the realization of assets and satisfaction of liabilities in the normal course of business. The Company recorded a net profit of \$204,000 on net revenues of \$3.4 million for three months ended December 31, 2001 and sustained significant losses for the fiscal years ended 2000 and 1999. At December 31, 2001, the Company had an accumulative deficit of \$68.2 million. As a result, the Company will need to generate significantly higher revenue to reach profitability as the organization of the new inUnison(TM) portal business is built. In addition, the amortization of capitalized software and other assets that the Company has purchased or developed for the new inUnison-TM- portal commenced on December 17, 2001. The Company is developing other technologies and amortization of the costs associated with these technologies will commence upon the completion of development.

Management's plans to reverse the recent trend of losses are to increase revenues and gross margins while controlling costs, primarily based on expected revenues for the Company's inUnison-TM- portal services applications. Continued existence of the Company is dependent on the Company's ability to obtain adequate funding and eventually establish profitable operations. The Company intends to obtain additional equity and/or debt financing in order to further finance the market introduction of its inUnison-TM- portal services and to meet working capital requirements. There remains significant uncertainty, however, about the Company's ability to continue as going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. NET INCOME (LOSS) PER SHARE

Net income (loss) per share for both basic net income (loss) per share, which is the weighted-average number of common shares outstanding, and diluted net income (loss) per share, which includes the weighted-average number of common shares outstanding and all dilutive potential common shares outstanding, is calculated using the treasury stock method. For the three months ended December 31, 2001

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-Q

and 2000, dilutive potential common shares outstanding reflects convertible promissory notes payable, convertible preferred stock, and shares and warrants to purchase the Company's common stock. The following table summarizes the Company's net income (loss) per share computations for the three months ended December 31, 2001 and 2000 (in thousands, except per share amounts):

7

	Three Months Ended December 31,	
	2001	2000
Net income (loss)	\$ 204,000	\$ (3,981,000)
Preferred stock dividends	--	(7,626,000)
Basic net income (loss) applicable to common stock	\$ 204,000	\$ (11,607,000)
Weighted average shares used in net income (loss) per share - basic and diluted	15,983,000	12,575,500
Incremental common shares attributed to shares issuable under employee common stock plans and warrants exercisable	363,000	--
Incremental common shares attributable to shares issuable for convertible preferred shares	69,000	--
Weighted average shares used in diluted net income (loss) per share	16,415,000	12,575,000
Net income (loss) per share - basic	\$ 0.01	\$ (0.92)
Net income (loss) per share - diluted	\$ 0.01	\$ (0.92)

3. INVENTORY

Inventory consists of systems and system components and is valued at the lower of cost (first-in, first-out method) or market.

4. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company believes that the adoption of SFAS 141 will not have a significant impact on its financial statements.

In July 2001, the FASB issued Statement of Financial Accounting Standards No.

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-Q

142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which is effective for fiscal years beginning after March 15, 2001. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the Standard includes provisions upon adoption for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the testing for impairment of existing goodwill and other intangibles. The Company is currently assessing but has not yet determined the impact of SFAS 142 on its financial position and results of operations.

In October 2001, the FASB issued SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets, which is required to be applied in fiscal years beginning after December 15, 2001. SFAS 144 requires, among other things, the application of one accounting model for long-lived assets that are impaired or to be disposed of by sale. The Company believes that the adoption of SFAS 144 will not have a significant impact on its financial position or results of operations.

In May 2000, the Emerging Issues Task Force (EITF) issued EITF Issue No. 00-14, Accounting for Certain Sales Incentives. EITF Issue No. 00-14 addresses the recognition, measurement, and income statement classification for sales incentives that a vendor voluntarily offers to customers (without charge), which the customer can use in, or exercise as a result of, a single exchange

