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RHOMBIC CORP  
Form 10KSB  
April 15, 2002

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the fiscal year ended December 31, 2000

Commission File Number 0-28375

RHOMBIC CORPORATION  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

86-0824125  
(IRS Employer  
Identification Number)

11811 N. Tatum Blvd. # 3031, Phoenix, Arizona 85028  
(Address of principal executive offices) (Zip Code)

Telephone Number: (602) 953-7702

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class<br>----- | Name of each exchange<br>on which registered<br>----- |
|------------------------------|---|
| None                         | None  |

Securities registered pursuant to Section 12(g) of the Act:

Common Stock  
(Title of Class)

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K ((S) 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

At December 31, 2001, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was approximately \$ 1,332,353

At March 15, 2002, the number of shares outstanding of registrant's Common Stock was 28,697,042.

PART I

ITEM 1 - BUSINESS

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### GENERAL

Rhombic Corporation ("Rhombic" or the "Company"), is a development-stage company incorporated under the laws of the State of Nevada. The corporation was initially formed on February 26, 1987 as Toledo Medical Corporation. The name was changed to Almaz Space Corporation on February 9, 1991 and to Ready When You Are Funwear, Inc. on April 14, 1992. On December 30, 1994 a group of individuals acquired control of the corporation. On February 17, 1995, they changed the name to Rhombic Corporation. The Company is currently headquartered in Phoenix, Arizona.

The Company is in the development stage and its efforts, since inception, have been primarily focused on the acquisition of the rights to intellectual property that could lead to the development of innovative technologies. During the years of 1999 and 2000 it began to focus on the research and development of its portfolio of acquired intellectual property. During 2001, the Company's main objective was to identify and develop specific applications from its intellectual property in order to make them commercially marketable. The business strategy of the Company is to develop a specific application from a technology, then commence or contract for a marketing effort for the developed application that would generate sales.

The Company has four wholly owned inactive subsidiaries, Rockford Technology Associates, Inc. ("Rockford"), Nanophase Diamond Technologies, Inc. ("Nanophase"), AEP Technologies, Inc. ("AEPT") and Rhombic Detection Technologies, Inc.

By assignment from the University of Illinois on September 5, 1995, filed with the Patent and Trademark Office, Rockford owns a patent for the Inertial Electrostatic Confinement and Neutron Monitor technology. On June 27, 1996, Rockford entered a licensing agreement with Daimler Benz Aerospace and the University of Illinois by which it is entitled to receive a long-term royalty on all IEC sales throughout the world including North America and may engage in direct marketing of the technology in North America without restriction. In return, Rockford assigned to Daimler Benz Aerospace, "Daimler", its right, title and interest to the Inertial Electrostatic Confinement technology for its development and commercialization by Daimler Benz Aerospace. In late August 2000, Astrium, which is a subsidiary of Daimler-Chrysler Aerospace, informed Rhombic that they would not continue to self-fund the Neutron Generator project beyond December 31, 2000. As a result, Rhombic attempted to form of a joint venture between itself, Astrium and other partners that would provide capital and technological expertise to commercialize the technology within certain applications. The joint venture company was planned to originate in the wholly owned subsidiary of Rhombic named AEP Technologies, Inc. ("AEPT"). Agreements were obtained from all of the participating joint venture partners to perform their respective roles; however, Rhombic was unable to raise the necessary capital to begin the project.

Nanophase owns the Diamond Film Forced Diffusion technology. No activity occurred during 2001 in the subsidiary.

Rhombic Detection Technologies, Inc. was formed during 2000 in anticipation of Rhombic's being awarded a contract from the Department of Energy ("DOE") to develop a Beryllium detection device. Rhombic was not awarded the contract by the DOE; therefore, the subsidiary was not used.

As a technology transfer and development start-up company, Rhombic has limited finances. On March 8, 2001 it signed a \$ 2.5 million convertible debenture to be funded with installment payments starting May 1, 2001 in order to accomplish its growth objectives and development of products and marketing of its technologies.

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The Holder funded \$200,000 on the debenture and converted the advances into 1,166,142 shares of the Company under the terms of the debenture. On July 20, 2001, the Company withdrew its registration statement for the shares issued and to be issued under the debenture because it was no longer applicable to the Company.

There is no assurance that the Company will be able to secure any additional funding necessary for such growth and expansion. There is also no assurance that even if the Company obtains adequate funding to complete any contemplated acquisition, such acquisition will succeed in enhancing the Company's business and will not ultimately have an adverse effect on the Company's business and operations.

On November 5, 2001, the Company entered into a non-binding letter of intent with Famco Holding Company, LLC to reach a definitive agreement wherein Rhombic would acquire all the outstanding shares of six corporations that it owned. On March 18, 2002, Rhombic canceled the letter intent because it had not received sufficient financial information from the six corporations in order to negotiate an agreement.

### ACQUISITION OR DISPOSITION OF ASSETS

The Company intends to make future acquisitions of with a revenue generating operation. However, currently, the Company does not have a fixed source of capital to finance such acquisitions. In this respect, the Company intends to accomplish its acquisition plans by exchange of the Company stock. There is no assurance that the Company will be able to arrange for such acquisitions or as to the trading price or liquidity of the Company's common stock. Low trading price or poor liquidity of the Company's common stock may adversely affect the Company's ability to engage in future acquisitions and to accomplish its growth objectives.

On January 3, 2000, the Company acquired the right, title and interest in an invention named "Micro Wave Driven Ultra Violet Lamp" or "Excimer Lamp". The seller agreed to provide technical support for the research and development of the Excimer Lamp when the development takes place. The Company issued 100,000 restricted shares at a deemed value of \$ 281,250 and issued the inventor and option to purchase 50,000 shares of its common stock at \$ 1.00 per share until December 31, 2000. The option was not exercised on December 31, 2000 and expired.

On April 12, 2000, the Company issued 100,000 shares of its common stock at a deemed value of \$194,250 for the patent rights, title and interest to an invention called long-lived nuclear waste by low energy nuclear reactions in host metals and Disperse Composite Material "LENR/DCM". The invention is a defined process to convert the long-lived nuclear wastes by low energy nuclear reactions using hydrogen in host metals. The inventor and seller, Dr. Heinrich Hora, agreed to provide reasonable technical support under a compensation agreement to be decided upon for the research and development of the technology.

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The Company is seeking joint venture partners or others to effect commercialization of its other impaired technologies. There is no assurance that Company will be able to locate a joint venture partner to develop any or all of these technologies. In addition, there is no assurance that even if a joint venture partner is found that any of these technologies will ever result in marketable or viable products.

### INTELLECTUAL PROPERTY

In early July 2001, the Company hired a scientific consultant to evaluate all of

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the patents and patent applications of the Company for relevance to potential commercial applications. The consultant first stated that all patents and provisional patents involving Field Enhanced Diffusion by Optical Activation (FEDOA) which covered diamond based fuel cells, diamond doping and the removal of impurities, listed inventors that are or were faculty members of the University of Missouri at Columbia. The University Administration asserts that all inventions created at the University by its faculty members are its intellectual property and not Rhombic's. The following opinions on Rhombic's provisional patents invented by faculty members at the University of Missouri are summarized as follows:

1. Provisional patents for the System and Method for Diamond Based Fuel Cells give substantial evidence that the described process using FEDOA is too slow to be economically feasible.
2. Provisional patent applications covering the doping of natural and chemically vacuum deposited (CVD) diamond using FEDOA is too slow of a process to be economically feasible. Additional research into electrical applications of these provisional patents could be used with other doping processes to explore potential commercial applications.
3. Provisional patent applications for a System and Method for Removal of Impurities from materials such as semiconductors using FEDOA would require significantly more research to determine commercial value. Although the process appears to offer an increase yield of chips obtainable from wafers, the commercial viability is questionable because the FEDOA is very slow for commercial applications.
4. Provisional patent applications for Carbon Crystal Growth Using Electric Emission Enhanced Showerhead Hot Filament Chemical Vapor Deposition offers an improved process for the CVD process, but the applications and inventors do not have enough data to determine commercial viability.

The conclusion of the consultant and the company was not to continue the patent process of the above listed provisional patent applications because of (1) the limited economic viability due primarily to the process speed of FEDOA; (2) the high costs of patent counsel and the direct costs to obtain domestic and foreign patents; and (3) the potential exposure to royalty payments to the University of Missouri with corresponding costs of defending ownership of the patents.

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The consultant also evaluated Rhombic's intellectual property that was unaffected by potential claims from the University of Missouri. His opinions are as follows:

1. Provisional patent for the Method and System for Manufacturing Disperse Composite Materials is of great economic value if the process is fully developed for the numerous applications that are being proposed now by industry or that will emerge shortly.
2. Provisional patent for a Method of Contact Diffusion into Diamond and Other Crystalline Structures and Products using its thermal diffusion method is commercially viable.

The consultant recommended proceeding with a development plan for commercial applications involving the Manufacturing of Disperse Composite Materials. He also recommended to proceed with Contact Diffusion into Diamond if reasonable arrangements could be made to secure a license to receive the processed diamond material necessary to complete the process.

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Upon the recommendations of the consultant, the company met with its patent attorneys and determined that the application deadlines to extend the patents pending on the Manufacturing of Disperse Composite Materials had expired. As a result, the President, Roger Duffield, met with the inventors of the patents and determined a commitment of \$ 500,000 to \$1,000,000 in capital would be needed to begin a development program for any commercial applications that would provide specific patent coverage for any process developed. Due to existing financing problems that the Company was facing, Rhombic's President recommended a merger with a private research and development company that had capital and scientists. Unfortunately, Rhombic never received enough information from the company to evaluate a merger and Rhombic's President subsequently resigned.

Rhombic impaired the value of FEDOA and its corresponding intellectual properties as a result of the consultants report and its inability to raise money during 2001 for the development of any of its applications.

Rhombic believes that its Ultra Violet (Excimer) Lamp may have commercial application based upon numerous inquiries it has received from potential buyers.

