

BRIDGE TECHNOLOGY INC
Form 10-Q
December 18, 2003

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2003

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

For the Transition Period From _____ to _____

Commission File Number: 000-24767

BRIDGE TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

59-3065437
(I.R.S. Employer
Identification No.)

12601 Monarch Street, Garden Grove, California 92841
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(714) 891-6508**

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's common stock as of June 30, 2003 was 12,098,110.

Table of Contents

FORM 10-Q

Bridge Technology, Inc. and Subsidiaries

FORM 10-Q

INDEX

PART I. Financial Information

Item 1. <u>Financial Statements</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	5
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	8
Item 4. <u>Controls and Procedures</u>	8

PART II. Other Information

Item 1. <u>Legal Proceedings</u>	10
Item 2. <u>Changes in Securities and Use of Proceeds</u>	10
Item 3. <u>Defaults Upon Senior Securities</u>	10
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	10
Item 5. <u>Other Information</u>	10
Item 6. <u>Exhibits and Reports on Form 8-K</u>	11

This 10-Q document including the accompanying footnotes and financial statements have not been reviewed as required by the Securities and Exchange Commission (SEC) Rules and Regulations.

<u>Signatures</u>	11
-------------------	----

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Bridge Technology, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31, 2002 (Audited)	June 30, 2003 (Unaudited)
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,324,118	\$ 841,086
Accounts receivable less allowance for doubtful accounts of \$293,143 and \$172,308 respectively	9,175,912	9,507,217
Tax refund receivable	127,560	58,418
Advances to employees	-	12,972
Other receivables	272,388	374,064
Inventory, net	8,135,790	8,828,181
Assets of subsidiaries held for sale	3,170,060	3,170,060
	<u> </u>	<u> </u>
Total current assets	22,205,828	22,791,998
Property and equipment, net	384,699	346,300
Goodwill, net of amortization of \$1,242,917	1,949,417	1,949,417
Investments	39,996	19,996
Other assets	86,772	86,772
	<u> </u>	<u> </u>
Total assets	\$ 24,666,712	\$ 25,194,483
	<u> </u>	<u> </u>
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Bank overdraft	131,209	-
Notes payable	3,708,072	2,850,066
Accounts payable	6,648,157	7,979,087
Income taxes payable	60,022	60,021
Deferred income tax	2,817	1,921
Accrued liabilities	1,591,797	1,661,717
Shareholder loan	2,050,000	1,818,725
Current portion of loans due to related party	79,950	79,950
Liabilities of subsidiaries held for sale	3,623,117	3,623,117
	<u> </u>	<u> </u>
Total current liabilities	17,895,141	18,074,604
Related party loan, less current portion	884,054	875,005
	<u> </u>	<u> </u>
Total liabilities	18,779,195	18,949,609
	<u> </u>	<u> </u>
Minority interest	920,331	852,376

Edgar Filing: BRIDGE TECHNOLOGY INC - Form 10-Q

Shareholders' equity

Common stock; par value \$0.01 per share, authorized 100,000,000 shares, 10,898,110 and 12,098,110 shares issued and outstanding, respectively	108,981	120,981
Additional paid-in capital	10,097,579	10,310,580
Related party receivable	(340,000)	(340,000)
Treasury stock, 66,000 shares at cost	(2,000)	(2,000)
Current Year Net Income	-	193,808
Retained earnings (accumulated deficit)	(4,868,477)	(4,868,477)
Accumulated other comprehensive loss	(28,897)	(22,394)
	4,967,186	5,392,498
Total shareholders' equity		
Total liabilities and shareholders' equity	\$ 24,666,712	\$ 25,194,483

See accompanying notes to consolidated financial statements.

