

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

DYNATEC INTERNATIONAL INC  
Form 10KSB/A  
June 08, 2001

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

FORM 10-KSB/A

AMENDMENT No. 1

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

For the fiscal year ended: December 31, 2000 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 Number: 0-12806

DYNATEC INTERNATIONAL, INC.

-----  
(Exact name of registrant specified in its charter)

UTAH

87-0367267

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS employer identification no.)

3820 Great Lakes Drive  
Salt Lake City, Utah

84120

-----  
(Address of principal executive offices)

-----  
(Zip Code)

(801) 973-9500

-----  
(Registrant's telephone number, including area code)

-----  
Securities registered pursuant to Section 12(b) of the Act:  
None

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock (Par Value \$0.01 per share)

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

Check if disclosure of delinquent filers in response to Item 405 of  
Regulation S-B is not contained in this form, and no disclosures will 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-KSB  
or any amendment to this Form 10-KSB.[X]

Registrant's revenues for the year ended December 31, 2000 were

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

\$8,693,639

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing price of the Common Stock on March 13, 2001 was \$1,320,395.

The Company had 5,745,640 shares of common stock outstanding at March 13, 2001.

Transitional small business disclosure format. Yes X No

Page 1

TABLE OF CONTENTS

INTRODUCTION

This Amendment No. 1 to the Annual Report on form 10-KSB for the period ended December 31, 2000, of Dynatec International, Inc. (the "Company") is submitted to amend the company's disclosure regarding Staff Accounting Bulletin 101 Revenue Recognition in Financial Statements found in the following items:

Part II-

- Item 6. Management's Discussion and Analysis or Plan of Operation
- Item 7. Financial Statements

PART I.

- Item 1. Description of Business.....
- Item 2. Description of Property.....
- Item 3. Legal Proceedings.....
- Item 4. Submission of Matters to a Vote of Security Holders.....

PART II.

- Item 5. Market for Common Equity and Related Stockholder Matters.....
- Item 6. Management's Discussion and Analysis or Plan of Operation.....
- Item 7. Financial Statements.....
- Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure...

PART III.

- Item 9. Directors and Executive Officers; Compliance With Section 16(a) of the Exchange Act....
- Item 10. Executive Compensation.....
- Item 11. Security Ownership of Certain Beneficial Owners and Management.....

Item 12. Certain Relationships and Related Transactions.....

Item 13. Exhibits and Reports on Form 8-K.....

Page 2

PART I

Item 1. Description of Business

General

Dynatec International, Inc., a Utah corporation ("Dynatec" or the "Company"), is a Salt Lake City, Utah based manufacturer and distributor of consumer products. The Company has four wholly owned subsidiaries: Softalk, Inc., Arngo Marketing, Inc., Nordic Technologies, Inc. and Softalk Communications, Inc. During the year ended December 31, 2000 the Company conducted most of its operations through its subsidiaries.

The Company is engaged primarily in the manufacture and distribution of various consumer products in two major product lines: telecommunication headsets and amplifiers and other telephone accessories and premium flashlights. For information about the Company's industry segments and operations in different geographical areas, see Note 13 to the Company's consolidated financial statements, entitled "Business Segment Information."

On November 22, 2000, the Company completed the sale of substantially all of the assets it has used in the operation of its unincorporated Neat Things!(TM) home organization and storage division to Expandable Home Organizers, Inc., a California corporation ("EHOI"). Assets of the Neat Things! Division sold to EHOI include intellectual property rights either owned by or licensed to the Company, inventory, fixed assets, and other tangible and intangible assets such as contract rights with suppliers, customers and sales representatives.

Seasonality

The Company's business is seasonal. The Company typically experiences its highest sales volume in the fourth quarter of each year as a result of the retail environment in which most of its customers conduct business. Because the Company sells its products primarily to major retailers, the Company's sales performance is significantly dependent on the performance of those retailers. Accordingly, the fourth quarter is a key factor in the Company's overall financial performance for the year.

Telecommunication Headsets and Amplifiers and Telephone Accessories

Historically, the telephone accessories product line (including the manufacture and sale of various products through the Softalk, Inc. subsidiary) has been the principal source of revenues for the Company. The Company's lead product in this line has been a group of soft plastic shoulder rests that are attached to a telephone handset by use of a proprietary adhesive strip manufactured for the Company by 3M. These products are designed to ease neck strain suffered by people who, needing both hands free while they talk on the telephone, hold the handset between their ear and shoulder by bending their neck toward their shoulder. These telephone shoulder rest products are currently

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

manufactured and distributed by the Company under the trade names Softalk™, Mini-Softalk™, Softalk IIR, and Universal Phone RestR, and are available in a variety of colors, sizes and styles. The Company owns or has licensed the patent rights used in the manufacture of the telephone shoulder rest product line, and manufactures these products at its Salt Lake City, Utah headquarters.

The Company's telephone accessory product line also includes the "Twisstop" and "Cord Manager(R)" products. The Twisstop product is a plastic connector that plugs into a telephone handset and allows the telephone cord to twist around the axis of the connector so the telephone cord does not become tangled. The Company licenses the patents used in the manufacture of the Twisstop product from a third party. The Cord Manager product is a disk-shaped device approximately two inches in diameter that plugs into a telephone handset. Coiled inside the Cord Manager is a telephone cord of approximately 25 feet in length. The product is designed to allow the telephone user to have the benefit of a relatively long telephone cord, but avoid the hassles associated with a normal cord of such length.

Page 3

The Company's line of telephone and computer headset amplifiers and headset telephones are designed to supplement or replace traditional telephone handsets allowing increased flexibility for the user, particularly users who can benefit from having their hands free while they use the telephone. The Company, through its Softalk Communications, Inc. subsidiary currently distributes such products under the trade names Tele-Link™, Computer-Link™, Power-Link™, and Power Phone™.

For the year ended December 31, 2000, revenues from the telecommunication headsets and amplifiers and telephone accessories product line accounted for 70% of the Company's total revenues. Major customers for this product line include United Stationers, SP Richards, Boise Cascade, Staples, Corporate Express, and Advanced American Telephone. In addition, the Company sells these products through several catalogs of major office products providers.

### Flashlights

Through its Nordic Technologies, Inc. subsidiary, the Company manufactures and markets a broad range of specialty and premium flashlight products and accessories under the trademark "Nordic Lites." These products include water and impact resistant aluminum flashlights that operate on "AA", "C" and "D" batteries, specialty flashlights that have such features as focusable beams and flexible handles, and ordinary plastic flashlights. The Company also offers flashlight packages containing multiple flashlights and related accessories bundled together in a convenient storage and display container. The Company's flashlight product line, including such package units, is presently marketed to major retailers and warehouse shopping customers. Major customers for the flashlight products in the year ended December 31, 2000 included Aladdin Industries, Radio Shack, Giga, Inc., Tractor Supply and Home Depot.

The Company entered the flashlight business in December 1996, when it's Nordic Technologies, Inc. subsidiary acquired substantially all of the assets of Nordic Lights, Inc., a Texas corporation. In July 1997, the Company sold the manufacturing assets it acquired from Nordic Lights, and moved the manufacturing of the Company's core line of aluminum flashlights entirely to the offshore facilities of an unaffiliated party. In the latter part of 2000, the Company moved the manufacturing to a different unaffiliated offshore party that will be providing the Company's flashlights in 2001. The Company believes that it has been able to take advantage of more economical and efficient manufacturing

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

relationships with Asian sources. Although the Company does some packaging of its flashlight products, it intends to continue to outsource the manufacturing of its flashlight products to Asian suppliers. Sales of flashlight products for the year ended December 31, 2000 were \$1,818,708 or 20.9% of the Company's total revenues.

### Hardware/Houseware

The Company's hardware/houseware product line includes the following products:

"Sofstop (TM) "	"The Wedge (TM) "
"Cover-Up"	"Super Wedge"
"Hide It"	"Spring Wedge"

The products in this line are typically custom manufactured for Dynatec by offshore, nonaffiliated manufacturers using proprietary third party designs that the Company licenses.

For the year ended December 31, 2000, this product line accounted for 9.1% of the Company's total revenues, compared to 7.7% of Company revenues for the year ended December 31, 1999. These products generally are distributed directly to retail stores and distributors including Walmart, National Manufacturing and others.

Page 4

### Subsidiaries of the Company

During the year ended December 31, 2000, the Company conducted most of its operations through its subsidiaries. The name of each of the Company's subsidiaries, the date of organization and the date of acquisition by the Company is set forth in the following table. Dynatec owns 100% of the voting and other equity securities of each of its subsidiaries.

Subsidiary	Date Organized	Date Acquired By Company
Softalk, Inc. (1)	7/15/82	4/18/83
Arnco Marketing, Inc. (2)	7/22/86	9/30/91
Nordic Technologies, Inc. (3)	10/25/96	10/25/96
Softalk Communications, Inc. (4)	12/23/96	12/23/96

- (1) Engaged in the manufacturing, sourcing and distribution of the telephone accessory, and doorstop products of the Company.
- (2) Arnco Marketing imports and markets Twisstop to Softalk and others under a license agreement with Recoton Inc.
- (3) Involved in the research, development and marketing of flashlight products.
- (4) Engaged in the research, development and marketing of telecommunications products.

### Raw Material and Supplies

The Company uses a premixed plastisol to manufacture the Softalk, Mini Softalk, Universal Phone Rest, Sofstop, and Softalk II products. "Plastisol" is a generic term for the petroleum based raw material from which the vinyl substance forming the Softalk products is manufactured.

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Other than the Softalk products, the Company's products are purchased in finished form and packaged according to Dynatec's specifications by the supplier. In some cases, Dynatec purchases finished product and packages the product for distribution at its Salt Lake City headquarters. The Company, to date, has relied upon approximately fifteen primary suppliers for plastic and other materials ordered to specification for its assembly, manufacturing, and marketing processes. The Company has not experienced any shortage of plastic products or of Plastisol in the past year, and does not anticipate any shortage in the future. With respect to finished products the Company purchases from domestic or foreign manufacturers, The Company intends to continue to source its telecommunication headsets and amplifier products from its Asian supplier through 2001. The Company replaced its supplier of flashlights in 2000 with another offshore supplier. The Company believes that it could replace that supplier with a domestic source or another offshore supplier if necessary.

The Company anticipates usual, inflationary increases in the price of plastic products, the raw materials used to manufacture its flashlights, freight, and packaging in 2001. In 2000, costs associated with freight increased significantly, primarily as a result of increased fuel costs, and the Company's increased use of air freight. The Company anticipates that these usual, inflationary increases will not materially impact the results of operations for the year 2001, although there can be no assurance that the Company will not encounter raw material or other manufacturing delays, price increases or shortages, or material increases in shipping costs associated with rising fuel prices, any of which could adversely affect the Company's financial condition and operations.

Trademarks and Patents

The Company currently owns or licenses the following U.S. and foreign trademarks.

-----

Trademarks

Product	Country	Trademark Granted/Filed
Softalk	U.S.A.	07/20/99
	Canada	04/20/99
Sofstop	U.S.A.	08/04/92

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

The Wedge	U.S.A.	10/20/92
Wall Saver	U.S.A.	07/15/97
Phoneworks & Design	U.S.A.	05/10/96
Audio Works & Design	U.S.A.	05/10/96
Video Works & Design	U.S.A.	05/10/96
Wallsaver & Design	U.S.A.	05/10/96
Tele Link	U.S.A.	07/20/99
Computer Link	U.S.A.	04/10/97
Power Link	U.S.A.	11/23/99
Pace Setter	U.S.A.	04/10/97
Power Phone	U.S.A.	04/10/97
Smart Sound	U.S.A.	10/05/99
Softalk Design (Shape)	U.S.A.	04/09/96
Mini Softalk Design (Shape)	U.S.A.	11/16/95
Cord Manager	U.S.A.	09/16/97
	Canada	10/27/97
	European Community	08/31/98
	Japan	08/07/98
NordicLite	U.S.A.	04/03/96
Nordic Helmet Design	U.S.A.	07/15/97
Smoke Cutter	U.S.A.	12/23/97
Nite-Site-Lite	U.S.A.	04/25/97
Zoom Switch	U.S.A.	09/21/99
Color Splash	U.S.A.	04/17/98

Page 6

The Company owns or licenses the following U.S. and foreign patents.

Patents

-----

Product	Country	Patent Granted/Filed
-----	-----	-----
Universal Softalk	U.S.A.	09/06/94
Softalk II	U.S.A.	02/11/92
Door Protector	U.S.A.	02/18/97
Interchangeable Doorstop	U.S.A.	02/18/97
Zoom Light	U.S.A.	10/27/98
Slide Focus Flashlight	U.S.A.	02/02/99
Switch w/Spare Bulb Carrier	U.S.A.	11/14/89
Flashlight w/Switch Assembly	U.S.A.	06/27/89
Flashlight w/Nite-Site-Lite	U.S.A.	05/07/91
Cord Manager	U.S.A.	02/17/98
	Canada	05/02/00
Spring Wedge	U.S.A.	12/11/90
Mini Softalk	U.S.A.	02/11/92
Combination Flashlight & Area Lights	U.S.A.	01/29/99

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Magnetic Door Stop & Holder  
Cover Up

U.S.A.  
U.S.A.

05/16/93  
03/03/87

Inventory Supply and Backlog Orders

The Company has followed a standard policy of shipping within 24 hours of receipt of payment on orders, or within 48 hours of orders on approved credit lines with the exception of large orders for flashlight products, which typically have lead times before shipment of between 45 and 90 days. In 2000, the Company experienced some shipping delays and had backorders as a result of limited cash flow to pay foreign vendors in advance of shipments.

Major Customers

Telecommunication Headsets and Amplifiers and Telephone Accessories  
-----

For the year ended December 31, 2000, 25.3% of telephone headset and accessories products were distributed through United Stationers, whose headquarters are at 2200 E. Golf Road, Des Plaines, IL 60016. Another 14.3% of sales in this product line were to Boise Cascade, whose headquarters are at 800 West Bryn Mawr Road, Itasca, IL 60143. S.P. Richards, whose headquarters are at P.O. Box 1266, Smyrna, GA 30082 accounted for another 13.8% of sales in this product line.

Flashlights  
-----

For the year ended December 31, 2000, 21.7% of the flashlight products were distributed through Aladdin Industries, LLC, whose headquarters are at 703 Murfreesboro Road, Nashville, TN 37224. No other customer accounted for more than 10% of the sales in the flashlight product line. In the fourth quarter of

2000, Aladdin Industries notified the Company that it would terminate its distribution agreement with the Company due to price increases in the Company's flashlight product line.

Hardware/Housewares  
-----

During the year ended December 31, 2000, 57.8% of the houseware/hardware products were distributed through National Manufacturing, whose headquarters are at 1 First Avenue, Sterling, IL 61081. No other customer accounted for more than 10% of the sales in this product line.

Competitive Conditions in the Market

The Company believes that it is engaged in highly competitive market segments for each of its product lines. The generic design or function of the telephone accessory products such as Softalk could probably be functionally replicated without great difficulty. Although the Company owns or licenses patents covering certain aspects of its Twisstop and Cord Manager products, competing products having similar functionality are readily available.

The telephonic headset market is also very competitive, with large manufacturing companies offering a broad range of products. However, the Company



## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

believes that its proprietary rights for its headsets and amplifiers, as well as the innovative features of those products, will enable the Company to compete in each of these markets.

The premium aluminum flashlight business in which the Company's core "AA", "C" and "D" flashlights compete is extremely competitive and is characterized by significant market penetration by a few number of larger companies that have significant market share. The Company nevertheless believes its patent portfolio will enable it to compete with these other companies.

In all of the markets in which it operates the Company faces competition from a number of sources, many, if not most of which, have substantially more financial and other resources than the Company.

### Environmental Regulation

The Company believes that it is in compliance with all environmental quality regulations pertaining to such matters as emission, waste disposal, safety equipment, and like procedures. The Company believes it is in compliance with all state and local environmental statutes. The Company also believes that it is in compliance with all Occupational, Safety, and Health Administration standards in its work place.

### Employees

The Company employs a full-time executive, sales, administrative and clerical staff of 19 people. The Company also has an average monthly assembly, warehouse and distribution staff of approximately 31 people. The number of assembly, warehouse and distribution employees is subject to adjustment based upon production demand, and ranged from a high of approximately 40 employees to a low of approximately 31 employees during the year ended December 31, 2000. During 2000, in an effort to restructure, to cut costs, and to improve financial performance the Company's work force was reduced by approximately 25%.

Page 8

### Risk Factors

The following information about many of the more significant risks the Company faces should be considered in connection with the other information contained in this report.

#### Recent Net Losses

The Company had significant net operating losses in all of fiscal years 1996, 1997, 1998, 1999 and 2000. The Company's reported net losses for the years ended December 31, 2000 and 1999 were \$3,158,931 and \$3,477,545, respectively. As a result, the Company had accumulated deficits of \$11,000,757 and \$7,103,300 at December 31, 2000 and 1999, respectively. During the year ended December 31, 2000, the Company's management adopted a number of restructuring efforts designed to improve the Company's financial condition, including staff reductions and other decreases in administrative expenses. Nevertheless, during 2000, the Company's borrowing availability on its revolving line of credit was decreased from \$1,948,828 at December 31, 1999 to \$440,000 at December 31, 2000. This decreased borrowing availability diminished the Company's ability to fill all of its customer orders and to aggressively market its products, resulting in significant net losses during 2000. There can be no assurance that the Company will be able to overcome its current cash flow challenges, achieve growth, that significant net losses will not be incurred in future operating periods, or that

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

the Company will become profitable in the foreseeable future, if at all.