This lamp uses a highly efficient photon emission reaction (7-50%) from excimers to produce wavelengths of vacuum ultra violet (VUV) to visible light. An excimer is an excited state in a molecule that dissociates into an unbound state. This feature means that self-absorption in the lamp is small, and because of this, the lamp can be scaled to large volumes without severe degradation of the emission wavelength. The pioneering excimer lamp technology developed by Columbia Research Instruments is now owned by Rhombic. It efficiently transfers the energy of electricity to microwaves and microwaves to excimers (transfer efficiency between 50 and 90%). This technology produces light of a pure wavelength more efficiently than any other light source. This is significant because light is used to induce chemical reactions that are wavelength specific. The excimer lamp is orders of magnitude more cost effective (dollar/photon bandwidth) than anything that current technology is capable of producing.

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### POTENTIAL COMMERCIAL APPLICATIONS

The development of these low-cost, high power and large-area VUV to visible sources promises enormous potential for materials' processing and several applications of such sources have already been demonstrated. These sources have been used in the production of silicon dioxide; silicon nitride, silicon oxynitride, tantalum pentoxide, titanium oxide, zinc oxide, PZT and polymers. Multi-layered films can also be produced at low temperature (below 400oC) by photo-induced processing (photo-CVD and sol-gel processing). Excimer photon sources provide selective intense VUV to visible radiation at specific wavelengths as opposed to other types of light sources. This narrow-band radiation can initiate chemical reactions, break molecular bonds or modify surface properties. Like other UV sources, Excimer lamps can be used to induce photo-polymerization of special paints, varnishes, and adhesives, (a process called UV-curing) but do so at a much lower cost per photon than any competitor. The following is an overview of current and potential application areas:(1) Materials deposition/coating of metals: for the production of dielectrics (high and low dielectric constant materials), and semiconducting layers. (2) UV curing: hardening of paints, lacquers, adhesives, e.g. for printing, textile finishing, lamination, automotive engineering and equipment engineering. (3) Surface treatment: surface etching including three-dimensional applications. (4) Photochemistry:for-photo-chlorination,photosulpho-oxidation, photonitrosylation, and photo-oxidation. (5) Photomedicine: for treatment of skin conditions, and tanning. (6) Environmental technology: for ozone generation, elimination of pollutants in water and air (chlorofluorocarbons (CFCs), dioxins, etc.) (7) Fluorescent lamps: for flat plasma display panels

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without the use of hazardous mercury. (8) Decontamination: for the destruction of harmful bio-organisms in soil, water or air, for the decontamination of biological agents in the aftermath of biological weapon attack, for the destruction of hazardous chemicals in soil, water, or air, and for the decontamination of chemical agents in the aftermath of a chemical weapon attack. (9) Photosynthesis: for the initiation of photosynthesis at wavelengths suited for chlorophyll absorption. modification of polymers, dry etching of polymers, synthesis of hydrophilic polymers, increasing adhesion between metal and polymer, and surface cleaning.

### IMPAIRED INTELLECTUAL PROPERTY

All of Rhombic's intellectual properties are in the development phase. Rhombic's current portfolio of impaired intellectual property includes (1) Inertial Electrostatic Confinement and the Neutron Monitoring Detector, (2) Diamond-reinforced Flywheel Battery and Radio Nuclide Battery, (3) Active Engine ("Rhombic Explorer") (4) Disperse Composite Material (5) LENR/DCM technology and (6) Diamond Film and Forced Diffusion. All of these have been acquired by Rhombic in exchange for shares of its common stock from different parties including research companies and individual inventors throughout the world. In certain cases, as part of the acquisition of the technology, the Company has agreed to pay royalty fees based on sales, when and if any such sales occur.

#### 1. Inertial Electrostatic Confinement "IEC"

The IEC device is a large, negatively charged grid ionizing the gas inside a spherical vacuum chamber. The positive ions produced by this plasma are attracted toward the central cathode (negative electrode). Since the grid is mostly transparent, most of the ions will pass through the grid toward the center of the device, rather than collide with the grid. At the center, many of the ions will collide with each other. If the gas consists of fusionable fuels (tritium, deuterium, helium-3), then some of the collisions will result in fusion and release of energy. Increasing the number of fusion reactions would increase the energy output of a fusion reactor, or would increase the number of valuable fusion products produced (neutrons, helium-3). Potentially the IEC device may become a source of energy. Currently, however, the IEC device does not produce as much energy as is used to operate it.

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Research on the technology began during 1993 under a licensing agreement between Daimler-Benz Aerospace (DASA), the University of Illinois and Rockford Technology Associates (a wholly owned subsidiary of Rhombic). The development program objective was to develop a neutron generator for multiple applications. As of December 2000, the development program with Astrium successfully proved the demonstrator model of the neutron generator in continuous operation for over 5,000 hours. This achievement was significant because there are not any known competitors that have been able to match the longevity of Astrium's demonstrator. Competitors have been able to generate a higher output of neutrons per second than the demonstrator. Current applications suitable for the Astrium demonstrator are:

- a. medical cancer treatments
- b. bulk foodstuffs quality control
- c. On-line measurement of coal quality at the power station for combustion emission control.
- d. On-line measurement of mineral quality in the mining industry.
- e. Land mine detection

Rhombic acquired a related device during September 1999 utilizing the principle described above. The device is named the Neutron Monitoring Detector and monitors the speed and frequency of passing neutrons to assess the quality of

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alloy. Some practical applications of this technology may include detection of impurities in high quality alloys, mineral quality analysis in coal, cement and similar industries, detection contraband at airports, bus stops, train stations, and detection of nonmetallic antipersonnel land mines.

During the second quarter of this year, the Company paid \$22,000 in cash and issued 50,000 restricted common shares to Roger Duffield to prepare a business plan to develop and commercialize the Inertial Electrostatic Confinement technology. On September 1, 2000 Mr. Duffield became the President of the Company and completed the business plan. While completing the business plan in late August, Astrium, which is a subsidiary of Daimler-Chrysler Aerospace, informed Rhombic that they would not continue to self-fund the Neutron Generator project beyond December 31, 2000. As a result, the business plan provided for the formation of a joint venture between Astrium, Rhombic, and other partners that would provide capital and technological expertise to commercialize the technology within certain applications. Agreements were obtained from all of the participating joint venture partners to perform their respective roles. The joint venture was not funded by the participating partner that committed to capitalizing the joint venture. As a result, Astrium informed the Company and the University of Illinois that it had no intention to continue research on the neutron generator project and paying any future royalties beyond December 31, 2000.

As a result of the written statements from Astrium declining to continue further research on the IEC, the Company is in discussions with the University of Illinois to determine how to obtain the patent rights and the best way to move forward with the technology. It also believes that its rights to the Neutron Monitoring Detector will be relevant to continued research on the IEC technology.

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The Company will need to determine specific applications and potential customers before pursuing development work because it has already identified competitors that are able to generate confined neutron streams in at higher outputs than what was developed by Astrium.

### 2. Diamond-reinforced Flywheel Battery and Radio Nuclide Battery.

The battery operates on a principle using diamond layers instead of carbon filters to increase the power density of electro-mechanical energy storage for batteries used in automobiles or other storage systems. This concept is based on a rupture stress measure for present polycrystalline diamond. An increase in storage capacity may result in the development of a satisfactory method for storing large amounts of electrical energy for portable applications, such as automobiles and satellites, as well as fixed appliances, such as electric power load leveling from the individual house to the utility level. Throughout the world, much work is being performed on improving electrochemical cells with limited success. The hydrogen fuel cell, long used in space, is just now receiving its first tests in motor vehicles, but offers no great improvement on electrochemical batteries and requires a large, expensive infrastructure. Of greatest current interest for electric automobiles is electromechanical storage (a flywheel coupled to a motor-generator), which, with new technology promises all the advantages of an all-electric automobile but with the performances of a gasoline-powered automobile.

Carbon fiber technology, developed for high rotational velocity uranium enrichment centrifuges, has been used to produce automobile prototypes. Cars equipped with this "rotation battery" are projected to demonstrate performance (speed and range) equal to that of a standard mid-engine automobile and quite superior to ones with electrochemical batteries, which last only about 40,000km.

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On May 30, 2000, the Company received an extensive five volume Technical and Business Planning and Development report on its Radionuclide Batteries for space applications. The conclusion was that the Noble Gas battery was not economically feasible nor commercially viable because of the scarcity of the required gases and the cost to produce those gases such as Kr-85 and Ar-39.

The dust plasma battery was evaluated as not feasible because the Technetium-99 isotope is not a practical radioisotope because extremely large amounts would be required for the battery. Strontium-90 would not be appropriate for commercial use because it represents a major biological hazard.

### 3. Active Engine ("Rhombic Explorer"):

The Active Engine or Magnesite is a software program designed to economize on Internet search and data download costs. It creates site directories and translates hypertext references, making the information fully useable offline. The development of the Magnesite is interrelated with the Company's efforts to develop and launch the Rhombic Explorer, a personal Internet search engine. During September, the Company and its strategic marketing partner, Vision Magnetics, conducted quality assurance testing on the Magnesite code to ensure product reliability and to allow for expansion of Magnesite into Magnesite Pro. The results of the testing indicated that the program was not suitable for marketing because of its inability to download graphics and certain web sites in their entirety. As a result of the testing, the Company is evaluating the cost and benefits involved in debugging the program and bringing it to the marketplace. In conjunction with the planned marketing of Magnesite during the third quarter, Vision Magnetics engaged programmers to create a new website for Rhombic to sell, deliver and maintain user registration and update information as well as hard delivery of diskettes containing Magnesite code to end users. Vision informed Rhombic that it needed to obtain a marketing study in order to determine the specifications needed for the Magnesite Pro. During the fourth quarter of 2000, the Company engaged a programmer to debug the program in order to prepare it for quality assurance testing.