8

transaction. Sales incentives that fall within the scope of EITF Issue No. 00-14 include offers that a customer can use to receive a reduction in the price of a product or service at the point of sale. The EITF changed the transition date for Issue 00-14, concluding that a company should apply this consensus no later than the company's annual or interim financial statements for the periods beginning after December 15, 2001. In June 2001, the EITF issued EITF Issue No. 00-25, Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products, effective for periods beginning after December 15, 2001. EITF Issue No. 00-25 addresses whether consideration from a vendor to a reseller is (a) an adjustment of the selling prices of the vendor's products and, therefore, should be deducted from revenue when recognized in the vendor's statement of operations or (b) a cost incurred by the vendor for assets or services received from the reseller and, therefore, should be included as a cost or expense when recognized in the vendor's statement of operations. Upon application of these EITFs, financial statements for prior periods presented for comparative purposes should be reclassified to comply with the income statement display requirements under these Issues. In September of 2001, the EITF issued EITF Issue No. 01-09, Accounting for Consideration Given by Vendor to a Customer or a Reseller of the Vendor's Products, which is a codification of EITF Issues No. 00-14, No. 00-25 and No. 00-22 Accounting for Points and Certain Other Time-or Volume-Based Sales Incentive Offers and Offers for Free Products or Services to be Delivered in the Future. The Company is currently assessing the impact of the adoption of these issues on its financial statements.

5. COMMITMENTS AND CONTINGENCIES

CAPITAL LEASES

In December 2001, the Company reached an agreement with a vendor under which the vendor agreed to release the Company from capital lease obligations of \$3.5 million. The agreement also provided for the return of equipment capitalized under the capital lease obligations of \$0.7 million. In June 2001, the Company charged to operating expenses \$3.7 million of consulting services related to its first data center in Atlanta, Georgia, when its data center was relocated to

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-Q

Sunnyvale, California, as such costs had no future value following the relocation. According, the Company has recorded a gain of \$2.8 million within operating expenses equal to the difference between the capital lease obligation and the book value of the capitalized equipment returned to the vendor.

At December 31, 2001, the Company leased other computer equipment and software under capital leases. These leases extend for varying periods through 2004.

Equipment and software under capital leases included in property and equipment are as follows:

	December 31, 2001	September 30, 2001
	-----	-----
Equipment and software	\$ 958,000	\$ 2,112,000
Less: accumulated amortization	(414,000)	(614,000)
	-----	-----
	\$ 544,000	\$ 1,498,000
	=====	=====

9

Future capital lease payments are as follows:

FISCAL YEAR

	December 31, 2001

2002	\$ 324,000
2003	96,000
2004	27,000

	447,000

Less amount representing interest	(41,000)

Present value of minimum future payments	406,000
Less current portion	294,000

	\$ 112,000
	=====

CONTINGENCIES

In January 2002, a default judgment was issued against the Company in favor of an equipment vendor in the amount of \$123,000. The Company was successful in having that default judgment set aside on February 6, 2002. The Company is in discussions to establish a mutually agreed upon payment plan and expects to settle this issue.

In October 2001, a software vendor filed suit against the Company for breach of contract totaling approximately \$703,000 plus interest and attorney's fees. On December 28, 2001, Appiant filed an answer denying this general demand, and is preparing a counter-suit for return of over \$600,000 paid to this vendor. The Company will continue to otherwise vigorously pursue this matter.

In December 2001, a major customer tendered its internal defense costs and expenses arising from its defense of a lawsuit involving claims of infringement of certain patents. It is seeking reimbursement from Company of approximately \$53,000. As the Company is only a distributor of these systems, any liability

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-Q

suffered by us is reimbursable by the supplier of these systems. The Company will continue to vigorously defend this matter.

In January 2002, a note holder filed suit demanding payment on a Note in the amount of \$1.2 million. The Company is currently in negotiations toward an agreement to extend the date of this note.

In January 2002, a services and equipment provider filed suit in Texas for breach of contract totaling \$117,000. The Company is currently in negotiations to resolve this claim.

In February 2002, the Company resolved an arbitration matter and litigation action involving a dispute over employment contract terms for two former Company management employees. The settlement provides for payment of \$88,000 to one claimant over six months, and payment of \$147,000 to the second claimant over a total of twelve months. The Company and claimants are currently in negotiations regarding Company common stock that may be due to the claimants under an unrelated agreement, and the Company expects to resolve this issue. The company has accrued \$235,000 for this matter.

While management intends to defend these matters vigorously, there can be no assurance that any of these complaints or other third party assertions will be resolved without costly litigation, or in a manner that is not adverse to our financial position, results of operations or cash flow. No estimate can be made of the possible loss or possible range of loss associated with the resolution of these matters in excess of amounts accrued.