### Need for Additional Funding

The Company has operated with negative cash flow for several fiscal years and has substantial accumulated operating deficits. To finance its operations, the Company will require additional financing. In February 2000, the Company completed a private placement of restricted common stock that yielded proceeds of \$1,600,000, \$1,500,000 of which was used to retire certain convertible debentures issued by the Company, and \$100,000 of which was used for general working capital. Also, in May 2000 the Company completed an additional private placement of restricted common stock that yielded proceeds of \$775,000 which money was used for general working capital. On November 22, 2000, the Company completed the sale of substantially all of the assets associated with its Neat Things!(TM) home organization and storage product line which yielded the Company \$847,553, of which \$430,000 was used to pay down the Company's line of credit and the remainder was used for general working capital - See "Management's Discussion and Analysis - Liquidity and Capital Resources." Notwithstanding these transactions, by December 31, 2000, the Company was experiencing significant cash flow challenges which caused the Company, during the first quarter of 2001, to seek debt financing from alternative sources, including related parties. The Company anticipates that such alternate sources of financing will not be available over the long term, and the Company will be required to seek a replacement source of commercial credit, as well as future offers and sales of its equity or debt securities to private investors. Securities issued in future private offerings of equity or convertible debt securities could substantially dilute the holdings of other shareholders. There can be no assurance that the Company will be successful in obtaining alternate or replacement commercial credit, in completing private sales of its securities, or that any of such financing will be available to the Company on terms and at rates that are favorable to the Company. Absent such funding, however, the Company's ability to continue its operations may be adversely affected, and it may have to seek protection under bankruptcy laws.

### Limited Market and Volatility of Stock Price

The trading price of the Company's common stock has been and is likely to continue to be subject to wide fluctuations in response, among other things, to variations in the Company's operating results, material announcements by the Company or its competitors, governmental regulatory actions, conditions in the Company's industry, or other events or factors, many of which are beyond the Company's control. In addition, the stock market has historically experienced extreme price and volume fluctuations which have particularly affected the market prices of many public companies and which often have been unrelated to the operating performance of such companies. Moreover, the Company has a limited public market, and sales of a relatively small number of shares of common stock may adversely affect the prevailing market price of shares currently issued and

Page 9

outstanding and make the Company's common stock even more prone to volatility than the securities of other businesses in similar industries. Given the relatively small amount of trading in the Company's securities, there can be no assurance that the prevailing market price of common stock will not be artificially inflated or deflated by trading even of relatively small amounts of common stock. See "Price Range of Common Stock."

### Nasdaq SmallCap Market Delisting

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Until the fourth quarter of 2000, the Company's common stock traded on the Nasdaq SmallCap Market. However, on December 1, 2000, the Nasdaq Stock Market delisted the Company's common stock for failure to maintain the required \$1.00 per share closing bid price. The Company's common stock is currently trading on the OTC Bulletin Board. The long-term result of the Nasdaq delisting could be a reduction in the liquidity of any investment in the Company's common stock, even if the common stock continues to trade on the OTC Bulletin Board. Further, the delisting could reduce the ability of holders of the Company's common stock to purchase or sell shares as quickly and as inexpensively as they have done historically and adversely affect the Company's ability to attract additional equity financing.

### Possible Adverse Effect of Pending Litigation and Administrative Proceedings

The Company is engaged in litigation outside the ordinary course of its business, the effect of which on its business condition or results of operations could be materially adverse. Such litigation is described elsewhere in this Report under the heading "Legal Proceedings." There can be no assurance that such litigation and legal proceedings, either individually or in the aggregate could have a material adverse effect on the operations and financial condition of the Company.

### Foreign Operations Risks

The Company outsources most of its manufacturing to manufacturers located outside the United States. There are numerous risks associated with conducting business in foreign countries, including the distance from corporate headquarters, problems associated with possible political risks, instability of local governments, safety of personnel and equipment, the lack of spare parts or adequate service assistance, the need for skilled labor and supervision, lack of infrastructure and accessibility to sources of power and other supplies necessary for operations, tariff restrictions, currency control regulations, competing or conflicting manufacturing and production standards, governmental approval, licensing and permit requirements and procedures, high inflation and currency fluctuations which may erode profitability levels, and the difficulty of obtaining and enforcing judgments in foreign courts and under foreign legal systems that differ substantially from the United States all add to the risk of foreign operations. Difficulties arising out of any of these risks could adversely affect the Company's financial condition and operations.

### Competition

The Company's current products are divided into three primary product lines: telecommunications amplifiers, headsets and other telephone accessories, flashlights and hardware/houseware products. Although certain of the Company's products in these product lines are subject to patent or other intellectual property protections, barriers to entry for competing manufacturers and distributors are relatively low for the majority of the Company's products. See "Description of Business - Competition" Accordingly, there can be no assurance that competitors of the Company, many of which are likely to have substantially greater financial resources, experience and marketing ability will not be able to successfully compete with the Company, which successful competition could adversely affect the Company's operations and financial condition.

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

### No Dividends

The Company has never declared or paid any cash dividends on its shares and does not anticipate paying cash dividends in the foreseeable future.

### Effect of Certain Anti-Takeover Provisions of Utah Law

Utah, the state in which the Company was organized, has adopted a "Control Shares Acquisition Act" (the "Control Shares Act"). This act provides that any person or entity that acquires 20% or more of the outstanding voting shares of a publicly held Utah corporation is denied voting rights with respect to the acquired shares, unless a majority of the disinterested stockholders of the corporation elects to restore such voting rights. The provisions of the Control Shares Act may discourage companies or persons interested in acquiring a significant interest in or control of the Company, regardless of whether such acquisition may be in the interest of the Company's stockholders. See "Description of Securities."

Page 11

### Item 2. Description of Property

The Company occupies the building located at 3820 Great Lakes Drive, Salt Lake City, Utah 84120, at which its corporate headquarters, manufacturing and warehouse operations are housed. This facility was built in 1996 on property purchased by the Company for that purpose. The Company's facility has approximately 54,000 square feet, of which approximately 6,000 square feet (11%) is used for office and administrative purposes and 48,000 square feet (89%) is used for manufacturing, assembly and warehouse area.

The Company owned the building until November 4, 1999, when the Company closed a sale and leaseback transaction for the building. The buyer was an unaffiliated third party and the parties negotiated the sale and leaseback as an arms-length transaction. The total purchase price for the building was \$2,865,000. The proceeds to the Company, after payment of the existing mortgage, closing costs, and brokerage fees associated with the sale, were approximately \$831,000, which the Company used for general corporate purposes as operating capital. The lease is a triple net lease with a term of 20 years. The initial base rent is \$330,000 per year. In connection with the sale and leaseback transaction, and as additional consideration, the Company issued 33,948 shares of restricted common stock to the buyer.

The Company believes that, in light of the sale of its Neat Things! division in the fourth quarter of 2000, and certain reductions in force and other cost-cutting efforts during 2000, the building and property are more than adequate for its projected needs. Consequently, the Company is working with the owner of the building to identify an acceptable replacement or sub-tenant. If such a replacement or sub-tenant is located, the Company would relocate its corporate headquarters and manufacturing facility to a more suitably sized building.

Page 12

### Item 3. Legal Proceedings

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

On February 8, 2001, the Company waived service of summons with respect to a complaint filed in the U.S. District court in the District of Utah by K&S Flashlight, Inc. ("K&S"), a Taiwan company that was the Company's flashlight supplier from 1998 through 2000. The lawsuit names as defendants both Dynatec and its subsidiary, Nordic Technologies, Inc. The lawsuit alleges that the Company owes K&S in excess of \$100,000 for the Company's alleged failure to pay amounts due to K&S for flashlight products shipped during 2000, and seeks damages in an unspecified amount. The Company intends to answer and otherwise defend the lawsuit.

On August 4, 2000, the Company filed suit (the "Utah WAC Action") against WAC Research, Inc., a Utah corporation ("WAC"), in Utah state court in Salt Lake City, Utah. WAC is a corporation at least fifty percent of which is owned by Donald M. Wood ("Wood"), the Company's former Chairman and Chief Executive Officer. The dispute with WAC arose out of a series of royalty agreements between the Company and WAC dated in 1990 and 1998 that purported to obligate the Company to pay perpetual royalties to WAC on sales of products in the Company's telephone accessories product line. In return for this perpetual royalty (which the Company paid for approximately 10 years) WAC purported to assign and grant to the Company the intellectual property rights underlying certain of the Company's Softalk products. At the times the WAC agreements were negotiated, Wood controlled both WAC and the Company. The Company amended its complaint in the Utah WAC Action on August 29, 2000 and on October 19, 2000. After the Company was unable to negotiate a settlement of its disputes with WAC, and after WAC filed its own complaint in state court in Phoenix, Arizona (the "Arizona WAC Action") on October 6, 2000, the Company served process in the Utah WAC Action. The Company's complaint in the Utah WAC Action, as amended to date, seeks the court's declaration that no further royalties are owed by the Company to WAC because, among other reasons, (i) WAC never had any interest in or to any of the intellectual property rights underlying the Company's Softalk products, (ii) WAC breached its representations and warranties of ownership as to such intellectual property rights as set forth in the WAC agreements, (iii) patents covering certain of the key products in the Company's Softalk product line have expired, and such products are not otherwise covered by enforceable copyrights or other intellectual property rights, (iv) the Company owns all trademark rights with respect to its Softalk products, (v) WAC has no right to continue forcing the Company to pay royalties under expired patents, (vi) WAC's ongoing attempts to enforce the WAC royalty agreements constitute patent misuse, and (vii) as a consequence of WAC's patent misuse, WAC is liable to the Company for royalties paid under a 1998 agreement between WAC and the Company. The complaint in the Utah WAC Action also includes claims for damages stemming from WAC's alleged patent misuse, failure of consideration, unjust enrichment and additional declaratory relief. WAC's complaint in the Arizona WAC Action alleges that WAC made unspecified loans to the Company that were never repaid, and that the Company is in breach of its royalty payment obligations under the WAC royalty agreements. In the Arizona WAC Action, WAC sought declaratory judgment that the Company is required prospectively to pay royalties under the WAC agreements and for money damages in the amount of \$308,841. The Company moved to dismiss the Arizona WAC Action for lack of jurisdiction or, in the alternative to stay the Arizona WAC Action pending a resolution of the Utah WAC Action. On February 26, 2001, the court in the Arizona WAC Action granted the Company's motion to dismiss that action. On March 27, 2001, WAC filed a counterclaim against the Company in the Utah WAC Action. This counterclaim asserts claims that are identical to those that were asserted by WAC in the Arizona WAC Action before it was dismissed. The Utah WAC Action is still pending, and the Company intends to vigorously prosecute it.

In February 1999, Mag Instrument, Inc., a manufacturer and distributor of flashlights and one of the Company's competitors ("Mag"), filed a lawsuit against the Company's subsidiary, Nordic Technologies, Inc. ("Nordic"), of infringing certain of Mag's patents and committing false advertising and unfair competition. The lawsuit was filed in the U.S. District Court for the Central

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

District of California. The Company and Mag attempted to settle that lawsuit, and entered into an agreement whereby the lawsuit was dismissed without prejudice, with Mag having the express right to refile the complaint in the same court and venue. No settlement was ever reached. On October 30, 2000, Mag filed a new complaint in the same federal district court that it subsequently served on the Company. The new Mag complaint alleges that Nordic has infringed two patents and related trademarks owned by Mag, and also has engaged in unfair competition arising out of Nordic's alleged use of a flashlight design that is confusingly similar to the shape, style and overall appearance of Mag's miniature "AA" light, all in violation of various provisions of federal and

Page 13

California state law. Mag seeks unspecified money damages, punitive damages and injunctive relief. The Company does not believe that any of Nordic's flashlight products have infringed any patents or trademarks of Mag, and intends to vigorously defend the suit.

On May 4, 2000, Grandur, Inc., a Taiwan corporation ("Grandur"), sued the Company in the United States District Court for the District of New Jersey. The summons and complaint were served on the Company in Salt Lake City, Utah on May 12, 2000. The complaint alleges that the Company has breached a manufacturing agreement between the Company and Grandur pursuant to which the Company is alleged to have a minimum annual purchase requirement and an exclusive manufacturing arrangement with Grandur for the Company's Twisstop product. The complaint further alleges that Grandur is entitled to recover, in addition to such damages as may be proved at trial, liquidated damages per the terms of the contract in the amount of \$500,000. Grandur and the Company have entered into an oral agreement to settle this litigation and are making efforts to memorialize their agreement. On February 6, 2001, Grandur and the Company reported the terms as their settlement to the court. On February 7, 2001, the court entered an order conditionally dismissing the lawsuit subject to being reopened if the settlement is not consummated. In the event the settlement is not consummated, the Company intends to vigorously defend the lawsuit.

In February 2000, Merrill Lynch & Co., Inc. ("Merrill Lynch") notified the Company that American Stock Transfer & Trust Co., New York, New York, the Company's stock transfer agent ("AST"), had confiscated three separate certificates purporting to represent a total of 208,000 shares of restricted common stock issued in the name of an entity affiliated with Donald M. Wood, the Company's former Chairman and Chief Executive Officer. AST confiscated such certificates because they were not then shown as valid certificates representing the Company's issued and outstanding common stock. Based on further investigation by AST, the Company believes that its former stock transfer agent had transferred the shares represented by such certificates to third parties, but had not received the original certificates representing such shares at the time of those transfers. Nor did the former transfer agent obtain documentation indicating that such certificates had been lost, stolen or destroyed. In January 2000, several years after the shares represented by such certificates purportedly had been transferred, the original certificates were tendered to Merrill Lynch with instruction to sell the shares represented by such certificates. Merrill Lynch then sold such shares and tendered the certificates to AST for transfer, at which time AST confiscated the certificates. On March 28, 2000, the Company received a letter from counsel for Merrill Lynch. In that letter, Merrill Lynch advised the Company of its intention to enforce its clients' rights to compel the Company to recognize the transfers of the shares represented by the certificates tendered to it in January 2000 under the Uniform Commercial Code as adopted by the State of Utah. The Company complied with Merrill Lynch's demand. The net effect of this action was that the Company was required to recognize as having been previously issued 208,000 shares of common

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

stock that were not then shown as being issued and outstanding on the books and records of the Company. On March 29, 2000, the Company filed a lawsuit in Utah state court against Mr. Wood, WAC Research, Inc. ("WAC") and Muito Bem Ltd Partnership ("Muito Bem"), Alpha Tech Stock Transfer & Trust Company, the Company's former stock transfer agent ("Alpha Tech"). Both WAC and Muito Bem are entities affiliated with Wood. The case sought damages from all defendants, and specifically asked the court to award to the Company the proceeds of the sales by WAC and/or Muito Bem of the shares that the Company was compelled to reinstate on the basis that those entities and their principals had been unjustly enriched. In a settlement, dated April 12, 2000, among Wood, WAC, Muito Bem, Merrill Lynch and the Company, the Company received cash in the amount of \$200,714, in exchange for which it released its claims for further damages against Wood, WAC, Muito Bem and Merrill Lynch. The Company's claims against Alpha Tech are still pending.

On December 7, 1999, Donald M. Wood, the former Chairman and Chief Executive Officer of the Company, and the Stith Law Office (Wood's personal legal counsel) filed a lawsuit in the District Court of Salt Lake County, State of Utah (Case No. 990912153). In that lawsuit, Wood and Stith asserted that the Company has breached a Settlement Agreement executed by the Company and Wood upon Wood's resignation as the Company's Chairman and Chief Executive Officer, effective as of January 14, 1999. The lawsuit includes claims for breach of contract, fraud and intentional infliction of emotional distress, and seeks money damages and punitive damages in the aggregate amount of \$1,162,246. On February 7, 2000, the Company filed its answer to the Wood litigation, in which the Company asserted that its payment obligations under the Settlement Agreement

Page 14

were excused by repeated breaches by Wood of various covenants of the Settlement Agreement. Simultaneously, the Company filed a counterclaim against Wood for money damages incurred by the Company as a result of Wood's various breaches of the Settlement Agreement. The Company also simultaneously filed motions to dismiss the fraud and intentional infliction of emotional distress claims. The Company's management believes the Wood litigation is without merit and intends to vigorously defend.

On March 19, 1999, Alpha Tech Stock Transfer Company ("Alpha Tech") filed a lawsuit against the Company in Utah state court in Salt Lake City, Utah. Alpha Tech was the Company's stock transfer agent for a period of approximately ten years until the Company terminated its relationship with Alpha Tech in January 1999 and instructed Alpha Tech to transfer the Company's stock transfer records to American Stock Transfer, New York, New York. The complaint alleges that the Company breached its service contract with Alpha Tech by failing to pay \$132,165 to Alpha Tech for transfer agent services rendered and reimbursement for legal expenses incurred by Alpha Tech. Alpha Tech never served the complaint; the Company learned about the complaint through an unrelated third party. In March 2000, Alpha Tech refiled essentially the same complaint, thereby commencing another lawsuit against the Company. The March 2000 complaint is virtually identical to the March 1999 complaint. In April 2000, the Company accepted service of process, and has filed a motion to dismiss the March 2000 complaint. The Company disputes the claims of Alpha Tech's complaint and intends to vigorously defend this action.

On April 27, 1998, the Enforcement Division of the Securities and Exchange Commission notified the Company that the SEC was anticipating filing an administrative proceeding in the latter part of calendar year 1998 against various individuals and entities who had engaged in transactions with a Canadian corporation. The SEC Enforcement Division further indicated that the Company may be named as a defendant in such administrative action. In July 1998, the Company

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

submitted a Wells Submission to clarify why, in the Company's estimation, it should not be named in the administrative proceeding, if any. The Company suggested in the Wells Submission that it should not be named in any administrative proceeding because the Company never consummated either of the two transactions with the subject Canadian company that the Company was considering, and the Company received no consideration in connection with those aborted transactions. Moreover, the Company believes that its conduct in connection with those proposed but aborted transactions met applicable legal requirements. As of December 31, 2000, the Company had received no response from the Enforcement Division about whether the SEC plans to name the Company in any administrative action.

In addition, the Company has previously disclosed that, in the first quarter of 1999, it was informed of an investigation by the Enforcement Division of the Securities and Exchange Commission. The Company believes this investigation concerns certain trading activity in the Company's common stock and other transactions involving the Company's securities, however, the Company has not been informed of the specifics of such investigation. The Company has cooperated fully with these administrative proceedings. The Company had no contact from the Enforcement Division regarding this investigation during the entirety of 2000.

On February 12, 1998, Fuji Corporation filed a claim with the International Trade Commission seeking a cease and desist order against approximately 30 entities. Fuji sought to enlist the aid of the U.S. Customs Department in preventing the importation of single-use cameras which are manufactured by any of the defendant entities and which infringe the patents of Fuji. The Company does not manufacture single-use cameras, but previously has distributed single-use cameras which have been refurbished and reloaded in mainland China. The Company was therefore involved in the Fuji proceeding. The Company engaged intellectual property counsel and vigorously defended its position until December 1998, when the Company sold its remaining inventory of single-use cameras to another entity. In connection with that sale, any liability of the Company in connection with the Fuji proceeding, including the costs of further defending the action, were assumed by the purchaser of the Company's single-use camera inventory, although the Company nominally remains part of that litigation.