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During the first quarter of 2001, it became apparent to Rhombic that there was no cost benefit to continue developing Magnesite because of the necessary costs to continue developing a working program, conducting marketing studies, incurring marketing costs and incurring administrative and legal costs for licensing and customer service. On March 14, 2001, Rhombic and Vision agreed to cancel all of their agreements with each other under a Mutual Release, Hold Harmless and Cross Indemnification Agreement.

### 4. Disperse Composite Material

During the fourth quarter of 2000, the Company impaired its Disperse Composite Material technology. The Company determined that it was not cost beneficial to incur patent and research costs to advance the theory of the technology. Its decision was mainly due to having identified numerous competitors with more capital resources intending to develop comparable technologies.

### 5. LENR/DCM

During the fourth quarter of 2000, the Company impaired its LENR/DCM technology. The Company determined that it was not cost beneficial to incur patent and research costs to advance the theory of the technology. Its decision was mainly due to having identified numerous competitors with more capital resources intending to develop comparable technologies.

### 6. Diamond Film Forced Diffusion.



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Rhombic's negative type diamond technology, referred to as "Forced Diffusion," has been successfully created in a former Soviet Republic laboratory to create functional integrated circuits. This technology consists of diffusing different elements into diamonds. Rhombic believes that Forced Diffusion has many spin off applications. Certain elements in diamond can change the mechanical, optical, and electrical properties of the material. For example, boron doping causes diamond to turn blue, enhances the wear resistance of diamond and makes a p-type conductor.

Methods of growing diamond on a film has been accomplished by chemical vapor deposition. Generally methane gas is used as the source of carbon and hydrogen is used as the flux and carrier gas. Substrate temperatures are generally in the 700 - 800 Centigrade range. Several different substrates have been used for single crystal growth. In general, diamond has very good adhesion to most carbide forming materials. Diamond will nucleate and grow on most non-carbide forming materials but it tends to delaminate except on nickel, molybdenum and tungsten. Diamonds conductivity can be varied from very low values to very high values. It has tensile strength better than that of graphite and is the most chemically resistive material known to engineering.

Producing diamond with electronic properties is greatly superior to those of silicon which is the material currently used for computer chips. This technology allows for the exponential decrease of the space required for a computer microchip. Such diamond film is considerably more heat and radiation resistant extending the life of the electronic circuitry. Harder cutting tools and abrasives, diamond television and computer monitor screens, sensor bearing and radar screens are among a number of potential commercial applications of this technology.

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The research plan for this technology has four aspects. First, attention on understanding the forced diffusion process and how it produces n-type diamond material with Lithium, Oxygen and Chlorine will be done. Second, an examination on the forced diffusion of a variety of elements will be conducted. Third, a study on how the addition of these impurities change the mechanical, optical, chemical, and electrical properties of diamond. Fourth, an evaluation of the electrical characteristics of various elements put into diamond by the forced diffusion process will be conducted.

During the year 2000, the Company targeted the development of the following four applications of its Diamond Film Forced Diffusion technology:

1. A Silicon-Carbide purification technology for the high-tech manufacturing industry,
2. An integrated Diamond Circuit for the computer and electronics industry,
3. A Heavy Doped Diamond Fuel-Cell Electrode for the fuel cell industry,
4. Quality colored diamonds for the high-end jewelry accessory market.

Rhombic believes that controlling impurities in Gallium Nitride "GaN" and Silicon Carbide "SiC" is important because impurities are used to make n-type and p-type materials. The n-type and p-type material is used to form transistors and other structures in integrated circuits. Impurities represent an imperfection in the crystal structure and a center for further propagation of imperfections during the growth phase. A high quality crystal structure is necessary in order to shrink the size of the transistors and other electrical elements. Crystal quality is also a means of increasing the lifetime of the integrated circuit. A second benefit of a relatively impurity free crystal structure is in the limitation of unwanted leakage currents.

During the first quarter 2000 approximately \$85,000 was spent to build three

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second generation forced diffusion reactors. One reactor will be used for the n-type diamond material, one reactor for p-type materials and the third reactor for purification of crystals. Also, a high voltage Silicon Carbide purification reactor was built. This reactor will enhance the impurities removal rate from Silicon Carbide materials. Results from research during the year reduced impurity levels for oxygen and nitrogen from 10 parts per million to .5 parts per million. GaN is at the point where impurity levels are about the one part per million level and SiC is at about the 20ppm level. It is imperative that the GaN and SiC industries continue along the path of high quality crystal production. We know from the silicon industry that when the impurity levels in silicon were decreased by one or two orders of magnitude that silicon achieved a factor of ten improvements in chip power consumption and lifetime. We can therefore anticipate improvements in GaN and SiC.

A specific program of work has been defined at the University of Missouri to demonstrate the process for treating 2-inch wafers using the existing reactor and to have designed and tested a prototype FEDOA for 6-inch GaN wafer treatment. Development budgets for this work program are estimated at \$.5 million.

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### 6A. Diamond Fuel Cell

Previous research over many years by the team of scientists at the University of Missouri have developed innovations in diamond materials that have shown the capability to replace the current polymer electrolyte membrane with diamond.

This new development in proton diamond electrode membrane (PDEM) technology may allow high proton transport through the membrane by the process of a non-porous structure supported by an improved anode and cathode and to which hydrogen ions are not affected. Furthermore, a major advantage of using diamond is that it can withstand temperatures four times greater than current membrane material. Rhombic believes that its planned PDEM could operate at higher temperatures than current standard proton polymer electrolyte membrane (PPEM) fuel cells, subsequently, reaction rates would be increased considerably with the platinum content decreased by a similar factor, while manufacturing costs would be drastically reduced. The new diamond membrane does not require moisture; whereas current PPEM must be kept moist, thus restricting operating temperatures

In conclusion the Diamond PDEM fuel cell may allow for higher operating temperatures, an increased reaction rate and longevity and a much smaller fuel cell stacked system. Reduced platinum and manufacturing costs that can provide an opportunity to produce a fuel cell stacked system at an affordable price. The research budget would require a minimum of \$500,000 to create a working model and approximately \$1,500,000 to create prototypes with marketing plans.

### 6B. Coloring Gemstones

Forced diffusion technology has been demonstrated on mined diamond, diamond films, and gahnite. Impurities were added to diamond and the results were verified. In these studies it was found that changes occurred to the mechanical, chemical, optical and electrical properties of diamond. The diamond became more wear resistant, the crystal color changed to blue, and the diamond became a p-type semiconductor. Each of these property changes has a commercial value. Another example is that the addition of lithium to mined diamond and polycrystalline diamond film made the diamonds an n-type conductor.

The forced diffusion process has demonstrated that the optical properties of diamond can be changed with the addition of impurities. Mined blue diamonds are rare; 1 in 1,000,000 diamonds is blue. Other impurities added to a diamond crystal change its color from red to green. Modification of the optical

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properties of diamond can impact the gem market. The diamond gem market is about \$4.8 billion. The colored diamond market is about \$500 million. It is well known that the rare blue diamond is more than double the cost of a white diamond. In addition, red diamonds are the most rare gemstones known. Recently a 1/2 carat red diamond was auctioned for the price of \$1.5 million dollars.

Forced diffusion is being applied to gemstone quality Type II diamond. The goal of this work is to demonstrate that the technology can be used to induce a color change in the crystal. The forced diffusion process used for coloring is used commercially and there are numerous patents by competitors covering the area. Rhombic does not believe that it is sufficiently capitalized to pursue commercializing its doping technology as it applies to coloring diamonds.

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### COMPETITION

The Company operates in the competitive environment of developing technologies where other companies may be developing similar technologies with substantially larger financial resources, operations, staffs, scientists and facilities. The Company is working toward developing prototype demonstrative models for certain applications of its technologies. There can be no assurance that the prospects will yield substantial economic returns or that a competitor may develop a similar prototype and enter the marketplace ahead of Rhombic. Failure to develop applications from the technologies with an estimated economic return could have a material adverse impact on the Company's future financial condition and could result in a write-off of a significant portion of its investment in the technologies.

The Company's competitors include major integrated international companies in various industries with research and development programs. The international companies are large, well established companies with substantially larger operating staffs and greater capital resources than the Company's and which, in many instances, have been engaged in the technology development arena for a much longer time.

### MARKETING

The Company's primary business focus is placed upon the commercialization of advanced technologies and commercial products resulting there from. The Company has limited experience in marketing of products and services in these fields of applications for its intellectual property and intends to rely on licensing and joint venture opportunities with companies for the marketing and sale of its technologies. The Company also has little experience marketing products of a consumer nature. There is no assurance that the Company will be successful in developing a market for any of its products or that it will gain any market recognition and acceptance.

### PATENTS

#### Current patents

- \* Field-Enhanced Diffusion Using Optical Activation, U.S. Patent No. 5,597,762
- \* Microwave-Driven UV Light Source and Solid-State Laser, US Patent No. 5,659,567
- \* Microwave-Driven UV Light Source and Solid-State Laser, U.S. Patent No. 5,659,567

#### Patent applications

- \* System and Method for Network Based Information Retrieval (Magnesite),

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- U.S. Patent App. No. 60/240,770
- \* Compact Power Technology Using Photon-Intermediate Direct Conversion of Radioisotope Energy to Electricity, U.S. Patent App. No. 60/223,869
  - \* System and Method for Diamond Based Fuel Cells, U.S. Patent App. No. 60/241,097
  - \* System and Method for Diamond Based Fuel Cells, Docket No. 790072.408P2
  - \* System and Method for Conductive Diamond and Ohmic Contacts 60/251,823
  - \* System and Method for Conductive Diamond and Ohmic Contacts 60/255,686
  - \* System and Method for Removal of Impurities From Materials Such as Semi-conductors, Docket No. 790072.411P1
  - \* System and Method for Removal of Impurities from Materials Such as Semi-conductors, Docket No. 790072.411P1

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Patent applications terminated

- \* Supercompact Radio Nuclide Battery Docket No. 790072.401
- \* Low-cost Elimination of Long-lived Nuclear Waste, U.S. App. 09/013,179
- \* Method and System for Manufacturing Disperse Composite Materials, International Patent Application No. PCT/US99/16552.

