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ERESOURCE CAPITAL GROUP INC

Form 8-K/A

May 15, 2001

1

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): April 3, 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

2

This Amendment No.1 amends and supplements Items 7(a) and 7(b) of the Current Report on form 8-K filed on April 18, 2001 by the registrant (the "Company") with respect to, among other things, the Company's acquisition of LST, Inc. d/b/a Lifestyle Technologies, Inc. ("Lifestyle") In accordance with Item 7 of Form 8-K, the financial statements required thereby are being filed with this

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Amendment No. 1.

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 release are based upon information available to the Company on the date of this release. Any forward-looking statements involve risks and uncertainties, including those risks described in the Company's filings with the Securities and Exchange Commission, 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.

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

(a) Financial Statements of Business Acquired

In accordance with Item 7(a) of Form 8-K, the following financial statements of LST, Inc. prepared in accordance with regulation S-X are included in this report:

Independent Auditors' Report

Balance Sheet as of December 31, 2000

Statement of Operations and Accumulated Deficit for the period from March 24, 2000 (date of incorporation) through December 31, 2000.

Statement of Cash Flows for the period from March 24, 2000 through December 31, 2000.

Notes to Financial Statements

(b) Pro Forma Financial Information

In accordance with Item 7(b) of Form 8-K, the following pro forma financial statements of eResource Capital Group, Inc. prepared in accordance with regulation S-X are included in this report:

Unaudited Pro Forma Condensed Consolidated Balance Sheet as of December 31, 2000

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the six months ended December 31, 2000

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

2

3

(c) Exhibits

2.1 The Stock Purchase Agreement between the Company and the majority of the stockholders of the Company and the exhibits and schedules to the agreement have been omitted from this Report pursuant to Regulation S-B, and the Company agrees to furnish copies of such omitted exhibits and schedules to the stockholders upon request.

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Securities and Exchange Commission upon request.)(\* )

- 2.2 Stock Purchase Agreement between the Company and Glenn I. Barrett, Jr. dated March 16, 2001, and schedules to the agreement have been omitted from this Report pursuant to Item 601(b)(2) of Regulation S-B, and the Company agrees to furnish copies of such omitted exhibits and schedules supplemental to this Report to the Securities and Exchange Commission upon request.)(\* )
- 2.3 Stock Purchase Agreement between the Company and Brandon Holdings, Inc. dated March 21, 2001, exhibits and schedules to the agreement have been omitted from this Report pursuant to Item 601(b)(2) of Regulation S-B, and the Company agrees to furnish copies of such omitted exhibits and schedules supplemental to this Report to the Securities and Exchange Commission upon request.)(\* )

(\*) Incorporated by reference to the Current Form 8-K filed by the Company on April 18, 2001.

3

4

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of LST, Inc.  
d/b/a LifeStyle Technologies

We have audited the accompanying balance sheet of LST, Inc. d/b/a LifeStyle Technologies as of December 31, 2000 and the related statements of income (loss), changes in stockholders' equity and cash flows for the period from inception (March 24, 2000) to December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LST, Inc. as of December 31, 2000 and the results of their operations and cash flows for the initial period then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in NOTE 6: COMMITMENTS AND CONTINGENCIES to the financial statements, the Company's significant operating losses, as well as its reliance on the home building industry, raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ E. D. Duncan, CPA, PA

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E. D. Duncan, CPA, PA

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February 23, 2001  
 Huntersville, North Carolina

4

5

LST, INC. D/B/A LIFESTYLE TECHNOLOGIES  
 Balance Sheet  
 December 31, 2000

ASSETS

Current assets:

|                             |          |
|-----------------------------|----------|
| Cash                        | \$ 108,4 |
| Accounts receivable - trade | 182,0    |
| Accounts receivable - other | 6,5      |
| Inventories (Note 2)        | 85,4     |
| Prepaid expenses            | 21,5     |

|                      |       |
|----------------------|-------|
| Total current assets | 404,0 |
|----------------------|-------|

|   |       |
|---|-------|
| Furniture, fixtures and equipment,<br>net of accumulated depreciation (Note 3 ) | 192,1 |
|---|-------|

