

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

FUSION NETWORKS HOLDINGS INC
Form 10-Q/A
January 16, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

(Mark one)

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

For the quarterly period ended September 30, 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 No. 0-23900

FUSION NETWORKS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

51-0393382

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

8115 N.W. 29th Street, Miami, Florida 33122

(Address of principal executive offices)

(305) 477-6701

(Registrant's telephone number, including area code)

(Former name, former address and formal 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 X No _____

As of November 6, 2000, 37,036,226 shares of Common Stock of the issuer were outstanding.

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

Explanatory Note: This amendment is filed to restate certain financial statements relating to the Company's investment in Marketing Services Group, Inc. to carry that investment at fair value, with unrealized gains and losses reported as a separate component of stockholders' equity.

FUSION NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

INDEX

	Page Number -----
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets - September 30, 2000 and December 31, 1999.....	3
Consolidated Statements of Operations - For the three and nine months ended September 30, 2000 and 1999.....	4
Consolidated Statements of Cash Flows - For the nine months ended September 30, 2000 and 1999.....	5
Notes to Consolidated Financial Statements.....	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	11
Item 3. Quantitative and Qualitative Disclosures about Market Risk.....	16
PART II - OTHER INFORMATION	
Item 2. Changes in Securities and Use of Proceeds.....	16
Item 6. Exhibits and Reports on Form 8-K.....	16
SIGNATURES.....	17

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

FUSION NETWORKS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	Unaudited September 30, 2000	December 31, 1999
	-----	-----
ASSETS		
Current Assets:		

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

Cash	\$ 942,695	\$ 7,044,45
Accounts receivable	99,109	
Employee and other loans receivable	64,847	53
Note receivable	58,881	
Prepaid expenses and other current assets	454,508	21,85
	-----	-----
Total Current Assets	1,620,040	7,066,85
Investment in equity securities	4,500,000	25,500,00
Web site costs	352,503	
Property, plant and equipment, net	1,690,674	642,55
	-----	-----
	\$ 8,163,217	\$ 33,209,40
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 646,672	\$ 131,080
	-----	-----
Total Current Liabilities	646,672	131,080
Long-Term Debt	4,000,000	-
	-----	-----
Total Liabilities	4,646,672	131,080
	-----	-----
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, authorized 60,000,000 shares \$.00001 par value, issued and outstanding 37,036,226 at September 30, 2000 and 33,113,333 at December 31, 1999	374	331
Additional paid-in capital	65,063,482	54,437,419
Foreign currency translation	(4,482)	14,551
Retained earnings (deficit)	(40,542,829)	(21,373,972)
	-----	-----
Accumulated other comprehensive income (loss):		
Foreign currency transaction	(4,482)	14,551
Unrealized gain (loss) on equity securities	(21,000,000)	-
	-----	-----
	3,516,545	33,078,329
	-----	-----
	\$ 8,163,217	\$ 33,209,409
	=====	=====