### EMPLOYEES

The Company currently has no employees.

### RISK FACTORS

The Company has no Revenues and is Currently Operating at a Loss. The Company has not received any revenues to date and is operating at a loss. The Company will need to raise additional capital through the placement of its securities or from debt or equity financing. If the Company is not able to raise such financing or obtain alternative sources of funding, management will be required to curtail operations. There is no assurance that the Company will be able to continue to operate if additional sales of its securities cannot be generated or other sources of financing located.

Limited History of Operations. The Company has only a limited history of operations. The Company operations are subject to the risks and competition inherent in the establishment of a relatively new business enterprise in a highly competitive field of technology transfer. There can be no assurance that future operations will be profitable. Revenues and profits, if any, will depend upon various factors, including market acceptance of its products and technologies, market awareness, its ability to promptly and accurately recognize a marketable technology or invention, dependability of an advertising and recruiting network, and general economic conditions. There is no assurance that the Company will achieve its expansion goals and the failure to achieve such goals would have an adverse impact on it.

The Company May Need Additional Financing. Future events, including the problems, delays, expenses and difficulties frequently encountered by startup companies may lead to cost increases that could make the Company's source of funds insufficient to fund the Company's proposed operations. The Company may seek additional sources of capital, including an additional offering of its equity securities, an offering of debt securities or obtaining financing through a bank or other entity. The Company has not established a limit as to the amount of debt it may incur nor has it adopted a ratio of its equity to a debt allowance. If the Company needs to obtain additional financing, there is no assurance that financing will be available, from any source, or that it will be available on terms acceptable to the Company, or that any future offering of securities will be successful. The Company could suffer adverse consequences if

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it is unable to obtain additional capital when needed.

**Trademark Protection and Proprietary Marks.** The Company may continue pursuing patents and several pending patents as a result for its intellectual property. There is no assurance that the Company will be able to prevent competitors from using the same or similar names, marks, concepts or appearances or that it will have the financial resources necessary to protect its marks against infringing use.

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**The Company's Intellectual Property and Inventions May become Obsolete.** Patent review is usually a lengthy, tedious and expensive process that may take months or, perhaps, several years to complete. With the current rate of technology development and its proliferation throughout the world, those inventions may become commercially obsolete during or after the patent review. There is no assurance that the Company's intellectual property, acquired or developed, may not become obsolete and remain commercially viable.

**The Company May Fail to Obtain Patent Protection in Various Jurisdictions.** The Company has filed patent applications in several jurisdictions, including Japan, Korea, and the United States. The filing process is usually a costly and time-consuming undertaking requiring proper legal counsel under the laws of the jurisdiction where patent protection is sought. There is no assurance that those patent protection filings were properly and timely made. There is also no assurance that upon review, those applications may not be rejected for lack of novelty or any other bases sufficient to reject a pending patent application in any of those jurisdictions.

**Commercial Viability of the Company's Current Technologies.** The Company was organized to identify, assess, acquire and capitalize on technologies introduced and developed by scientists throughout the world. These technologies are new and in their research and development stage. Generally, it requires a substantial time and resource effort to bring be able to both recognize a commercially successful technology or invention at an early stage and conduct a successful marketing campaign to sell this technology or invention. There is no assurance that all or any of the Company's research and development efforts will result in commercially viable final products.

**The Company May Fail to Generate Sufficient Interest in Acquired Technologies.** The Company must undertake substantial effort to educate the buying public, consumers and businesses, in the U.S. and worldwide, as to the Company's products and technologies. There is no assurance that the Company will be able to generate interest in and to create and maintain steady demand for its products over time.

**Reliance on Future Acquisitions Strategy.** The Company expects to continue to rely on acquisitions as a primary component of its growth strategy. It regularly engages in evaluations of potential target candidates, including evaluations relating to acquisitions that may be material in size and/or scope. There is no assurance that the Company will continue to be able to identify potentially successful companies that provide suitable acquisition opportunities or that the Company will be able to acquire any such companies on favorable terms. Also, acquisitions involve a number of special risks including the diversion of management's attention, assimilation of the personnel and operations of the acquired companies, and possible loss of key employees. There is no assurance that the acquired companies will be able to successfully integrate into the Company's existing infrastructure or to operate profitably. There is also no assurance given as to the Company's ability to obtain adequate funding to complete any contemplated acquisition or that any such acquisition will succeed in enhancing the Company's business and will not ultimately have an adverse effect on the Company's business and operations.

Possible Inability to Finance Acquisitions. In transactions in which the Company agrees to make an acquisition for cash, it will have to locate financing from third-party sources such as banks or other lending sources or it will have to raise cash through the sale of its securities. There is no assurance that such funding will be available to the Company when required to close a transaction or if available on terms acceptable to the Company.

Loss of the Company Key Directors May Adversely Affect Growth Objectives. The Company's success in achieving its growth objectives depends upon the efforts of its directors. Their experience and industry-wide contacts significantly benefit the Company. The loss of the services of any of these individuals may have a material adverse effect on the Company business, financial condition and results of operations. There is no assurance that the Company will be able to maintain and achieve its growth objectives should it lose any or all of these individuals' services.

Failure to Attract Qualified Personnel. A change in labor market conditions that either further reduces the availability of employees or increases significantly the cost of labor could have a material adverse effect on the Company's business, financial condition and results of operations. The Company's business growth is dependent upon its ability to attract and retain qualified research personnel, administrators and corporate management. There is no assurance that the Company will be able to employ a sufficient number of qualified training personnel in order to achieve its growth objectives.

Issuance of Future Shares May Dilute Investors Share Value. The Certificate of Incorporation of the Company authorizes the issuance of 70,000,000 shares of common stock and 1,000,000 shares of preferred stock. The future issuance of all or part of the remaining authorized common or preferred stock may result in substantial dilution in the percentage of the Company's common stock held by the its then existing shareholders. Moreover, any common stock issued in the future may be valued on an arbitrary basis by the Company. The issuance of the Company's shares for future services or acquisitions or other corporate actions may have the effect of diluting the value of the shares held by investors, and might have an adverse effect on any trading market for the Company's common stock.

Penny Stock Regulation. The Company's common stock is deemed to be a penny stock. Penny stocks generally are equity securities with a price of less than \$5.00 per share other than securities registered on certain national securities exchanges or quoted on the NASDAQ Stock Market, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The Company's securities may be subject to "penny stock rules" that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the "penny stock rules" require the delivery, prior to the transaction, of a disclosure schedule prescribed by the Commission relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. Consequently, the "penny stock rules" may restrict the ability of broker-dealers to sell the Company's securities. The foregoing required penny stock restrictions will not

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apply to the Company's securities if such securities maintain a market price of \$5.00 or greater. There can be no assurance that the price of the Company's securities will reach or maintain such a level.

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### ITEM 2. PROPERTIES

#### PROPERTY

As the Company is not producing any products at present, it has no lease or physical facilities commitments. The Company's executive office is 11811 North Tatum Suite 3031 Phoenix, 85028 Arizona on a month-to-month basis.

### ITEM 3. LEGAL PROCEEDINGS

#### LITIGATION

There is no current outstanding litigation in which the Company is involved and the Company is unaware of any pending actions or claims against it.

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

Inapplicable.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER

#### MATTERS

##### GENERAL

The Company has an authorized capitalization of 70,000,000 shares of Common Stock and 1,000,000 shares of Preferred Stock, \$.001 par value per share of which 28,697,042 were issued and outstanding at March 15, 2002.

##### MARKET INFORMATION

The Company's common stock is traded in the over-the-counter market on the OTC Bulletin Board under the symbol "NUKE". The following table sets forth the range of high and low bid quotes of the Company's Common Stock per calendar quarter which reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

| 2001           | Low   | High  |
|----------------|-------|-------|
| ----           | ---   | ----  |
| Fourth quarter | .050  | .160  |
| Third quarter  | .090  | .210  |
| Second quarter | .150  | .280  |
| First quarter  | .160  | .480  |
|                |       |       |
| 2000           | Low   | High  |
| ----           | ---   | ----  |
| Fourth quarter | .218  | .969  |
| Third quarter  | .625  | 1.500 |
| Second quarter | 1.313 | 3.781 |
| First quarter  | 1.875 | 5.563 |

On March 10, 2000 the Company's common shares began trading on the Hamburg Stock Exchange in Hamburg, Germany under the symbol "919335".

HOLDERS

As of March 15, 2002, the Company had 28,697,042 shares of common stock outstanding. A total of approximately 140 shareholders of record held a total of 10,000,000 common shares. The Company estimates the remaining 18,697,042 common shares in street name to be held by over 400 additional individual shareholders.

DIVIDENDS

The Company has never declared or paid cash dividends on its common stock and anticipates that future earnings, if any, will be retained for development of its business. Payment of cash dividends in the future will be wholly dependent upon the Company's earnings, financial condition, capital requirements and other factors deemed relevant by them. It is not likely that cash dividends will be paid in the foreseeable future. In the event of the acquisition of or merger with a business by the Company, control of the Company and its Board of Directors may pass to others. In that event, the payment of dividends would be wholly dependent upon such persons.

ITEM 6. MANAGEMENT'S PLAN OF OPERATION

In the following discussion we are providing an analysis of our financial condition and Plan of Operation during the next quarter and the balance of the fiscal year. This discussion should be read in conjunction with our financial statements and the notes thereto. Certain matters discussed below are based on potential future circumstances and developments, which the Company anticipates, but which cannot be assured. Such forward-looking statements include, but are not limited to, seeking a revenue generating business to acquire and conducting research and development on the Excimer Lamp within the Company and in conjunction with joint venture partners.