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these other matters will not have a material adverse effect on the Company's operations or financial condition.

Page 15

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

No matter was submitted to a vote of security holders through the solicitation of proxies or otherwise during the fourth quarter of the fiscal year covered by this report.

Page 16

Part II



## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

### Item 5. Market for Common Equity and Related Stockholder Matters

Market Information and Number of Stockholders. The Company's common stock is listed on the OTC bulletin board under the symbol "DYNX". As of December 31, 2000 there were 1,144 shareholders of the Company's common stock and 5,745,640 shares of common stock were outstanding.

Price Range of Common Stock. The following table sets forth the high and low sale prices of the Company's common stock as quoted on the Nasdaq (until December 1, 2000) and on the OTC bulletin board thereafter for the indicated periods. The referenced quotations do not reflect inter-dealer prices, dealer retail markup, markdown, or commissions, and may not necessarily represent actual transactions.

#### PRICE RANGE OF COMMON STOCK

Quarter & Year	Market High	Market Low
1st 1999	\$4.31	\$2.25
2nd 1999	\$3.00	\$1.63
3rd 1999	\$1.86	\$0.81
4th 1999	\$1.25	\$0.88
1st 2000	\$4.34	\$1.00
2nd 2000	\$2.63	\$0.94
3rd 2000	\$1.06	\$0.38
4th 2000	\$1.25	\$0.06

Dividends. During the year ended December 31, 2000, the Company did not declare or pay cash dividends. The Company has no history of declaring and paying cash dividends to its common stockholders and has no intention of declaring such dividends into the foreseeable future.

### Item 6. Management's Discussion and Analysis or Plan of Operation

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

### Results of Operations

The following table sets forth, for the periods indicated, certain information relating to the operations of the Company expressed in dollars (rounded) and percentage changes from period to period. Data in the table reflects the consolidated results of the Company for the years ended December 31, 2000 and 1999, respectively. As supplemental information, the table also segregates the Company's revenues by product line type.

	For the Year Ended		
	December 31, 2000	December 31, 1999	% of chg from 1999 to 2000
<b>Statement of Operations Data:</b>			
Product sales.....	\$ 8,694,000	\$10,967,000	(20.7)%
Cost of sales.....	5,470,000	6,969,000	(21.5)
	3,224,000	3,998,000	(19.4)
<b>Operating Costs and Expenses:</b>			
Selling expenses.....	3,331,000	3,385,000	(1.6)
General and administrative	3,272,000	3,459,000	(5.4)
Research and development..	221,000	170,000	30.0
	6,824,000	7,014,000	(2.7)
<b>Other Income (Expense), net:</b>			
Interest expense.....	(622,000)	(889,000)	(30.0)
Interest income.....	1,000	5,000	(80.0)
Other income (expense)....	(361,000)	3,000	(12133.3)
	(982,000)	(881,000)	11.5
Loss from continuing operations.....	(4,582,000)	(3,897,000)	17.6
<b>Discontinued Operations:</b>			
Income from discontinued operations	314,000	419,000	(25.1)
Gain on sale of discontinued operations	1,109,000	-	-
	1,423,000	419,000	239.6
Net loss.....	\$(3,159,000)	\$(3,478,000)	(9.2)

Supplemental Information:

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Revenue by product line type:

Telecommunication headsets and amplifiers and telephone accessories.....	\$ 6,084,000	\$ 7,320,000	(16.9)
Flashlights.....	1,819,000	1,810,000	0.5
Hardware/houseware.....	791,000	845,000	(6.4)
Miscellaneous/Mass market....	-	992,000	-
-----			
Total product sales and other.....	\$8,694,000	\$10,967,000	(20.7)
=====			

Following are explanations of significant period to period changes for the years ended December 31, 2000 and 1999:

Revenues

Total Product Sales. Total product sales decreased by \$2,273,000, or 20.7%, from \$10,967,000 to \$8,694,000 for the year ended December 31, 2000 compared to the year ended December 31, 1999.

Telecommunication Headsets and Amplifiers and Telephone Accessories. Sales of telecommunication headsets and amplifiers and telephone accessories decreased \$1,236,000, or 16.9%, from \$7,320,000 to \$6,084,000 for the year ended December 31, 2000 compared to the year ended December 31, 1999. This decrease was primarily attributable to a \$510,000 decrease in sales of telephone shoulder rests as well as a decrease in sales of \$249,000 in telephone accessories and a decrease of \$477,000 in sales of telephone headsets and amplifiers. These decreases are primarily a result of lower sales to the Company's office supply

Page 18

catalogue customers. Overall gross margins for these products increased to 53.9% from 53.1% for the years ended December 31, 2000 and 1999, respectively, as a result of the sales mix.

Flashlights. Flashlight revenues increased \$9,000, or 0.5%, from \$1,810,000 to \$1,819,000 for the year ended December 31, 2000 compared to the year ended December 31, 1999. Overall gross margins for products in this category decreased from 6.8% to (7.3)% for the year ended December 31, 2000 as a result of an increase in costs related to upgrading the retail packaging of this product line and an increase in freight costs to expedite the delivery of the product from the Company's overseas vendors in order to meet sales ship date requirements. The decrease in gross margin was also attributable to an inventory write-down of \$178,841.

Hardware/Houseware. Hardware/houseware revenues decreased \$54,000 or 6.4% from \$845,000 to \$791,000 for the year ended December 31, 2000 compared to the year ended December 31, 1999. This decrease is attributable to a decrease in sales of the Company's doorstep product line. Overall gross margins for products in this category decreased from 13.2% to 9.8% for the year ended December 31, 2000.

Miscellaneous and Mass Market. Mass market revenues decreased \$992,000, from \$992,000 to -0- for the year ended December 31, 2000 compared to the year ended December 31, 1999. This decrease was the result of the Company's decision to discontinue its efforts in this product line and the resulting December 24, 1998 agreement with Grandway China ("Grandway"). The agreement provided for the

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

transfer of inventory, distribution and sales rights of products that the Company was then supplying to Dolgencorp. Upon execution, Grandway agreed to purchase approximately \$1,800,000 of inventory that had been acquired by the Company and earmarked for sale to Dolgencorp. Management does not presently anticipate future sales in this product line.

### Operating Costs and Expenses

**Selling Expenses.** Selling expenses decreased \$54,000, or 1.6%, from \$3,385,000 to \$3,331,000 for the year ended December 31, 2000 compared to the year ended December 31, 1999. This decrease is due in part to a decrease of \$190,000 in commissions paid to outside sales representatives, as well as a decrease in consulting fees of \$85,000. The decrease was offset in part by an increase in salaries for sales personnel of \$94,000 due to the addition of the Executive Vice President of Sales and a European sales manager for the flashlights product line, as well as increases in freight expenses of \$127,000 due to increased fuel prices.

**General and Administrative Expenses.** General and administrative expenses decreased \$187,000, or 5.4%, from \$3,459,000 to \$3,272,000 for the year ended December 31, 2000 compared to the year ended December 31, 1999. The decrease in general and administrative expenses was primarily the result of a decrease of \$88,000 in salaries paid as a result of the Company's August 11, 2001 reduction in force, as well as a decrease in employee recruitment and education of \$74,000, a decrease in legal and accounting fees of \$60,000, and a decrease of \$59,000 in travel expenses. This decrease was offset in part by increases in Directors and Officers and group health insurance premiums of \$87,000.

**Research and Development.** Research and development expense increased by \$51,000, or 30.0%, from \$170,000 to \$221,000 for the year ended December 31, 2000 compared to the year ended December 31, 1999. The increase was primarily attributable to the Company's increased research and development efforts associated with the Company's flashlight line to improve the function and appearance of the products.

**Total Operating Costs and Expenses.** Total operating costs and expenses decreased by \$190,000, or 2.7%, from \$7,014,000 to \$6,824,000 for the year ended December 31, 2000 compared to the year ended December 31, 1999, for the reasons discussed above.

**Interest Expense.** Interest expense decreased \$267,000, or 30.0%, from \$889,000 to \$622,000 for the year ended December 31, 2000 compared to the year ended December 31, 1999. This decrease was primarily associated with the retirement of the Convertible Debentures on February 23, 2000. The normal non-cash interest that was recognized on the Convertible Debentures at 12% per annum for the year ended December 31, 1999 was \$165,177 and liquidated damages were assessed against the Company in the amount of \$258,387 due to the Company's failure to have effective a registration statement covering the shares of common

stock issuable upon conversion of the Convertible Debentures within the time specified in a registration rights agreement executed in connection with the sale of the Convertible Debentures. These decreases were offset in part by an increase in interest expense related to the capital lease on the Company's office building and an increase in the interest rate on borrowings under the Company's line of credit.

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Interest Income. Interest income decreased \$4,000, from \$5,000 to \$1,000 for the year ended December 31, 2000 compared to the year ended December 31, 1999. This increase was primarily the result of the Company utilizing its revolving credit facility, under which "draws" are made by the Company. After a draw is made a corresponding payable is established, when collections of outstanding accounts receivable are received, collections are swept, daily, and re-applied against outstanding draws. As a result the Company does not keep excess cash on hand to invest.

Other Income/expense. Other income (expense) increased \$364,000, from \$3,000 to (\$361,000) for the year ended December 31, 2000 compared to the year ended December 31, 1999. The increase is due in part to the one time non-cash expense related to the April 4, 2000 recognition as having been previously issued of 208,000 shares of the Company's common stock. This non-cash expense is equal to the difference between the fair market value of the 208,000 shares on April 4, 2000 and the funds recovered from the settlement (see note 12 to the accompanying consolidated financial statements). As well as an increase in the loss on sale of assets of \$190,000 related to the disposition of flashlight production equipment due to the company's decision to change its flashlight manufacturer.

Discontinued operations. Income from discontinued operations increased \$1,004,000, or 239.6% from \$419,000 to \$1,423,000 for the year ended December 31, 2000 compared to the year ended December 31, 1999. This increase is primarily attributable to a \$1,109,000 gain on sale of the assets of the Company's Neat Things!(TM) home organization and storage product line (see note 14 to the accompanying consolidated financial statements).

Net Loss. Net loss decreased by \$319,000, or 9.2%, from a loss of \$3,478,000 to a loss of \$3,159,000 for the year ended December 31, 2000 compared to the year ended December 31, 1999 due to a combination of the factors described above.

### Liquidity and Capital Resources

#### General

The Company's principal sources of liquidity historically have been cash flows from operations, cash on hand and borrowing under the Company's existing secured revolving credit facility. On May 27, 1998, the Company obtained its secured revolving credit facility from a regional financing institution for up to \$5,000,000, bearing interest at a rate of prime plus one percent, with interest payable monthly. In previous amendments to the credit agreement the maximum line was decreased to \$2,200,000 and the interest rate was increased to a rate of prime plus five percent. The credit facility is secured by the Company's assets, including accounts receivable and inventories. The note underlying the revolving credit line is due May 26, 2001. Notwithstanding the extent of the maximum borrowing under the note, the covenants of the agreement limit the Company's borrowing availability based on percentages of current inventory and accounts receivable. Because of cash flow challenges faced during 2000, the Company experienced decreases in inventories and accounts receivable that, in effect, limited its borrowing availability to approximately \$440,000 as of December 31, 2000, all of which was used by the Company to fund ongoing operations. Under the terms of the loan agreement, the Company is required to maintain financial covenants and ratios, including book net worth, net income and debt service coverage. As of December 31, 2000 the Company was in default of certain of these financial covenants. Although the Company's secured lender has not indicated its intention to accelerate payment of the outstanding balance payable under the note because of such defaults, the Company does not anticipate that the secured lender will extend the payment deadline for the note or that the lender will extend additional credit to the Company. The Company is therefore attempting to locate an alternate source of commercial lending.

In February 2000, the Company completed a private placement of its restricted common stock to seven offshore investors. The private placement was accomplished pursuant to a Stock Purchase Agreement (the "Stock Purchase Agreement") between the Company and the investors dated as of February 11, 2000, which closed on February 23, 2000. Under the Stock Purchase Agreement, the Company issued a total of 1,222,811 shares of restricted common stock. The consideration paid by the investors was the greater of (i) \$1.00 per share or (ii) 100% of the average of the closing bid prices of the Company's common stock as quoted by the Nasdaq Stock Market for the five trading days immediately preceding the date the investors paid the purchase price or any portion thereof. The total proceeds to the Company from the private placement were \$1,600,000, of which \$1,500,000 was used to retire convertible debentures that had been issued by the Company in May 1998. The remaining \$100,000 was used for general corporate purposes.

In February 2000, the Company received \$200,714 as proceeds of a partial settlement of a lawsuit involving Merrill Lynch & Co., Inc., Donald M. Wood, the Company's former Chairman and Chief Executive Officer, Alpha Tech Stock Transfer & Trust Co., the Company's former stock transfer agent, and James Farrell, Alpha Tech's principal, WAC Research, Inc., and Muito Bem Ltd Partnership. As a result of the settlement, the Company recognized a one time non-cash expense of \$169,733. The Company used the cash received in settlement of the litigation for operating capital.

On May 18, 2000 the Company entered into a Stock Purchase Agreement (the "May 2000 Stock Purchase Agreement") with three offshore investors. Under the May 2000 Stock Purchase Agreement, the offshore investors agreed to purchase and acquire from the Company shares of the Company's common stock, having an aggregate purchase price of at least \$775,000 (the "Minimum Investment Amount") and a maximum aggregate purchase price of \$1,000,000. The number of shares issuable to the investors in consideration of their payment of the purchase price was calculated as follows (i) as to the Minimum Investment Amount, by dividing the total dollar amount of the Minimum Investment Amount paid to the Company as of closing, by \$1.3125, which was 100% of the fair market value of the Company's common stock as of the date of the May 2000 Stock Purchase Agreement, and (ii) as to any additional amount invested over the Minimum Investment Amount, by dividing the total dollar amount of such additional amount paid to the Company by 100% of the average of the closing bid prices of the Company's common stock for the five trading days immediately preceding the date of actual payment of such additional amount. The Company received \$700,000 of the Minimum Investment Amount in the second quarter and the remainder of the Minimum Investment Amount was received by July 11, 2000. Accordingly, the Company issued a total of 590,476 shares of restricted common stock to the investors

Based on current operations and, after accounting for anticipated cost savings through operating efficiencies and reductions in selling, and general and administrative expenses, the Company believes that its present sources of liquidity will not be adequate to meet its projected requirements for working capital, capital expenditures, scheduled debt service requirements and other general corporate purposes during the year 2001. The Company is currently pursuing additional sources of liquidity in the form of commercial credit or additional sales of the Company's debt or equity securities to fund a combination of short-term working capital requirements and growth. If such additional financing is not obtained, the Company may be required to significantly curtail its operations or seek protection under bankruptcy laws.

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

December 31, 2000 Compared to December 31, 1999

As of December 31, 2000, the Company had liquid assets (cash and cash equivalents, accounts receivable - trade and other) of \$935,000, a decrease of 51.8%, or \$1,005,000, from December 31, 1999 when liquid assets were \$1,940,000. Cash decreased \$116,000 to \$129,000 at December 31, 2000 from \$245,000 at December 31, 1999. This increase in cash was primarily the result of the procedures involving use of the Company's revolving credit facility, under which collections of outstanding accounts receivable are swept the day after receipt and re-applied against outstanding draws, therefore amounts collected on the last day of the year would not be swept against draws until January 2001. Accounts receivable - trade decreased \$890,000, or 52.5%, to \$806,000 at December 31, 2000 from \$1,696,000 at December 31, 1999. This decrease is primarily the result of the sale of the assets of the Company's Neat Things!(TM) home organization and storage product line (see note 14 to the accompanying consolidated financial statements).

Page 21

Current assets decreased by \$2,714,000, or 52.4%, to \$2,466,000 at December 31, 2000 from \$5,180,000 at December 31, 1999. Of this decrease, \$890,000 was primarily the result of a decrease in accounts receivable - trade discussed above and \$1,525,000 was the result of decreased inventory levels most of which relate to the sale of the Neat Things!(TM) home organization and storage product line, as discussed above.

Long-term assets decreased \$465,000, or 10.9%, to \$3,808,000 at December 31, 2000 from \$4,273,000 at December 31, 1999. This decrease was primarily the result of the reduction in property & equipment related to the sale of the Neat Things!(TM) home organization and storage product line, as discussed above, and by normal recurring depreciation of fixed assets and amortization of deferred loan costs and other intangibles.

Current liabilities decreased by \$2,738,000, or 47.4%, to \$3,038,000 at December 31, 2000 from \$5,776,000 at December 31, 1999. This decrease was primarily due to a decrease of \$1,649,000 in convertible debentures as a result of the Company's February 23, 2000 agreement to retire the convertible debentures, as well as a decrease of \$1,346,000 in short-term notes payable as a result of payments made under the company's revolving line of credit. The Company's working capital deficit decreased by \$24,000, or 4.0%, to (\$572,000) at December 31, 2000 from (\$596,000) at December 31, 1999, for the reasons described above.

The Company used cash of \$619,000 from continuing operating activities during the year ended December 31, 2000, primarily as a result of the net loss incurred during the period, offset in part from a decrease in accounts receivable trade and decreased inventory levels.

The Company received \$552,000 of cash from continuing investing activities during the year ended December 31, 2000, primarily from proceeds received from the November 22, 2000 sale of the Neat Things!(TM) home organization and storage product line, which amounts were offset in part by the expenditures incurred for the purchase of new equipment.

The Company used net cash of \$414,000 in financing activities during the year ended December 31, 2000, primarily as a result of payments made on the retirement of the convertible debentures, payments made on the Company's revolving line-of-credit and payments made on long-term debt and capital lease obligations, off-set in part by proceeds from the issuance of common stock related to two separate private placements and from proceeds from the

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

re-issuance of common stock.