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

3

FUSION NETWORKS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

For the Three Months
Ended September 30,
2000 1999

For the
Ended S
2000

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

	-----	-----	-----
Revenues from licensing agreements	\$ 106,243	\$ -	\$ 106,243
	-----	-----	-----
Total revenues	106,243	-	106,243
	-----	-----	-----
Costs and Expenses:			
General and administrative expenses	1,493,369	39,111	4,735,456
Product development and engineering	517,918	310,931	3,036,000
Sales and marketing	432,502	17,655	1,305,032
Merger expenses	-	46,000	-
Depreciation and amortization	4,784	-	153,079
	-----	-----	-----
	2,439,573	413,697	9,229,567
	-----	-----	-----
Loss from Operations	(2,333,330)	(413,697)	(9,123,324)
	-----	-----	-----
Other Income (Expense):			
Loss on sale of subsidiary	(1,320,847)	-	(1,320,847)
Miscellaneous other income, net	83,447	-	10,707
Interest income (expense), net	(57,802)	4,459	24,422
	-----	-----	-----
	(1,295,202)	4,459	(1,285,718)
	-----	-----	-----
Loss before credit for income taxes	(3,628,532)	(409,238)	(10,409,042)
	-----	-----	-----
Provision (credit) for income taxes	-	-	-
	-----	-----	-----
Loss from continued operations	(3,628,532)	(409,238)	(10,409,042)
	-----	-----	-----
Loss on discontinued operations	-	-	(8,759,818)
	-----	-----	-----
Net loss on common stock	\$ (3,628,532)	\$ (409,238)	\$ (19,168,860)
	=====	=====	=====
Loss per share:			
Basic loss per share:			
From continued operations	\$ (0.10)	\$ (0.01)	\$ (0.29)
From discontinued operations	-	-	(0.25)
	-----	-----	-----
	\$ (0.10)	\$ (0.01)	\$ (0.54)
	=====	=====	=====
Basic common shares outstanding	37,129,782	27,450,136	35,745,753
	-----	-----	-----
Diluted common shares outstanding	37,129,782	27,450,136	35,745,753
	=====	=====	=====

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

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

	For the Nine Months 2000	Ended Sept 1999
	-----	-----
Cash Flows from Operating Activities:		
Net loss on Common Stock	\$ (19,168,860)	\$ (409,23
Adjustments to reconcile net loss on common stock to net cash used in operating activities:		
Depreciation and amortization	153,079	
Adjustment for discontinued operations	8,824,401	
Loss on sale of subsidiary	1,320,847	
Decrease (Increase) In:		
Accounts receivable	(99,109)	
Employee and other loans	(64,312)	
Prepaid expenses and other current assets	(432,650)	
Increase (Decrease) In:		
Accounts payable and accrued expenses	515,592	204,60
Net cash used in operating activities	(8,951,012)	(204,62
Cash Flows from Investing Activities:		
Disposal (purchase) of property, plant and equipment	(1,201,114)	(308,65
Payment for Web site costs	(352,503)	
Deposits on equipment	-	(134,35
Loan receivable from sale of subsidiary	(58,881)	
Net cash used in investing activities	(1,612,498)	(443,01
Cash Flows from Financing Activities:		
Net proceeds from issuance of common stock and warrants	475,000	3,359,50
Proceeds from private placement	4,000,000	
Proceeds from exercise of stock options and warrants	5,780	
Net cash provided by financing activities	4,480,780	3,359,50
Effect of exchange rate changes on cash	(19,033)	
Net (Decrease) in Cash and Cash Equivalents	(6,101,763)	2,711,86
Cash and Cash Equivalents, beginning of period	7,044,458	
Cash and Cash Equivalents, end of period	\$ 942,695	\$ 2,711,86
Supplemental disclosure of noncash inverting and financial activities:		
Unrealized loss on equity securities	\$ 21,000,000	\$

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

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

FUSION NETWORKS HOLDINGS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

Fusion Networks Holdings, Inc. (the "Company") is a holding company incorporated under the laws of the State of Delaware in August 1999 with its operations conducted through Fusion Networks, Inc. ("Fusion"). Fusion was incorporated under the laws of the State of Delaware on June 30, 1999. Fusion develops, markets and provides software for One-to-One Internet-based business solutions. Fusion's products encompass a full range of Internet Customer Relationship Management ("ICRM") tools within "next generation" Internet platforms and customer-oriented applications including a dynamic multimedia portal design, e-commerce platforms, integrated One-to-One marketing solutions, personalized content and community services.

2. MERGER

On July 26, 1999, Fusion and IDM Environmental Corp. ("IDM") announced that they had entered into a nonbinding letter of intent to form a new holding company with Fusion and IDM to become wholly-owned subsidiaries of the holding company through the merger of those companies with subsidiaries of the holding company (the "Merger"). On August 18, 1999, the Company, Fusion and IDM entered into a definitive merger agreement.

In March 2000, the Merger was approved by the shareholders of Fusion and IDM and the Merger was completed on April 13, 2000.