The competition in the technology proliferation and transfer market is highly intense and is based on product and technology recognition and acceptance, novelty and marketability of an invention, price, and sales expertise. The Company has placed its primary emphasis on product development, dependability and commercial viability of its acquired technologies. Management is currently determining the expenses involved to develop its Excimer Lamp intellectual property into commercial applications. To date, the Company has not generated any revenues from any of its acquired intellectual property except minimal royalties from Daimler Benz from the IEC Technology. Rhombic is currently a development stage company and is operating at a loss. None of the technologies have been developed to commercialization. The Company is not able to determine an approximate date for commercialization of any of its intellectual property at this time. No assurances can be given that any of the Company's intellectual property will ever be developed to a point of usefulness or, if developed, that any will be commercially feasible.

Development of its intellectual property may be possible through joint ventures where Rhombic contributes its intellectual property for an ownership percentage in a joint venture and all costs are paid by the other joint venture partners.

On March 19, 2002, Rhombic canceled the letter intent with FAMCO because it had not received sufficient financial information from the six corporations in order to negotiate an agreement. During the calendar year 2002, Rhombic plans to actively seek the acquisition of a revenue generating operation. The acquisition may or may not bear a relationship to the intellectual property currently owned. In the event Rhombic is able to acquire sufficient working capital to begin a development project, it would proceed toward the Excimer Lamp.



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Rhombic's plan during the next twelve months is to acquire a revenue producing operation. Ideally, the acquisition will have operations that bear some relationship to one or more of the intellectual properties currently held by Rhombic.

In the event Rhombic had an opportunity to raise cash, it would pay for a marketing study and development plan for the Excimer Lamp. An 18-month budget of approximately \$ 350,000 to develop a prototype with patent protection.

The Company currently has options outstanding from which it could obtain cash; however, it is not probable that the Rhombic will obtain cash from the options while the stock price trades below the outstanding option strike prices. In the event all of the outstanding options were exercised, the Company would receive \$ 1,725,000 before December 31, 2002. The Company has a total of 2,000,000 options outstanding at an average exercise price of \$ .86 per share. The exercise prices range from \$.50 to \$4.50.

At December 31, 2000 the Company had \$ 9,100 in cash and \$ 49,092 in current payables. Rhombic may be able to settle the majority of the debt with its common shares; however, it has no source of income.

Rhombic believes that it will be able to survive during the next twelve months with the limited amount of cash and resources that it has. Because of the limited resources and the lack of investor interest in its current intellectual property, Rhombic will be seeking a revenue producing operation.

The Company does not have any employees because its Directors are handling all of the business required to maintain its status and seek a revenue producing operation.

### ITEM 7. FINANCIAL STATEMENTS

The following financial information is filed as part of this report:

|     |  |     |
|-----|--|-----|
| (1) | Financial Statements:  |     |
|     | Independent Auditors Report  | F-2 |
|     | Consolidated Balance Sheet December 31, 2001   | F-3 |
|     | Consolidated Statements of Operations years Ended<br>December 2000 and 2001              | F-4 |
|     | Consolidated Statement of Stockholders' Equity Years<br>Ended December 31, 2000 and 2001 | F-5 |
|     | Consolidated Statement of Cash Flows Years Ended<br>December 31, 2000 and 2001           | F-6 |
|     | Notes to Consolidated Financial Statements   | F-7 |
| (2) | Schedules  |     |
|     | Supplemental Disclosure of Cash Flow Information   | F-6 |
|     | Supplemental Schedule of Non-Cash Investing and<br>Financing Activities                  | F-6 |

### ITEM 8. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

The Company had no disagreements on accounting and financial disclosures with its independent auditors during the reporting period.

### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;

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### COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

The following table sets forth the names and ages of the current directors and executive officers of the Company, the principal offices and positions with the Company held by each person and the date such person became a director or executive officer of the Company. Each serves until the next annual meeting of the stockholders.

| Names of Executive<br>Officers and Directors<br>----- | Age<br>--- | Title<br>-----                    |
|---|------------|-----------------------------------|
| R.G. Krushnisky                                       | 41         | Director since 1/1/95             |
| Albert Golusin  | 47         | C.F.O. & Director since 2/5/99    |
| Stanley Porayko                                       | 66         | Secretary & Director since 1/1/95 |

R.G. Krushnisky, Director of the Company. Mr. Krushnisky served as past President of Rockford Technology Corporation which is a Canadian company involved in Hydrogeneration plants. Since 1984, Mr. Krushnisky has been the owner and operator of International Laser Games, Ltd., a British Columbia, Canada, and coin-operated arcade machinery business. Mr. Krushnisky is a graduate of the United States International University at San Diego with a Bachelor Science degree in Business and International Commerce

Albert Golusin, Chief Financial Officer and Director, is a Certified Public Accountant in Phoenix, Arizona. Since 1992, Mr. Golusin has been in private practice as an accounting consultant to public companies. He has also served as a controller for Glenayre Electronics, a NASDAQ company, from 1984 - 1991. From 1983 to 1984, Mr. Golusin worked for Kenneth Leventhal & Company. From 1979 to 1981, Mr. Golusin worked for the international accounting firm of Grant Thornton & Company. Mr. Golusin graduated from Brigham Young University in 1978. Mr. Golusin worked full-time for Rhombic during part of 2000 and has continued working on a part-time basis.

Stanley Porayko, Secretary and Director of the Company, is a self-employed rancher from Alberta, Canada. He was a founder of the huge jade deposit on Ogden Mountain, British Columbia, and a director of Yugold Mines. Mr. Porayko graduated from Ryerson Institute of Technology in 1957.

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#### ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth certain information concerning the compensation paid by the Company for services rendered in all capacities to the Company for the two fiscal years ended December 31, 2001 and 2000 of the chief executive officer at December 31, 2001 and all officers and directors, as a group.

| Name and Principal<br>Positions at 12/31/00<br>----- | Annual Compensation<br>----- |                |                                       | Long-Term Comp<br>-----<br>Securities<br>Underlying<br>Options<br>----- |
|--|------------------------------|----------------|---------------------------------------|---|
|  | Salary<br>-----              | Bonus<br>----- | Other Annual<br>Compensation<br>----- |   |
| William L. Owen,<br>President & Chairman             | 2001                         | 0              | 0                                     | None  |
|  | 2000                         | 0              | 0                                     | \$60,000 (1)  |
| Roger Duffield,<br>President & CEO                   | 2001                         | \$ 70,000      | 0                                     | \$10,000 (2)  |
|  | 2000                         | \$ 50,000      | \$50,000 (2)                          | \$12,500 (2)  |

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|                             |      |               |          |          |      |
|-----------------------------|------|---------------|----------|----------|------|
| All officers and directors, | 2001 | \$145,000     | 0        | \$46,000 | (4)  |
| As a group (five persons)   | 2000 | \$ 40,000 (2) | \$50,000 | \$60,450 | None |
| (3), (4), (5), (6)          |      |               |          |          |      |

- 
- (1) William Larry Owen, was compensated by Owen & Associates through an agreement with the Company to provide office and administrative support for \$7,500 a month. He served as the President of the Company from inception until April 2000 in which he then became the Chairman until his retirement on July 26, 2000.
  - (2) During the year 2000, Roger Duffield provided services as a consultant and received \$ 12,500 in cash for such services. On August 1, 2000 Mr. Duffield became the President and Chief Executive Officer and received 50,000 shares of restricted stock at a deemed value of \$50,000 as a signing bonus. During the remaining part of 2000 he received \$50,000 in cash. During the year 2001, the Company issued 125,000 restricted common shares at a deemed value of \$10,000 to reimburse him for moving expenses.
  - (3) Albert Golusin, Chief Financial Officer and Director of the Company, provided his services on a part-time basis during 2000 until September 1, 2000. During the year 2000, he received \$20,000 in cash for services and 25,000 shares at a deemed value of \$30,563 for office expenses. During 2001, Mr. Golusin received \$60,000 for his services.
  - (4) R.G. Krushnisky, Vice President and Director of the Company, provides his consulting services on a part-time basis. During 2000, he received \$20,000. During 2000 he exercised an option and purchased 100,000 shares for \$100,000. During 2001, Mr. Krushnisky received \$15,000 for services as a Vice President. He also earned \$18,000 for director fees during 2001.
  - (5) Stanley Porayko, Secretary and Director of the Company, provides his consulting services on a part-time basis. He did not receive any shares during 2000 for services. He received \$450 for his participation in board meetings during the year 2000. During 2001, he earned \$18,000 in director fees.
  - (6) All of the current directors collectively have an option to purchase 1,000,000 shares at \$.50 per share until June 30, 2002.

There are no current plans to pay cash or stock dividends on the Company's stock.

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VALUE OF OPTIONS AT DECEMBER 31, 2001

The Company currently has options outstanding from which it could obtain cash. In the event all of the outstanding options were exercised, the Company would receive \$ 1,725,000 before December 31, 2002. The Company has a total of 2,000,000 options outstanding at an average exercise price of \$ .86 per share. The exercise prices range from \$.50 to \$4.50.

At December 31, 2001 officers and directors held a total of 1,000,000 options outstanding at an exercise price of \$ .50 per share expiring on June 30, 2002.

OPTION GRANTS IN THE LAST FISCAL YEAR

The Company granted the following options during 2001:

| Name              | Number of Shares<br>Underlying Options | Options Granted<br>During Year | Exercise<br>Price(\$/sh) | Expiration<br>Date |
|-------------------|--|--------------------------------|--------------------------|--------------------|
| ----              | -----                                  | -----                          | -----                    | ----               |
| Albert Golusin    | 400,000                                | 400,000                        | .50                      | 6/30/02            |
| Robert Krushnisky | 350,000                                | 350,000                        | .50                      | 6/30/02            |
| Gordon Krushnisky | 100,000                                | 100,000                        | .50                      | 6/30/02            |
| Stanley Porayko   | 250,000                                | 250,000                        | .50                      | 6/30/02            |

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### STOCK OPTION PLAN

The Board of Directors of the Company has approved its year 2000 Incentive Stock Option Plan ("Plan") that authorizes the Company to grant incentive stock options. The Plan relates to a total of 2,500,000 shares of common stock including all unexercised options from prior plans. All options which may be outstanding at any point in time must be exercised no later than three months after termination of employment or service as a director, except that any optionee who is unable to continue employment or service as a director due to total and permanent disability may exercise such options within one year of termination and the options of an optionee who is employed or disabled and who dies must be exercised within one year after the date of death.