Deferred income taxes (Note 4)

Other assets:

|                                |      |
|--------------------------------|------|
| Deposits                       | 32,1 |
| Prepaid expenses - non current | 36,0 |

|                    |      |
|--------------------|------|
| Total other assets | 68,1 |
|--------------------|------|

|              |          |
|--------------|----------|
| Total assets | \$ 664,4 |
|--------------|----------|

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

|                       |          |
|-----------------------|----------|
| Accounts payable      | \$ 335,0 |
| Payroll taxes payable | 101,2    |
| Accrued expenses      | 20,5     |
| Unearned revenue      | 5,3      |
| Note payable (Note 5) | 100,0    |

|                           |       |
|---------------------------|-------|
| Total current liabilities | 562,2 |
|---------------------------|-------|

Commitments and contingencies (Note 6)

Stockholders' equity (Notes 8 and 9):

|   |           |
|---|-----------|
| Common stock (\$.001 par value, 20,000,000 shares<br>authorized, 8,259,750 shares issued and outstanding) | 8,2       |
| Additional paid-in-capital  | 2,251,4   |
| Retained earnings (deficit)   | (2,157,5) |

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Total stockholders' equity

-----  
102,2  
-----

Total liabilities and stockholders' equity

\$ 664,4  
=====

See Notes to the Financial Statements

-5-

6

LST, INC. D/B/A LIFESTYLE TECHNOLOGIES  
Statement of Income (Loss)  
For the Period from Inception to December 31, 2000

|   |                        |
|---|------------------------|
| Net sales                                       | \$ 843,666             |
| Cost of goods sold                              | 1,216,132<br>-----     |
| Gross profit (loss)                             | (372,466)              |
| Selling and general and administrative expenses | 1,746,349<br>-----     |
| Income (loss) from operations                   | (2,118,815)<br>-----   |
| Other income (expenses):                        |                        |
| Interest income                                 | 600                    |
| Interest expense                                | (19,581)               |
| Depreciation expense                            | (19,709)<br>-----      |
|   | (38,690)<br>-----      |
| Net (loss) before income tax benefit            | (2,157,505)            |
| Income taxes (Note 4)                           | --<br>-----            |
| Net (loss)                                      | \$(2,157,505)<br>===== |

See Notes to the Financial Statements

-6-

7

LST, INC. D/B/A LIFESTYLE TECHNOLOGIES  
Statement of Changes in Stockholders' Equity  
For the Period from Inception to December 31, 2000

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|                                   | Common<br>Stock<br>----- | Additional<br>Paid-in-<br>Capital<br>----- | Ret<br>Ear<br>(De<br>----- |
|-----------------------------------|--------------------------|--|----------------------------|
| Beginning balance, March 24, 2000 | \$ --                    | \$ --                                      | \$                         |
| Issuance of common stock          | 8,260                    | 2,251,490                                  |                            |
| Net (loss)                        | -----                    | -----                                      | (2,                        |
| Ending balance, December 31, 2000 | \$ 8,260<br>=====        | \$ 2,251,490<br>=====                      | \$ (2,<br>=====            |

See Notes to Financial Statements

-7-

8

LST, INC. D/B/A LIFESTYLE TECHNOLOGIES  
Statement of Cash Flows  
For the Period from Inception to December 31, 2000

|  |                      |
|--|----------------------|
| Cash flows from operating activities:  |                      |
| Net (loss)   | \$ (2,157,505)       |
| Adjustments to reconcile net (loss) to<br>net cash (used in) operating activities: |                      |
| Depreciation expense   | 19,709               |
| Changes in operating assets and liabilities:                                       |                      |
| (Increase) in accounts receivable  | (188,630)            |
| (Increase) in inventories  | (85,416)             |
| (Increase) in prepaid expenses   | (21,578)             |
| Increase in accounts payable   | 335,014              |
| Increase in payroll taxes payable  | 101,260              |
| Increase in accrued expenses   | 20,597               |
| Increase in unearned revenue   | 5,342                |
| Increase in note payable   | 100,000              |
|  | -----                |
| Net cash (used in) operating activities  | (1,871,207)<br>----- |
| Cash flows from investing activities:  |                      |
| Purchase of furniture, fixtures and equipment                                      | (211,898)            |
| Increase in other assets   | (68,191)             |
|  | -----                |
| Net cash (used in) investing activities  | (280,089)<br>-----   |
| Cash flows from financing activities:  |                      |