The stockholders of Fusion and IDM each received one share of common stock of the Company for each share of Fusion or IDM common stock held, resulting in the shareholders of Fusion owning approximately 90% of the common stock of the Company and shareholders of IDM owning approximately 10% of the common stock of the Company.

The Merger has been accounted for as a purchase with Fusion being deemed the acquiror for accounting and financial reporting purposes. Historical financial statements of the Company are the financial statements of Fusion with financial statements of IDM being included only from the date of the Merger forward. In connection with the Merger, the Company recorded goodwill of \$7,354,181. The purchase price and goodwill were determined as follows:

IDM common shares outstanding	3,922,893	
Estimated fair value of shares issued	\$2.47	(a)

Purchase price before merger costs	\$9,689,546	
Merger costs	450,000	

Purchase price	10,139,546	
IDM net book value	2,785,365	

Goodwill	\$7,354,181	
	=====	

(a) The estimated fair value of shares issued was determined using the average closing market price of IDM's common stock for the 3 days prior to and 3 days subsequent to the public announcement of the letter of intent.

3. SALE OF IDM

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

On July 25, 2000, the Company entered into a letter of intent pursuant to which the Company agreed in principal to sell all of its stock of IDM to two principal officers of IDM. The Company completed the sale of IDM on August 18, 2000. Pursuant to the terms of the IDM sale, the Company received a promissory note in the amount of \$58,881 and were relieved of guarantees in the amount of \$300,000.

Based on the agreement in principal to sell IDM, the Company recorded a write-down of the goodwill associated with the acquisition of IDM in the amount of \$7,354,181 in the second quarter of 2000 and recorded the loss on the sale of \$1,320,847 in the third quarter of 2000.

6

4. INTERIM PRESENTATION

The interim consolidated financial statements are prepared pursuant to the requirements for reporting on Form 10-Q. These statements include the accounts of Fusion Networks Holdings, Inc. and all of its wholly-owned and majority-owned subsidiary companies. The December 31, 1999 balance sheet data was derived from audited financial statements of Fusion (the acquiror) but does not include all disclosures required by generally accepted accounting principles. The Merger has been accounted for as a purchase with Fusion being deemed the acquiror for accounting and financial reporting purposes. Historical financial statements of the Company are the financial statements of Fusion with financial statements of IDM being included as discontinued operations from the date of the Merger through the date of sale. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes included in the Company's Form 8-K/A dated April 13, 2000. In the opinion of management, the interim financial statements reflect all adjustments of a normal recurring nature necessary for a fair statement of the results for the interim periods presented. The current period results of operations are not necessarily indicative of results which ultimately will be reported for the full year ending December 31, 2000.

5. OTHER COMPREHENSIVE INCOME (LOSS)

Statement of Financial Accounting Standards No.130 "Reporting Comprehensive Income" effective in 1998, requires the disclosure of comprehensive income (loss) to reflect changes in equity that result from transactions and economic events from nonowner sources. Due to the availability of net operating losses there is no tax effect on any component of other comprehensive income (loss).

Due to the availability of net operating losses there is no tax effect with any component of other comprehensive income (loss).

	For the three Months ended Septmeber 30, 2000	Year to date September 30, 2000
	-----	-----
Net Income (loss)	\$ (3,628,532)	\$ (19,168,860)
Other comprehensive income (loss):		
Unrealized gain (loss) on equity securities	(2,157,000)	(21,000,000)

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

Foreign currency translation adjustments	(11,753)	(19,033)
	-----	-----
Total other comprehensive (loss)	\$ (5,797,285)	\$ (40,187,893)
	-----	-----

7

6. INVESTMENTS IN EQUITY SECURITIES

As of March 31, 2000 all equity securities are deemed by management to be available for sale and are reported at fair value with net unrealized gains or losses reported within shareholders' equity as a separate component of other comprehensive income. Realized gains and losses are recorded in the statement of operations in the period in which they become known. The carrying amount of the company's investments is shown as follows:

	September 30, 2000	
	Cost	Market Value
	-----	-----
Investment in equity securities	\$ 25,500,000	\$ 4,500,000
Allowance for unrealized gains (losses)	(21,000,000)	
	-----	-----
	4,500,000	4,500,000
	-----	-----

During 2000 the investment in MSGI suffered a significant decline in its fair value. During the fourth quarter of 2000, the Company wrote down the value of their investment and recorded from the original cost a realized loss of \$ 12,750,000 and provided an allowance for an additional unrealized loss of \$ 10,980,000, which reduces the carrying value of the investment to \$ 1,770,000 at December 31, 2000.

7. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share are based on the weighted average number of common shares outstanding including common stock equivalents. For the periods reported within these consolidated financial statements, weighted average shares for basic and diluted computations are the same due to losses reported for each of the periods.

8. ADDITIONAL SIGNIFICANT ACCOUNTING POLICIES -- WEBSITE COSTS

Website costs include only those costs paid to third parties for the purchase of websites or relating to the purchase of websites or the application development phase of website design and implementation. The costs will be amortized over their future expected utility which is estimated to be 3-5 years.

9. CONVERTIBLE DEBENTURES AND WARRANTS

On June 15, 2000, the Company sold \$4,000,000 of 6% Secured Convertible Debentures and 1,500,000 Warrants. The Debentures and Warrants were sold to three accredited investors. The Debentures and Warrants were sold for an aggregate offering price of \$4,000,000. A finders fee of 5%, or \$200,000, was paid in connection with the sale of the Debentures and Warrants. The Debentures and Warrants were sold pursuant to the exemption from registration set out in Rule 506 as promulgated pursuant to Section 4(2) of

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

the Securities Act of 1933. The securities were offered without general solicitation in a privately negotiated transaction with three accredited investors. During 2000 the investment suffered a significant decline in its fair value. During the fourth quarter of 2000 the company wrote down the value of their investment and recorded from the original cost a realized loss of \$ 12,750,000 and provided an allowance for an additional unrealized loss of \$ 10,980,000, which reduces the carrying value of the investment to \$ 1,770,000 at December 31, 2000.

The Debentures bear interest at 6% per annum, are due on June 13, 2001 and are secured by a pledge of the investment in affiliates of Marketing Services Group, Inc. The Debentures are convertible into shares of Common Stock of the Company at a fixed conversion price of \$1.75 per share. The Warrants are exercisable to purchase Common Stock of the Company at \$1.50 per share.

10. CONTINGENCIES AND COMMITMENTS

In May 2000 the Company entered into an employment contract with Mr. Gary Goldfarb to serve as President and Chief Executive Officer of the Company for an undisclosed period of time. The contract provides for a monthly compensation of \$18,750 per month. The contract also grants Mr. Goldfarb 1,000,000 five year stock options exercisable at the closing price of the Company's common stock on the effective date. The options will vest 25% on each of the first three anniversaries, the remaining 25% will vest at various times.

8

11. CHANGE IN STRATEGIC FOCUS

Overview

In July, 2000, following the appointment of the Company's new President and Chief Executive Officer, the Company altered its business model and strategic focus in response to changing market conditions. Under the revised business model, the Company's focus will be the sale and licensing of its Rapid Deployment Portals called ICRM/V2 as well as its proprietary suite of One-to-One Internet-based software and business solutions which were developed in conjunction with the development of the Company's www.latinfusion.com Web portal. The Company has changed its web address to www.fusionnetworks.net and is using the existing technology originally developed to create its previous portal, plus new developments and advances evident in this portal as a marketing tool to highlight the capabilities offered by the Company's software. Additionally, the Company will continue to offer Internet design, development and support services.

Products

The Company's products encompass a full range of Internet Customer Relationship Management ("ICRM") tools within "next generation" Internet platforms and customer-oriented applications including a dynamic multimedia portal design, e-commerce platforms, integrated One-to-One marketing solutions, personalized content and community services. The Company is currently deploying its version 2.0 ICRM/V2 Rapid Deployment Portal as well as beginning to deliver the individual modules of its software suite.

