

Edgar Filing: WORLDTEQ GROUP INTERNATIONAL INC - Form 10QSB

WORLDTEQ GROUP INTERNATIONAL INC
Form 10QSB
August 27, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB
(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2004
OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 000-

WORLDTEQ GROUP INTERNATIONAL, INC.
(Exact name of Registrant as specified in its charter)

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Nevada
(State or other jurisdiction of
incorporation or organization)

03-7392107
(I.R.S. Employer
Identification Number)

30 West Gude Drive, Rockville, Maryland
(Address of principal executive offices)

20850
(Zip/Postal Code)

(888) 263-7776
(Telephone Number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
☒ YES ☐ NO

State the number of shares outstanding of each of the Issuer's classes of common equity, as of the latest practicable date. There were 33,706,190 common stock shares, par value \$0.001, as of April 7, 2004.

Note Regarding FORWARD-LOOKING STATEMENTS

In addition to historical information, this Report contains forward-looking statements. Such forward-looking statements are generally accompanied by words such as "intends," "projects," "strategies," "believes," "anticipates," "plans," and similar terms that convey the uncertainty of future events or outcomes. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in ITEM 2 of this Report, the section entitled "MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION." Readers are cautioned not to place undue reliance on these

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forward-looking statements, which reflect management's analysis only as of the date hereof and are in all cases subject to the Company's ability to cure its current liquidity problems. There is no assurance that the Company will be able to generate sufficient revenues from its current business activities to meet day-to-day operation liabilities or to pursue the business objectives discussed herein.

The forward-looking statements contained in this Report also may be impacted by future economic conditions. Any adverse effect on general economic conditions and consumer confidence may adversely affect the business of the Company.

WorldTeq Group International, Inc. undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Factors that could cause actual results or conditions to differ from those anticipated by these and other forward-looking statements include those more fully described in the "Risk Factors" section of the Company's Registration Statement filed with the Securities and Exchange Commission (the "SEC") on April 20, 2004 on Form 10KSB. In addition, readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

Part I Financial Information

Item 1. Financial Statement

In the opinion of management, the accompanying unaudited financial statements included in this Form 10-QSB reflect all adjustments necessary for a fair presentation of the results of operations for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

WORLDTEQ GROUP INTERNATIONAL, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET June 31, 2004 (unaudited) -----

Assets

Current Assets:

Restricted Cash	\$	31,807
Accounts Receivable		72,865
Other Current Assets		5,121

Total current assets		109,793
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Equipment, net		9,894
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Customer base		44,792
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Total assets	\$	164,479
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Current Liabilities	
Convertible note payable to stockholder	\$ 147,478
Convertible note payable	45,142
Accounts Payable	222,845
Accrued expenses	36,532

Total current liabilities	451,997

Commitments and contingencies	
Stockholders' Deficit	
Convertible preferred stock, \$.001 par value, 5,000,000 shares authorized, 911,553 shares issued and outstanding	911
Common stock, \$.001 par value, 100,000,000 shares authorized, 31,705,746 shares issued and outstanding	32,706
Paid in capital	21,293,542
Retained deficit	(21,614,677)

Total stockholders' deficit	(287,518)

Total liabilities and stockholders' deficit	\$ 164,479
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WORLDTEQ GROUP INTERNATIONAL, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended June 30,		Six Months June 30	
	2004	2003	2004	
Sales	\$ 106,398	\$ 208,401	\$ 223,938	\$
Cost of Sales	78,689	104,970	161,381	\$
Gross profit	27,709	103,431	62,557	
Selling, general and administrative expenses	188,681	126,328	503,110	
Income (loss) from operations	(160,973)	(22,897)	(440,553)	
Interest Expense	2,850	9,706	5,738	
Net income (loss)	\$ (163,823)	\$ (32,603)	(446,291)	

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Basic and diluted income (loss) per share:	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$
	=====	=====	=====	=====
Weighted Average Shares Outstanding	32,539,523	21,630,000	31,408,042	
	=====	=====	=====	=====

WORLDTEQ GROUP INTERNATIONAL, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS CASH FLOWS

(unaudited)