Edgar Filing: BRIDGE TECHNOLOGY INC - Form 10-Q

Bridge Technology, Inc. and Subsidiaries

Consolidated Statements of Operations

	Three Months Ended		Six Months Ended	
	June 30, 2002 (Audited)	June 30, 2003 (Unaudited)	June 30, 2002 (Audited)	June 30, 2003 (Unaudited)
Net sales	\$ 25,533,290	\$ 23,012,848	\$ 51,765,888	\$ 42,296,421
Cost of sales	24,409,297	21,918,877	49,154,302	40,192,816
Gross profit	1,123,993	1,093,971	2,611,586	2,103,605
Selling, general and administrative expense	1,433,978	1,073,062	2,684,950	1,914,842
Income (loss) from operations	(309,985)	20,909	(73,364)	188,763
Other income (expense):				
Interest income (expense), net	(263,699)	(20,020)	(457,562)	(43,767)
Gain on sale of investment	215,556	131,275	536,427	131,275
Other income	51,759	9,135	106,616	17,828
Income (loss) before income taxes	(306,369)	120,390	112,117	105,336
Income taxes provision	23,559	29,834	84,763	68,246
Net income (loss)	(329,928)	111,465	27,354	225,853
Minority interest	(12,466)	14,054	(45,417)	32,045
Net income (loss) applicable to common shares	\$ (342,394)	\$ 97,411	\$ (18,063)	\$ 193,808
Basic weighted average number of common shares outstanding	10,863,186	12,098,110	10,863,186	12,098,110
Basic earnings (loss) per share	\$ (0.03)	\$ 0.008	\$ (0.001)	\$ 0.016
Diluted weighted average number of common shares outstanding	10,875,467	12,098,110	10,869,360	12,098,110
Diluted earnings (loss) per share	\$ (0.03)	\$ 0.008	\$ (0.001)	\$ 0.016
Comprehensive income (loss) and its components consist of the following:				
Net income (loss)	\$ (342,394)	\$ 97,411	\$ (18,063)	\$ 193,808

Edgar Filing: BRIDGE TECHNOLOGY INC - Form 10-Q

Foreign currency translation adjustment, net of tax	(1,618)	-	(1,851)	-
Comprehensive income (loss)	\$ (344,012)	\$ 97,411	\$ (19,914)	\$ 193,808

See accompanying notes to consolidated financial statements.

Table of Contents 2 FORM 10-Q

Edgar Filing: BRIDGE TECHNOLOGY INC - Form 10-Q

Bridge Technology, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

	Six Months Ended	
	June 30, 2002 (Audited)	June 30, 2003 (Unaudited)
Cash flows from operating activities		
Net income (loss)	\$ (1,128,897)	\$ 193,808
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	258,471	40,034
Provision for doubtful accounts	82,259	135,247
(Gain) loss on sale of investment	(536,373)	20,000
Provision for slow moving inventory	231,000	-
Stock compensation	15,453	-
Minority interest	45,418	(67,955)
Increase (decrease) from changes in operating assets and liabilities:		
Restricted cash	(317,495)	-
Trade receivables	4,262,022	(466,552)
Inventory	3,410,680	(692,391)
Deferred income taxes	(896)	(896)
Other receivables	44,565	(114,648)
Other current assets	(166,309)	-
Accounts payable	(11,084,824)	1,330,930
Accrued liabilities	927,658	69,919
Income taxes payable	122,466	69,142
	(3,834,802)	516,638
Cash flows from investing activities		
Purchase of property and equipment	(94,350)	(1,635)
Due from related party	(1,052)	(231,275)
Proceeds from sale of investment	645,094	-
	549,692	(232,910)
Cash flows from financing activities		
Bank overdraft	29,557	(131,209)
Repayments on loans payable	(23,216)	-
Proceeds from line of credit	604,076	-
Repayments on line of credit	(100,000)	(858,006)
Proceeds from related party loans	2,818,215	200,000
Repayments of related party loans	(563,237)	(9,048)
Proceeds from stock purchase	-	25,000

Edgar Filing: BRIDGE TECHNOLOGY INC - Form 10-Q

Net cash provided by (used in) financing activities	32,765,395	(773,263)
Effect of exchange rate changes on cash	(1,851)	6,503
Net increase in cash and cash equivalents	(521,566)	(483,032)
Cash and cash equivalents, beginning of period	2,413,295	1,324,118
Cash and cash equivalents, end of period	\$ 1,891,729	\$ 841,086
Supplemental information:		
Cash paid during the year for:		
Interest	\$ 376,907	\$ 119,016

See accompanying notes to consolidated financial statements.