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|   |            |
|---|------------|
| Issuance of common stock                  | 2,259,750  |
|   | -----      |
| Net cash provided by financing activities | 2,259,750  |
|   | -----      |
| Net increase in cash                      | 108,454    |
| Beginning cash at March 24                | --         |
|   | -----      |
| Ending cash at December 31                | \$ 108,454 |
|   | =====      |
| Supplemental Cash Flow Information:       |            |
| Cash paid during the year for interest    | \$ 10,734  |
|   | =====      |

See Notes to the Financial Statements

-8-

9

### LST, INC. D/B/A LIFESTYLE TECHNOLOGIES

#### Notes to Financial Statements

December 31, 2000

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### NATURE OF OPERATIONS

The Company is a privately-held Delaware "C" corporation. It was formed on March 24, 2000 and provides a new emerging home networking technology, which integrates existing internet, security, satellite television, entertainment and communications technology for the home. The Company has positioned itself to be the homebuilder and homebuyer's "one stop shop" for their technology needs in both North and South Carolina.

##### BASIS OF ACCOUNTING

The Company uses the accrual basis of accounting.

##### CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents.

##### FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company believes the carrying amount of cash, accounts receivable, other current assets, note and accounts payable, and other accrued liabilities approximates fair value due to their short maturity.

##### CONCENTRATION OF CREDIT RISK

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The Company maintains cash balances in a major financial institution, which limits the amount of credit exposure. Periodically throughout the initial period, the Company has maintained balances in excess of federally insured limits of \$100,000. At December 31, 2000 the company had \$7,354 in excess of federally insured limits.

The Company primarily transacts its business within one business segment, mainly home building. If any conditions occurred, which would have an adverse effect on the home building industry, operating results could be adversely affected.

### INVENTORIES

Inventories are priced at the lower of cost or market with cost being determined on a first-in, first-out (FIFO) method.

9

10

### LST, INC. D/B/A LIFESTYLE TECHNOLOGIES

#### Notes to Financial Statements

December 31, 2000

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### FURNITURE, FIXTURES AND EQUIPMENT

Furniture, fixtures and equipment are recorded at cost, net of accumulated depreciation. Depreciation is calculated by using the straight-line method over the estimated useful lives of the assets, which is five to seven years for all categories except for computer software, which is depreciated over 3 years. Repairs and maintenance are charged to expense as incurred. Expenditures for betterments and renewals are capitalized. The cost of furniture, fixtures and equipment and the related accumulated depreciation are removed from the accounts upon retirement or disposal with any resulting gain or loss being recorded as other income or expense.

##### INCOME TAXES

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards, SFAS 109, "Accounting for Income Taxes". This Statement prescribes the use of the asset/liability method. Deferred taxes represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. They arise from differences between the financial reporting and tax basis of assets and liabilities and are adjusted for changes in tax laws and tax rates when those changes are enacted. The provision for income taxes represents the total of income taxes paid or payable for the current year, plus the change in deferred taxes during the year.

##### COST OF GOODS SOLD

Gross profit is negative as the majority of direct labor and operating overhead dollars, two significant components of cost of goods sold, are mostly fixed in nature and revenues during the initial period were not sufficient to absorb these costs.

##### ADVERTISING COSTS



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Advertising costs are generally charged to operations in the year incurred and totaled \$64,771 for the initial period ending December 31, 2000.

### USE OF ESTIMATES

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

10

11

LST, INC.  
D/B/A LIFESTYLE TECHNOLOGIES  
  
Notes to Financial Statements  
  
December 31, 2000

### NOTE 2: INVENTORIES

At December 31, 2000 inventories consisted of equipment and installation supplies, which are used in the Company's installation of the various technology products.