	Six Months Ended June 30,	
	2004	2003
Cash Flows Used in Operating Activities		
Net Income (Loss)	\$ (446,291)	\$ (179,136)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	15,189	53,485
Stock For Services	180,000	
Stock option expense	220,000	-
Change in:		
Accounts Receivable	(40,635)	37,754
Other Current Assets	(4,573)	289
Accounts Payable	(27,081)	(19,373)
Accrued Expenses	-	(8,281)
Deferred Revenue	-	-
Net Cash Used In Operating Activities	(103,391)	(115,263)
Cash Flows Used In Investing Activities		
Purchases of customer base	(54,609)	-
Cash Flows Provided By Financing Activities		
Proceeds from shareholder note payable	-	87,830
Exercise of stock options	100,000	-
Payments on note payable	(2,000)	(2,567)
Stock Issued For Cash	60,000	
Net cash from financing activities	158,000	85,263
Net Change in Cash	-	(30,000)
Cash - beginning of year	31,807	85,000
Cash - End of Quarter	\$ 31,807	\$ 55,000
Non Cash Financince Activities		
Liabilities assumed by Net World Acquiror		\$ 352,560

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WORLDTEQ GROUP INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2004 (Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The interim financial statements and summarized notes included herein were prepared in accordance with accounting principals generally accepted in the United States of America for interim financial information, pursuant to rules and regulations of the Securities and Exchange Commission. Because certain information and notes normally included in complete financial statements prepared in accordance with accounting principals generally accepted in the United States of America were condensed or omitted pursuant to such rules and regulations, it is suggested that these financial statements be read in conjunction with the Consolidated Financial Statements and the Notes thereto, included in Worldteq's Report 10KSB-A filed May 18, 2004. These interim financial statements and notes hereto reflect all adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods presented. Such financial results should not be construed as necessarily indicative of future results.

STOCK BASED COMPENSATION:

The Company accounts for its employee stock-based compensation plans under Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. Worldteq granted options to purchase 2,350,000 shares of common stock to two employees during the three months ending March 31, 2004. All options begin vesting six months after the date issued, February 25, 2004, and vest 1/36 each month thereafter, have an exercise price of \$.13 per share and expire 10 years from the date of grant.

The following table illustrates the effect on net loss and net loss per share if Worldteq had applied the fair value provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Six Months Ended June 31,	
	2004	2003
Net loss available to common stockholders, as reported	\$ (446,291)	\$ (146,533)
Less: stock based compensation determined under fair value based method	-	-
Pro forma net loss	\$ (446,291)	\$ (146,533)
Basic and diluted net loss per share As reported	\$ (0.01)	\$ (0.01)
Pro forma	\$ (0.01)	\$ (0.01)

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NOTE 2 - COMMON STOCK

During the three months ended March 31, 2004, Worldteq issued 2,000,000 shares of common stock to consultants resulting in \$220,000 of expense. The expense was calculated using the black scholes pricing model with the following assumptions: Volatility of 161%, 1 year life, 0% dividend yield and a 3% discount rate.

During the quarter ended March 31, 2004, preferred stockholders converted 144,000 shares of preferred stock into 144,000 shares of common stock.

During the quarter ended June 30, 2004, Worldteq issued 1,000,000 shares for \$60,000 in cash. On the issue date, shares were trading at \$.24. The difference in price created an additional expense to the company of \$180,000.

NOTE 3 - PURCHASES

During the three months ended March 31, 2004, Worldteq purchased a customer base from a third party for \$50,000 cash. The customer base is being amortized over 48 months. During the three months ended June 30, 2004, Worldteq purchased equipment for \$4,609. The equipment is being depreciated over 36 months.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial condition and results of operations should be read in conjunction with the financial statements, related notes, and other detailed information included elsewhere in this Form 10QSB. Certain information contained below and elsewhere in this Form 10QSB, including information regarding our plans and strategy for our business, are forward-looking statements. See "Note Regarding Forward-Looking Statements."

Our business plan for the next twelve months is to demonstrate the efficacy of our product candidate in animal models. It is necessary for us to establish evidence of efficacy of our approach in order to advance to subsequent milestones.

OVERVIEW

The Company is a switch-less and facilities-based provider of Internet protocol and traditional fiber-based communications services, including voice and data, along with toll free and related services. We market our services to groups specializing in specific ethnic demographics, residential communities located in major metropolitan areas, associations, network marketing organizations, and multi-level-marketing organizations (MLM's). Our goal is to become a leading provider of payroll services and communication services, including voice, data and Internet services to our targeted markets, comprised of affinity communities. We provide our services through a flexible network of owned, contracted facilities and resale arrangements. We have an extensive network available to us of IP gateways, international gateways, and domestic switches.