Edgar Filing: BRIDGE TECHNOLOGY INC - Form 10-Q

Bridge Technology, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Organization and Business

Bridge Technology, Inc. (the Company) was incorporated under the laws of the State of Nevada on April 15, 1969. Starting from April 1997, the Company registered to do business in the State of California and is primarily engaged in development and distribution of various hardware, software, and peripheral products used in computer systems and sales to value added resellers and system integrators.

As of December 31, 2002, the Company has the following subsidiaries:

	Ownership	
Bridge R&D, Inc.	100%	Established on June 1, 1997
Newcorp Technology Limited (in Japan)	100%	Merged on November 1, 1997
	15%	85% disposed in 2001
PTI Enclosures, Inc.	100%	Merged on December 14, 1998
Newcorp Technologies, Inc. (USA)	100%	Established on March 23, 1999, inactive
Pacific Bridge Net	80%	Established on August 16, 1999 and ceased operation in 2000.
CMS Technology Ltd.	90%	Acquired on January 3, 2000 (60%) Acquired on May 15, 2000 (30%)
Autec Power Systems, Inc.	100%	Merged on December 1, 1999 discontinued operation
Bridge Technology Co., Ltd., Ningbo, China	100%	Established on May 28, 2001 discontinued operation

Note 1. Basis of Presentation

This 10-Q document including the accompanying footnotes and financial statements have not been reviewed as required by the Securities and Exchange Commission (SEC) Rules and Regulations.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for fair presentation have been included. Operating results for the three months period ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2002.

The accompanying unaudited consolidated financial statements have been prepared assuming that the Company will continue as a going concern. During the year ended December 31, 2002, the Company incurred a net loss of \$580,112 and used cash of \$5,689,774 in its operations. Management has undertaken certain actions in an attempt to improve the Company's liquidity and return the Company to profitability.

During the year ended December 31, 2002, the Company incurred a net loss of \$580,112 and generated \$5,689,774 in its continuing operations. Additionally, on July 24, 2002, the Company entered into a loan modification and extension agreement with a commercial bank for the outstanding balance of \$4 million at December 31, 2001, which was reduced by \$100,000 payment made in April of 2002. Pursuant to the terms of the new agreement, monthly interest only payments are to be made through maturity, \$50,000 was paid in September 2002 and a required \$1,000,000 repayment was made in December 2002. The Company owns 90% of all issued and outstanding shares in CMS and pledged 65% of all issued and outstanding shares in CMS against this outstanding balance and the maturity date of the note has been extended until November 30, 2002. The outstanding balance at December 31, 2002 was \$2,850,066 was to mature on June 30, 2003. The Company has not repaid the bank for amounts due under the line of credit and therefore is in default. On October 20, 2003 the Company entered into a forbearance agreement and release agreement with the bank. Pursuant to the terms of the agreement the bank is willing to forbear from foreclosure on its security interests and otherwise exercising any and all of its rights and remedies in law or equity in order to allow the Company time to cure the default under the note and to pay the obligations of the Company to the bank under the note until December 31, 2003. Additionally, the Company upon reporting its earnings for the nine month period ending September 30, 2003, expects to enter into a new credit facility with an international bank, the proceeds of which would pay off in full the existing obligations with its current bank. While several banks have given the Company indications of interest provided that the Company reports earnings for the first nine months of 2003. No assurances can be given that the Company will

Edgar Filing: BRIDGE TECHNOLOGY INC - Form 10-Q

successfully complete the refinancing plans.