The Plan is to be administered by the Company's Board of Directors or a committee thereof which determines the terms of options granted, including the exercise price, the number of shares of common stock subject to the option, and the terms and conditions of exercise. Options granted under the plan are transferable by the optionee.

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### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table contains information, as of December 31, 2001, regarding the shareholdings of (1) Rhombic's current directors and executive officers, (2) those persons or entities who beneficially own more than 5% of its common stock and (3) all of the directors and executive officers as a group (giving effect to the exercise of the warrants held by each such person or entity). Unless otherwise indicated, the person or entity listed in the table is the beneficial owner of the shares and has sole voting and investment power with respect to the share indicated:

| Name<br>-----   | Number of shares<br>Common Stock<br>Beneficially Owned<br>----- | Percent of<br>Common Stock<br>Beneficially Owned (1)<br>----- |
|---|---|---|
| R.G. Krushnisky<br>Vice President, Director<br>Suite 901, 1212 Howe Street<br>Vancouver, British Columbia<br>Canada V6Z 2M9 | 2,350,000   | 7.9%  |
| Albert Golusin (1)<br>Chief Financial Officer, Director<br>10641 North 44 Street,<br>Phoenix, Arizona 85028                 | 420,000   | 1.4%  |
| Stanley Porayko (1)<br>Director<br>P.O. Box 1765<br>Vegreville, Alberta<br>Canada T9C 1S8                                   | 250,000   | 0.8%  |
| Total shares owned by Directors and<br>Officers of the Company (4 persons)  | 3,020,000   | 10.1%   |
| Rockford Technology Corporation (2)<br>4873 Delta Street<br>Delta, British Columbia, Canada                                 | 2,045,500   | 7.66%   |
| -----   |   |   |

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- (1) Based upon 29,697,042 outstanding shares of common stock, which includes the exercise of 1,000,000 outstanding options.
- (2) Mr. Krushnisky is a director of Rhombic and is one of three directors of Rockford Technology Corporation but does not own controlling interest.

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ITEM 12. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

William Owen received \$60,000 during 2000 through his wholly owned Canadian company named Owen & Associates. Owen & Associates provided an office, local telephone service, postage and compensated William Owen on behalf of Rhombic.

On August 18, 2000, Robert G. Krushnisky the Company's Vice President, a citizen of Canada, purchased 200,000 shares for \$200,000. The shares were exempt from registration under Rule 504 adopted under Regulation D of the Securities Act. They were also subject to the restrictions under Rule 144.

On September 1, 2000, the Company canceled 3,000,000 escrowed shares to William Owen, the President and 6,000,000 escrowed shares to Durham Technology, which is a A Niue Island (New Zealand overseas territory) corporation primarily engaged in marketing of new technologies. The Rhombic shares were held in escrow and couldn't be sold or hypothecated until Rhombic generated a net income of at least \$.01 per share in any year.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RHOMBIC CORPORATION

By /s/ Albert Golusin

April 12, 2002

-----  
Albert Golusin  
Acting Chief Executive Officer, Principal Executive  
Officer, Chief Financial Officer & Director,  
Principal Accounting Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ R.G. Krushnisky

April 12, 2002

-----  
Director

By /s/ Stanley Porayko

April 12, 2002

-----  
Secretary & Director

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RHOMBIC CORPORATION  
(A DEVELOPMENT STAGE COMPANY)

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December 31, 2001 and 2000

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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### INDEPENDENT ACCOUNTANTS' REPORT

To the Stockholders and Board of Directors of  
Rhombic Corporation:

We have audited the accompanying consolidated balance sheets of Rhombic Corporation (a Development Stage Company) and subsidiaries as of December 31, 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for the two years then ended and the period from inception to December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those 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 our audits provide 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 Rhombic Corporation and its consolidated subsidiaries as of December 31, 2001, and the results of their operations and cash flows for the two years then ended and the period from inception to December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1, the accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has experienced material operating losses and has yet to commence significant revenue producing operations. Ultimate realization of material investments in intellectual properties is uncertain. These and other conditions raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

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/s/ James C. Marshall, CPA, P.C

Scottsdale, Arizona  
April 8, 2002

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RHOMBIC CORPORATION  
CONSOLIDATED BALANCE SHEET  
(A Development Stage Company)  
December 31, 2001

ASSETS

|  |            |
|--|------------|
| CURRENT ASSETS:                                |            |
| Cash   | \$ 9,100   |
| Receivables                                    | --         |
| Prepaid expenses                               | 300        |
|  | -----      |
| Total Current Assets                           | 9,400      |
|  | -----      |
| OTHER ASSETS:                                  |            |
| Investments                                    | 12,042     |
| Licensing Agreements and Intellectual property | 281,258    |
| Patents  | 734        |
|  | -----      |
| Total assets                                   | \$ 303,434 |
|  | =====      |

LIABILITIES

|  |             |
|--|-------------|
| CURRENT  |             |
| Accounts Payable   | \$ 49,092   |
| STOCKHOLDERS' EQUITY   |             |
| Preferred stock, \$.001 par value,<br>1,000,000 shares authorized, none issued   |             |
| Common stock, \$.001 par value, 70,000,000 shares<br>authorized, 28,697,042 and 26,286,100 issued and<br>outstanding at December 31, 2001 and 2000 | 28,697      |
| Additional paid-in capital   | 8,452,629   |
| (Deficit) accumulated during the development stage   | (8,226,984) |
| Net unrealized holding loss on available for sale securities   | (7,476)     |
|  | -----       |
| Total stockholders' equity   | 254,342     |
|  | -----       |
| Total liabilities and stockholders' equity   | \$ 303,434  |
|  | =====       |

See accompanying notes to these consolidated financial statements.

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RHOMBIC CORPORATION  
(A Development Stage Company)  
CONSOLIDATED STATEMENTS OF OPERATIONS

|                                      | For the 12 Months Ended |                | Cumulative<br>November 21,<br>(Inception)<br>December 31, |
|--------------------------------------|-------------------------|----------------|---|
|                                      | 2001                    | 2000           |   |
| REVENUES                             |                         |                |   |
| Royalty income                       | \$ --                   | \$ --          | \$ 5,7  |
| Interest income                      | 80                      | 5,690          | 6,9   |
|                                      | 80                      | 5,690          | 12,6  |
| EXPENSES                             |                         |                |   |
| Research and development expense     | 12,159                  | 494,082        | 697,7   |
| Write down on intellectual property  | 404,158                 | 1,487,630      | 1,891,7   |
| Legal and accounting                 | 164,055                 | 259,397        | 741,3   |
| Consulting, related party            | 1,294                   | 60,000         | 368,2   |
| Consulting                           | 37,375                  | 1,891,556      | 2,876,8   |
| Other general and administrative     | 291,329                 | 970,924        | 1,583,7   |
| Total Expenses                       | 910,370                 | 5,163,589      | 8,159,7   |
| Net (loss) from operations           | (910,290)               | (5,157,899)    | (8,147,0  |
| OTHER REVENUES & EXPENSES            |                         |                |   |
| (Loss) on sale of investments        | (72,464)                | --             | (72,4   |
| NET (LOSS)                           | (\$ 982,754)            | (\$ 5,157,899) | (\$ 8,219,5   |
| NET (LOSS) PER SHARE:                |                         |                |   |
| Basic                                | \$ (0.04)               | \$ (0.20)      |   |
| Diluted                              | \$ (0.04)               | \$ (0.20)      |   |
| WEIGHTED AVERAGE SHARES OUTSTANDING: |                         |                |   |
| Basic                                | 27,097,894              | 25,749,799     |   |
| Diluted                              | 27,097,894              | 25,749,799     |   |

See accompanying notes to these consolidated financial statements.

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RHOMBIC CORPORATION  
(A Development Stage Company)  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Deficit  
Accumulated)



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|   | Common Stock |          | Additional<br>Paid-In<br>Capital | Duri<br>Develo<br>Sta |
|---|--------------|----------|----------------------------------|-----------------------|
|   | Shares       | Amount   |                                  |                       |
| Balance at December 31, 1999                                    | 24,741,100   | \$24,741 | \$ 4,589,750                     | \$ (2,078             |
| Acquisition of Excimer Lamp Technology                          | 100,000      | 100      | 281,150                          |                       |
| Acquisition of LENR/DCM intellectual property                   | 100,000      | 100      | 194,150                          |                       |
| Shares issued to acquire Emerald Investments                    | 200,000      | 200      | (200)                            |                       |
| Shares issued for services                                      | 775,000      | 775      | 2,671,810                        |                       |
| Exercise of stock options                                       | 370,000      | 370      | 306,880                          |                       |
| Net (loss)  |              |          |                                  | (5,157                |
| Balance at December 31, 2000                                    | 26,286,100   | 26,286   | 8,043,540                        | (7,236                |
| Shares issued for services                                      | 1,244,800    | 1,245    | 210,255                          |                       |
| Shares issued under convertible debenture                       | 1,166,142    | 1,166    | 198,834                          |                       |
| Net unrealized holding loss on available<br>for sale securities |              |          |                                  |                       |
| Net (loss)  |              |          |                                  | (982                  |
|   | 28,697,042   | \$28,697 | \$8,452,629                      | \$ (8,219             |

See accompanying notes to these consolidated financial statements.