6. CONVERTIBLE PROMISSORY NOTES PAYABLE AND WARRANTS

Between October 31, 2001 and December 20, 2001, the Company entered into several Convertible Promissory Notes Payable (the "Convertible Notes") with certain investors in the aggregate principal amount of \$1,390,000, of which \$400,000 was

10

with members of the board of directors or shareholders. The Notes accrue interest at 8% per annum, which is payable in common stock at the time of conversion and are collateralized by the Company's legacy business accounts receivables, and the assets of the Infotel subsidiary, and mature on various dates from December 27, 2001 to November 16, 2003. The conversion price is equal to the lower of 90% of the closing price of the Company's common stock on the trading day immediately preceding the maturity date, or 90% of any subsequent interim financing that occurs between the issuance date of the notes and the maturity date. Upon conversion, the Convertible Notes have no specific registration rights.

In connection with these Convertible Notes, the Company issued warrants to purchase 945,000 shares of the Company's common stock at an exercise price of ranging from \$1.20 per share to \$1.77 per share. The estimated value of the warrants of \$1,269,000 was determined using the Black-Scholes option pricing model and the following assumptions: contractual term of 5 years, a risk free interest rate of 3.92%, a dividend yield of 0% and volatility of 148%. The allocation of the Convertible Notes proceeds to the fair value of the warrants of \$663,000 was recorded as a discount on the Convertible Notes and as additional paid in capital. Upon exercise of the warrants, the holder has no specific registration rights.

The discount on the Convertible Notes related to the warrants is accreted over the note maturity period and, as a result, \$310,000 was recorded as non-cash interest expense for the three months ended December 31, 2001.

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-Q

In addition, as a result of the beneficial conversion feature described above for the Convertible Notes, the Company recorded \$726,000 additional paid-in capital, and a discount on the notes payable which is accreted over the note maturity period to interest expense. As a result, \$361,000 was recorded as interest expense for the three months ended December 31, 2001.

Under the June 8, 2001 Convertible Notes Payable purchase agreement, the common stock issuable pursuant to the conversion of the notes and exercise of the related warrants were to be registered within 30 days after the next round of financing. Due to the registration requirement, the warrants were classified as liabilities and remeasured at each reporting date. On December 1, 2001, certain of the warrant agreements were amended to remove the requirement to register the common stock under these warrants. Accordingly, the liability related to these warrants on December 1, 2001 of \$670,000 was reclassified to stockholders' equity, additional paid-in capital.

7. SEGMENT REPORTING

The Company defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The operating segments disclosed are managed separately, and each represents a strategic business unit that offers different products and serves different markets.

The Company's reportable operating segments include Appiant Technologies Inc. (Appiant NA) and Infotel. This represents a change in the Company's internal organization. Accordingly, segment information for the quarter ending December 31, 2000 have been reclassified to conform to the current year presentation. Appiant NA includes the Company's enterprise operations in the US. Appiant NA enterprise operations include systems integration and distribution of voice processing and multimedia messaging equipment, technical support, ongoing maintenance and product development.

Infotel is a distributor and integrator of telecommunications and other electronics products operating in Singapore and provides radar system integration, turnkey project management, networking and test instrumentation services. Infotel derives substantially all of its revenue from sales in Singapore. There are no intersegment revenues.

11

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for our fiscal year ended September 30, 2001.

	APPIANT NA	INFOTEL	OTHER (1)	TOTAL
	-----	-----	-----	-----
THREE MONTHS ENDED December 31, 2001				
Net sales to external customers	\$ 955,000	\$ 2,428,000	\$ --	\$ 3,383,000
Income (loss) from operations	1,208,000	67,000	(54,000)	1,221,000
Total assets	24,784,000	4,198,000	7,637,000	38,619,000
THREE MONTHS ENDED December 31, 2000				
Net sales to external customers	\$ 2,366,000	\$ 3,749,000	\$ --	\$ 6,115,000
Income (loss) from operations	(4,761,000)	224,000	923,000	(3,614,000)
Total assets	14,187,000	10,206,000	15,973,000	40,366,000