Management believes that the Company does have the economic ability to maintain and grow its operations for the foreseeable future. In addition to its General Bank negotiations for a loan extension to December 31, 2003, the Company is negotiating with James Djen, the Company's President, to convert his \$1,000,000 demand loan into equity in order to improve the Company's working capital position. Mr. Djen converted \$200,000 into equity which was effected in May 2003. In addition, the Company has negotiated an increase in its credit facility with a Hong Kong bank from \$1,500,000 to \$7,000,000. Operationally, management's plans include continuing actions to cut or curb nonessential expenses and focusing on improving sales. No assurances can be given that the Company will be successful in extending or modifying its line of credit or that the Company will be able to maintain profitable operations.

Note 2. Income Taxes

Table of Contents ————— 4 ————— FORM 10-Q

Edgar Filing: BRIDGE TECHNOLOGY INC - Form 10-Q

Adjusted diluted earnings (loss) per share	(0.001)	0.016
--	---------	-------

The Company engaged a third-party appraisal firm to conduct a valuation on the impairment of goodwill in August 2002. Based on the result of valuation report provided by the valuation service firm, no impairment was recognized as of June 30, 2002.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Except for historical information contained herein, the matters set forth in this report are forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Act of 1995. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially. The Company disclaims any obligations to update these forward-looking statements.

Table of Contents 5 FORM 10-Q

Edgar Filing: BRIDGE TECHNOLOGY INC - Form 10-Q

Results of Operations for the Three Months Ended June 30, 2003 as Compared to the Three Months Ended June 30, 2002

Net sales of \$23,012,848 for the three months ended June 30, 2003 decreased by \$2,520,442, representing approximately a 9.87% decrease, over net sales of \$25,533,290 for the same period of 2002. The decrease was due primarily to the decrease of approximately \$948,572 in U.S. operations and approximately \$1,571,870 in Asia operations.

Asia revenue for the three months ended June 30, 2003 were \$18,729,880 compared to \$20,301,750 for the three months ended June 30, 2002, a decrease of \$1,571,870 or 7.74%. The decrease relates primarily to lower sales volume at CMS Technology Limited (CMS).

United States revenues for the three months ended June 30, 2003 were \$4,282,968 compared to \$5,231,540 for the three months ended June 30, 2002, a decrease of \$948,572 or 18.13%. Decreases relate primarily to decreased sales at PTI Enclosures, Inc. (PTI).

Revenues for the Company's distribution businesses were \$22,473,477 for the three months ended June 30, 2003 compared to \$24,575,198 for the three months ended June 30, 2002, a decrease of \$2,101,721 or 8.6%. The decrease relates primarily to decreased sales volume at CMS.

Revenues for the Company's manufacturing businesses were \$539,371 for the three months ended June 30, 2003 compared to \$958,092 for the three months ended June 30, 2002, a decrease of \$418,721 or 43.7%. The decrease relates primarily to decreased sales at PTI.

Gross profit for the three months ended June 30, 2003 was \$1,093,971 decreasing by \$30,022 and representing approximately a 2.67% decrease, compared to \$1,123,993 for the same period of 2002. The reason for this decrease is due mainly to the decrease in sales of PTI and CMS for the quarter ended June 30, 2003. Gross profit as a percentage of net sales inclined from 4.4% for the three months ended June 30, 2002 to 4.8% for the three months ended June 30, 2003. The increase is principally due to the higher margin generated through the sales of Classic Trading, Inc. (CTI).

Asia gross profit as a percentage of sales for the three months ended June 30, 2003 was 4.1% compared to 4.0% for the three months ended June 30, 2002.

United States gross profit as a percentage of sales for the three months ended June 30, 2003 was 7.4% compared to 5.8% for the three months ended June 30, 2002. The increase is primarily attributable to increased gross margins at CTI.

Gross profits for the Company's distribution businesses as a percentage of sales for the three months ended June 30, 2003 was 4.5% compared to 3.9% for the three months ended June 30, 2002.