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RHOMBIC CORPORATION  
(A Development Stage Company)  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | For the years ended<br>December 31, |                |
|---|-------------------------------------|----------------|
|   | 2001                                | 2000           |
| OPERATING ACTIVITIES                                  |                                     |                |
| Net (loss) income for the period                      | \$ (982,754)                        | \$ (5,157,899) |
| Adjustments to reconcile net cash used by operations: |                                     |                |
| Write down on intellectual property and patents       | 404,158                             | 1,487,630      |
| Loss on sale of marketable securities                 | 72,464                              | 72,464         |
| Rockford shares issued for services                   | 32,275                              | 32,275         |
| Common stock issued for services                      | 211,500                             | 1,108,653      |
| Fair value of options granted                         | --                                  | 1,563,932      |
| (Increase)/decrease in accounts receivable            | --                                  | 18,896         |
| (Increase)/decrease in prepaid expenses               | 2,200                               | 197,500        |
| Increase/(decrease) in accounts payable               | (67,463)                            | 74,155         |
| Net Cash (Used) by Operating Activities               | (327,620)                           | (707,133)      |
| INVESTING ACTIVITIES                                  |                                     |                |
| Cost of patents                                       | (50,163)                            | (64,286)       |
| Proceeds from sale marketable securities              | 93,499                              | 93,499         |
| Investment in Rockford Technologies                   | (207,756)                           |                |
| Investment in marketable securities                   | (10,000)                            |                |
| Net Cash (used) in investment activities              | 43,336                              | (64,286)       |

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|   |           |            |
|---|-----------|------------|
| FINANCING ACTIVITIES  |           |            |
| Proceeds from private placements  | 1,347,830 |            |
| Proceeds from exercise of stock options                                     | 307,250   | 1,006,750  |
| Proceeds from conversion of debenture                                       | 200,000   | 200,000    |
| Net Cash provided from financing activities                                 | 200,000   | 307,250    |
|   |           |            |
| Increase (decrease) in cash   | (84,284)  | (464,169)  |
| Cash at beginning of period   | 93,384    | 557,553    |
| Cash at end of period   | \$ 9,100  | \$ 93,384  |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES       |           |            |
| Issuance of common stock for licensing agreements and intellectual property | \$ --     | \$ 475,500 |
| Noncash investing and financing activities                                  |           |            |
| Unrealized loss on available for sale stock                                 | \$ 7,476  | --         |

See accompanying notes to these consolidated financial statements

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RHOMBIC CORPORATION  
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR YEARS ENDED DECEMBER 31, 2001 AND 2000

Note 1 - ORGANIZATION AND BASIS OF PRESENTATION

Pursuant to an Agreement and Plan of Reorganization dated January 18, 2000, Rhombic Corporation (the "Company") acquired all the outstanding shares of common stock of Emerald Acquisition Corporation ("Emerald"), a Delaware corporation, from the shareholders thereof in an exchange for an aggregate of 200,000 shares of common stock of Rhombic ("the Acquisition"). As a result, Emerald became a wholly owned subsidiary of Rhombic and was later merged into the Company.

The Acquisition was approved by the unanimous consent of the Board of Directors of Rhombic on January 18, 2000. The Acquisition was effective on January 20, 2000. Upon effectiveness of the Acquisition, pursuant to Rule 12g-3(a) of the General Rules and Regulations of the Securities and Exchange Commission, Rhombic elected to become the successor issuer to Emerald for reporting purposes under the Securities Exchange Act of 1934 and elected to report under the Act effective January 20, 2000.

The Company has acquired rights to certain intellectual properties and intends to further develop, determine commercial applications and market these intellectual properties. Since its inception, the Company had directed most of its efforts toward identifying and acquiring intellectual properties, primarily from universities in the United States or entities related to those universities. The Company's primary office is located in Phoenix, Arizona. The majority of the Company's assets, liabilities and expenses relate to operations in the United States.

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The Company owns 100% of the issued and outstanding shares of Nanophase Diamond Technologies, Inc. and Rockford Technology Associates, Inc. These entities had no significant operations nor any significant assets or liabilities at the time of acquisition other than specific intellectual property rights. These entities have been merged into the Company and are included in the financial statements. During 2000, the Company formed two new subsidiaries for the purpose of participating in joint ventures. These subsidiaries have had no activities to date.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has had material operating losses and has had to rely on offerings of its common stock to obtain sufficient cash to meet its operating expenses. The Company has yet to generate substantive revenue. Also, there can be no assurances that the intellectual properties owned by the Company will be successfully developed to a marketable prototype level to be used as the basis for licensing agreements or marketing activity or that the book value of the investments in intellectual properties will be realized. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company intends to determine commercial applications for intellectual properties that it owns or for which it has licenses. However, there can be no assurances that the applications will be commercially viable nor that Company will be able to generate profitable operations. The financial statements do not include any adjustments relating to the recoverability of the carrying value of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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### Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### CONSOLIDATION

The consolidated financial statements include the results of operations, account balances and cash flows of the Company and its wholly owned subsidiaries after elimination of intercompany transactions

#### CASH AND EQUIVALENTS

The Company considers cash to be all short-term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less.

#### FOREIGN CURRENCY TRANSLATION

The functional currency of the Company is the U. S. dollar. Certain of the Company's assets, liabilities and expenses are denominated in Canadian dollars. Transactions denominated in Canadian dollars are translated to U.S. dollars using an average exchange rate applicable for the month in which the transactions occur. Assets and liabilities denominated in Canadian dollars are translated to U.S. dollars at the exchange rate existing at the balance sheet date. Foreign exchange transaction gains and losses have been immaterial.

#### FINANCIAL INSTRUMENTS

Financial instruments consist primarily of cash, investments in closely held entities and obligations under accounts payable and accrued expenses. The carrying amounts of cash, accounts receivable, accounts payable notes payable and accrued expenses approximate fair value because of the short term maturity

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of those instruments. The Company has not determined the fair value of certain of its investments due to the lack of marketability and liquidity of those investments and the common director with one such investee.

### INVESTMENTS

At December 31, 2001, the Company the investments were held for sale. At December 31, 2000, the Company accounted for its approximately 15% interest in Rockford Technologies, Inc. under the cost method. The Company also had a minority ownership in Peabody Coffee, Inc. which was recorded under the cost method. The investment in Peabody is recorded at its cost, which approximates the market value on the basis of trading values at December 31, 2000..

### INTELLECTUAL PROPERTY

Intellectual properties have been acquired through the issuance of shares of the Company's common stock and further developed for cash. These intellectual properties are valued at the estimated fair market value of the stock issued at the time of purchase. The value of the common stock is determined by the trading value of the shares at and near the date of the transaction less a 25% discount to that trading value due to restrictions on those securities. All stock issued in those transactions contains regulatory restrictions, and in some cases contractual restrictions, on transferability. Management periodically analyzes the values of the intellectual properties for impairment. During 2001 and 2000, the Company evaluated its intellectual properties and determined, based on the limited resources of the Company, market for the end products and potential development times and required development costs, that it would not pursue development of certain of the intellectual properties. The Company wrote off its investments in those intellectual properties in 2001 and 2000. The purchase price of the remaining intellectual properties will be amortized over the estimated useful lives when revenue begins to be generated from those assets.

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### Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### STOCK-BASED COMPENSATION

Statements of Financial Accounting Standards No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, ("SFAS 123") established accounting and disclosure requirements using a fair-value based method of accounting for stock-based employee compensation. The Company periodically issues options to consultants and members of the Board of Directors. The estimated value of these options is determined in accordance with SFAS No. 123 and expensed as the granted options vest to the grantees.

#### INCOME TAXES

The Company accounts for income taxes under the liability method pursuant to the Statement of Financial Accounting Standards No. 109, ACCOUNTING FOR INCOME TAXES, ("SFAS 109"). Deferred taxes arise from temporary differences, due to differences between accounting methods for tax and financial statement purposes.

#### LOSS PER SHARE

Net loss per share is calculated using the weighted average number of shares of common stock outstanding during the year.

#### USE OF ESTIMATES

The preparation of financial statements in conformity with generally

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accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

### NEW TECHNICAL PRONOUNCEMENTS

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets. This statement establishes accounting and reporting standards for goodwill and intangibles for years commencing after December 15, 2001. Whether already acquired or subsequently acquired after the effective date, companies are required to identify intangibles with finite lives and those with indefinite lives. Those intangibles with finite lives are to be amortized over the estimated useful lives of the assets while those with indefinite lives are not to be amortized. Each intangible or goodwill asset should be analyzed at least annually for impairment where the carrying value is in excess of the fair value of the intangibles and in excess of the implied fair value in the case of goodwill assets. The asset's carrying value is to be reduced by a charge to income if the fair value is lower than the carrying value. The Company has not determined the effect of this new standard; however, the impact is not expected to be material.

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### Note 3 - INTELLECTUAL PROPERTY

The Company has entered into numerous agreements having acquired certain rights to various complex intellectual properties which it intends to further develop, with the assistance of strategic partners, for commercial applications. Or, it may sell or license these rights and transfer the control of such to the buyer or licensee. The acquisitions of these intellectual properties have occurred since 1995. The intellectual properties include titles such as; Nuclear Battery, Radio Nuclide Battery, Inertial Electrostatic Confinement, Diamond Film Electromechanical Battery and Disperse Composite Material. There has yet to be proven profitable commercial applications for these intellectual properties. The Company works with U.S. universities and their professors to further develop these intellectual properties through funding of research projects. In most cases, the rights to the intellectual properties were acquired from the universities, or from the professors or inventors to the extent they had rights to the intellectual properties. The consideration given by the Company for the most part was shares of the Company's common stock. The value of the shares given was the basis for the recorded value of the purchases (Note 1).

The Company periodically analyzes the investments in these intellectual properties for impairment. The stage in which these intellectual properties are in make estimation of value or determination of impairment a difficult task. The Company has only one such technology for which there is a commercial strategic partner. However, there have been no substantive revenues yet generated from that arrangement. The Company has determined that there is no evidence that the book values of these intellectual properties are impaired until it has been determined that there is no likely commercial application or one that will produce adequate cash flow to support those values. The Company believes that its current intellectual properties each require substantial development dedication of resources, in both financial and human resources. The Company has determined to pursue a limited number of these intellectual properties and not pursue a number of others for various reasons. Therefore, the Company has taken a write off of those intellectual properties that it does not intend to pursue. The Company is funding further research and is more actively marketing and seeking strategic partners for the remaining intellectual properties. However, any change in estimates of impairment may have a significant effect on the financial condition and results of operations of the Company.

