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SYNERGY TECHNOLOGIES CORP
Form 10QSB
May 15, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: MARCH 31, 2002

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 0-26721

SYNERGY TECHNOLOGIES CORPORATION
(Exact name of small business issuer
as specified in its charter)

COLORADO 84-1379164
(State or other jurisdiction (IRS Employer
of incorporation or organization) Identification No.)

1689 Hawthorne Drive, Conroe, Texas 77301-3284
(936) 788-8220
(Issuer's telephone number)

NOT APPLICABLE
(Former name, former address and former
fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date:

39,799,262 shares of Common Stock, \$0.002 par value, as of May 10, 2002.

Transitional Small Business Disclosure Format
(check one): Yes No

SYNERGY TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

FINANCIAL STATEMENTS
(UNAUDITED)
PREPARED BY MANAGEMENT

MARCH 31, 2002

SYNERGY TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(PREPARED BY MANAGEMENT) FOR THE
THREE MONTH PERIOD ENDED MARCH 31, 2002

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SYNERGY TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS
ASSETS

AS AT
MARCH 31, 2002

AS AT
DECEMBER 31, 2001

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	(UNAUDITED)	
	-----	-----
CURRENT ASSETS		
Cash	\$ 9,514	\$ 38,746
Receivables (Note 5)	82,750	38,560
Receivables - related parties	--	--
Prepaid expenses	71,583	39,727
	-----	-----
TOTAL CURRENT ASSETS	163,847	117,033
INVESTMENTS (Note 3)		
SynGen Technologies	3,500,000	3,500,000
CPJ Technologies	5,064,099	1,432,500
Investment in Private US corporation	--	1,000,000
	-----	-----
	8,564,099	5,932,500
Investment in joint venture (Note 3(c))	81,736	80,768
	-----	-----
TOTAL INVESTMENTS	8,645,835	6,013,268
Office equipment and computers, net of accumulated depreciation \$53,492	63,794	59,780
	-----	-----
TOTAL ASSETS	\$ 8,873,476	\$ 6,190,081
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 708,724	\$ 1,018,649
Accrued expenses	234,628	74,744
Notes payable (Note 6)	2,250,000	2,250,000
Accrued interest on notes (Note 6)	391,566	368,182
	-----	-----
TOTAL CURRENT LIABILITIES	3,584,918	3,711,575
LONG TERM LIABILITIES (Note 7)		
Notes payable	--	135,223
Notes payable - related parties	--	--
Accrued interest on notes	--	--
Investment in joint venture (Note 3(b))	--	97,490
	-----	-----
TOTAL LIABILITIES	3,584,918	3,944,288
STOCKHOLDERS' EQUITY		
Common stock, \$0.002 par value, 100,000,000 shares authorized, 39,799,262 Shares issued and outstanding	80,579	69,333
Additional paid in capital	53,638,277	49,633,286
Deferred compensation	--	(13,879)
Deficit accumulated during development stage	(48,430,298)	(47,442,947)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	5,288,558	2,245,793
	=====	=====
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 8,873,476	\$ 6,190,081
	=====	=====

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

SYNERGY TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE THREE MONTHS ENDED	
	MARCH 31	
	2002	2001
	(UNAUDITED)	(UNAUDITED)
<hr style="border-top: 1px dashed black;"/>		
OTHER INCOME		
Interest income	56	563
Consulting income	-	-
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	56	563
EXPENSES		
General and administrative	822,195	395,583
Stock option compensation	13,879	21,607
Compensation related to warrants	-	-
Technology development	83,889	230,993
Dry well expenses	-	-
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
TOTAL EXPENSES	919,963	648,183
<hr style="border-top: 1px dashed black;"/>		
LOSS FROM OPERATIONS	(919,907)	(647,620)
OTHER EXPENSES		
Amortization of debt discount and offering costs	-	-
Accrued interest on notes payable	(55,480)	(67,699)
Share of expenses incurred by joint venture	(11,964)	(37,315)
Write-down of technology	-	-
Gain on disposition	-	24,380
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	(67,444)	(80,634)
<hr style="border-top: 1px dashed black;"/>		
NET LOSS BEFORE TAXES	(987,351)	(728,254)
<hr style="border-top: 1px dashed black;"/>		
PROVISION FOR INCOME TAX	-	-
<hr style="border-top: 1px dashed black;"/>		
NET LOSS	\$ (987,351)	\$ (728,254)
<hr style="border-top: 1px dashed black;"/>		
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.03)	\$ (0.02)
<hr style="border-top: 1px dashed black;"/>		
WEIGHTED AVERAGE NUMBER OF COMMON SHARES USED IN CALCULATION	36,019,141	30,179,736
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The accompanying notes are an integral part of these financial statements.