Gross profits for the Company's manufacturing businesses as a percentage of sales for the three months ended June 30, 2003 was 16.3% compared to 16.4% for the three months ended June 30, 2002.

Selling, general and administrative expenses decreased by \$360,916 to \$1,073,062 in the three months ended June 30, 2003 compared to \$1,433,978 for the three months ended June 30, 2002. As a percentage of revenue, these expenses decreased from 4.7% in the three months ended June 30, 2002 to 4.6% in the three months ended June 30, 2003.

Revenues from operations increased from a loss of \$309,985 for the three months ended June 30, 2002 to revenue of \$20,909 in the three months ended June 30, 2003. The increase primarily reflects the cost savings efforts instituted in 2003. Loss from operations as a percentage of revenue decreased from 1.2% for the three months ended June 30, 2002 to a revenue from operations as a percentage of revenue to 0.1% for the three months ended June 30, 2003.

Net interest expense decreased by \$243,679 from \$263,699 for the three months ended June 30, 2002 to net interest expense of \$20,020 for the three months ended June 30, 2003. The decrease is mainly the result of decreased borrowings from shareholders and commercial bank and lower interest rate during the three months ended June 30, 2003. The decrease also reflected retro-adjustments on interest rate for shareholders' loans.

Other income decreased by \$75,146 from \$215,556 for the three months ended June 30, 2002 to \$140,410 for the three months ended June 30, 2003. The main source for this decrease is due to lower investment gain in 2003.

Net loss decreased by \$440,304 from net loss of \$342,893 for the three months ended June 30, 2002 to net gain of \$97,411 for the three months ended June 30, 2003. These results reflect a loss of \$0.03 per share for the three months ended June 30, 2002 to a gain of \$0.008 per share for the three months ended June 30, 2003.

Results of Operations for the Six Months Ended June 30, 2003 as Compared to the Six Months Ended June 30, 2002

Edgar Filing: BRIDGE TECHNOLOGY INC - Form 10-Q

Net sales of \$42,296,421 for the six months ended June 30, 2003 decreased by \$9,469,467, representing approximately a 18.3% decrease, over net sales of \$51,765,888 for the same period of 2002. The decrease was due primarily to the decrease of approximately \$1,104,848 in U.S. operations and approximately \$8,364,619 in Asia operations.

Asia revenue for the six months ended June 30, 2003 were \$33,472,327 compared to \$41,836,946 for the six months ended June 30, 2002, a decrease of \$8,364,619 or 20%. Decreases relate primarily to decreased sales volume at CMS.

Table of Contents **6** FORM 10-Q

Edgar Filing: BRIDGE TECHNOLOGY INC - Form 10-Q

United States revenues for the six months ended June 30, 2003 were \$8,824,094 compared to \$9,928,942 for the six months ended June 30, 2002, a decrease of \$1,104,848 or 11.1%. Decreases relate to decreased sales at PTI.

Revenues for the Company's distribution businesses were \$41,270,046 for the six months ended June 30, 2003 compared to \$49,758,106 for the six months ended June 30, 2002, a decrease of \$8,488,060 or 17.1%. Decreases relate primarily to decreased sales volume at CMS.

Revenue for the Company's manufacturing businesses were \$1,026,375 for the six months ended June 30, 2003 compared to \$2,007,782 for the six months ended June 30, 2002, a decrease of \$981,407 or 48.9%. The decrease relates to decreased sales at PTI.

Gross profit for the six months ended June 30, 2003 was \$2,103,605 decreasing by \$507,981 and representing approximately a 19.45% decrease, compared to \$2,611,586 for the same period of 2002. The reason for this decrease is due mainly to the decrease in sales of PTI for the six months ended June 30, 2003. Gross profits as a percentage of net sales are 5.0% for the six months ended June 30, 2002 and 2003.

Asia gross profit as a percentage of sales for the six months ended June 30, 2003 was 4.3% compared to 4.2% for the six months ended June 30, 2002.