### NOTE 3: FURNITURE, FIXTURES AND EQUIPMENT

A summary of furniture, fixtures and equipment at December 31, 2000 is as follows:

|   |            |
|---|------------|
| Furniture and fixtures                  | \$ 63,618  |
| Computer equipment                      | 74,264     |
| Office equipment                        | 26,553     |
| Showroom equipment                      | 36,592     |
| Computer software                       | 10,871     |
|   | -----      |
| Total furniture, fixtures and equipment | 211,898    |
| Less: Accumulated depreciation          | (19,709)   |
|   | -----      |
| Net furniture, fixtures and equipment   | \$ 192,189 |
|   | =====      |

### NOTE 4: INCOME TAXES

Deferred income taxes (benefits) are provided for certain income and expenses, which are recognized in different periods for tax and financial reporting purposes. Sources of temporary differences and the resulting tax assets are as follows:

| Deferred Tax | Current<br>Period |
|--------------|-------------------|
|--------------|-------------------|

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|  | Assets<br>-----         | Changes<br>-----        |
|--|-------------------------|-------------------------|
| Net operating loss carryforward<br>Federal and State | \$ (2,139,358)<br>===== | \$ (2,139,358)<br>===== |
| Applicable tax rate:<br>(34% Federal, 6.9% State)    |                         |                         |
| Deferred taxes                                       | \$ 824,808              | \$ 824,808              |
| Less: Valuation allowance                            | (824,808)<br>-----      | (824,808)<br>-----      |
| Amount per balance sheet                             | \$ 0<br>=====           | \$ 0<br>=====           |

11

12

LST, INC.  
D/B/A LIFESTYLE TECHNOLOGIES  
Notes to Financial Statements

December 31, 2000

NOTE 4: INCOME TAXES (CONTINUED)

The provision (benefit) for taxes for the initial period ending December 31, 2000 is as follows:

|           |     |
|-----------|-----|
| Current:  |     |
| Federal   | \$0 |
| State     | \$0 |
| Deferred: |     |
| Federal   | \$0 |
| State     | \$0 |

For federal and state income tax purposes, the Company has a net operating loss carryforward of \$2,139,358, which expires in 2020. As the Company has operating losses and future profits cannot be assured, an allowance to reduce deferred tax asset for the full amount of the asset, has been recorded.

NOTE 5: NOTE PAYABLE

Note payable at December 31, 2000 represents a note payable to a director of the Company. The note has a 12% interest rate per annum and is due and payable with accrued interest on demand. The note is also personally guaranteed by an officer and by a stockholder of the Company. At December 31, 2000, accrued interest of \$7,733 was included in accounts payable.

NOTE 6: COMMITMENTS AND CONTINGENCIES

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### OPERATING LEASES

The Company leases a fleet of vehicles on an operating lease basis with a monthly lease commitment of \$13,706. The term of each lease is for three years except for one vehicle, which has a two-year lease. At the lease expiration date, the Company has the option to purchase the vehicles at the residual value as determined at the inception of the lease. Vehicle lease expense amounted to \$54,309 for the initial period ending December 31, 2000.

The Company occupies office and warehouse space under several operating leases, which expire at various dates from June 30, 2001 to December 18, 2003. Minimum rental commitments for the premises are \$19,242 per month. The rental commitments are subject to pro rata share increases of certain operating expenses incurred by the landlords for such items as common area maintenance expense and taxes. Rent expense amounted to \$119,167 for the initial period ending December 31, 2000.