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SYNERGY TECHNOLOGIES CORPORATION AND SUBSIDIARIES (A DEVELOPMENT STAGE COMPANY) CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE THREE MONTH PERIODS ENDED

	MARCH 31, 2002 (UNAUDITED)	MARCH 31, 2001 (UNAUDITED)
CASH FROM OPERATING ACTIVITIES		
Net loss	\$ (987,351)	\$ (728,351)
Adjustments to reconcile net loss to net cash from operations		
Dry well expense	-	-
Depreciation, amortization and write-downs	23,885	31,885
Accrued interest on notes payable	23,383	67,383
Issuance of shares for services	378,077	-
Issuance of warrants for services	-	-
Settlement of debt and acquisition of CPJ	357,529	-
Re-issue of founders shares	38,500	-
Investment in joint ventures	2,174	-
Exchange rate loss	5,482	12,482
Loss on disposition of assets	-	-
Changes in assets and liabilities		
Accounts receivable	(44,189)	25,189
Prepaid expenses and deposits	(31,856)	27,856
Accounts receivable - related parties	-	(53,856)
Accounts payable	(309,925)	42,925
Accounts payable - related parties	-	-
Accrued expenses	159,885	5,885
NET CASH FLOWS FROM OPERATING ACTIVITIES	(384,406)	(568,406)
CASH FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(14,021)	(1,021)
Other	-	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	(14,021)	(1,021)
CASH FROM FINANCING ACTIVITIES		
Proceeds from notes payable - related parties	-	276,000
Proceeds from (payments to) notes payable	(135,223)	-
Net proceeds from convertible debt	-	-
Sales of common stock	509,900	230,900
Other	-	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	374,677	506,900
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(5,482)	(12,482)
NET CHANGE IN CASH	(29,232)	(75,008)
CASH AT BEGINNING OF PERIOD	38,746	76,754

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CASH AT END OF PERIOD

\$ 9,514

\$

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

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SYNERGY TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	SHARES	AMOUNT	ADDITIONAL PAID IN CAPITAL	ACCUMULATED DEFICIT
BALANCE AT DECEMBER 31, 1999	\$11,989,327	\$23,980	\$ 1,484,455	\$ (2,958,385)
Cancellation of founders shares	(496,736)	-	-	-
Issuance of shares for cash	710,000	1,420	353,580	-
Issuance of shares for royalty	500,000	1,000	1,061,500	-
Issuance of stock options	-	-	981,330	-
Issuance of warrants for services September 29, 2000	-	-	343,744	-
Issuance of convertible debt	-	-	2,137,500	-
Issuance of shares from escrow	14,943,510	29,887	37,998,357	-
Warrants for stock, January through December 2000	431,000	862	430,138	-
Issuance of shares for services February 16, 2000 at average prices	1,359,063	2,718	890,919	-
Options exercised	105,000	210	104,790	-
Unearned compensation	-	-	-	-
Net loss for the period	-	-	-	(6,072,071)
BALANCE AT DECEMBER 31, 2000	\$29,541,164	\$60,077	\$45,786,313	\$ (9,030,456)
Warrants for stock -- debenture	1,000,000	2,000	998,000	-
Warrants for stock - cash	264,000	528	263,472	-
Options exercised -- cash	5,500	11	5,489	-
Re-issue of founders shares	157,143	300	106,200	-
Issuance of stock options	-	-	120,000	-
Shares for services	893,154	1,786	858,443	-
Issuance of shares for cash	2,315,382	4,631	1,495,369	-
Unearned compensation	-	-	-	-
Net loss for the period	-	-	-	(38,412,491)
BALANCE AT DECEMBER 31, 2001	\$34,176,343	\$ 69,333	\$49,633,286	\$ (47,442,947)
Issuance of shares for cash	679,867	1,360	508,540	-
Shares for services	184,002	368	110,633	-
Shares for debt	417,716	835	266,240	-
Shares for Technology acquisition	4,291,334	8,583	3,081,177	-