Through our subsidiary WorldTeq Corporation we provide agents, associations, and businesses with opportunities to generate revenues by supplying those associations, individuals, and businesses with Internet technology and communications solutions and services. Our products and services enable the agents and affinity groups to offer their members, customers and others a variety of revenue producing solutions and services without making large investments in technology, infrastructure or staff. The principal products and services which we offer are:

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- Long Distance Service
- Toll Free Products
- Financial Services / Corporate Payroll Solutions
- Billing Services
- Web site creation and design; and
- Web site hosting.

RECENT DEVELOPMENTS

During the second quarter of 2004, while WorldTeq has been continuing to develop MonEcard, now called BanqueCard, for payroll services, the company has shifted gears and has begun to develop a new online service, MundoTeq.com. MundoTeq.com is being developed as one of the first all Spanish web portals. MundoTeq will strive to be the preeminent gateway to the Spanish language Hispanic Internet. We are striving to make this a place where all Spanish-speaking residents of the U.S. can get news, entertainment, shopping and much more! Some of the free services all in Spanish language will include:

- International news service from Southern, Central, Latin American countries
- Chat Rooms
- Dating Services
- Classifieds
- Search Capabilities
- Childrens content
- And more

The biggest benefit that users will find at MundoTeq.com are specially designed services created just for the MundoTeq community. The BanqueCard debit card, Internet access, calling cards, prepay cell phones and more will be offered at very low rates with all components such as, online signup forms, billing, and customer service all in Spanish language!

While the company will continue to develop and attempt to add retail customers to its telecommunications product lines we are expecting the majority of growth and future revenues, especially in 2005, to be generated by the MundoTeq portal. While growth of our retail telecommunications division has been slower than expected, due to most of the company's resources being used on the development of MundoTeq, the company is growing its wholesale telecommunications division. The previously released announcement of a special toll free service deal that was made in June of 2004 is completely underway. The customer has already ordered 7,000 toll free numbers, 2,000 more than originally expected, as of the date of this filing. We have just started seeing traffic being generated from these toll free numbers as of August 7th, 2004. During the 4th quarter we are expecting to exceed our original monthly income projection of \$50,000 per month for this one account. Through the company's wholesale division we are currently in negotiation to bring on CLEC's (competitive local phone companies) to sell our long distance and toll free products directly to their clients

FINANCIAL CONDITION

We have limited financial resources after our restructuring. We have eliminated non-productive assets and pared down our workforce to reduce overhead, we sold one of our subsidiaries which reduced our debt by nearly \$400,000. We have little long-term debt. Although our operating cash flow was negative during the first quarter of 2004, we believe it may be positive for the year, because of the profits being spent on the development of MundoTeq. We raised \$100,000 of capital through the exercise of warrants in Q2 of 2004, which was used to greatly reduce both long and short-term debts during WorldTeq's restructuring

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phase and to begin funding the development of WorldTeq

RESULTS OF OPERATIONS

Total sales for the second quarter 2004 was \$106,398 as compared to \$208,401 for the quarter ended June 30, 2003, a 49% decrease. This was largely due to the sale of Networld Online which included the reorganization of the company that included the discontinuation of unprofitable business segments, such as parts of the wholesale telecommunications business. The company concentrated its efforts during the first two quarters of the year on developing the MundoTeq portal. Additionally, we spent that latter part of the second quarter negotiating for a new wholesale account that is expected to bring in over \$50,000 in new revenues per month at a minimum margin of 12%. Due to the aggressive pricing awarded to us from our vendor to make this sale possible we have created new toll free plans and refocused our sales efforts to aggressively quote new business customers.

Our net loss for the quarter ending June 30, 2004 was \$163,823 or less than \$.01 per share, as compared to \$32,604 for the same period in 2003, an increase of 65% over the period ending June,

2003. However, our net loss of \$100,973 for the quarter ending June 30, 2004 was almost 150% less than the net loss incurred during the first quarter of 2004

Selling, general and administrative expenses for the second quarter of fiscal 2004 were \$188,681 as compared to \$126,328 for the same quarter in fiscal 2003. Some of the increase is due to non-cash stock compensation.

We do anticipate a continued increase in SGA expenses in 2004 due to the fact we are launching MundoTeq during the end of the 3rd quarter of 2004. While costs will be kept to a minimum because of our back office automation, we are expecting additional costs with our new MundoTeq site. These new costs will be directly related to new revenues in the 4th Quarter of 2004 and throughout 2005.