12

13

LST, INC.  
D/B/A LIFESTYLE TECHNOLOGIES  
Notes to Financial Statements

December 31, 2000

#### NOTE 6: COMMITMENTS AND CONTINGENCIES (CONTINUED)

Future minimum operating lease commitments, under non-cancelable leases, are summarized as follows:

| Year | Total     | Vehicles  | Office<br>Premises |
|------|-----------|-----------|--------------------|
|      | -----     | -----     | -----              |
| 2001 | \$389,856 | \$164,469 | \$225,387          |
| 2002 | 283,623   | 164,037   | 119,586            |
| 2003 | 167,136   | 104,783   | 62,353             |
|      | -----     | -----     | -----              |
|      | \$840,615 | \$433,289 | \$407,326          |
|      | =====     | =====     | =====              |

#### GOING CONCERN

As shown in the accompanying financial statements, the Company incurred a net loss of \$2,157,505 during the initial period from March 24, 2000 to December 31, 2000. This, as well as the Company's reliance on the home building industry, creates an uncertainty about the Company's ability to continue as a going concern. Management has a non-binding letter of intent as explained in NOTE 9: TRANSACTIONS WITH RELATED PARTIES to these financial statements. The ability of the Company to continue as a going concern is dependent on the success of that merger or obtaining additional financing. The financial statements do not include any adjustment that might be necessary if the Company is unable to continue as a going concern.

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### NOTE 7: MAJOR CUSTOMER

Revenue from a major customer amounted to 43% of net sales or \$357,627. Amounts included in accounts receivable for this customer at December 31, 2000 were \$26,320.

### NOTE 8: STOCK OPTIONS AND WARRANTS

On September 29, 2000 the Company created an Omnibus Stock Option and Award Plan to help attract and retain personnel of superior ability for positions of exceptional responsibility, to reward employees and directors for past services and to motivate such individuals through added incentives to further contribute to the success of the Company. Awards under the Plan may be made to eligible persons in the form of incentive stock options to eligible employees only, nonqualified stock options, restricted stock, stock awards, performance shares or any combination of the foregoing. For the initial period ending December 31, 2000, the only awards outstanding were for incentive stock options to purchase shares of the Company's common stock.

13

14

LST, INC.  
D/B/A LIFESTYLE TECHNOLOGIES

Notes to Financial Statements

December 31, 2000

### NOTE 8: STOCK OPTIONS AND WARRANTS (CONTINUED)

Employee options vest and become exercisable at various dates between September 29, 2000 and September 29, 2002. From time to time, vested options may be exercised in whole or in part. In no event may the option be exercised after September 29, 2010, which represents the ending date of the ten-year option period. Special provisions apply in the event of death, disability or termination of employment other than for cause.

As part of a non-binding letter of intent for the merger of LST, Inc. by eResource Capital Group, Inc., the Company cannot grant any additional stock options to employees and all stock options currently outstanding will be terminated as of the closing date of the merger at the Company's expense. See NOTE 9: TRANSACTIONS WITH RELATED PARTIES. Upon consummation of the merger, eResource will negotiate in good faith to enter into employee stock option agreements with the Company's employees who are not stockholders of the Company and whose options with the Company were terminated.

|  |         |
|--|---------|
| Number of options outstanding on March 24, 2000                                    | 0       |
| Number of options granted in 2000  | 355,000 |
| Number of options terminated in 2000   | 5,000   |
| Number of options outstanding on December 31, 2000                                 | 350,000 |
| Number of options exercisable at December 31, 2000                                 | 242,500 |
| Weighted average exercise price per share outstanding<br>and per share exercisable | \$1.00  |

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|  |                      |
|--|----------------------|
| Grant date fair value of options granted in 2000                                   | \$355,000            |
| Weighted average grant date fair value of options granted in 2000                  | \$1.00               |
| Weighted average remaining contractual life of options outstanding and exercisable | 9 years and 9 months |

No options were exercised or expired in 2000.

At December 31, 2000, the Company had an obligation to issue a Common Stock Purchase Warrant entitling the holder to purchase 10,000 shares of common stock at \$1.00 per share.

14

15

LST, INC.  
D/B/A LIFESTYLE TECHNOLOGIES  
Notes to Financial Statements  
December 31, 2000

### NOTE 9: TRANSACTIONS WITH RELATED PARTIES

On November 23, 2000, eResource Capital Group, Inc. (eResource), a publicly held American Stock Exchange company, and LST, Inc. signed a non-binding letter of intent for the acquisition of LST, Inc. According to the terms of the letter of intent, the Company would merge into a wholly-owned subsidiary of eResource. The stockholders of the Company would receive restricted common stock of eResource at a fixed exchange ratio based on the average closing prices on the American Stock Exchange of eResource's common stock over the ten trading days immediately preceding the closing date. If the average share price is less than \$1, then the exchange ratio shall be based on a \$1 share price for eResource. The acquisition price for the Company is \$13 million.