### Inflation

Most of the Company's products are purchased in finished form and packaged by the supplier or at the Company's headquarters. The Company uses a premixed plastisol (a petroleum based raw material) to manufacture certain of its telephone accessory products at its headquarters. With respect to its products it purchased in finished form, inflation in the cost of raw materials will be passed on to the Company. The Company also is dependent on freight carriers that are sensitive to inflationary pressures on fuel costs. The Company anticipates usual, inflationary increases in the price of plastic products, the raw materials used to manufacture its flashlights, freight, and packaging in 2001. In 2000, costs associated with freight increased significantly, primarily as a result of increased fuel costs, and the Company's increased use of air freight. The Company anticipates that these usual, inflationary increases will not materially impact the results of operations for the year ended 2001, although there can be no assurance that the Company will not encounter raw material or other manufacturing delays, price increases or shortages, or material increases in shipping costs associated with rising fuel prices, any of which could adversely affect the Company's financial condition and operations.

### Seasonality

The Company's business is seasonal. The Company typically experiences its highest sales volume in the fourth quarter of each year as a result of the

Page 22

retail environment in which most of its customers conduct business. Because the Company sells its products primarily to major retailers, the Company's sales performance is significantly dependent on the performance of those retailers. Accordingly, the fourth quarter is a key factor in the Company's overall financial performance for the year.

### Recent Accounting Pronouncements

The Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivatives Instruments and Hedging Activities, in 1998. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. For a derivative not designated as a hedging instrument, changes in the fair value of the derivative are recognized in earnings in the period of change. As a result of SFAS No. 137 the effective date for SFAS No. 133 shall be in the first quarter of 2001. The Company does not believe the adoption of SFAS No. 133 will have a material affect on the financial position or results of operations of the Company.

SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, was issued in September 2000. SFAS No. 140 is a replacement of SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Most of the provisions of SFAS No. 125 were carried forward to SFAS No. 140 without reconsideration by the Financial Accounting Standards Board (FASB), and some were changed only in minor ways. In issuing SFAS No. 140, the FASB included issues and decisions that had been addressed and determined since the original publication of SFAS No.



## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

125. SFAS No. 140 is effective for transfers after March 31, 2001. Management does not expect the adoption of SFAS No. 140 to have a significant impact on the financial position or results of operations of the Company.

### Forward Looking Statements

The foregoing Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements will prove to be accurate. Factors that could cause actual results to differ from results discussed in forward-looking statements include, but are not limited to, potential increases in inventory costs, competition, and the Company's ability to obtain additional working capital to fund future growth, as well as the other factors described elsewhere in this Report under the heading "Description of Business - Risk Factors".

Page 23

### Item 7. Financial Statements

#### Independent Auditors' Report

Report of Tanner +Co.:

To the Board of Directors and Stockholders of  
Dynatec International, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Dynatec International, Inc. and Subsidiaries as of December 31, 2000, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year then ended. These consolidated 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 audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 that our audit provides a reasonable basis for our opinion.

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

The accompanying consolidated financial statements have been prepared assuming

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

that the Company will continue as a going concern. As discussed in Note 3, the Company has an accumulated deficit, a deficit in working capital and has sustained significant losses. These issues raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The accompanying consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

TANNER + CO.

Salt Lake City, Utah  
February 2, 2001, except  
for Note 21, which is dated  
February 5, 2001

Page 24

Report of KPMG, LLP:

The Board of Directors  
Dynatec International, Inc.:

We have audited the accompanying consolidated balance sheet of Dynatec International, Inc. and subsidiaries as of December 31, 1999 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These consolidated 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 audit.

We conducted our audit 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dynatec International, Inc. and subsidiaries as of December 31, 1999 and the results of their operations and their cash flows for the year then ended in conformity with accounting principals generally accepted in the United States of America.

/s/ KPMG LLP

Salt Lake City, Utah  
March 1, 2000

Page 25

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

DYNATEC INTERNATIONAL, INC. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEET  
 DECEMBER 31, 2000 AND 1999

ASSETS

	2000
	-----
CURRENT ASSETS:	
Cash and cash equivalents	\$ 128,533
Trade accounts receivable, net of allowance for doubtful accounts of \$56,800 in 2000 and \$39,036 in 1999, respectively (note 7)	806,421
Inventories (notes 2, 4 and 7)	1,251,050
Prepaid expenses and other	101,090
Net assets of discontinued operations (note 14)	178,870
	-----
Total current assets	2,465,974
	-----
PROPERTY AND EQUIPMENT, at cost (notes 2, 8 and 9):	
Building and improvements	2,865,000
Furniture, fixtures, and equipment	2,965,150
	-----
5,830,150	
Less accumulated depreciation and amortization	2,274,810
	-----
Net property and equipment	3,555,340
GOODWILL AND OTHER IDENTIFIABLE INTANGIBLES, net (note 2, 5 and 6)	150,120
DEFERRED LOAN COSTS, net of accumulated amortization of \$56,001 in 2000 and \$30,452 in 1999, respectively (note 2)	10,640
OTHER ASSETS	91,980
	-----
	\$ 6,274,074
	=====

See accompanying notes to consolidated financial statements.

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

DYNATEC INTERNATIONAL, INC. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEET (Continued)  
 DECEMBER 31, 2000 AND 1999

LIABILITIES AND STOCKHOLDERS' EQUITY

	2000
	-----
CURRENT LIABILITIES:	
Short-term note payable (note 7)	\$ 485,
Current portion of long-term debt (note 8)	81,
Current portion of capital lease obligations (note 9)	71,
Accounts payable	1,369,
Accrued expenses	559,
Accrued advertising	365,
Accrued royalties payable	105,
Convertible debentures (note 10)	
	-----
Total current liabilities	3,038,
LONG-TERM DEBT, net of current portion (note 8)	
DEFERRED GAIN ON SALE OF ASSET (note 9)	232,
CAPITAL LEASE OBLIGATIONS, net of current portion (note 9)	2,887,
	-----
Total liabilities	6,157,
	-----
STOCKHOLDERS' EQUITY (note 12):	
Common stock, \$.01 par value; 100,000,000 shares authorized and 5,745,640 and 3,721,418 shares outstanding at December 31, 2000 and 1999, respectively	57,
Treasury stock, at cost, 91,515 shares at December 31, 1999	
Additional paid-in capital	10,320,
Accumulated deficit	(10,262,
	-----
Net stockholders' equity	116,
	-----
COMMITMENTS AND CONTINGENCIES ( note 7, 8, 9, 10,17 and 19)	\$ 6,274,
	=====

See accompanying notes to consolidated financial statements.

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

CONSOLIDATED STATEMENT OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000
	-----
PRODUCT SALES	\$ 8,693,63
COST OF SALES	(5,469,85
	-----
Gross Margin	3,223,78
	-----
OPERATING COSTS AND EXPENSES:	
Selling expenses	3,331,46
General and administrative	3,271,77
Research and development	220,99
	-----
Total operating costs and expenses	6,824,23
	-----
Operating loss from continuing operations	(3,600,44
	-----
OTHER INCOME (EXPENSE):	
Interest expense (note 10)	(622,21
Interest income	1,00
Other income (expense)	(360,04
	-----
Total other income (expense), net	(981,25
	-----
Operating loss from continuing operations before income tax benefit	(4,581,70
	-----
INCOME TAX BENEFIT (note 11)	
	-----
Loss from continuing operations	(4,581,70
	-----
DICONTINUED OPERATIONS:	
Income from operations of discontinued home storage and organization segment net of income tax (note 14)	314,03
Gain on sale of assets of discontinued home storage and organization segment net of income tax (note 14)	1,108,73
	-----
Income from discontinued operations net of income tax	1,422,77
	-----
Net loss	\$ (3,158,93
	=====

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

LOSS PER SHARE FROM CONTINUING OPERATIONS- BASIC AND DILUTED	\$	(.8)
EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS- BASIC AND DILUTED	\$	.2
NET LOSS PER SHARE- BASIC AND DILUTED	\$	(.6)
WEIGHTED AVERAGE SHARES - BASIC AND DILUTED		5,210,17

See accompanying notes to consolidated financial statements.

Page 28

DYNATEC INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2000 AND 1999

	Common Stock		Treasury Stock At Cost	Additional Paid-in Capital
	Number of Shares	Amount		
BALANCE JANUARY 1, 1999	2,901,627	\$29,016	\$(915,150)	\$ 7,041,590
Shares issued pursuant to conversion of deposit payable (note 12)	500,000	5,000	-	995,000
Shares issued pursuant to conversion of convertible debenture (note 10)	285,843	2,858	-	303,824
Shares issued pursuant to sale/leaseback of company headquarters building (note 12)	33,948	340	-	34,660
Net loss	-	-	-	-
BALANCE DECEMBER 31, 1999	3,721,418	37,214	(915,150)	8,375,074
Shares issued pursuant to Stock purchase agreement (note 12)	1,222,811	12,228	-	1,587,772
Shares issued pursuant to retirement of Convertible debenture (note 10)	94,450	945	-	134,874

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Shares recognized as having been previously issued (note 12)	208,000	2,080	-	368,368
Shares issued pursuant to Stock purchase agreement (note 12)	590,476	5,904	-	769,096
Retirement of treasury stock	(91,515)	(915)	915,150	(914,235)
Net loss	-	-	-	-
	-----	-----	-----	-----
BALANCE DECEMBER 31, 2000	5,745,640	\$57,456	\$ -	\$10,320,949
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

Page 29

DYNATEC INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2000 AND 1999

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$	(3
Net income from discontinued operations		
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization		
Amortization of deferred loan costs		
Amortization of deferred gain on sale of assets		
Non-cash interest expense on convertible debentures (note 10)		
Non-cash expense on re-issuance of common stock shares (note 12)		
Forgiveness of liquidated damages related to convertible debenture (note 10)		
(Gain) loss on sale of assets		
Gain on sale of discontinued operations		(1
Provision for losses on accounts receivable		
Changes in operating assets and liabilities:		
Trade accounts receivable		
Inventories		1
Prepaid expenses		
Other assets		
Accounts payable		
Accounts payable - other		
Accounts payable - related party		
Accrued expenses		
Accrued advertising		
Accrued royalties		
		-----
Net cash used in continuing operating activities		
Net cash provided by discontinued operating activities		
		-----

Net cash used in operating activities

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

CASH FLOWS FROM INVESTING ACTIVITIES:

Net proceeds from the sale of assets  
 Purchase of building and equipment  
 Cash paid for asset acquisition (note 6)

Net cash provided by continuing investing activities  
 Net cash used in discontinued investing activities

Net cash provided by investing activities

CASH FLOWS FROM FINANCING ACTIVITIES:

Net borrowings (payments) on line of credit (1)  
 Net payments on long-term debt  
 Net principal payments on capital lease obligations  
 Payment to retire convertible debenture (note 10) (1)  
 Proceeds from the issuance of common stock related to private placement (note 12) 2  
 Proceeds from re-issuance of common stock (note 12)  
 Payment of liquidated damages related to convertible debenture (note 10)  
 Proceeds from issuance of common stock related to sale of building (note 12)

Net cash used in continuing financing activities  
 Net cash used in discontinued financing activities

Net cash used in financing activities

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  
 CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD

CASH AND CASH EQUIVALENTS AT END OF THE PERIOD

\$

See accompanying notes to consolidated financial statements.

Page 30

DYNATEC INTERNATIONAL, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)  
 YEAR ENDED DECEMBER 31, 2000 AND 1999

2000

SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:



## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Cash paid for interest \$ 592,046

### SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Building and equipment acquired under capital leases	2,220
Conversion of Convertible Debentures and accrued interest for common stock (note 10)	135,819
Retirement of 91,515 treasury shares	915,150
Issuance of 500,000 shares of restricted stock (note 12)	-

See accompanying notes to consolidated financial statements.

Page 31

### DYNATEC INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2000 AND 1999

#### (1) DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

-----

Dynatec International, Inc., a Utah corporation (Dynatec or the Company), is a manufacturer and distributor of consumer products comprising the following major product lines: telecommunication headsets and amplifiers and telephone accessories, and flashlights. Dynatec is located in Salt Lake City, Utah. The Company conducts most of its operations through its wholly owned subsidiaries: Softalk, Inc., SofTalk Communications, Inc., Arnco Marketing, Inc., and Nordic Technologies, Inc. Unless specified to the contrary herein, references to Dynatec or to the Company refer to the Company and its subsidiaries on a consolidated basis.

The Company's business follows seasonal trends. As a result the Company experiences its highest revenues in the fourth quarter. Because the Company sells its products primarily to major retailers, the Company's sales performance is significantly dependent on the performance of those retailers.

#### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

-----

##### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

##### Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expense for the period being reported. Actual results could differ from those estimates.

### Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities at the date of purchase of three months or less to be cash equivalents.

### Inventories

Raw materials, work-in-process and finished goods inventory is stated at the lower of cost or market, cost being determined on a first-in, first-out method.

### Building and Equipment

Depreciation on building and equipment is computed on the straight-line method over the following useful lives:

Capital Leases	3-20 years
Equipment	5-10 years
Office Equipment & Fixtures	3-7 years
Vehicles	5 years
Signs and Show Booths	3-5 years

Assets held under capital leases and leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset.

Page 32

DYNATEC INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000 AND 1999

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)  
-----

#### Accounting for Impairment of Long-Lived Assets

Long-lived assets, goodwill, and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

#### Intangible Assets

Intangible assets include purchased patents, product licenses, and

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

other agreements allowing the Company non-exclusive rights to manufacture, produce, and sell various products. Such costs are amortized on a straight-line basis over their estimated useful lives of 5 to 40 years. Other intangible assets such as agreements not to compete are being amortized using the straight-lined method over five years.

### Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired from Transworld Products, Inc. (Transworld) on July 15, 1999. The goodwill, is being amortized using the straight-line basis over two years (note 5).

### Deferred Loan Costs

Deferred loan costs totaling \$66,646 resulted from issuance costs related to the Company's revolving credit facility, and are being amortized as interest expense over thirty-six months using a basis that approximates the effective-interest rate method (note 7).

### Revenue Recognition

The Company recognizes revenue according to Staff Accounting Bulletin 101, Revenue Recognition in Financial Statements. Accordingly, revenue is recognized when a sales order has been received, the price is fixed and determinable, the order is shipped, collection is reasonably assured and the Company has no significant obligations remaining.

### Stock-Based Compensation

The Company employs the footnote disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. SFAS No. 123 encourages entities to adopt a fair-value based method of accounting for stock options or similar equity based compensation using the intrinsic-value method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). The Company has elected to continue to apply the provisions of APB 25 and provide proforma footnote disclosures required by SFAS No. 123.

### Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of trade receivables. The Company provides credit to its customers in the normal course of business, and accordingly performs ongoing credit evaluations and maintains allowances for potential credit losses. Concentrations

Page 35

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

of credit risk with respect to trade receivables are limited due to the Company's large number of customers and their dispersion across many geographic areas.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

For the years ended December 31, 2000 and 1999, one customer accounted for 12.1% and 11.3%, respectively, and no other customer accounted for more

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

than 10% of the Company's total revenues.

### Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled or recovered. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

The Company has recognized no tax benefit for the net operating losses incurred during the years ended December 31, 2000 and 1999 due to uncertainties about the Company's ability to generate future earnings to offset such losses.

### Basic and Diluted Net Loss Per Common Share

Basic net loss per common share is calculated based upon the weighted average number of common shares outstanding during the periods presented. Diluted loss per common share is the amount of loss for the period available to each share of common stock outstanding during the reporting period and to each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the period.

In calculating net loss per share for the years ended December 31, 2000, and 1999, warrants and options to purchase 747,000, and 1,581,000 potential common shares, respectively, are not included in the computation of diluted net loss per common share as their effect would have been anti-dilutive, thereby decreasing the net loss per common share.

A reconciliation between the basic and diluted weighted-average number of shares outstanding as of December 31, 2000 and 1999 is summarized as follows:

	December 31,	
	2000	1999
Basic weighted average number of common shares.....	5,210,000	3,384,
Weighted average number of common stock options.....	-	
Diluted weighted average number of shares.....	5,210,000	3,384,

Page 36

### Advertising

Advertising costs are expensed as incurred. The Company does not participate in direct response advertising. Advertising expense amounted to \$1,045,590 and \$956,106 in 2000 and 1999, respectively.

### Comprehensive Loss

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income establishes standards for reporting and display of

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

comprehensive loss and its components in financial statements. For the years ended December 31, 2000 and 1999 comprehensive loss was equal to the net loss as presented in the accompanying statements of operations.

### (3) GOING CONCERN

At December 31, 2000, the Company has a working capital deficit and negative cash flows from operations. In addition, the Company suffered a significant loss during the year ended December 31, 2000. These conditions raise substantial doubt about the ability of the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Based on current operations and, after accounting for anticipated cost savings through operating efficiencies and reductions in selling, and general and administrative expenses, the Company believes that its present sources of liquidity will not be adequate to meet its projected requirements for working capital, capital expenditures, scheduled debt service requirements and other general corporate purposes during the year 2001. The Company is currently pursuing additional sources of liquidity in the form of commercial credit or additional sales of the Company's debt or equity securities to fund a combination of short-term working capital requirements and growth. If such additional financing is not obtained, the Company may be required to significantly curtail its operations or seek protection under bankruptcy laws.

### (4) INVENTORIES

Inventories, consisting principally of telecommunication headsets and amplifiers and telephone accessories, flashlights, and other miscellaneous products as of December 31, 2000 and 1999, respectively, are summarized as follows:

	2000	1999
Raw materials.....	\$423,667	\$801,026
Work-in-Process.....	65,390	135,931
Finished Goods.....	761,995	1,839,550
	\$1,251,052	\$2,776,507

### (5) INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31:

	2000	1999	Est. Useful Life (years)
Goodwill	34,307	34,307	2
License Agreement	203,509	203,509	40
Product rights	160,000	296,262	5-10
Non-compete agreements	25,000	112,500	5
	422,816	646,578	
Less accumulated amortization	272,688	451,835	
	\$ 150,128	\$ 194,743	

(6) ASSET ACQUISITION

On July 15, 1999, the Company purchased certain assets of Transworld at a purchase price of \$85,000. The acquisition was accounted for by the purchase method. Transworld is a manufacturer of telephone shoulder rests and was a main competitor of the Company in that product line. In exchange for the purchase price payment, the Company acquired machinery and equipment, inventory, and intangible assets that include a non-compete agreement and goodwill.