Cost of sales for the second quarter of fiscal 2004 was \$78,689 as compared to \$104,970 for the same quarter in fiscal 2003. This decrease of 20% was primarily attributable to efficiencies in our sales organization, but also slightly lower sales.

Interest expense during the quarter dropped by 70% to \$2,850 and depreciation expense dropped 70% and totaled \$15,189 for the 6-month period ending June 30th, 2004 as compared to \$53,484 for the same period during 2003.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities for the period ended June 30th, 2004 and 2003 was \$103,391 and \$115,263 respectively, this in part due to the expenses for the development of MundoTeq. As of June 30, 2004, we had restricted cash of \$31,807. Net cash used in operating activities for the period ended June 30, 2004 was primarily the result of a net loss and a decrease in accounts payable offset by recognition of deferred offering costs

The Company, at June 30th, 2004 and Year End of 2003, respectively, had total assets of approximately \$164,479 and \$64,036. The increase in assets is directly related to current accounts receivables as of June 30th, 2004.

We believe that, based on current activities of developing MundoTeq and its upcoming launch and the recent acquisition of a large wholesale project, cash from operations will begin to meet the development goals of the Company in 2004, although we can give no assurances. A significant increase in activities, either

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billable work or work related to new product development, will require additional resources, which we may not be able to fund through cash from operations. In circumstances where resources will be insufficient, the Company will look to other sources of financing, including debt and/or equity investments.

To meet our growth expectations, we anticipate that we will need to add up to 6 to 8 additional employees in the areas of sales, marketing, and sales support over the next twelve months, especially for the support of MundoTeq as it continues to grow after it's launch. We will be investing slightly in our back office infrastructure such as servers, office equipment, and software to sustain our growth projections for the next 2 years for MundoTeq, and based on the infrastructure need for current product offerings.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements with any party.

Critical Accounting Estimates

There have been no material changes in our critical accounting policies or critical accounting estimates since XXX nor have we adopted an accounting policy that has or will have a material impact on our consolidated financial statements. For further discussion of our accounting policies see Footnote 1

"Summary of Significant Accounting Policies" in this Quarterly Report on Form 10-QSB and the Notes to Consolidated Financial Statements in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003.

ITEM 3. Controls and Procedures

(a) The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the chief executive officer and the principal financial officer of the Company concluded that the Company's disclosure controls and procedures were adequate.

(b) Changes in internal controls. The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the chief executive officer and principal financial officer.

Part II OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable

Item 2. Changes in Securities and Small Business Issuer Purchases of Equity Securities

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In January 2004, in exchange for services, we issued stock purchase warrants to XCL Partners, Inc. to purchase 1,000,000 shares of common stock at an exercise price of \$0.15 per share, 1,000,000 shares of common stock at an exercise price of \$0.20 per share, and 2,000,000 shares of common stock at an exercise price of \$0.25 per share. In addition, we also issued a stock purchase warrant to Chesapeake Group, Inc. to purchase 1,000,000 shares of common stock at an exercise price of \$.25 per share.

In February 2004, we registered 3,350,000 shares under our 2004 Employee Stock Option Plan on a Form S-8. We granted our CEO, Jeffrey Lieberman an option to purchase 2,000,000 shares at an exercise price of \$0.13 per share. We also granted our VP of Sales, Brian Rosinski an option to purchase 350,000 shares at an exercise price of \$0.13 per share. For both options, 16.667% of the Shares subject to the Option shall vest six months after February 25, 2004, and 1/36 of the Shares subject to the Option shall vest each month thereafter, subject to the Optionee continuing to be a Service Provider on such dates.

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

(a) LIST OF EXHIBITS

List of Exhibits

3.1	The articles of incorporation of Registrant (incorporated by reference to the Registrant's Registration Statement on Form 10-SB12G/A filed with the Commission on November 17, 1999, No. 000-27243).
3.2	Bylaws of Registrant (incorporated by reference to the Registrant's Registration Statement on Form 10-SB12G/A filed with the Commission on November 17, 1999, No. 000-27243).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) REPORTS ON FORM 8-K

The following reports on Form 8-K were filed by the Company during the fiscal quarter ended June 30, 2003:

None

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SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WorldTeq Group International, Inc.

/s/ Jeff Lieberman

Jeff Lieberman
Chief Executive Officer,
President,
Treasurer, and
Chairman of the Board

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.

/s/ Jeff Lieberman

Jeff Lieberman
Chief Executive Officer,
President,
Treasurer, and
Chairman of the Board

Dated: August 23, 2004