The President and Chief Executive Officer of eResource is also the Chairman of the Board of LST, Inc.

Additionally, the Company is exploring other ways of structuring a transaction with eResource, including, but not limited to, a transaction in which eResource would purchase stock directly from the stockholders of the Company.

### NOTE 10: DEFINED CONTRIBUTION PLAN

The Company has a 401(k) plan that covers all employees who have attained twenty-one years of age and completed six months of service. Contributions to the plan by the Company are at the discretion of the Company. For the initial period ended December 31, 2000, the Company incurred no expense for matching contributions to the Plan.

15

16

### Item 7.(b). Pro Forma Financial Statements

The following unaudited pro forma consolidated financial statements of eResource

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Capital Group, Inc. ("eRCG") and Lifestyle are derived from, and should be read in conjunction with the audited financial statements of Lifestyle included in item 7(a) herein and the audited consolidated financial statements of eRCG as previously filed on Form 10-KSB for the year ended June 30, 2000 with the Securities and Exchange Commission, the unaudited consolidated financial statements of eRCG as previously filed on Form 10-QSB for the quarters ended December 31, 2000 and September 30, 2000, and the financial statements as previously filed on Form 8-K/A on November 10, 2000 and March 28, 2001. The unaudited pro forma consolidated financial statements do not purport to be indicative of the results of operations or financial position which 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 December 31, 2000.

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 six-month statement of operations).

16

17

eResource Capital Group, Inc. and Subsidiaries  
Pro Forma Consolidated Balance Sheet (Unaudited)  
December 31, 2000  
(In thousands, except share amounts)

| ASSETS<br>-----                          | eResource<br>Capital<br>Group, Inc.<br>Actual<br>----- | Avenel<br>Ventures, Inc.<br>Pro Forma<br>----- | Sub Total<br>----- | LST,<br>Ac<br>----- |
|--|--|--|--------------------|---------------------|
| Cash and cash equivalents                | \$ 717   | \$ 2   | \$ 719             | \$                  |
| Investments                              | --   | 985  | 985                |                     |
| Accounts and notes receivable            | 454  | 61   | 515                |                     |
| Inventories                              | --   | --   | --                 |                     |
| Prepaid expenses - other                 | 244  | --   | 244                |                     |
|  | -----  | -----  | -----              | -----               |
| Total current assets                     | 1,415  | 1,048  | 2,463              |                     |
| Net assets of discontinued operations    | 174  | --   | 174                |                     |
| Deferred costs and other assets          | 495  | 7  | 502                |                     |
| Property and equipment, net              | 8,606  | 88   | 8,694              |                     |
| Goodwill                                 | 6,393  | 5,989  | 12,382             |                     |
|  | -----  | -----  | -----              | -----               |
| Total assets                             | \$ 17,083  | \$ 7,132                                       | \$ 24,215          | \$                  |
|  | =====  | =====  | =====              | =====               |
| <br>LIABILITIES AND SHAREHOLDERS' EQUITY |  |  |                    |                     |
| Notes payable                            | \$ 7,648   | \$ 216   | \$ 7,864           | \$                  |
| Accrued interest payable                 | 848  | --   | 848                |                     |
| Accounts payable and accrued expenses    | 1,003  | 25   | 1,028              |                     |
| Customer deposits                        | 683  | 57   | 740                |                     |