The allocation of the \$85,000 purchase price among the tangible and intangible assets is summarized as follows:

		Amortization Period (years)
		----- -----
Purchase price allocation:		
Net tangible assets acquired	\$25,693	
Intangible assets:		
Non-compete agreement	25,000	5
Goodwill	34,307	2
Total purchase price	\$85,000	

(7) SHORT-TERM NOTE PAYABLE

The short-term note payable consists of a revolving line-of-credit obtained on May 27, 1998 from a regional financial institution that provides up to \$2,200,000 bearing interest at a rate of prime plus five percent with interest payable monthly (14.5% and 11.5% at December 31, 2000 and 1999, respectively). The note is secured by accounts receivable and inventory and is due May 26, 2001. As of December 31, 2000 and 1999, direct outstanding borrowings totaled \$485,250 and \$1,831,622, respectively. The amount of unused borrowings under the Company's credit facility is limited to the then-current levels of receivables discounted at 70%. Under the terms of the loan agreement, the Company is required to maintain financial covenants and ratios, including book net worth, net income and debt service coverage. At December 31, 2000 the Company was in default of certain of these covenants.

Maximum and average borrowings as well as weighted average interest rate for the years ended December 31, 2000 and 1999 are as follows:

	2000	1999
	-----	-----
Maximum Outstanding	\$2,058,176	\$2,503,277
Average Outstanding	\$1,626,202	\$2,048,824
Weighted Average Interest Rate	12.98%	10.83%

## (8) LONG -TERM DEBT

Long-term debt consists of the following at December 31, 2000 and 1999:

	2000	1999
	-----	-----
Term note payable to a bank, interest at prime plus 5.25%, due May 26, 2001, secured by equipment	81,175	163,675
Total long-term debt	81,175	163,675
Less current portion	81,175	82,500
Total long-term debt net of current portion	\$ -	\$ 81,175

## (9) LEASES

The following represents assets under capital lease at December 31, 2000 and 1999:

	2000	1999
	-----	-----
Furniture and Equipment	\$ 209,157	\$ 206,
Building	2,865,000	2,865,
	3,074,157	3,071,
Less accumulated depreciation	253,975	71,
Net property and equipment under capital lease	\$ 2,820,182	\$ 3,000,

On November 4, 1999, the Company sold its corporate headquarters facility for \$2,865,000. Simultaneously with the sale, the Company entered into a 20-year leaseback agreement with the purchasing party. The party that purchased the building is not affiliated with or related to the Company or any of its officers or directors, and the terms of the transaction were the result of arms-length negotiations. In connection with the sale/leaseback the Company recorded a deferred gain of \$246,417, which is being amortized on a straight-line basis over the term of the related lease as a reduction to interest expense.

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

(9) LEASES (continued)

At December 31, 2000 the Company is obligated under the terms of non-cancelable leases on the Company headquarters and warehouse building, machinery and equipment, and automobiles. The leases have the following minimum lease commitments:

		Capital leases	Operating leases
Year ended December 31:	2001	\$408,771	\$ 6,501
	2002	381,153	6,076
	2003	330,915	6,076
	2004	335,724	3,038
	2005	364,344	-
	Later	5,628,633	-
Total minimum lease payments		7,449,540	\$ 21,691
Less amount representing interest (at rates ranging from 3.38% to 29.69%)		4,490,166	
Present value of total minimum capital lease payments		2,959,374	
Less current portion		71,848	
Capital lease obligations net of current portion		\$2,887,526	

Amortization of assets held under capital lease is included with depreciation expense. Rental expense for operating leases during the years ended December 31, 2000 and 1999 was \$11,170 and \$31,189, respectively.

(10) CONVERTIBLE DEBENTURES/EQUITY LINE-OF-CREDIT

On May 22, 1998, the Company executed a Convertible Debenture and Private Equity Line of Credit Agreement (the "Credit Agreement") between the Company and five separate investors. Under the Credit Agreement, the Company issued convertible debentures (the "Convertible Debentures") in the aggregate principal amount of \$1,500,000 due May 22, 2001. The Convertible Debentures were convertible into shares of the Company's common stock at the lesser of: (i) 75% of the average of the three lowest closing bid prices of the Company's common stock during the 22-trading-day period immediately preceding the conversion date or (ii) \$6.50.

In addition to the sale of the Convertible Debentures, under the Credit Agreement, the Company also obtained the right to use a "put" mechanism to periodically draw down up to \$10,000,000 of additional equity capital (the "Equity Line"). Under the terms of the Credit Agreement, the Company was obligated to draw down a minimum of \$1,000,000 of the Equity Line, and all amounts were to have been drawn in increments of not less than \$50,000. In return for the payment of additional capital under the Equity Line, the Company would have been required to issue shares of its common stock at a per share purchase price equal to 80% of the average of the three lowest closing bid prices of the common stock during a six day valuation period commencing three days before the draw date and ending two days after the draw date. Additionally, upon the effectiveness of a registration statement covering the shares of common stock issuable under the Credit Agreement (the "Registration Statement"), the Company was obligated to issue an additional \$500,000 principal amount of Convertible Debentures, pro rata to the investors. Also in connection with the Credit Agreement, the investors and placement agent were issued Series A and Series B warrants as follows:



Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

	Investors	Placement Agent	Exercis Price
	-----	-----	-----
Series A Warrants.....	150,000	150,000	\$6.50
Series B Warrants.....	150,000	300,000	\$7.15

Page 40

(10) CONVERTIBLE DEBENTURES/EQUITY LINE-OF-CREDIT (Continued)

The Company also issued, under the Credit Agreement, 20,000 shares of its common stock as a fee to the placement agent. These shares were delivered to the placement agent at the time of the closing.

On June 25, 1999, the Company and the Convertible Debenture investors entered into a Modification Agreement (the "Modification Agreement"), under which the parties agreed to cancel the Equity Line and all of the parties' respective obligations thereunder. The parties to the Modification Agreement also agreed to cancel the investors' obligation to purchase and the Company's obligation to sell the additional \$500,000 principal amount of Convertible Debentures upon the effectiveness of the Registration Statement. Additionally, the Modification Agreement provided for the modification and temporary abatement of the Company's obligation to pay cash liquidated damages of \$45,000 per month resulting from the Company's inability to have the Registration Statement declared effective on or before August 28, 1998. Pursuant to the terms of the Credit Agreement, the Company paid liquidated damages from September 23, 1998 through and including February 23, 1999 in the aggregate amount of \$210,000. Under the Modification Agreement, the Company was to accrue a total of \$180,000 of liquidated damages for the period from February 24, 1999 through and including June 23, 1999, which accrued amount was to have been payable at any time after October 1, 1999, upon request for payment therefore by the investors, in shares of the Company's common stock. Additionally, the Company's obligation to pay liquidated damages under the Credit Agreement was abated from June 24, 1999 through September 23, 1999, provided that the Registration Statement was declared effective on or before October 31, 1999. Additional liquidated damages in the amount of \$45,000 were to have accrued for the period between September 24, 1999 and October 23, 1999 if the Registration Statement was not declared effective on or before October 31, 1999. If the Registration Statement was not declared effective on or before October 31, 1999, the Modification Agreement's provisions providing for the payment of liquidated damages in stock and the abatement of liquidated damages from June 23, 1999 to September 23, 1999 and the provisions allowing the Company to pay liquidated damages in common stock rather than cash were subject to rescission at the option of the investors.

On November 12, 1999, the Company and the investors amended the Modification Agreement to substitute February 15, 2000 for the October 31, 1999 deadline originally in the Modification Agreement. Consequently, the accrual of liquidated damages was to have been deferred from June 24, 1999 until February 15, 2000, provided that the Registration Statement became effective and shareholder approval of the transaction was obtained on or before that date. Liquidated damages from February 24, 1999 through June 23, 1999 were not accrued and continued to be payable by the Company as specified in the Modification Agreement.

The Company and the holders of the Convertible Debentures executed a Convertible Debenture Retirement Agreement dated as of February 1, 2000, and which closed on February 23, 2000 (the "Retirement Agreement"). Under the

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Retirement Agreement, and in exchange for payment to the holders of the Convertible Debentures, pro rata, of \$1,500,000 cash, the holders agreed to surrender for cancellation all but a small portion of the then unconverted Convertible Debentures, to surrender for cancellation all of the A and B warrants that were issued under the Credit

Agreement, and otherwise terminate all of the obligations of either party under the Credit Agreement. At the closing of the Retirement Agreement, the holders agreed to convert the remaining portion of the principal amount of the Convertible Debentures into that number of shares that would have been issuable had such portion been converted as of January 24, 2000, or 94,450 shares. In light of the closing of the Retirement Agreement, the Company has no ongoing obligations under the Credit Agreement, and has submitted a request to the Securities and Exchange Commission to withdraw the pending Registration Statement.

Page 41

### (11) INCOME TAXES

Income tax benefit from continuing operations differed from the amounts computed by applying the U.S. federal income tax rate of 34 percent to pretax loss from continuing operations as a result of the following:

	2000	1999
Federal income tax benefit at statutory rates	\$ (1,558,000)	\$ (1,325,000)
State income tax benefit at statutory rates, net of federal tax effect	(104,000)	(99,000)
Discontinued operations	484,000	143,000
Non-deductible financing costs	(10,000)	153,000
Other	47,000	20,000
Change in the valuation allowance for deferred tax asset allocated to income tax expense	1,121,000	1,108,000
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2000 and 1999, are presented below.

	2000	1999
<b>Deferred tax assets:</b>		
Inventory capitalization	\$35,000	\$32,000
Allowance for bad debts	21,000	15,000
Compensated absences accrued for financial reporting purposes	9,000	14,000
Net operating loss carry-forward	2,792,000	1,814,000
Intangibles, principally due to differences in amortization	41,000	31,000

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Warranty and other reserve	34,000	56,000
Gain from sale-leaseback of building	86,000	-
Research and experimentation credit	47,000	-
Gross deferred tax assets	3,065,000	1,962,000
Less valuation allowance	2,985,000	1,864,000
Deferred tax assets	80,000	98,000
Deferred tax liabilities:		
Property and equipment, principally due to differences in depreciation	80,000	98,000
Net deferred tax assets (liabilities)	\$ -	\$ -

Page 42

(11) INCOME TAXES-(continued)

The net change in the total valuation allowance for the years ended December 31, 2000 and 1999 was \$1,121,000 and \$1,108,000 respectively.

Subsequently recognized tax benefits relating to the valuation allowance for deferred tax assets as of December 31, 2000 will be reported as a reduction of income tax expense from continuing operations.

The Company has approximately \$7,546,000 of net operating loss carryforwards at December 31, 2000, which will begin to expire December 31, 2011.

As measured under the rules of the Tax Reform Act of 1986, the Company has undergone a greater than 50 percent change in ownership since 1986. Consequently, use of the Company's net operating loss carryforward against future taxable income in any one year may be limited. The maximum amount of carryforwards available in a given year is limited to the product of the Company's fair market value on the date of ownership change and the federal long-term tax-exempt rate, plus any limited carryforward not utilized in prior years. Management does not believe that these rules will adversely impact the Company's ability to utilize the above losses in the aggregate. A valuation allowance has been recorded against the deferred tax asset due to the uncertainty surrounding its realization caused by the Company's recurring losses.

(12) STOCKHOLDERS' EQUITY

On February 23, 2000 the Company completed a private placement of its restricted common stock to seven offshore investors. The private placement was accomplished pursuant to a Stock Purchase Agreement (the "Stock Purchase Agreement") between the Company and the investors dated as of February 11, 2000. Under the Stock Purchase Agreement, the Company issued a total of 1,222,811 shares of restricted common stock. The consideration paid by the investors was the greater of (i) \$1.00 per share or (ii) 100% of the average of the closing bid prices of the Company's common stock as quoted by the Nasdaq Stock Market for the five trading days immediately preceding the date the investors paid the purchase price or any portion thereof. The total proceeds to the Company from the private placement were \$1,600,000.

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

In February 2000, Merrill Lynch & Co., Inc. ("Merrill Lynch") notified the Company that American Stock Transfer & Trust Co., New York, New York, the Company's stock transfer agent ("AST"), had confiscated three separate certificates purporting to represent a total of 208,000 shares of restricted common stock issued in the name of an entity affiliated with Donald M. Wood, the Company's former Chairman and Chief Executive Officer. AST confiscated such certificates because they were not then shown as valid certificates representing the Company's issued and outstanding common stock. Based on further investigation by AST, the Company believes that its former stock transfer agent had transferred the shares represented by such certificates to third parties, but had not received the original certificates representing such shares at the time of those transfers. Nor did the former transfer agent obtain documentation indicating that such certificates had been lost, stolen or destroyed. Several years after the shares represented by such certificates had been transferred, Mr. Wood then tendered the original certificates to Merrill Lynch with instruction to sell the shares represented by such certificates. Merrill Lynch then sold such shares and tendered the certificates to AST for transfer, at which time AST confiscated the certificates.

On March 28, 2000, the Company received a letter from counsel for Merrill Lynch. In that letter, Merrill Lynch advised the Company of its intention to enforce its clients' rights to compel the Company to recognize the transfers of the shares represented by the certificates tendered by Mr. Wood under Article 8 of the Uniform Commercial Code as adopted by the State of Utah. The Company complied with Merrill Lynch's demand. The net effect of this action was that the Company was required to recognize as having been previously issued 208,000 shares of common stock that were not then shown as being issued and outstanding on the books and records of the Company.

Page 43

### (12) STOCKHOLDERS' EQUITY-(continued)

On March 29, 2000, the Company filed a lawsuit in Utah state court against Mr. Wood, WAC Research, Inc. ("WAC") and Muito Bem Ltd Partnership ("Muito Bem"), Alpha Tech Stock Transfer & Trust Company, the Company's former stock transfer agent ("Alpha Tech"). Both WAC and Muito Bem are entities affiliated with Wood. The case sought damages from all defendants, and specifically asked the court to award to the Company the proceeds of the sales by WAC and/or Muito Bem of the shares that the Company was compelled to reinstate on the basis that those entities and their principals had been unjustly enriched. In a settlement, dated April 12, 2000, among Wood, WAC, Muito Bem, Merrill Lynch and the Company, the Company received cash in the amount of \$200,714, in exchange for which it released its claims for further damages against Wood, WAC, Muito Bem and Merrill Lynch. The Company's claims against Alpha Tech are still pending.

On April 4, 2000 the Company recognized as having been previously issued the 208,000 shares of common stock. As a result, the Company recognized a one time non-cash expense of \$169,734, which is the difference between the fair market value of the 208,000 shares as of the date of such recognition, or \$370,448, and the \$200,714 cash received.

On May 18, 2000 the Company entered into a Stock Purchase Agreement (the "May 2000 Stock Purchase Agreement") with three offshore investors. Under the May 2000 Stock Purchase Agreement, the offshore investors agreed to purchase and acquire from the Company shares of the Company's common stock, having an aggregate purchase price of at least \$775,000 (the "Minimum Investment Amount") and a maximum aggregate purchase price of \$1,000,000. The number of shares

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

issuable to the investors in consideration of their payment of the purchase price was calculated as follows (i) as to the Minimum Investment Amount, by dividing the total dollar amount of the Minimum Investment Amount paid to the Company as of closing, by \$1.3125, which was 100% of the fair market value of the Company's common stock as of the date of the May 2000 Stock Purchase Agreement, and (ii) as to any additional amount invested over the Minimum Investment Amount, by dividing the total dollar amount of such additional amount paid to the Company by 100% of the average of the closing bid prices of the Company's common stock for the five trading days immediately preceding the date of actual payment of such additional amount. The Company received the Minimum Investment Amount and subsequently issued a total of 590,476 shares of restricted common stock to the investors.

On February 4, 1999, the Company entered into a Deposit Payable Conversion Agreement, whereby a \$1,000,000 deposit received by the Company in early 1998 was cancelled and the Company issued 500,000 shares of restricted common stock under Regulation D to the depositor.

On November 4, 1999, the Company sold its corporate headquarters facility for \$2,865,000. Simultaneously with the sale, the Company entered into a 20-year leaseback agreement with the purchasing party. The net proceeds to the Company were \$831,000, after paying long-term debt secured by the building, broker and legal fees, and other ancillary charges. The proceeds from the sale were used for working capital purposes. As an additional inducement to the purchaser, the Company issued a total of 33,948 shares of its restricted common stock to the purchaser having a market value of \$35,000 based on the fair market value of the restricted stock on the date of issue. The party that purchased the building is not affiliated with or related to the Company or any of its officers or directors, and the terms of the transaction were the result of arms-length negotiations.

(13) BUSINESS SEGMENT INFORMATION

Information as to the operations of the Company in different business segments (rounded to the nearest thousandth) is set forth below based on the nature of the products and services offered. Management evaluates performance based on several factors, of which the primary financial measure is business segment operating income before noncash amortization of intangible assets ("EBITDA"). The accounting policies of the business segments are the same as those described in the summary of significant accounting policies.

Page 44

(13) BUSINESS SEGMENT INFORMATION-(continued)

REVENUES:	YEARS ENDED DECEMBER 31,	
	2000	1999
Telecommunication Headsets and Amplifiers and Telephone Accessories.....	\$ 6,084,000	\$ 7,320,000
Flashlights.....	1,819,000	1,810,000
Hardware/Houseware.....	791,000	845,000
Mass Market.....	-	992,000
Total.....	\$ 8,694,000	\$10,967,000

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

OPERATING INCOME (LOSS):	YEARS ENDED DECEMBER 31,	
	2000	1999
Telecommunication Headsets and Amplifiers and Telephone Accessories.....	\$ (1,318,000)	\$ (1,234,000)
Flashlights.....	(1,882,000)	(1,251,000)
Hardware/Houseware.....	(400,000)	(536,000)
Mass Market.....	-	6,000
<b>Total.....</b>	<b>\$ (3,600,000)</b>	<b>\$ (3,015,000)</b>

DEPRECIATION AND AMORTIZATION (1):	YEARS ENDED DECEMBER 31,	
	2000	1999
Telecommunication Headsets and Amplifiers and Telephone Accessories.....	\$ 342,000	\$ 404,000
Flashlights.....	123,000	77,000
Hardware/Houseware.....	69,000	79,000
Discontinued operations.....	37,000	28,000
<b>Total.....</b>	<b>\$ 571,000</b>	<b>\$ 588,000</b>

(1) Amortization includes all amortization relating to product license rights, goodwill, non-competes and purchased patents.