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Re-issue of founders shares	50,000	100	38,400	-
Unearned compensation	-	-	-	-
Net loss for the period	-	-	-	(987,351)

BALANCE AT MARCH 31, 2002	\$39,799,262	\$ 80,579	\$53,638,277	\$ (48,430,298)
=====				

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

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SYNERGY TECHNOLOGIES CORPORATION AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All dollar amounts used herein refer to U.S. dollars unless otherwise indicated.

These statements are prepared using Generally Accepted Accounting Principals as well as the terms outlined or explained in the year end 10-KSB filing.

All significant transactions between the parent and consolidated affiliates have been eliminated. The consolidated quarterly financial statements are unaudited. These statements include all adjustments (consisting of normal recurring accruals) considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

NOTE 2 - UNCERTAINTY ABOUT THE COMPANY'S ABILITY TO CONTINUE AS A GOING CONCERN

The Company is in the development stage and has not realized any revenues, has incurred losses and had negative cash flows from operations in 2002 and each year since its inception. The Company's efforts have been focused on the development of its technologies and raising capital necessary to finance its development and administrative activities. To date, a substantial portion of its activities have been paid for by the issuance of common shares, options and warrants.

Synergy's business is the development and licensing of technologies related to the oil and gas industry. Synergy's efforts are directed to the commercial application of technologies in two areas:

1. technologies for the conversion of stranded natural gas into synthetic naphtha and diesel (GTL), including Syngen, a cold plasma technology to produce hydrogen rich streams from natural gas, PLG, gasoline and diesel; and
2. technologies for the upgrading of heavy oil to lighter oils (CPJ).

Uncertainty Regarding Future Operations

The conditions described above raise substantial doubt about the ability of the Company to continue as a going concern. These financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course, which would require the raising of additional capital sufficient to finance its development activities and administrative costs. However, there can be no

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assurance that the Company will be able to raise the necessary additional capital or successfully complete the development of its technologies. If these assumptions were determined to no longer be appropriate and the going concern basis would no longer be appropriate and the assets and liabilities would be adjusted to their liquidation values.

NOTE 3 - INVESTMENTS, ACQUISITIONS AND TECHNOLOGY DEVELOPMENT

Investments reported on the Consolidated Balance Sheet of the Company include the following:

	MARCH 31, 2002	DECEMBER 31, 2001
	-----	-----
Investment in SynGen Technology (See Note 3(a) below)	\$ 3,500,000	\$ 3,500,000
Investment in CPJ Technology (See Note 3(b) below)	5,064,099	1,432,500
Investment in private U.S. corporation (See Note 3(b) below)	-	1,000,000
	-----	-----
	\$ 8,564,099	\$ 5,932,500
	=====	=====

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(a) SynGen: There were no changes during the current quarter.

(b) During the quarter ended March 31, 2002, Synergy entered into an agreement with Texas T Petroleum Ltd. (Texas T), Capital Reserve Corporation, Carbon Resources Limited (Carbon) and Pierre Jorgensen to purchase the remaining 50% of Carbon from Texas T. The details of this agreement are as follows:

- 1) Texas T transferred to Synergy all of its right, title and interest in and to the Carbon stock.
- 2) Synergy issued to Texas T 400,000 shares common stock of Synergy.
- 3) Synergy also issued in the name of Texas T 1,900,000 common shares of Synergy and delivered the stock to an escrow agent to be held pursuant to an escrow agreement.