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|  |           |          |           |    |
|--|-----------|----------|-----------|----|
| Total current liabilities  | 10,182    | 298      | 10,480    |    |
| Commitments and contingent liabilities   |           |          |           |    |
| Shareholders' equity:  |           |          |           |    |
| Common stock, \$.04 par value, 100,000,000<br>shares authorized, 51,324,584 and<br>68,099,259 issued, respectively | 2,053     | 268      | 2,321     |    |
| Additional paid-in capital   | 88,812    | 6,566    | 95,378    | 2  |
| Accumulated deficit  | (83,826)  | --       | (83,826)  | (2 |
| Treasury stock - at cost (435,930 shares)  | (138)     | --       | (138)     |    |
| Total shareholders' equity   | 6,901     | 6,834    | 13,735    |    |
| Total liabilities and shareholders' equity   | \$ 17,083 | \$ 7,132 | \$ 24,215 | \$ |

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

17

18

eResource Capital Group, Inc. and Subsidiaries  
Condensed Consolidated Statements of Operations (Unaudited)  
Six Months Ended December 31, 2000  
(In thousands, except share amounts)

|   | eResource<br>Capital<br>Group, Inc<br>Actual | DM<br>Marketing, Inc.<br>Pro Forma (3) | Avenel<br>Ventures, Inc.<br>Pro Forma | SubTo |
|---|--|--|---------------------------------------|-------|
| Sales   | \$ 2,377                                     | \$ 34                                  | \$ 497                                | \$ 2, |
| Lease income - commercial real estate                                     | 528  | --                                     | --                                    |       |
|   | 2,905  | 34                                     | 497                                   | 3,    |
| Cost of sales - aviation  | 2,501  | --                                     | --                                    | 2,    |
| Gross profit  | 404  | 34                                     | 497                                   |       |
| Compensation expense related to issuance of<br>stock options and warrants | 6,703  | --                                     | --                                    | 6,    |
| Selling, general and administrative expenses                              | 2,535  | 56                                     | 821                                   | 3,    |
| Depreciation and amortization   | 797  | 192                                    | 612                                   | 1,    |
| Interest expense  | 489  | --                                     | (1)                                   |       |
| Unrealized loss on investments  | --   | --                                     | 263                                   |       |
| Write off of Web site development costs                                   | 754  | --                                     | --                                    |       |

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|  |             |          |            |         |
|--|-------------|----------|------------|---------|
| Write off of pre-development costs   | 1,164       | --       | --         | 1,      |
|  | -----       | -----    | -----      | -----   |
| Net loss   | \$ (12,038) | \$ (214) | \$ (1,198) | \$ (13, |
|  | =====       | =====    | =====      | =====   |
| Basic and diluted net loss per share   | \$ (.27)    |          |            |         |
|  | =====       |          |            |         |
| Weighted average shares outstanding used<br>in computing basic and diluted loss per<br>share | 44,699,415  |          |            |         |
|  | =====       |          |            |         |

eResource  
Capital  
Group, Inc.  
Pro Forma  
-----

|  |             |
|--|-------------|
| Sales  | \$ 3,598    |
| Lease income - commercial real estate  | 528         |
|  | -----       |
|  | 4,126       |
| Cost of sales - aviation   | 3,423       |
|  | -----       |
| Gross profit   | 703         |
| Compensation expense related to issuance of<br>stock options and warrants                    | 6,703       |
| Selling, general and administrative expenses   | 4,636       |
| Depreciation and amortization  | 2,365       |
| Interest expense   | 503         |
| Unrealized loss on investments   | 263         |
| Write off of Web site development costs  | 754         |
| Write off of pre-development costs   | 1,164       |
|  | -----       |
| Net loss   | \$ (15,685) |
|  | =====       |
| Basic and diluted net loss per share   | \$ (.25)    |
|  | =====       |
| Weighted average shares outstanding used<br>in computing basic and diluted loss per<br>share | 63,175,449  |
|  | =====       |

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

- (1) The 8,074,675 shares of common stock issued by the Company for the Lifestyle acquisition had a value of \$7,267,208 based upon the fair market value of the Company's stock over a reasonable period time prior and subsequent to April 3, 2001 which is the date the terms of the purchase agreement were reached and announced to the public. Also, the



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Company had invested \$350,000 in Lifestyle stock prior to the acquisition.