Information as to the assets and capital expenditures of the Company is as follows:

ASSETS (1):	YEARS ENDED DECEMBER 31,	
	2000	1999
Telecommunication Headsets and Amplifiers and Telephone Accessories.....	\$ 4,098,000	\$ 5,905,000
Flashlights.....	1,111,000	1,943,000
Hardware/Houseware.....	554,000	742,000
Discontinued operations.....	179,000	47,000
<b>Total assets for reportable segments.....</b>	<b>5,942,000</b>	<b>8,637,000</b>

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Other assets.....	92,000	119,000
Deferred loan costs and other assets not allocated to segments.....	240,000	697,000
Consolidated total.....	\$ 6,274,000	\$ 9,453,000

Page 45

(13) BUSINESS SEGMENT INFORMATION- (continued)

CAPITAL EXPENDITURES:	YEARS ENDED DECEMBER 31,	
	2000	1999
Telecommunication Headsets and Amplifiers and Telephone Accessories.....	\$ 283,000	\$ 222,000
Flashlights.....	93,000	87,000
Hardware/Houseware.....	-	-
Discontinued operations.....	-	28,000
Total.....	\$ 376,000	\$ 337,000

Information as to the Company's operations in different geographical areas is as follows:

REVENUES:	YEARS ENDED DECEMBER 31,	
	2000	1999
United States.....	\$ 8,432,000	\$ 10,793,000
Other (1).....	262,000	174,000
Total.....	\$ 8,694,000	\$ 10,967,000

(1) Includes Canada, Europe and other miscellaneous.

OPERATING LOSS:	YEARS ENDED DECEMBER 31,	
	2000	1999
United States.....	\$ (3,600,000)	\$ (3,015,000)

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

ASSETS:	YEARS ENDED DECEMBER 31,	
	2000	1999
United States.....	\$ 6,083,000	\$ 9,083,000
Asia.....	191,000	370,000
Total.....	\$ 6,274,000	\$ 9,453,000

(14) DISCONTINUED OPERATIONS

On November 22, 2000, the Company completed the sale of substantially all of the assets associated with its Neat Things!(TM) home organization and storage product line to Expandable Home Organizers, Inc., a California corporation ("EHOI"). The consideration EHOI paid for such assets at closing was \$1,498,717 consisting of cash payments of \$847,553 and the assumption by EHOI of liabilities of the Company incurred in connection with the Neat Things! Division to the primary outside supplier of that division.

In addition to the consideration received at closing, EHOI agreed to purchase additional inventory related to the Neat Things! Division located at the Company's Salt Lake City, Utah headquarters. The purchase price of \$77,780 paid by EHOI for the inventory was the Company's actual costs of purchasing such inventory. EHOI is unaffiliated with the Company. The financial terms of the transaction were negotiated by management of the Company and EHOI.

Page 46

(14) DISCONTINUED OPERATIONS-(continued)

Assets of the Neat Things! Division sold to EHOI include intellectual property rights either owned by or licensed to the Company, inventory, fixed assets, and other tangible and intangible assets such as contract rights with suppliers, customers and sales representatives. Excluded from the assets sold to EHOI are the accounts receivable of the Company related to the Neat Things! Division.

Net assets of discontinued operations are as follows:

	Year ended December 31, 2000	Year ended December 31, 1999
Assets:		
Receivables, Net	\$ 309,707	\$ -
Inventory, Net	40,356	186,557
Equipment, Net	-	195,573
	\$ 350,063	\$ 382,130
Liabilities:		
Accounts payable	\$ -	\$ 154,079
Accrued advertising	150,000	150,000
Accrued royalties	21,190	30,682



Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

	\$ 171,190	\$ 334,761
Net assets of discontinued operations	\$ 178,873	\$47,369

Condensed discontinued operations are as follows:

	Year ended December 31, 2000	Year ended December 31, 1999
	-----	-----
Revenue	\$ 4,018,502	\$ 3,802,760
Costs and expenses	3,704,469	3,383,340
Net income before income taxes	314,033	419,420
Income taxes	-	-
Net income	\$ 314,033	\$ 419,420

(15) RELATED PARTY TRANSACTIONS

Since prior to 1990, the Company's subsidiary Softalk, Inc., has been a party to a series of royalty agreements with WAC Research Inc., a Utah corporation ("WAC"). The WAC agreements purported to obligate the Company to pay, in perpetuity, royalties on all sales of Softalk shoulder rest products in exchange for the sale to Dynatec of unspecified intellectual property rights associated with the Softalk products. At the time the WAC agreements were negotiated and executed, Donald M. Wood, served as both the Company's Chairman and Chief Executive Officer, and was a shareholder and the president of WAC. The Company believes that WAC obtained rights to the design patents employed in the Softalk products in 1986, when WAC purchased them from the inventor of Softalk and related products in a private transaction. Documents manifesting the assignment to Softalk or Dynatec of the patents were subsequently executed and filed in the U.S. Patent and Trademark Office. Softalk originally filed for and has continued to maintain the registrations of the Softalk trademarks. Notwithstanding the expiration of the design patent

Page 47

(15) RELATED PARTY TRANSACTIONS (Continued)

covering the original Softalk shoulder rest product in 1990, WAC continued to be paid royalties on all Softalk products. When, in January 1999, Mr. Wood resigned from Dynatec, the Company continued to pay the WAC royalties until, in August 2000, the Company advised WAC that in light of the expiration of the patent for the Softalk product in 1990 the Company would no longer pay royalties for products incorporating expired patents, would not agree to pay royalties on other products in perpetuity, and was seeking reimbursement for royalties paid with respect to the core Softalk product after the expiration of the patent in 1990. WAC disagreed with the Company's position. Litigation ensued. See "Legal Proceedings." Pending resolution of the litigation, the Company has discontinued the payment of all royalties to WAC. Prior to August 2000, and during the years ended December 31, 2000 and 1999, the Company paid WAC \$94,677 and \$298,420, respectively, in royalties.

In July 1998, the Company's Board of Directors commenced an internal investigation into the facts and circumstances of a number of transactions between the Company and certain of its officers and directors as well as several general corporate and management concerns brought to the attention of the Company's independent directors. The Company engaged an unrelated third party to conduct the investigation, which concluded in January 1999. Thereafter, the Company's former Chairman and CEO resigned and retired from the Company. The

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Company does not anticipate taking further action, legal or otherwise, with respect to the matters and individuals investigated, although the Company, through its new management, has identified several areas in which new corporate governance policies have been adopted or old policies changed. In connection with the investigation, several of the Company's directors engaged independent legal counsel. An aggregate of \$112,938 of such legal fees were reimbursed by the Company pursuant to action by the Company's Board of Directors at the commencement of the investigation.

### (16) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. Financial instruments are included in the consolidated balance sheets at carrying cost. The carrying amounts approximate fair value for cash, trade accounts receivable, prepaid expenses and other current assets, other assets, accounts payable, and accrued expenses because of the short maturity of these instruments.

Because the blended interest rate of debt approximates the current interest rates available, the carrying value of debt instruments also approximates fair market value.

### (17) STOCK OPTIONS

The Company has established three stock option programs under which it has granted both non-qualified and incentive stock options to employees, board members, and certain related entities. Under the Company's 1996-1997 non-qualified stock option program (the "Non-Qualified Plan"), the Company granted options to acquire 1,640,000 shares of common stock. The 1996 Incentive Option Plan ("1996 Plan") provides for grants of qualified stock options to acquire a maximum of 300,000 shares of common stock, of which 200,000 options have been granted to date. The exercise price of options granted to employees under either option program equals the market price on the date of grant, and as a result no compensation expense has been recognized in the accompanying financial statements.

Page 48

In January 1999, the Company's former Chairman and CEO, and holder of 900,000 of the options granted in December 1996 (500,000 shares) and January 1997 (400,00 shares) under the Non-Qualified Plan, agreed to cancel those options. In addition to the non-qualified options granted to employees to date, the Company granted options to purchase 537,500 shares of common stock to Muito Bem Ltd., an entity controlled by a shareholder and former CEO of the Company, at a strike price of \$2.50 per share in December 1996. The shareholder and former executive officer of the Company who owns Muito Bem, Ltd. agreed in January 1999 to cancel all stock options issued to Muito Bem, Ltd.

### (17) STOCK OPTIONS-(continued)

In May 1999, the Company's Board of Directors adopted the Company's 1999 Stock Option And Incentive Plan (the "1999 Plan"). Under the 1999 Plan, a total of 640,000 shares were reserved for issuance in the form of non-qualified stock options or qualifying Incentive Stock Options. As of December 31, 2000, the compensation committee of the Company's Board of Directors has granted stock options under the 1999 Plan to purchase a total of 344,000 shares of common stock to various executives, employees and directors of the Company. Such options were granted as non-qualified options having terms of 10 years from the date of grant. All such options have an exercise price of between \$1.00 and \$1.75 per share, with a weighted average price of \$1.568 per share. The exercise

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

price for the options were 100% of the fair market value on the grant date.

The Company's qualified options issued to employees in December 1996 and January 1997 may be exercised upon the holder-employee's continued employment with the Company for six years and the Company's achievement of profitable operations for three out of those six years. Such options expire ten years from the date of the grant. Options granted under the 1996 non-qualified Plan become exercisable as of the date of grant and expire five years from the date of grant, or three months following termination, or 24 months following death of the employee.

Summary of stock options is as follows for the years ended December 31:

	2000		
	Shares (000's)	Weighted Average Exercise Price	Shares (000's)
<b>FIXED OPTIONS:</b>			
Outstanding at beginning of year.....	937	\$1.819	909
Granted.....	19	\$1.625	635
Exercised.....	--	--	--
Canceled.....	(359)	\$1.579	(607)
Outstanding at end of year.....	597	\$1.963	937
Options exercisable at year-end.....	592	\$1.966	547
Weighted average fair value of options granted during the year.....	\$1.625		\$1.495
Weighted average remaining contractual life for exercisable options at year-end.....	8.3 years		8.5 years
	2000		
<b>VARIABLE OPTIONS:</b>			
Outstanding at beginning of year.....	325	\$2.00	1,640
Granted.....	--	--	--
Canceled.....	(175)	\$2.00	(1,315)
Outstanding at end of year.....	150	\$2.00	325

(17).....STOCK OPTIONS-(continued)

The following table summarizes information about stock options outstanding at December 31, 2000:

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

FIXED OPTIONS	OPTIONS OUTSTANDING			OPTIONS
Range of exercise prices	Outstanding as of 12/31/00	Weighted-average remaining contractual life	Weighted-average exercise price	Exercisable as of 12/31/00
\$ 1.00 - 1.50	32,000	9	\$1.01	32,000
\$ 1.51 - 2.25	312,000	9	\$1.63	307,375
\$ 2.26 - 2.50	253,000	7.3	\$2.50	253,000
	597,000			592,375

The Company applies the intrinsic value method under APB No. 25 in accounting for stock-based employee compensation arrangements. Had compensation cost for the Company's stock option plans been determined pursuant to the fair value method under SFAS No. 123, the Company's net loss and net loss per share would have increased accordingly. The fair value of options granted under the Company's 1999 stock option plan have been estimated using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%, risk free interest rate of 6.0%, expected volatility of 132.9% and expected lives of 10 years.

	2000	1999
Net loss	As reported \$ (3,158,931) Pro Forma \$ (3,317,743)	\$ (3,477,500) \$ (4,157,700)
Basic and diluted loss per share	As reported \$ (0.61) Pro Forma \$ (0.64)	\$ (1.00) \$ (1.00)

(18) EMPLOYEE BENEFITS

The Company also has a defined contribution plan which is a qualified retirement plan under section 401(k) of the Internal Revenue Code. Under the terms of the Plan, employees may make contributions to the Plan and are eligible to participate in the Plan immediately. The Company has not made matching contributions to the Plan.

(19) COMMITMENTS & CONTINGENCIES

Employment Agreements

The Company has entered into employment agreements with the Company's Chief executive officer and executive vice president of sales that provide for a period of employment of four years from the date of the agreements, subject to termination and extension provisions. The agreements permit each of them to participate in any incentive compensation plan adopted by the Company and benefit and equity-based plans or arrangements. If the Company terminates either executive employment for cause, or if either of them terminates their employment without good reason, the Company has no further obligation to pay them under their respective agreements. If the Company terminates either of them without cause, the terminated executive may receive severance pay equal to two years of

his then current annual salary. In the event of a merger, acquisition, dissolution or transfer of substantially all of the Company's assets, the employment agreements must then be honored by the surviving entity or it must purchase the

Page 50

(19) COMMITMENTS & CONTINGENCIES (continued)

agreements for a sum equal to three (3) years' base salary. The employment agreements prohibit each executive for two years from the date of termination of their respective employment under the agreements, from becoming an employee, owner (except for investments in up to 5% of the equity securities of a company listed or traded on a national securities exchange or the NASDAQ Stock Market), officer, agent or director of a firm or person that competes with the Company in the consumer products industry. The employment agreements have customary provisions for vacation, fringe benefits, payment of expenses and automobile allowances.

Litigation

On February 8, 2001, the Company waived service of summons with respect to a complaint filed in the U.S. District court in the District of Utah by K&S Flashlight, Inc. ("K&S"), a Taiwan company that was the Company's flashlight supplier from 1998 through 2000. The lawsuit names as defendants both Dynatec and its subsidiary, Nordic Technologies, Inc. The lawsuit alleges that the Company owes K&S in excess of \$100,000 for the Company's alleged failure to pay amounts due to K&S for flashlight products shipped during 2000, and seeks damages in an unspecified amount. The Company intends to answer and otherwise defend the lawsuit.

On August 4, 2000, the Company filed suit (the "Utah WAC Action") against WAC Research, Inc., a Utah corporation ("WAC"), in Utah state court in Salt Lake City, Utah. WAC is a corporation at least fifty percent of which is owned by Donald M. Wood ("Wood"), the Company's former Chairman and Chief Executive Officer. The dispute with WAC arose out of a series of royalty agreements between the Company and WAC dated in 1990 and 1998 that purported to obligate the Company to pay perpetual royalties to WAC on sales of products in the Company's telephone accessories product line. In return for this perpetual royalty (which the Company paid for approximately 10 years) WAC purported to assign and grant to the Company the intellectual property rights underlying certain of the Company's Softalk products. At the times the WAC agreements were negotiated, Wood controlled both WAC and the Company. The Company amended its complaint in the Utah WAC Action on August 29, 2000 and on October 19, 2000. After the Company was unable to negotiate a settlement of its disputes with WAC, and after WAC filed its own complaint in state court in Phoenix, Arizona (the "Arizona WAC Action") on October 6, 2000, the Company served process in the Utah WAC Action. The Company's complaint in the Utah WAC Action, as amended to date, seeks the court's declaration that no further royalties are owed by the Company to WAC because, among other reasons, (i) WAC never had any interest in or to any of the intellectual property rights underlying the Company's Softalk products, (ii) WAC breached its representations and warranties of ownership as to such intellectual property rights as set forth in the WAC agreements, (iii) patents covering certain of the key products in the Company's Softalk product line have expired, and such products are not otherwise covered by enforceable copyrights or other intellectual property rights, (iv) the Company owns all trademark rights with respect to its Softalk products, (v) WAC has no right to continue forcing the Company to pay royalties under expired patents, (vi) WAC's ongoing attempts to enforce the WAC royalty agreements constitute patent misuse, and (vii) as a consequence of WAC's patent misuse, WAC is liable to the Company for royalties paid under a 1998 agreement between WAC and the Company. The complaint in the Utah WAC Action also includes claims for damages stemming from WAC's

alleged patent misuse, failure of consideration, unjust enrichment and additional declaratory relief. WAC's complaint in the Arizona WAC Action alleges that WAC made unspecified loans to the Company that were never repaid, and that the Company is in breach of its royalty payment obligations under the WAC royalty agreements. In the Arizona WAC Action, WAC sought declaratory judgment that the Company is required prospectively to pay royalties under the WAC agreements and for money damages in the amount of \$308,841. The Company moved to dismiss the Arizona WAC Action for lack of jurisdiction or, in the alternative to stay the Arizona WAC Action pending a resolution of the Utah WAC Action. On February 26, 2001, the court in the Arizona WAC Action granted the Company's motion to dismiss that action. On March 27, 2001, WAC filed a counterclaim against the Company in the Utah WAC Action. This counterclaim asserts claims that are identical to those that were asserted by WAC in the Arizona WAC Action before it was dismissed. The Utah WAC Action is still pending, and the Company intends to vigorously prosecute it.

Page 51

(19) COMMITMENTS & CONTINGENCIES (continued)

In February 1999, Mag Instrument, Inc., a manufacturer and distributor of flashlights and one of the Company's competitors ("Mag"), filed a lawsuit against the Company's subsidiary, Nordic Technologies, Inc. ("Nordic"), of infringing certain of Mag's patents and committing false advertising and unfair competition. The lawsuit was filed in the U.S. District Court for the Central District of California. The Company and Mag attempted to settle that lawsuit, and entered into an agreement whereby the lawsuit was dismissed without prejudice, with Mag having the express right to refile the complaint in the same court and venue. No settlement was ever reached. On October 30, 2000, Mag filed a new complaint in the same federal district court that it subsequently served on the Company. The new Mag complaint alleges that Nordic has infringed two patents and related trademarks owned by Mag, and also has engaged in unfair competition arising out of Nordic's alleged use of a flashlight design that is confusingly similar to the shape, style and overall appearance of Mag's miniature "AA" light, all in violation of various provisions of federal and California state law. Mag seeks unspecified money damages, punitive damages and injunctive relief. The Company does not believe that any of Nordic's flashlight products have infringed any patents or trademarks of Mag, and intends to vigorously defend the suit.

On May 4, 2000, Grandur, Inc., a Taiwan corporation ("Grandur"), sued the Company in the United States District Court for the District of New Jersey. The summons and complaint were served on the Company in Salt Lake City, Utah on May 12, 2000. The complaint alleges that the Company has breached a manufacturing agreement between the Company and Grandur pursuant to which the Company is alleged to have a minimum annual purchase requirement and an exclusive manufacturing arrangement with Grandur for the Company's Twisstop product. The complaint further alleges that Grandur is entitled to recover, in addition to such damages as may be proved at trial, liquidated damages per the terms of the contract in the amount of \$500,000. Grandur and the Company have entered into an oral agreement to settle this litigation and are making efforts to memorialize their agreement. On February 6, 2001, Grandur and the Company reported the terms as their settlement to the court. On February 7, 2001, the court entered an order conditionally dismissing the lawsuit subject to being reopened if the settlement is not consummated. In the event the settlement is not consummated, the Company intends to vigorously defend the lawsuit.