Under the terms of an agreement entered into September 2000 to renegotiate the terms of the royalty agreement, the Corporation and Texas T had each issued shares to Mr. Jorgenson together with a commitment to make up the difference between the proceeds received on the sale of shares and \$1 million. As at December 31, 2001 the Corporation had accrued \$370,000 for its share of the shortfall between the value of the shares and \$500,000. In connection with the acquisition of the additional shares of Carbon, the Corporation assumed the remaining 50% of this obligation to Mr. Jorgenson, agreed to an increase in the minimum value to \$1,100,000, and issued an additional 1,491,334 shares to Mr. Jorgenson for settlement of this obligation. Shares issued to Mr. Jorgenson in excess of those required to achieve the committed resale proceeds of \$1,100,000 will be returned to the Corporation. A value of \$1,073,760 was attributed to this transaction based on the five-day average share price of \$0.72 per share. An additional 500,000 shares were issued in order to replace the 500,000 Capital Reserve Corporation shares that were returned to Texas T pursuant to the purchase agreement. A value of \$360,000 was attributed to this transaction based on a five-day average share price of \$0.72 per share.

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This transaction closed on March 5, 2002. Up to that date the investment in Carbon was recorded using the equity method. From the closing date forward Carbon has been recorded using the consolidation method. The investment in private US corporation at December 31, 2001 was eliminated upon the closing of this agreement.

- (c) Investment in Drake Synergy Petroleum as at March 31, 2002:

o	Shares of Drake Synergy Petroleum Ltd.	
o	2,500,000 shares valued at Naira 1.00 per share	\$ 22,104
o	Advances to Drake Synergy Petroleum	121,813
o	50% of net liabilities of Drake Synergy Petroleum	(62,181)

		\$ 81,736

NOTE 4 - RELATED PARTY TRANSACTIONS

- (a) At March 31, 2002 an amount of \$28,750 relating to services provided by Glidarc Technologies remained due and payable.
- (b) At March 31, 2002 an amount of \$25,631 remained due and payable to Huntingtown Associates.
- (c) During the quarter ended March 31, 2002, various officers and directors subscribed to a private placement offering as described in Note 9(a) in the amount of \$150,000 for 200,000 units.

NOTE 5 - RECEIVABLES

Certain expenses for services rendered and supplies acquired in Canada are subject to a federal Goods and Services Tax of 7% which is refundable to the Company in Canadian Dollars upon filing of a GST return. Total receivables include a GST refund due to the Company of \$8,855, as well as certain other receivables

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totaling \$73,895 of which \$50,000 is due from Mr. Barry Coffey, as he agreed to receive one half salary until August 2002, in exchange for an investment in a private placement offering of the Company.

NOTE 6 - CURRENT LIABILITIES

- (a) Notes payable include \$2,250,000 resulting from the private placement of convertible promissory notes commenced on May 25, 2000. The notes carry a term of five (5) years, bearing interest at a rate of 10% per annum, and are convertible into units of Synergy at \$3.00 per Unit, each promissory note unit consisting of one share of common stock, a warrant to purchase one share of common stock at \$4.00 per share and another warrant to purchase an additional share of common stock at \$8.00 per share. During the first two years from the date of issuance interest on the Notes compounds annually on the principal amount of the loan and continues for each year thereafter. During the initial two-year period the interest on the Notes accrues but is not payable until the fifteenth day following each two-year period. After the initial two year period, interest shall accrue on a quarterly basis and be payable on the fifteenth day following the end of each calendar quarter. Terms of the notes further state that any and all interest

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accrued on any notes converted within two years from the date of issuance will be forgiven.

- (b) Convertible promissory note's interest in the amount of \$391,566 has been accrued to March 31, 2002 and is included on the Consolidated Balance Sheet as Accrued interest on notes.

NOTE 7 - LONG TERM LIABILITIES

- (a) During the quarter ended March 31, 2002, Synergy issued 251,495 shares to Stone Canyon Resources Limited in settlement of outstanding advances at December 31, 2001 of \$135,223. The value associated with this transaction equates to \$164,019. The remaining balance receivable of \$28,796 was written off, for accounting purposes only, based on the probability of recovering the amount.