United States gross profit as a percentage of sales for the six months ended June 30, 2003 was 7.6% compared to 8.4% for the six months ended June 30, 2002.

Gross profits for the Company's distribution businesses as a percentage of sales for the six months ended June 30, 2003 was 4.6% compared to 4.5% for the six months ended June 30, 2002.

Gross profits for the Company's manufacturing businesses as a percentage of sales for the six months ended June 30, 2003 was 21.8% compared to 17.9% for the six months ended June 30, 2002. The increase is attributable to increased gross margins at PTI.

Selling, general and administrative expenses decreased by \$770,108 to \$1,914,842 in the six months ended June 30, 2003 compared to \$2,684,950 for the six months ended June 30, 2002. As a percentage of revenue, these expenses decreased 28.7% in the six months ended June 30, 2003. The decline is due to the cost saving effort implemented by management for the six months ended June 30, 2003. Cost saving efforts included significant layoffs at PTI as well as cutbacks in operating expenses such as travel expense and purchases of supplies.

Revenues from operations increased from \$(73,364) for the six months ended June 30, 2002 to \$188,763 in the six months ended June 30, 2003. The increase primarily reflects the increase in profitability at PTI. Revenues from operations as a percentage of revenue increased from (0.14)% for the six months ended June 30, 2002 to a revenue from operations as a percentage of revenue to 0.44% for the six months ended June 30, 2003.

Net interest expense decreased by \$413,795 from \$457,562 for the six months ended June 30, 2002 to net interest expense of \$43,767 for the six months ended June 30, 2003. The decrease is mainly the result of decreased borrowings from shareholders and commercial bank and lower interest rate during the six months ended June 30, 2003. The decrease also reflected retro-adjustments on interest rate for shareholders' loans.

Other income decreased by \$625,215 from \$643,043 for the six months ended June 30, 2002 to \$149,103 for the six months ended June 30, 2003. The main source for this decrease is due to lower investment gain in 2003.

Net income increased by \$211,871 from net loss of \$18,063 for the six months ended June 30, 2002 to net income of \$193,808 for the six months ended June 30, 2003. These results reflect a loss of \$0.001 per share for the six months ended June 30, 2002 to an income of \$0.016 per share for the six months ended June 30, 2003.

Liquidity and Capital Resources

The Company's capital requirements have been and will continue to be significant and its cash and cash equivalents have been sufficient. At June 30, 2003, the Company had working capital approximately \$5,392,498 and cash of \$841,086 compared to a working capital of approximately \$4,311,000 and cash of \$1,324,000 at December 31, 2002.

Net cash provided by operating activities for the six months ended June 30, 2003 was \$516,638 as compared to \$3,834,802 used in operating activities for the six months ended June 30, 2002. The difference is mainly due to decrease in inventory, trade receivables and accounts payable.

Net cash used in investing activities for the six months ended June 30, 2003 was \$232,910 mainly from transferring shareholder's loan to Company stock, as compared to \$549,692 net cash used in investing activities for the six months ended June 30, 2002 for the investment in China.

Edgar Filing: BRIDGE TECHNOLOGY INC - Form 10-Q

Net cash used in financing activities for the six months ended June 30, 2003 was \$773,263 as compared to \$2,765,395 in the six months ended June 30, 2002. The significant changes are attributable to repayment on line of credit and shareholder loans.