The Company's ICRM/V2 delivers a dynamic multimedia portal design, e-commerce platform, innovative advertising, integrated One-to-One

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

marketing solutions and personalized content. ICRM/V2 functionally integrates six modules including a portal server, user administration and profiling server, advertising server, e-commerce server, content server, and direct e-mail server. The individual modules are:

- * The user administration and profiling server creates user preference profiles based on individuals' navigational habits, e-commerce behavior and personal preferences, allowing companies to obtain customer insight vital to creating and managing online business strategies. This module includes the report generator which is utilized by the other 5 modules.
- * The ad server delivers advertisements to individual users based on navigation and e-commerce habits, enabling a company to manage and maximize the effect of online advertising campaigns.
- * The e-commerce server allows e-commerce merchants to effectively target product promotions based on shoppers' preferences and purchasing behavior.
- * The content server provides companies with the ability to enhance overall customer satisfaction via the delivery of personalized content focused on each customer's usage habits.
- * The direct e-mail server gives marketers the tools to create and manage targeted e-mail campaigns and track the results in real time.

ICRM/V2 One-to-One applications are designed for use in mission-critical, high-performance environments by companies with demanding architecture, deployment and maintenance requirements. Some of the key capabilities of the applications include:

Ease of use -- tools designed with graphical user interfaces allowing non-technical business managers to modify business rules and content in real time.

Scalability -- robust embedded application server functionality allows One-to-One applications to support large numbers of concurrent customers and transactions.

Secure transaction processing -- secure handling of a wide range of commerce and financial services transactions includes order pricing and discount/incentive handling, tax computation, shipping and handling charges, payment authorization, credit card processing, order tracking, news and stock feeds through a combination of built-in functionality and integration with other products.

9

Application Service Provider Model

The Company plans to offer, and is presently offering, its broad suite of customizable software applications on an application service provider ("ASP") model whereby we offer complete Web solutions, utilizing our ICRM/V2 software, at a low initial cost with a predictable monthly fee.

Target Markets - Ibero-America and Mid-Tier U.S.

The Company initially plans to target, and believes that its software

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

solutions and ASP model are ideally suited for, the Ibero-American (Spanish- and Portugese-speaking) and mid-tier U.S. markets, where rapid time to market and competitive, predictable pricing are key determinants of Internet solutions adopted.

Distribution Channels

The Company's initial marketing and distribution efforts are expected to be conducted by our direct sales force in the countries where the Company presently has offices. Longer term, the Company plans to focus on the establishment of relationships with Value Added Resellers, consisting of systems integrators and information technology consultants, as its primary means of delivering its software and solutions to customers.

12. VISUALCOM PURCHASE

In August 2000, the Company entered into a letter of intent to acquire Visualcom, Inc., a Miami based Internet consulting company specializing in Strategic Consulting, I-Business Solutions, Internet Marketing and Internet Wireless. Under the terms of the letter of intent, the Company agreed to issue 2 million shares of common stock and 2.5 million five year warrants, exercisable at 110% of the average closing price of the Company's common stock over the seven trading days preceding closing, in exchange for all of the issued and outstanding shares of Visualcom. One million of the shares and one million of the warrants issuable under the letter of intent are issuable in escrow subject to release upon satisfaction of certain "earn-out" criteria. The letter of intent also provided that certain shareholders of Visualcom would purchase shares of the Company's common stock with the proceeds of that sale to be used to fund Visualcom operations pending closing. In November 2000, the Company and Visualcom signed a definitive Plan of Share Exchange and the Company completed the acquisition of Visualcom.

13. PRIVATE PLACEMENT AND VISUALCOM CREDIT FACILITY

In September 2000, certain Visualcom shareholders acquired an aggregate of 359,574 shares of common stock of the Company for \$475,000, or \$1.321 per share. The Company utilized the proceeds from the sale to establish a credit facility for Visualcom with funds being advanced subject to forgiveness on closing of the acquisition of Visualcom by the Company.