The excess value of the aggregate purchase price over the historical value of Lifestyle's net assets on the acquisition date has been allocated to goodwill which will be amortized over five years. Pro forma goodwill at December 31, 2000 is \$7,514,963. Pro forma goodwill amortization aggregated \$751,000 for six months ended December 31, 2000.

- (2) Elimination of Lifestyle equity acquired.
- (3) Includes the period from July 1, 2000 through August 31, 2000. Results from September 1, 2000 through December 31, 2000 are included in the Company's actual results.

18

19

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<br>Group, Inc<br>Actual<br>----- | DM Marketing, Inc<br>Pro Forma<br>-----<br>(Unaudited) | Avenel Vent<br>Inc<br>Pro Forma<br>-----<br>(Unaudite |
|---|--|--|---|
| Revenues  |  |  |   |
| Sales - aviation  | \$ 10  | \$ 355   | \$ -  |
| Lease income - commercial real estate   | 1,108  | --   | -   |
|   | -----  | -----  | -----   |
|   | 1,118  | 355  | -   |
| Cost of sales   | 93   | --   | -   |
|   | -----  | -----  | -----   |
|   | 1,025  | 355  | -   |
| Compensation expense related to issuance of<br>stock options and warrants                 | 48,996   | --   | -   |
| Selling, general and administrative expenses  | 7,023  | 298  | 12  |
| Depreciation and amortization   | 467  | 1,207  | 8   |
| Interest expense  | 863  | --   | -   |
| Loss on investment  | 1,012  | --   | -   |
|   | -----  | -----  | -----   |
| Net loss before discontinued operations   | \$ (57,336)  | \$ (1,150)   | \$ (21  |
|   | =====  | =====  | =====   |
| Basic net loss and diluted net loss<br>net loss per share                                 | \$ (1.81)  |  |   |
|   | =====  |  |   |
| Weighted average shares outstanding used<br>in computing basic and diluted loss per share | 31,596,541   |  |   |
|   | =====  |  |   |

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|   | Pro Forma<br>Adjustments<br>and Eliminations(3) | eResource<br>Capital<br>Group, Inc<br>Pro Forma |
|---|---|---|
|   | -----<br>(Unaudited)                            | -----<br>(Unaudited)                            |
| Revenues  |   |   |
| Sales - aviation  | --  | \$ 519  |
| Lease income - commercial real estate   | --  | 1,108   |
|   | -----   | -----   |
|   | --  | 1,627   |
| Cost of sales   | --  | 387   |
|   | -----   | -----   |
| Gross profit  | --  | 1,240   |
| Compensation expense related to issuance of<br>stock options and warrants                 | --  | 48,996  |
| Selling, general and administrative expenses  | --  | 7,971   |
| Depreciation and amortization   | 407   | 2,171   |
| Interest expense  | --  | 867   |
| Loss on investment  | --  | 1,012   |
|   | -----   | -----   |
| Net loss before discontinued operations   | \$ (407)  | \$ (59,777)                                     |
|   | =====   | =====   |
| Basic net loss and diluted net loss<br>net loss per share                                 |   | \$ (1.40)                                       |
|   |   | =====   |
| Weighted average shares outstanding used<br>in computing basic and diluted loss per share |   | 42,706,267                                      |
|   |   | =====   |

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

- (1) Includes the period from June 6, 2000 (date of incorporation) thru June 30, 2000.
- (2) Includes the period from March 24, 2000 (date of incorporation) through June 30, 2000.
- (3) The 8,074,675 shares of common stock issued by the Company for the Lifestyle acquisition had a value of \$7,267,208 based upon the fair market value of the Company's stock over reasonable period of time prior and subsequent to April 3, 2001 which is the date the terms of the purchase agreement were reached and announced to the public. Also the Company had invested \$350,000 in Lifestyle stock prior to the acquisition. The excess value of the aggregate purchase price over the historical value of Lifestyle's net assets on the acquisition date has been allocated to goodwill which will be amortized over five years. Pro forma goodwill at June 30, 2000 is \$7,514,963. Pro forma goodwill amortization aggregated \$407,000 for the year ended June 30, 2000.

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: May 15, 2001

By: /s/ WILLIAM L. WORTMAN

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