Table of Contents ————— 7 ————— FORM 10-Q

Edgar Filing: BRIDGE TECHNOLOGY INC - Form 10-Q

Management believes that the Company does have the economic where-withal to maintain its operations for the foreseeable future. In July, 2002 the Company entered into a loan modification and extension agreement with a commercial bank for its outstanding balance of \$4 million at December 31, 2001, which was reduced by \$100,000 payment made in 2002. Pursuant to the terms of the new agreement, monthly interest only payments are to be made through maturity, \$50,000 is due by September 15, 2002 and no less than \$1,000,000 is due on November 30, 2002. The Company owns 90% of all issued and outstanding shares in CMS and pledged 65% of all issued and outstanding shares in CMS against this outstanding balance and the maturity date of the note has been extended until November 30, 2002. However, if the Company makes all of the foregoing payments on a timely basis and has not otherwise defaulted on the loan, the maturity date for the remaining unpaid principal balance will be extended until June 30, 2003. In addition, management is negotiating with the Company's major shareholders to convert a portion of the Company's indebtedness to them into equity in order to improve the Company's working capital position. Operationally, management's plans include continuing actions to cut or curb non-essential expenses and focusing on improving the sales of Autec. No assurance can be given that the Company will be successful in extending or modifying its line of credit beyond June 30, 2003 or that the Company will be able to return to profitable operations. Looking for alternatives, the Company is currently seeking a global financing agreement with a major international bank to replace existing credit lines in U.S. and Hong Kong. No assurance can be given that the alternative funding source will be available.

Effects of Inflation

The Company believes that inflation has not had a material effect on its net sales and results of operations.

Effects of Fluctuation in Foreign Exchange Rates

The Company continues to buy products and services from foreign suppliers. The Company contracts for such products and services denominated by U.S. dollars, thus eliminating the possible effect of currency fluctuations.

Newly Issued Accounting Standards

In June 2001, Financial Accounting Standard Board issued Statement of Financial Accounting Standards, No. 143, Accounting for Asset Retirement Obligations, (SFAS No. 143). FAS No. 143 is effective for fiscal years beginning after June 15, 2002. SFAS No. 143 requires that any legal obligation related to the retirement of long-lived assets be quantified and recorded as a liability with the associated asset retirement cost capitalized on the balance sheet in the period it is incurred when a reasonable estimate of the fair value of the liability can be made. Management of the Company expects that the adoption of SFAS No. 143 will be adopted on their effective dates and that the adoption will not result in any material effects on its financial statements.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This statement eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent, in accordance with the current GAAP criteria for extraordinary classification.

In addition, SFAS 145 eliminates an inconsistency in lease accounting by requiring that modifications of capital leases that result in reclassification as operating leases be accounted for consistent with sale-leaseback accounting rules. The statement also contains other nonsubstantive corrections to authoritative accounting literature. The changes related to debt extinguishment will be effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting will be effective for transactions occurring after May 15, 2002. Adoption of this standard will not have any immediate effect on the Company's consolidated financial statements. The Company will apply this guidance prospectively. In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force (EITF) Issue No. 94-3. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of a company's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146 may affect the timing of recognizing future restructuring costs as well as the amount recognized. The provisions of SFAS 146 are to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Management believes that the adoption of this standard will not have any immediate effect on the Company's consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Bridge Technology, Inc. develops and procures products in the United States, Japan and Hong Kong, and the Company sells primarily in North America, Asia and Europe. As a result, financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. Since our Company's products are generally initially priced in U.S. Dollars and translated to local currency amounts, a strengthening of the dollar could make our Company's products less competitive in foreign markets.

ITEM 4. CONTROLS AND PROCEDURES

Edgar Filing: BRIDGE TECHNOLOGY INC - Form 10-Q

1. Evaluation of disclosure controls and procedures

In light of The Sarbanes-Oxley Act of 2002 and current developments in the financial world, the Board of Directors and specifically the Audit Committee has caused the updating of the Company's accounting disclosure controls and procedures under Rules 13(a)-15 and 15(d)-15 under the Securities Exchange Act of 1934. James Djen, CEO and John T. Gauthier, CFO have evaluated these disclosure controls and procedures and conclude that they are adequate and effective as of September 30, 2003, the date of their evaluation.