In February 2000, Merrill Lynch & Co., Inc. ("Merrill Lynch") notified the Company that American Stock Transfer & Trust Co., New York, New York, the Company's stock transfer agent ("AST"), had confiscated three separate certificates purporting to represent a total of 208,000 shares of restricted

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

common stock issued in the name of an entity affiliated with Donald M. Wood, the Company's former Chairman and Chief Executive Officer. AST confiscated such certificates because they were not then shown as valid certificates representing the Company's issued and outstanding common stock. Based on further investigation by AST, the Company believes that its former stock transfer agent had transferred the shares represented by such certificates to third parties, but had not received the original certificates representing such shares at the time of those transfers. Nor did the former transfer agent obtain documentation indicating that such certificates had been lost, stolen or destroyed. In January 2000, several years after the shares represented by such certificates purportedly had been transferred, the original certificates were tendered to Merrill Lynch with instruction to sell the shares represented by such certificates. Merrill Lynch then sold such shares and tendered the certificates to AST for transfer, at which time AST confiscated the certificates. On March 28, 2000, the Company received a letter from counsel for Merrill Lynch. In that letter, Merrill Lynch advised the Company of its intention to enforce its clients' rights to compel the Company to recognize the transfers of the shares represented by the certificates tendered to it in January 2000 under the Uniform Commercial Code as adopted by the State of Utah. The Company complied with Merrill Lynch's demand. The net effect of this action was that the Company was required to recognize as having been previously issued 208,000 shares of common stock that were not then shown as being issued and outstanding on the books and records of the Company. On March 29, 2000, the Company filed a lawsuit in Utah state court against Mr. Wood, WAC Research, Inc. ("WAC") and Muito Bem Ltd Partnership ("Muito Bem"), Alpha Tech Stock Transfer & Trust Company, the Company's former stock transfer agent ("Alpha Tech"). Both WAC and Muito Bem are entities affiliated with Wood. The case sought damages from all defendants, and specifically asked the court to award to the Company the proceeds of the sales by WAC and/or Muito Bem of the shares that the Company was compelled to reinstate on the basis that those entities and their principals had been unjustly enriched. In a settlement, dated April 12, 2000, among Wood, WAC, Muito

Page 52

### (19) COMMITMENTS & CONTINGENCIES (continued)

Bem, Merrill Lynch and the Company, the Company received cash in the amount of \$200,714, in exchange for which it released its claims for further damages against Wood, WAC, Muito Bem and Merrill Lynch. The Company's claims against Alpha Tech are still pending.

On December 7, 1999, Donald M. Wood, the former Chairman and Chief Executive Officer of the Company, and the Stith Law Office (Wood's personal legal counsel) filed a lawsuit in the District Court of Salt Lake County, State of Utah (Case No. 990912153). In that lawsuit, Wood and Stith asserted that the Company has breached a Settlement Agreement executed by the Company and Wood upon Wood's resignation as the Company's Chairman and Chief Executive Officer, effective as of January 14, 1999. The lawsuit includes claims for breach of contract, fraud and intentional infliction of emotional distress, and seeks money damages and punitive damages in the aggregate amount of \$1,162,246. On February 7, 2000, the Company filed its answer to the Wood litigation, in which the Company asserted that its payment obligations under the Settlement Agreement were excused by repeated breaches by Wood of various covenants of the Settlement Agreement. Simultaneously, the Company filed a counterclaim against Wood for money damages incurred by the Company as a result of Wood's various breaches of the Settlement Agreement. The Company also simultaneously filed motions to dismiss the fraud and intentional infliction of emotional distress claims. The Company's management believes the Wood litigation is without merit and intends to vigorously defend.

On March 19, 1999, Alpha Tech Stock Transfer Company ("Alpha Tech")

filed a lawsuit against the Company in Utah state court in Salt Lake City, Utah. Alpha Tech was the Company's stock transfer agent for a period of approximately ten years until the Company terminated its relationship with Alpha Tech in January 1999 and instructed Alpha Tech to transfer the Company's stock transfer records to American Stock Transfer, New York, New York. The complaint alleges that the Company breached its service contract with Alpha Tech by failing to pay \$132,165 to Alpha Tech for transfer agent services rendered and reimbursement for legal expenses incurred by Alpha Tech. Alpha Tech never served the complaint; the Company learned about the complaint through an unrelated third party. In March 2000, Alpha Tech refiled essentially the same complaint, thereby commencing another lawsuit against the Company. The March 2000 complaint is virtually identical to the March 1999 complaint. In April 2000, the Company accepted service of process, and has filed a motion to dismiss the March 2000 complaint. The Company disputes the claims of Alpha Tech's complaint and intends to vigorously defend this action.

On April 27, 1998, the Enforcement Division of the Securities and Exchange Commission notified the Company that the SEC was anticipating filing an administrative proceeding in the latter part of calendar year 1998 against various individuals and entities who had engaged in transactions with a Canadian corporation. The SEC Enforcement Division further indicated that the Company may be named as a defendant in such administrative action. In July 1998, the Company submitted a Wells Submission to clarify why, in the Company's estimation, it should not be named in the administrative proceeding, if any. The Company suggested in the Wells Submission that it should not be named in any administrative proceeding because the Company never consummated either of the two transactions with the subject Canadian company that the Company was considering, and the Company received no consideration in connection with those aborted transactions. Moreover, the Company believes that its conduct in connection with those proposed but aborted transactions met applicable legal requirements. As of December 31, 2000, the Company had received no response from the Enforcement Division about whether the SEC plans to name the Company in any administrative action.

In addition, the Company has previously disclosed that, in the first quarter of 1999, it was informed of an investigation by the Enforcement Division of the Securities and Exchange Commission. The Company believes this investigation concerns certain trading activity in the Company's common stock and other transactions involving the Company's securities, however, the Company has not been informed of the specifics of such investigation. The Company has cooperated fully with these administrative proceedings. The Company had no contact from the Enforcement Division regarding this investigation during the entirety of 2000.

Page 53

(19) COMMITMENTS & CONTINGENCIES (continued)

On February 12, 1998, Fuji Corporation filed a claim with the International Trade Commission seeking a cease and desist order against approximately 30 entities. Fuji sought to enlist the aid of the U.S. Customs Department in preventing the importation of single-use cameras which are manufactured by any of the defendant entities and which infringe the patents of Fuji. The Company does not manufacture single-use cameras, but previously has distributed single-use cameras which have been refurbished and reloaded in mainland China. The Company was therefore involved in the Fuji proceeding. The Company engaged intellectual property counsel and vigorously defended its position until December 1998, when the Company sold its remaining inventory of single-use cameras to another entity. In connection with that sale, any liability of the Company in connection with the Fuji proceeding, including the costs of further defending the action, were assumed by the purchaser of the



## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Company's single-use camera inventory, although the Company nominally remains part of that litigation.

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these other matters will not have a material adverse effect on the Company's operations or financial condition.

### (20) RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivatives Instruments and Hedging Activities, in 1998. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. For a derivative not designated as a hedging instrument, changes in the fair value of the derivative are recognized in earnings in the period of change. As a result of SFAS No. 137 the effective date for SFAS No. 133 shall be in the first quarter of 2001. The Company does not believe the adoption of SFAS No. 133 will have a material affect on the financial position or results of operations of the Company.

SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, was issued in September 2000. SFAS No. 140 is a replacement of SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Most of the provisions of SFAS No. 125 were carried forward to SFAS No. 140 without reconsideration by the Financial Accounting Standards Board (FASB), and some were changed only in minor ways. In issuing SFAS No. 140, the FASB included issues and decisions that had been addressed and determined since the original publication of SFAS No. 125. SFAS No. 140 is effective for transfers after March 31, 2001. Management does not expect the adoption of SFAS No. 140 to have a significant impact on the financial position or results of operations of the Company.

Page 54

### (21) SUBSEQUENT EVENTS

In February 2001, and due to decreases in the Company's operating capital and borrowing availability, the Company entered into a relationship with Sarkat International, LLC ("Sarkat"), a limited liability company that is owned in part by Reed Newbold, who currently is a member of the Company's board of directors. In connection with this arrangement, Sarkat agreed to provide unsecured, revolving debt financing to Softalk, Inc. or Softalk Communications, Inc., each a subsidiary of the Company, in the aggregate amount of \$150,000. In exchange for each advance of funds by Sarkat, the Company (or its subsidiary directly receiving such funds) is to sign a promissory note obligating the Company to repay the principal amount advanced, plus interest calculated on a daily basis at the annual rate of the greater of eight percent or the actual rate of interest paid by Sarkat to obtain such funds, plus a "lender's premium" of 12.5% of the principal amount advanced. Such borrowed funds are disbursed by direct payment by Sarkat to the Company's supplier, who then ships product to the Company, which allows the Company to service pending orders from its customers.

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Principal, interest and lender's premiums payable to Sarkat are repaid out of loan advances from the Company's secured lender when the Company's accounts receivable borrowing base increases as result of the sales facilitated by the Sarkat loans. The Company's secured lender has consented to this mechanism. As of April 2, 2001, the Company owes Sarkat \$150,000 in principal and \$1,253 in interest. Sarkat has been paid \$27,619 in lender's premiums. Debt financing on similar or terms more preferential to the Company was not available to the Company at the time.

In a transaction related to the Sarkat financing described in the preceding paragraph, in January 2001, the Company's Nordic Technologies, Inc. subsidiary ("Nordic") formed a joint venture called Nordic ASI, L.L.C. that is owned 50% by Nordic and 50% by Sarkat. Nordic ASI was formed specifically to enable the Company to pursue sales of its flashlight product line (and other flashlights and products not then offered by the Company) in the advertising, specialty and promotional market (the "ASI Market"). Prior to the formation of Nordic ASI, the Company was not engaged directly in the ASI Market, although until the end of 2000, it was a supplier of flashlight products to one or more companies that sell in the ASI Market. As its capital contribution, the Company contributed rights to sell its products in the ASI Market to Nordic ASI, and agreed to incur the administrative expense associated with operating Nordic ASI and marketing its products for a period of two years. For its capital contribution, Sarkat agreed to provide \$200,000 of debt financing to Nordic ASI to enable it to start up its operations. Profits and losses of Nordic ASI will be allocated 70% to Nordic and 30% to Sarkat. Nordic ASI obtained the \$200,000 of debt financing provided by Sarkat and has commenced its business of selling to the ASI Market by ordering LED flashlights provided by an unaffiliated third party. The Company believes that, given its current financial condition, it could not have commenced any sales effort in the ASI Market or supplemented its product line for that market absent the formation of the joint venture with Sarkat. To date, no distributions have been made by Nordic ASI, and no profits or losses have been allocated.

Page 55

### Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

On January 5, 2001, the Company dismissed KPMG LLP ("KPMG") as its principal accountant and on January 5, 2001, the Company retained Tanner + Co., Salt Lake City, Utah ("Tanner"), as its principal accountant.

The reports of KPMG on the consolidated financial statements of the Company for the two fiscal years ended December 31, 1999 and 1998 contain no adverse opinion or disclaimer of opinion and were not qualified or modified as to any uncertainty, audit scope or accounting principle.

The Company's Board of Directors, as of January 5, 2001, had decided to change the Company's independent accountants and appointed Tanner to audit the books and accounts of the Company for the fiscal year ended December 31, 2000.

In connection with the audits for the fiscal years ended December 31, 1999 and 1998, and the subsequent period through January 5, 2001, there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of KPMG would have caused KPMG to make reference thereto in their reports on the financial statements for such years.

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

During the fiscal years ended December 31, 1999 and 1998, and the subsequent period through January 5, 2001, KPMG has not advised the Company of any reportable events (as defined in Item 304(a)(1)(iv)(B) of Regulation S-B issued by the Securities and Exchange Commission).

Page 55

### PART III

#### Item 9. Directors and Officers of the Registrant; Compliance With Section 16(a) of the Exchange Act

The following table sets forth certain information regarding the executive officers and directors of Dynatec as of March 10, 2001.

Name	Age	Title
Frederick W. Volcansek, Sr.....	54	Chairman of the Board of Directors and Chief Executive Officer
Lloyd M. "Tag" Taggart.....	56	Executive Vice President Sales
Mark W. Sperry.....	35	Vice President and Chief Accounting Officer
Reed Newbold.....	53	Director
Wayne L. Berman.....	43	Director
John P. Schmitz.....	45	Director

Mr. Volcansek was employed by the Company's Board of Directors as the Company's Chief Executive Officer on February 6, 1999. On that same day he was appointed Chairman of the Company's Board of Directors. Prior to that time, Mr. Volcansek served as an outside director of the Company from 1988 to February 6, 1999. Before accepting full-time employment as the Chief Executive Officer of the Company, from June 1996 to February 1999 Mr. Volcansek was the Vice

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

President of Development for TM Global Power, LLC and the President of Mosbacher Power do Brasil Ltda. in Houston, Texas. Mr. Volcansek also has several years' experience in international market development and as a political consultant for several large multi-national corporations, including US West, Enron and Ogden Corp. President Bush appointed Mr. Volcansek Deputy Under Secretary of the U.S. Department of Commerce (International Trade Administration) from June 19, 1992, after serving as Deputy Assistant Secretary of Commerce for Trade and Development from June 1990. Mr. Volcansek received a B.S. degree in 1967 from Texas Tech University.

Mr. Taggart joined the Company in April 1999. Prior to joining the Company, from 1994 to 1999, Mr. Taggart was the President and CEO of Sweet Water Ranch, Inc., a manufacturer of custom, handmade reproductions of the legendary western style Molesworth furniture. Mr. Taggart expanded distribution of that company's products from twenty-three states to all fifty states and eight foreign countries. After service in the United States Navy, in 1972, Mr. Taggart joined the Clorox Company's brand management team in Oakland, California. He also served for three terms as a Commissioner of the Colorado River Commission, a board that controls and markets \$25,000,000 of hydro electrical power generated by the Hoover Dam and 5,000,000,000 GPM of water allocated to Nevada from the Colorado River. Mr. Taggart received a B.S. degree from Brigham Young University in 1968.

Mr. Sperry joined the Company in February 1996. Until August 11, 2000 Mr. Sperry worked as the Company's controller. Before joining the Company Mr. Sperry worked in the accounting departments of Thatcher Chemical Company and Kennecott Utah Copper. He received his Masters of Business Administration in 1999 from Westminster College in Salt Lake City, Utah and a B.A. degree in Accounting from the University of Utah in 1991.

Page 56

Mr. Newbold has been an outside Director of the Company since 1988. In 1991, Mr. Newbold founded Newbold Financial, a financial planning and mortgage brokerage services company located in Salt Lake City, Utah. Since its founding, Mr. Newbold has been the founding principal of Newbold Financial. Prior to his founding of Newbold Financial, Mr. Newbold served as Vice President of Tracy Collins Bank & Trust in Salt Lake City, Utah.

Mr. Berman was appointed to the Company's Board of Directors on March 5, 1999. Mr. Berman presently is Managing Director of Park Strategies, L.L.C., an international business consultancy he founded in 1999. In that capacity, he advises companies including Lockheed Martin, American International Group, US West, BMW Corporation, AON Corporation and Philip Morris on matters relating to new business opportunities, international financing strategies and strategic relationships. Mr. Berman also is currently a Fellow at the Center for Strategic and International Studies and was recently appointed to the Library of Congress' Board of Trustees. From 1993 to 1999, Mr. Berman was Managing Director of Berman Enterprises, an international consultancy. Prior to that, Mr. Berman was Managing Partner of American Mercantile Group, a private merchant bank, in which capacity he developed and managed a \$100 million merchant banking fund specializing in middle-market American companies with underdeveloped exports. In January 1989, President George Bush appointed Mr. Berman Assistant Secretary of Commerce for Policy, a position he occupied until January 1991. He has held numerous other political positions, including Vice Presidential Campaign Director for Dole-Kemp (1996), member of the Budget and Policy Priorities Committee of the Pataki transition team (1994), Deputy Director and Executive Producer, 1992 Republican National Convention, Senior Staff and Director of Congressional Relations, Bush Campaign (1988), and Deputy Director of the Reagan-Bush Transition Team (1981). Mr. Berman received his Bachelor of Arts at the University of Buffalo and attended graduate school at Georgetown University.

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Mr. Schmitz was appointed to the Company's Board of Directors on September 16, 1999. Since 1993, he has been a partner at the Washington, D.C. office of the law firm of Mayer, Brown & Platt where his practice specializes in the areas of energy and environment, government and international. From 1989 to 1993 he was Deputy Counsel to President George Bush, and from 1985 to 1989 was Deputy Counsel to Vice President George Bush. From 1984 to 1985, he was an attorney at the firm of Wilmer, Cutler & Pickering, Washington, D.C. In 1984 he was employed at the Robert Bosch Foundation Fellowship, Office of Bundestag Member Matthias Wissmann, Bonn, and Office of General Counsel, Robert Bosch, GmbH, Stuttgart, Germany. From 1983 to 1984 he was law clerk to The Honorable Antonin Scalia, U.S. Court of Appeals for the District of Columbia, Washington, D.C. Mr. Schmitz received his J.D. from the Stanford Law School in 1981, his M.S. from the California Institute of Technology in 1978, and his B.A. from Georgetown University in 1976. His recent professional activities include, among other activities, the Carnegie Endowment for International Peace, Study Group on American-European Community Relations, 1993 to date; the International Republican Institute, Rule of Law Advisory Board, 1993 to date; U.S. Representative, Joint U.S.-Panama Commission on the Environment, 1993-1994; Member, U.S. Delegation, United Nations Conference on Environment and Development (UNCED), Rio de Janeiro, June 1992. He is admitted to the bars of Pennsylvania and the District of Columbia.

From October 29, 1999 through August 11, 2000 Michael L. Whaley served as Senior Vice President and Chief Financial Officer of the Company. Effective August 11, 2000, he resigned from the Company for personal reasons. Prior to joining the Company, Mr. Whaley worked for a year as an Engagement Manager for Prism Consulting International of Bethesda, Maryland, a strategy and operations consulting firm. Before that, he worked as the Director of Westinghouse Electric Corporation's Government Privatization Activities Division from February 1997 through August 1998, and as the Chief Financial Officer of Westinghouse's Commercial Nuclear Fuel Division from January 1993 through February 1997. Mr. Whaley received his B.S. degree in accounting from Norfolk State University in Norfolk, Virginia, and received a Certificate of Completion of the Harvard Business School Program for Management Development in 1996.