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### Note 4 - INVESTMENTS

The Company has the following investments at December 31, 2001 and 2000:

|                               | December 31, 2001 |                         | December 31, 2000 |                         |
|-------------------------------|-------------------|-------------------------|-------------------|-------------------------|
|                               | Cost              | Estimated<br>Fair Value | Cost              | Estimated<br>Fair Value |
| AVAILABLE FOR SALE SECURITIES |                   |                         |                   |                         |
| Peabody's Coffee, Inc.        | \$ --             | \$ --                   | \$ 10,000         | \$ 10,000               |
| Rockford Technologies, Inc.   | 24,750            | 17,274                  | 207,756           | 207,756                 |
| Totals                        | \$ 24,750         | \$ 17,274               | \$217,756         | \$217,756               |
|                               | =====             | =====                   | =====             | =====                   |

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Statements of Financial Accounting Standards No. 115, ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES, ("SFAS 115") requires that all applicable investments be classified as trading securities, available for sale securities or held to maturity securities. The Company did not have any investments classified as trading securities or held-to-maturity securities. The statement further requires that available for sale securities be reported at fair value, with unrealized gains and losses excluded from earnings but reported in a separate component of shareholders' equity (net of the effect of income taxes) until they are sold. At the time of sale, any gains or losses, will be recognized as a component of operating results.

At December 31, 2000, the estimated fair value of Peabody's was estimated based on the quoted trading price of the security at December 31, 2000, the value of the Peabody's stock approximated the cost. This stock was sold in 2001 and the Company realized a loss of \$6,000.

The Company acquired 2,900,000 shares of Rockford Technologies, Inc. ("Rockford") in the year ended December 31, 1999 for \$207,756 as part of a legal settlement with Rockford. The 2,900,000 shares represented an approximate 15% interest in Rockford. As part of that settlement, members of the Company's Board of Directors assumed half of the Board seats of Rockford. At December 31, 2001, one of the Company's directors was also one of three directors of Rockford. Rockford had no material operations during the two years ended December 31, 2001. During 2001, the Company sold 1,654,519 shares and distributed 900,000 shares for goods and services. The Company realized a loss of \$66,464. At December 31, 2001, the Company the unrealized decline in value was \$7,476.

### Note 5 - INCOME TAXES

The Company does not provide any current or deferred income tax provision or benefit for any period presented because it has experienced operating losses since inception. The Company has provided a full valuation allowance because of the uncertainty regarding the utilization of the net operating loss carryforwards.

|                             | For the year ended December 31,<br>2001 | 2000         |
|-----------------------------|---|--------------|
| Current income tax benefit  | \$ 238,115                              | \$ 1,541,513 |
| Deferred income tax benefit | \$ 165,705                              | \$ 624,805   |

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|   |           |             |
|---|-----------|-------------|
|   | -----     | -----       |
| Total current and deferred income tax benefit | 403,820   | 2,166,318   |
| Valuation allowance                           | (403,820) | (2,166,318) |
|   | -----     | -----       |
| Benefit of income taxes                       | \$ --     | \$ --       |
|   | =====     | =====       |

Income tax expense does not differ from amounts computed by applying the U.S. Federal income tax rate of 34% and the state rate of 7% and 8%, respectively, at December 31, 2001 and 2000, except for the valuation allowance.

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At December 31, 2001, the Company had realized net operating losses of approximately \$6,838,123. Future realization of the net deferred tax assets is dependent on generating sufficient taxable income prior to their expiration. The realized net operating losses expire, as follows: Note 5 - INCOME TAXES (continued)

| Expiration                         | Federal     | State       |
|------------------------------------|-------------|-------------|
| -----                              | -----       | -----       |
| 2002                               |             | \$ 236,028  |
| 2003                               |             | 861,526     |
| 2004                               |             | 603,950     |
| 2005                               |             | 3,670,269   |
| 2006                               |             | 580,770     |
| 2009                               | \$ 44,994   |             |
| 2010                               | 379,485     |             |
| 2011                               | 461,101     |             |
| 2012                               | 236,028     |             |
| 2018                               | 861,526     |             |
| 2019                               | 603,950     |             |
| 2020                               | 3,670,269   |             |
| 2021                               | 580,770     |             |
|                                    | -----       | -----       |
| Total net operating loss available | \$6,838,123 | \$5,952,543 |
|                                    | =====       | =====       |

Note 6 - COMMITMENTS

The Company's acquisition agreements for intellectual properties generally contain requirements to pay royalties to the sellers when revenue is generated from those intellectual properties. At December 31, 2001 and 2000, the Company had no royalties payable.

The Company periodically enters into agreements with third parties, primarily U.S. universities, to fund research projects related to its intellectual properties. At December 31, 2001 and 2000, there were no long-term commitments under such arrangements.

Note 7 - STOCKHOLDERS' EQUITY

The Company issues common stock as compensation to consultants and to acquire intellectual properties. During the year ended December 31, 2000 the Company issued 200,000 of its common stock to acquire new intellectual properties. The value of those transactions was determined based upon the trading value of the Company's common stock at the time of the transactions.

During 2001, the Company issued \$200,000 of 10% convertible debentures. These debentures were converted during 2001 into 1,166,142 shares of common stock.

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Prior to 1999, the Company entered into an agreement granting 9,000,000 shares to three of the Company's officers and directors and a consultant. The shares were placed in escrow and could not be released until the Company meets certain operating milestones and profitability. The shares are presented as issued and outstanding and are included in the loss per share calculation. During 2000, the Company cancelled the escrow agreement and the restricted shares held by the escrow agent were returned to the treasury of the Company and cancelled. No value or cost had been associated with those shares when issued. Expense was to be recognized at the time the shares become earned and released from escrow to the individuals and consultant. The loss per share calculations have been recomputed based on the cancellation.

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### Note 8 - STOCK OPTIONS

The Company issues stock options periodically to consultants and members of the Board of Directors. The Company has adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation". The options granted in the years ended December 31, 2000 and 1999, were granted to other than employees, the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", does not apply. Accordingly, compensation cost has been recognized for the stock options granted to other than employees.

Under the provisions of SFAS No. 123, the number of fully vested options granted of 1,500,000 and 1,300,000 options for the years ended December 31, 2001 and 2000, respectively, were used to determine compensation cost. The value of options charged to expense during the year ended December 31, 2001 and 2000 were \$0 and \$1,645,133.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for years ended December 31:

|                         | 2001       | 2000      |
|-------------------------|------------|-----------|
|                         | ----       | ----      |
| Dividend yield          | None       | None      |
| Volatility              | .894       | 1.61      |
| Risk free interest rate | 4.07%      | 5.75%     |
| Expected asset life     | 7.5 months | 2.04 year |

The Board of Directors authorized the granting of 1,500,000 and 1,300,000 options during the years ended December 31, 2001 and 2000. The price of the options granted pursuant to these grants is not to be less than 100 percent of the fair market value of the shares on the date of grant. The options expire one year from date of grant and are immediately vested.

The summary of activity for the Company's stock options is presented below:

|  | 2001      | Weighted<br>Average<br>Exercise<br>Price 2001 | 2000      |
|--|-----------|---|-----------|
|  | ----      | -----   | ----      |
| Options outstanding at beginning of year | 1,100,000 | N/A   | 250,000   |
| Granted                                  | 1,500,000 | \$ 0.50                                       | 1,300,000 |



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|  |                 |         |                 |
|--|-----------------|---------|-----------------|
| Exercised  | --              | N/A     | (450,000)       |
| Terminated/Expired   | (600,000)       | \$ 1.00 | --              |
| Options outstanding at end of year                             | 2,000,000       | \$ 2.30 | 1,100,000       |
| Options exercisable at end of year                             | 2,000,000       | \$ 2.30 | 1,100,000       |
| Options available for grant at end of year                     | --              |         | --              |
| Price per share of options outstanding                         | \$0.50 - \$0.50 |         | \$1.00 - \$4.50 |
| Weighted average remaining contractual lives                   | 7.5 months      |         | 2 years         |
| Weighted Average fair value of options granted during the year | \$0.50          |         | \$1.37          |

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Note 9 - LOSS PER SHARE

Outstanding options to purchase common stock were not considered in the calculation for diluted earnings per share for the years ended December 31, 2001 and 2000 because the effect of their inclusion would be antidilutive. A reconciliation of the numerator and denominator of the basic and diluted per share calculations for the loss from continuing operations is as follows:

|                                       | 2001         |            |           | 2000           |          |
|---------------------------------------|--------------|------------|-----------|----------------|----------|
|                                       | Loss         | Shares     | Per share | Loss           | Shares   |
| Net (Loss)                            | \$ (984,928) |            |           | \$ (5,239,100) |          |
| BASIC LOSS PER SHARE                  |              |            |           |                |          |
| Loss available to common stockholders | \$ (984,928) | 27,097,894 | \$ (0.04) | \$ (5,239,100) | 25,749,7 |
| Effect of dilutive securities         | N/A          |            |           | N/A            |          |
| DILUTED LOSS PER SHARE                |              |            | \$ (0.04) |                |          |

Options to purchase 1,500,000 and 1,300,000 shares of common stock were outstanding at December 31, 2001 and 2000, and were excluded from the computation of diluted loss per share because the effect of their inclusion would be anti-dilutive

Note 10 - CREDIT RISK AND OTHER CONCENTRATIONS

The Company has historically relied upon cash raised in private placements of the Company's common stock for working capital. At times, the Company maintains cash balances at banks that exceed insured limits. At December 31, 2001 and 2000 the Company did not have funds on deposit that exceeded the insured limits.

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