2. The Company has made no significant changes in internal controls other than updating its quarterly monitoring review.

Limitations on the Effectiveness of Controls

The Company's management, including the Chief Executive Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a party to legal actions that have arisen in the normal course of business. These actions include the following:

On October 1, 2001, a complaint was filed by the Trustee in the U.S. Bankruptcy Court against John Harwer, former President of the Company and the Company for alleged transfer of assets, technology, trade secrets, confidential information and business opportunities from Allied Web, a corporation owned by John Harwer which he had placed into liquidation under the Federal Bankruptcy laws on April 6, 2000. The case has entered the trial phase with the initial hearing centering on \$1,800,000 in claims between the parties which did not involve Bridge Technology, Inc. The trial judge has ordered the case back to mediation in connection with these claims on November 17, 2003. Management at December 31, 2002 and September 22, 2003 was unable to assess the possibility of incurring future liability for this matter and therefore did not record any accrued liability. Management continues to take the position that no liability will accrue to the Company and no contingency has been provided. The company has incurred in excess of \$300,000 to date in legal fees to defend itself. The Company plans to sue the Directors and Officers insurance carrier for reimbursement. There is no assurance that any claim for legal fees reimbursement will be successful.

On May 19, 2003, a complaint was filed in Superior Court in Santa Ana, California, against the Company with its CFO and its former President, John Harwer in connection with the private sale of Bridge Technology, Inc. common stock. Mr. Harwer had facilitated the private sale of Bridge Technology, Inc. stock for an investor. The purchasers are attempting erroneously to involve Bridge in this private transaction which will fail. In addition the same investors purchased shares of a private corporation, Esyon Corporation, from either John Harwer or Esyon Corporate, and are attempting erroneously to involve Bridge Technology, Inc. in this private transaction which will also fail. The action is presently in the demurrer and early discovery stages. Management has not set aside any contingency reserve, as Bridge Technology, Inc., is expected to be removed from this action.

On November 14, 2001, a complaint was filed by Oppenheimer Wolff & Donnelly, LLP against the Company for \$100,000 in alleged legal fees which was settled in the 1st quarter of 2003 for \$40,000 payable in ten equal installments. The Company has complied with the terms of the settlement agreement by making the monthly payments in a timely manner.

On April 16, 2002, Danton Mak, Esq., filed a complaint in the Los Angeles superior Court against Autec Power Systems, Inc. (Autec) for \$136,000 in fees allegedly owed by Autec. This matter was settled in July 2002 for \$108,000 payable in four (4) equal installments of \$27,000. The Company has complied with the terms of settlement agreement with the final payment having been made in September 2002.

On April 24, 2002, Mason Tarkeshian filed a complaint against the Company for approximately \$2,000,000 in fees and damages on an acquisition that never closed. The Company settled this matter in 2002 by issuance of a common stock purchase warrant for 30,000 shares of the Company common stock at a strike price of \$0.55 per share.

On December 12, 2001, a former shareholder of Autec Power Systems, Inc., filed a complaint in Ventura County Superior Court against the principal shareholder and former Chairman of the Company, Winston Gu. Autec and the Company alleging that the complainant did not receive his pro-rata shares of Bridge Technology, Inc. s common stock in the exchange of 100% of the shares of Autec. The Company believes the complaint is without merit as to Bridge Technology, Inc. and did not record any accrued liability for this matter at December 31, 2002. The case was arbitrated in November 2003 and the decision is pending.

The Company is engaged in various ongoing legal proceedings incidental to its normal business activities. The Company is unable, however, to predict the outcome of these matters, or reasonably estimate a range if possible losses given the current status of litigation.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There are no defaults upon senior securities.

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

There are no matters submitted to a vote of security holders.

ITEM 5. OTHER INFORMATION

None.

Table of Contents ————— 10 ————— FORM 10-Q

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibit Number	Description
EX-31.A	Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
EX-31.B	Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
EX-32	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Bridge Technology, Inc.
(Registrant)

Date: December 18, 2003

/s/ John T. Gauthier

John T. Gauthier
Chief Financial Officer

Date: December 18, 2003

/s/ James Djen

James Djen
Chief Executive Officer