NOTE 8 - COMMON STOCK

- (a) Cash proceeds of \$509,900 were received for the purchase of 679,867 units at \$ 0.75 per unit pursuant to an offering commenced during the quarter. Each unit consists of a share of common stock and one-half warrant to purchase an additional share for \$2.50, exercisable at any time three years from the time of subscription.
- (b) 184,002 shares were issued to certain firms for services provided to the corporation. The shares are recorded in the Consolidated Statement of Operations under General and Administrative category at the five-day average trading value of the stock on the date of execution of the agreements. A value of \$111,001 is recorded in the statements relating to these transactions.
- (c) 251,495 shares were issued to Stone Canyon Resources Limited for settlement of advances made during 2001. An additional 166,221 shares were issued for settlement of payments made related to the operations of the GTL Bantry facility during 2001. The aggregate amount of \$267,076 was offset from the balance owing of \$135,223 and the remaining amount was written off as expense, for accounting purposes only, due to the probability of recovering the receivable.
- (d) 50,000 shares were re-issued related to the cancellation of founder's shares in September, 2000. These shares were valued at the average trading value of the stock from the date of issuance. A value of \$38,500 is recorded in the Statement of Operations related to this transaction at \$0.77 per share.
- (e) On March 5, 2002, Synergy completed the transaction with Texas T, Carbon, Capital Reserve Corporation and Pierre Jorgensen for the purchase of the additional 50% of Carbon from Texas T. The agreement required the issuance of 400,000 shares of Synergy directly to Texas T and an additional 1,900,000 shares held in trust in the name of Texas T pursuant to an escrow agreement. A value of \$1,656,000 was attributed to the transaction based on a five-day average share price of \$0.72 per share.

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- (f) Pursuant to the agreement mentioned in 8(e) above, an additional 1,491,334 shares were issued to Pierre Jorgensen in consideration of the original agreement dated September 25, 2000. The issuance of these shares calls for a cash payment of \$1,000,000 to be paid to Mr. Jorgensen as per the original agreement plus an additional \$100,000 as

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recognition of the late payment of the above mentioned amount. Should the number of shares to be sold in order to pay Mr. Jorgensen the \$1,100,000 be superior to the number of shares of Synergy issued to Pierre, the remaining shares will be returned to Synergy. A value of \$1,073,760 was attributed to this transaction based on a five-day average share price of \$0.72 per share. An additional 500,000 shares were issued in order to replace the 500,000 Capital Reserve Corporation shares that were returned to Texas T pursuant to the purchase agreement. A value of \$360,000 was attributed to this transaction based on a five-day average share price of \$0.72 per share.

- (g) During the quarter, 250,000 warrants were issued to a certain investment firm for financial advisory services. These warrants have an exercise price of \$1.00 and are exercisable for two years from the original agreement date of April 16, 2001.

The following table summarizes the warrants issued, exercised and expired during quarter ended March 31, 2002 and the fiscal year ended December 31, 2001 and those warrants which remain outstanding as at March 31, 2002:

Balance at December 31, 2000	914,666
Warrants issued during the period	
At \$1.30 per share	2,315,382
At \$3.00 per Unit	1,264,000
At \$3.50 per share (Note 7(a))	-
Warrants expired unexercised during the period, \$1.00 per share	(130,000)

Warrants to purchase common shares, balance at December 31, 2001	4,364,048
Warrant issued during the period	
At \$1.00 per share (Note 8(g))	250,000

Balance at March 31, 2002	4,614,048
	=====

STOCK OPTIONS

The Company has six stock option plans outstanding. The 2002 Stock Option Plan was approved at the special meeting on February 18, 2002 authorizing a maximum of 10,000,000 options.

During the quarter, the Company hired Mr. Barry Coffey as CEO. Mr. Coffey was granted 4,500,000 options at an exercise price of \$0.72 per share (i). There were no other changes to stock options during the quarter.

- (i) Options granted to employees and directors for their services as directors and employees are accounted for using the intrinsic value method. There was no value attributed to options granted during the quarter.

The following table summarizes the status of the Company's stock options as at March 31, 2002:

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
Outstanding at end of year, December 31, 2000	2,795,000	\$ 1.05
Granted during period	325,000	1.31
Cancelled during period	(335,000)	1.10

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Exercised during period	(5,500)	1.00
Outstanding at end of year, December 31, 2001	2,789,500	\$ 1.08
Granted during period	4,500,000	0.72
Cancelled during period	-	-
Exercised during period	-	-
Outstanding at end of quarter, March 31, 2002	7,279,500	\$ 0.86

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NOTE 9 - OTHER EVENTS

Subsequent to March 31, 2002 the Company received cash proceeds of \$156,881 for the purchase of 209,175 units at \$0.75 per unit pursuant to an offering commenced in the first quarter of 2002. Each unit consists of one common stock an one-half warrant to purchase an additional share at \$2.50, exercisable at any time three years from the date of subscription.