Compliance with Section 16(a) of the Exchange Act

During the year ended December 31, 2000, as far as the Company is aware, all officers and directors prepared and timely filed all Forms 3, 4 and 5 required by Section 16(a) of the Exchange Act.

Board Compensation

In June 1999, the Company issued stock options to the non-employee members of the Board of Directors, which option grants replace future cash compensation. Employee directors are not compensated for their services on the Board of Directors.

Board Committees

Two functioning committees of the Company's Board of Directors have been organized including (i) Compensation Committee and (ii) Audit Committee. Following is a brief description of each of these committees.

Compensation Committee. The Compensation Committee is composed of Messrs. Berman (Chairman) Newbold and Volcansek. The purpose of this committee is to ensure that the Company has a broad plan of executive compensation that is competitive and motivating to the degree that it will attract, hold and inspire performance of managerial and other key personnel of a quality nature and that will enhance the growth and profitability of the Company.

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Audit Committee. The Audit Committee is comprised of Messrs. Newbold (Chairman), Berman and Volcansek. The purpose of the Audit Committee is to provide oversight and review of the Company's accounting and financial reporting process in consultation with the Company's independent auditors.

### Indemnification and Compensation

The Company's Bylaws authorize the Company to indemnify its present and former directors and officers and to pay or reimburse expenses for such individuals in advance of the final disposition of a proceeding upon receipt of an undertaking by or on behalf of such individuals to repay such amounts if so required.

Page 57

### Item 10. Executive Compensation

The following table sets forth information with regard to compensation for services rendered in all capacities to the Company by the (i) Chief Executive Officer, (ii) the four most highly compensated executive officers other than the CEO who were serving as executive officers at the end of the last completed fiscal year and (iii) two additional individuals for whom disclosure would have been provided, but for the fact that the individual was not serving as an executive officer at the end of the last completed fiscal year. Information set forth in the table reflects compensation earned by such individuals for services with the Company or its subsidiaries.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long Term Co Awards	
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Award(s) (\$)	Securities Underlying Options/ SARs (1) (#)
Frederick W. Volcansek, Sr. (2) Chairman and CEO	2000	205,000	-	25,933	-	-
	1999	175,795	-	38,902	-	125,000
	1998	-	-	-	-	-
Lloyd M. Taggart (3) Executive Vice President Sales	2000	168,900	-	4,818	-	-
	1999	107,267	-	3,570	-	110,000
	1998	-	-	-	-	-
Michael L. Whaley (4) Former Sr. Vice President and Chief Financial Officer	2000	144,000	-	326	-	-
	1999	24,167	-	85	-	100,000
	1998	-	-	-	-	-

(1) An incentive stock option plan was implemented in May 1999. Options were granted as approved by the Board of Directors on July 6, 1999.

(2) Employed as Company's Chief Executive Officer on February 6, 1999. Other

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

annual compensation includes, personal use of a company vehicle of \$2,582, premiums paid on life insurance of \$6,880 and non-deductible moving expenses of \$16,471.

- (3) Employed as Company's Executive Vice President of sales on April 6, 1999. Other annual compensation includes personal use of a company vehicle of \$763, and premiums paid on life insurance of \$4,055.
- (4) Employed as Company's Sr. Vice President and Chief Financial Officer from October 29, 1999 to August 11, 2000. Other annual compensation consists of personal use of a company vehicle.

### Employment Agreements

Mr. Volcansek and Lloyd M. "Tag" Taggart, the Company's Executive Vice President of Sales, each have employment agreements that provide for a period of employment of four years from the date of the agreements, subject to termination and extension provisions. The agreements permit each of them to participate in any incentive compensation plan adopted by the Company and benefit and equity-based plans or arrangements. If the Company terminates either of Mr. Volcansek's or Mr. Taggart's employment for cause, or if either of them terminates their employment without good reason, the Company has no further obligation to pay them under their respective agreements. If the Company terminates either of them without cause, the terminated executive may receive severance pay equal to two years of his then current annual salary. In the event of a merger, acquisition, dissolution or transfer of substantially all of the Company's assets, the employment agreements must then be honored by the surviving entity or it must purchase the agreements for a sum equal to three (3) years' base salary. The employment agreements prohibit each of Messrs. Volcansek and Taggart for two years from the date of termination of their respective employment under the agreements, from becoming an employee, owner (except for investments in up to 5% of the equity securities of a company listed or traded on a national securities exchange or the NASDAQ Stock Market), officer, agent or director of a firm or person that competes with the Company in the consumer products industry. The employment agreements have customary provisions for vacation, fringe benefits, payment of expenses and automobile allowances. Mr. Volcansek's base salary is \$205,000 and Mr. Taggart's base salary is \$167,500.

Page 58

### Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of March 9, 2001 the number of shares of Common Stock of the Company beneficially owned by all persons known to be holders of more than five percent of the Company's Common Stock and by the executive officers and directors of the Company individually and as a group. Unless indicated otherwise, the address of the shareholder is the Company's principal executive offices, 3820 West Great Lakes Drive, Salt Lake City, Utah 84120.

#### BENEFICIAL OWNERS HOLDING FIVE PERCENT OR MORE OF THE SECURITIES

Name, Title, and Address of Beneficial Owner	Common Stock Beneficially Owned	Percent of March
Touchstone Transport Services 5% Beneficial Owner	457,660	8

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

c/o Oxford International Management, Inc.  
 Suite 1402, 14th Floor  
 PDCP Bank Centre, 8737 Paseo De Roxas  
 Cor. Makati Avenue, Makati City  
 Phillipines

Wilford A. Cardon 5% Beneficial Owner 1819 East Southern Avenue, Suite B-10 Mesa, Arizona 85204-5219	290,000 (1)	5
Frederick W. Volcansek, Sr. Chairman and Chief Executive Officer	126,100 (2)	2
Lloyd M. "Tag" Taggart Executive Vice President Sales & Marketing	100,000 (3)	1
Reed Newbold Director	30,300 (4)	
Wayne L. Berman Director	25,000 (3)	
John P. Schmitz Director	25,000 (5)	
Mark W. Sperry Vice President-Chief Accounting Officer	23,000 (6)	
Directors and Officers as a group	329,400	5

-----  
 \* Less than one percent.

- (1) Includes 90,000 shares and 200,000 options owned respectively by two entities affiliated with Mr. Cardon.
- (2) Includes 125,000 shares issuable on exercise of options having an exercise price of \$1.625 per share, and 1,100 shares.
- (3) All shares issuable on exercise of options having an exercise price of \$1.625 per share.
- (4) Includes 25,000 shares issuable on exercise of options having an exercise price of \$1.625 per share, and 5,300 shares.
- (5) All shares issuable on exercise of options having an exercise price of \$1.000 per share.
- (6) Includes 8,000 shares 10,000 shares and 5,000 shares issuable on exercise of options having an exercise price of \$2.500 per share, \$1.625 per share and \$1.063 per share, respectively.

During 1996, the Company's Board of Directors authorized grants of non-qualified stock options that are tied to the profitability of the Company and based upon minimum years of employment. Options to purchase a total of 840,000 shares at an exercise price of \$2.00 per share were granted. To vest, the holder-employee must continue his employment with the Company through the year 2001 and the Company must be profitable three out of four years commencing January 1, 1998. Additional non-qualified stock options for 800,000 shares with similar terms were granted on January 2, 1997. To vest, the holder-employee must continue his employment with the Company through the year 2001 and the Company must be profitable three out of four years commencing January 1, 1998.



## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

### Item 12. Certain Relationships and Related Transactions

In February 2001, and due to decreases in the Company's operating capital and borrowing availability, the Company entered into a relationship with Sarkat International, LLC ("Sarkat"), a limited liability company that is owned in part by Reed Newbold, who currently is a member of the Company's board of directors. In connection with this arrangement, Sarkat agreed to provide unsecured, revolving debt financing to Softalk, Inc. or Softalk Communications, Inc., each a subsidiary of the Company, in the aggregate amount of \$150,000. In exchange for each advance of funds by Sarkat, the Company (or its subsidiary directly receiving such funds) is to sign a promissory note obligating the Company to repay the principal amount advanced, plus interest calculated on a daily basis at the annual rate of the greater of eight percent or the actual rate of interest paid by Sarkat to obtain such funds, plus a "lender's premium" of 12.5% of the principal amount advanced. Such borrowed funds are disbursed by direct payment by Sarkat to the Company's supplier, who then ships product to the Company, which allows the Company to service pending orders from its customers. Principal, interest and lender's premiums payable to Sarkat are repaid out of loan advances from the Company's secured lender when the Company's accounts receivable borrowing base increases as result of the sales facilitated by the Sarkat loans. The Company's secured lender has consented to this mechanism. To date, the Company owes Sarkat \$150,000 in principal and \$1,253 in interest. Sarkat has been paid \$27,619 in lender's premiums. Debt financing on similar or terms more preferential to the Company was not available to the Company at the time.

In a transaction related to the Sarkat financing described in the preceding paragraph, in January 2001, the Company's Nordic Technologies, Inc. subsidiary ("Nordic") formed a joint venture called Nordic ASI, L.L.C. that is owned 50% by Nordic and 50% by Sarkat. Nordic ASI was formed specifically to enable the Company to pursue sales of its flashlight product line (and other flashlights and products not then offered by the Company) in the advertising, specialty and promotional market (the "ASI Market"). Prior to the formation of Nordic ASI, the Company was not engaged directly in the ASI Market, although until the end of 2000, it was a supplier of flashlight products to one or more companies that sell in the ASI Market. As its capital contribution, the Company contributed rights to sell its products in the ASI Market to Nordic ASI, and agreed to incur the administrative expense associated with operating Nordic ASI and marketing its products for a period of two years. For its capital contribution, Sarkat agreed to provide \$200,000 of debt financing to Nordic ASI to enable it to start up its operations. Profits and losses of Nordic ASI will be allocated 70% to Nordic and 30% to Sarkat. Nordic ASI obtained the \$200,000 of debt financing provided by Sarkat and has commenced its business of selling to the ASI Market by ordering LED flashlights provided by an unaffiliated third party. The Company believes that, given its current financial condition, it could not have commenced any sales effort in the ASI Market or supplemented its product line for that market absent the formation of the joint venture with Sarkat. To date, no distributions have been made by Nordic ASI, and no profits or losses have been allocated.

Since prior to 1990, the Company's subsidiary Softalk, Inc., has been a party to a series of royalty agreements with WAC Research Inc., a Utah corporation ("WAC"). The WAC agreements purported to obligate the Company to pay, in perpetuity, royalties on all sales of Softalk shoulder rest products in exchange for the sale to Dynatec of unspecified intellectual property rights associated with the Softalk products. At the time the WAC agreements were negotiated and executed, Donald M. Wood, served as both the Company's Chairman and Chief Executive Officer, and was a shareholder and the president of WAC. The Company believes that WAC obtained rights to the design patents employed in the Softalk products in 1986, when WAC purchased them from the inventor of Softalk and related products in a private transaction. Documents manifesting the

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

assignment to Softalk or Dynatec of the patents were subsequently executed and filed in the U.S. Patent and Trademark Office. Softalk originally filed for and has continued to maintain the registrations of the Softalk trademarks. Notwithstanding the expiration of the design patent covering the original Softalk shoulder rest product in 1990, WAC continued to be paid royalties on all Softalk products. When, in January 1999, Mr. Wood resigned from Dynatec, the Company continued to pay the WAC royalties until, in August 2000, the Company advised WAC that in light of the expiration of the patent for the Softalk product in 1990 the Company would no longer pay royalties for products incorporating expired patents, would not agree to pay royalties on other products in perpetuity, and was seeking reimbursement for royalties paid with respect to the core Softalk product after the expiration of the patent in 1990. WAC disagreed with the Company's position. Litigation ensued. See "Legal Proceedings." Pending resolution of the litigation, the Company has discontinued the payment of all royalties to WAC. Prior to August 2000, and during the years ended December 31, 2000 and 1999, the Company paid WAC \$94,677 and \$298,420, respectively, in royalties.

In July 1998, the Company's Board of Directors commenced an internal investigation into the facts and circumstances of a number of transactions between the Company and certain of its officers and directors as well as several general corporate and management concerns brought to the attention of the Company's independent directors. The Company engaged an unrelated third party to conduct the investigation, which concluded in January 1999. Thereafter, the Company's former Chairman and CEO resigned and retired from the Company. The Company does not anticipate taking further action, legal or otherwise, with respect to the matters and individuals investigated, although the Company, through its new management, has identified several areas in which new corporate governance policies have been adopted or old policies changed. In connection with the investigation, several of the Company's directors engaged independent legal counsel. An aggregate of \$112,938 of such legal fees were reimbursed by the Company pursuant to action by the Company's Board of Directors at the commencement of the investigation.

Page 60

### Item 13. Exhibits and Reports on Form 8-K

#### (a) Exhibits

No.	Description
3.1	Restated Articles of Incorporation of the Company. (Incorporated by reference from Registration Statement on Form SB-2 (File No. 333-57921) filed by the Company with the Securities and Exchange Commission (the "SEC") on June 25, 1998).
3.2	Amended and Restated Bylaws of the Company. (Incorporated by reference from Registration Statement on Form SB-2 (File No. 333-57921) filed by the Company with the SEC on June 25, 1998).
10.1	Convertible Debenture and Equity Line of Credit Agreement between the Company and five investors dated as of May 28, 1998. (Incorporated by reference from Current Report on Form 8-K filed by the Company with the SEC on June 8, 1998).
10.2	Form of Convertible Debentures issued in May 1998.

## Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

(Incorporated by reference from Current Report on Form 8-K filed by the Company with the SEC on June 8, 1998).

- 10.3 Form of A Warrants issued in conjunction with Convertible Debentures. (Incorporated by reference from Current Report on Form 8-K filed by the Company with the SEC on June 8, 1998).
  - 10.4 Form of B Warrants issued in conjunction with Convertible Debentures. (Incorporated by reference from Current Report on Form 8-K filed by the Company with the SEC on June 8, 1998).
  - 10.5 Registration Rights Agreement entered into with the holders of Convertible Debentures. (Incorporated by reference from Current Report on Form 8-K filed by the Company with the SEC on June 8, 1998).
  - 10.6 Modification Agreement between the Company and the holders of Convertible Debentures, dated as of June 25, 1999. (Incorporated by reference from Quarterly Report on Form 10-QSB for the period ended June 30, 1999).
  - 10.7 Amendment to Modification Agreement between the Company and the holders of Convertible Debentures, dated as of November 12, 1999. (Incorporated by reference from Quarterly Report on Form 10-QSB for the period ended September 30, 1999.)
  - 10.8 Convertible Debenture Retirement Agreement between the Company and the holders of the Convertible Debentures, dated as of February 1, 2000. (Incorporated by reference from Annual Report on Form 10-KSB for the year ended December 31, 1999.)
  - 10.9 Stock Purchase Agreement between the Company and seven investors, dated as of February 11, 2000. (Incorporated by reference from Annual Report on Form 10-KSB for the year ended December 31, 1999.)
  - 10.10 Employment Agreement between the Company and Frederick W. Volcansek, dated as of February 5, 1999. (Incorporated by reference from Annual Report on Form 10-KSB for the year ended December 31, 1998).
  - 10.11 Employment Agreement between the Company and Lloyd M. Taggart, dated as of June 22, 1999. (Incorporated by reference from Quarterly Report on Form 10-QSB for the period ended September 30, 1999.)
- Page 61
- 10.12 Employment Agreement between the Company and Michael L. Whaley, dated as of October 29, 1999. (Incorporated by reference from Quarterly Report on Form 10-QSB for the period ended September 30, 1999.)
  - 10.13 Commercial Lease between the Company and FRE II I Corporation, a California corporation, dated as of November 4, 1999. (Incorporated by reference from Quarterly Report on Form 10-QSB for the period ended September 30, 1999.)
  - 10.14 Commercial Real Estate Purchase Contract between the Company and Darwin Datwyler dated as of July 16, 1999, as amended through November 4, 1999. (Incorporated by reference from

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Quarterly Report on Form 10-QSB for the period ended September 30, 1999.)

- 10.15 Stock Purchase Agreement between the Company and three investors, dated as of May 18, 2000. (Incorporated by reference from Quarterly Report on Form 10-QSB for the period ended June 30, 2000).
- 10.16 Asset Purchase Agreement dated November 22, 2000, by and among Dynatec International, Inc., and Expandable Home Organizers, Inc., a California corporation (Incorporated by reference from Current Report on Form 8-K dated as of November 22, 2000).
- 10.17 Form of Promissory Note in favor of Sarkat International, L.L.C.
- 10.18 Articles of Organization of Nordic ASI, L.L.C.
- 10.19 Operating Agreement of Nordic ASI, L.L.C.
- 21 List of Subsidiaries of the Registrant (See, "Subsidiaries of the Company" at page 5).

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K on December 7, 2000, that contained Item 2. disclosure pertaining to the Company's disposition of the assets used in its Neat Things! home organization and storage unincorporated division. That report was amended by the filing of Amendment No. 1 on Form 8-K/A, which was filed on December 20, 2000 to file required pro forma financial information.

Page 62

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

DYNATEC INTERNATIONAL, INC.

/s/ Frederick W. Volcansek, Sr.	June 7, 2001
-----	-----
Frederick W. Volcansek, Sr.	Date
Chief Executive Officer	

Page 63

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities

Edgar Filing: DYNATEC INTERNATIONAL INC - Form 10KSB/A

Exchange Act of 1934, this amended report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	
/s/ Frederick W. Volcansek, Sr. ----- (Frederick W. Volcansek, Sr.)	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	June
/s/ Mark W. Sperry ----- (Mark W. Sperry)	Vice President, Chief Accounting Officer and Secretary (Principal Accounting Officer)	June
/s/ Wayne L. Berman ----- (Wayne L. Berman)	Director	June
/s/ Reed Newbold ----- (Reed Newbold)	Director	June
/s/ John P. Schmitz ----- (John P. Schmitz)	Director	June