On May 2, 2002, 200,000 options were granted to Mr. Graham H. Batcheler under the 2002 Stock Option Plan upon his acceptance of a position on the Company's Board of Directors.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

(a) Operating Lease - Effective September 1, 2000 the Company entered into a five-year non-cancelable lease which provided for monthly lease payments, including operating costs, of \$19,171. A portion of the lease payments are invoiced monthly to Carbon Limited, a 50% owned subsidiary of the Company, for use of laboratory and office space. Minimum future rental payments under this lease with remaining terms in excess of one year are as follows:

2002	172,536
2003	230,052
2004	230,052
2005	153,368

PLAN OF OPERATION

The following is a discussion of our financial condition, our plan of operation and liquidity. This discussion should be read together with our financial statements and notes included in this report, as well as those included in our Annual Report on Form 10-K for the year ended December 31, 2001.

Certain information in this report, including the following discussion, may include forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The Company intends the disclosure in these sections and throughout the Quarterly Report on Form 10-Q to be covered by the safe harbor provisions for forward-looking statements. All statements regarding the Company's expected financial position and operating results, its business strategy, its financing plans, and the outcome of any contingencies are forward-looking statements. These statements can sometimes be identified by the Company's use of forward-looking words such as "may," "believe," "plan," "will," "anticipate," "estimate," "expect," "intend" and other phrases of similar meaning. Known and unknown risks, uncertainties, and other factors could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on

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various factors and was derived using numerous assumptions.

During the first quarter of 2002, Synergy Technologies signed a memorandum of understanding (MOU) for a joint venture with H Power Corp., a leading manufacturer of fuel cell products. This MOU covers the companies' joint development of fuel cell systems utilizing H Power's proton exchange membrane (PEM) fuel cell technology and Synergy's patented SynGen cold plasma reforming process for producing hydrogen from heavy fossil fuels.

Whereas currently marketed reforming systems are capable of deriving a suitably clean hydrogen exclusively from lighter fossil fuels such as natural gas and propane, SynGen cleanly and economically reforms hydrogen from heavier fossil fuels such as gasoline, high sulfur diesel and marine fuel oils. Synergy anticipates that this advantage will permit the companies to produce a fuel processing system which, potentially, will command a significant share of the fuel cell market.

Synergy also continued protecting its intellectual properties and increasing their strength for all the company's technologies. In addition, together with our joint venture partner in Nigeria, important steps have been taken towards the signing of a gas supply contract in that country. This is a necessary first step in the development of a Gas-to-Liquids (GTL) plant that is expected to have major revenue potential for Synergy.

Synergy is discussing the construction of commercial size demonstration plants at several potential sites in USA, Canada, the Caribbean and Central America.

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During the months of June and July 2002, the holders of promissory notes in the principal amounts of \$2,250,000 bearing interest at the rate of 10% per annum (aggregating \$391,566 at March 31, 2002) are entitled to seek repayment of the entire amount due thereunder. Given our cash position as of March 31, 2002, should the holders of any these promissory notes demand repayment, it is possible that we would not be able to make payment would be in default thereunder. We are seeking to negotiate the conversion of all outstanding amounts due under these notes into our securities. If holders do not accept the terms of the conversion we offer and demand payment on the notes and we default thereon, said holders would have the right to sue us for the entire amount due, plus attorneys' fees. If a judgment is awarded to such persons, and we were unable to pay same, they may have a claim against our assets. This would have a material adverse affect on our business.

Synergy expects to generate revenues within this fiscal year, primarily from licensing, royalty arrangements, government grants and joint development programs. We believe that commercial plants, owned wholly or in part by Synergy will generate substantial cash flows, once Synergy negotiates definitive commercial agreements with producers of heavy oil, natural gas and petrochemicals.

We will require up to \$20 million over the next three years to implement our business plan which includes significant marketing efforts, the continued development of the technologies, expand management resources, support day-to-day operations and pursue commercialization efforts. In the past, we have been successful raising money to fund our operations through the sale of equity. We cannot be certain that we will be able to raise any additional capital to fund our operations.

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