14. SUBSEQUENT EVENTS

A. Visualcom Purchase

In November 2000, the Company and Visualcom signed a definitive Plan of Share Exchange and the Company completed the acquisition of Visualcom.

B. Bridge Loan

In October and November 2000, the Company secured a short-term bridge loan in the amount of \$500,000 from the sale of Convertible Bridge Loan Notes and 125,000 Bridge Loan Warrants. The Bridge Loan Notes are due on or before December 31, 2000 with interest accruing at 12% per annum. The Bridge Loan Notes are convertible into common stock, at the option of the holder, at market value on the date of closing. The Bridge Loan Warrants are exercisable for a term of five years to purchase common stock at \$0.845 per share with respect to 100,000 of the warrants and \$0.875 per share with respect to 25,000 of the warrants.

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

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21e of Securities Exchange Act of 1954. Actual results could differ materially from those projected in the forward-looking statements as a result of the risk factors set forth in this report.

Merger

On July 26, 1999, Fusion Networks, Inc. ("Fusion") and IDM Environmental Corp. ("IDM") announced that they had entered into a nonbinding letter of intent to form a new holding company with Fusion and IDM to become wholly-owned subsidiaries of the holding company through the merger of those companies with subsidiaries of the holding company (the "Merger"). On August 18, 1999, the Company, Fusion and IDM entered into a definitive merger agreement. In March 2000, the Merger was approved by the shareholders of Fusion and IDM and the Merger was completed on April 13, 2000. The stockholders of Fusion and IDM each received one share of common stock of the Company for each share of Fusion or IDM common stock held, resulting in the shareholders of Fusion owning approximately 90% of the common stock of the Company and shareholders of IDM owning approximately 10% of the common stock of the Company.

The Merger has been accounted for as a purchase with Fusion being deemed the acquiror for accounting and financial reporting purposes. Historical financial statements of the Company are the financial statements of Fusion with financial statements of IDM being included only from the date of the Merger forward. In connection with the Merger, the Company recorded goodwill of \$7,354,181.

Sale of IDM

In August 2000, following a determination by management that the operations of IDM were not compatible with the Company's long-term objectives, the Company sold of all of the stock of IDM to the principal officers of IDM. The consideration paid for the stock of IDM consisted of a three year secured interest bearing promissory note in the amount of \$58,881 and the release of the Company from guarantees in the aggregate amount of \$300,000.

Following the sale of IDM, the Company's operations consist exclusively of the technology and software development operations conducted by Fusion.

Change in Strategic Focus

Overview

In July, 2000, following the appointment of the Company's new President and Chief Executive Officer, the Company altered its business model and strategic focus in response to changing market conditions. Under the revised business model, the Company's focus will be the sale and licensing of its Rapid Deployment Portals called ICRM/V2 as well as its proprietary suite of One-to-One Internet-based software and business solutions which were developed in conjunction with the development of the Company's www.latinfusion.com Web portal. The Company has changed its web address to www.fusionnetworks.net and is using the existing technology originally developed to create its previous portal, plus new developments and advances evident in this portal as a marketing tool to highlight the capabilities offered by the Company's software.

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

Additionally, the Company will continue to offer Internet design, development and support services.

Products

The Company's products encompass a full range of Internet Customer Relationship Management ("ICRM") tools within "next generation" Internet platforms and customer-oriented applications including a dynamic multimedia portal design, e-commerce platforms, integrated One-to-One marketing solutions, personalized content and community services. The Company is currently deploying its version 2.0 ICRM/V2 Rapid Deployment Portal as well as beginning to deliver the individual modules of its software suite.

11

The Company's ICRM/V2 delivers a dynamic multimedia portal design, e-commerce platform, innovative advertising, integrated One-to-One marketing solutions and personalized content. ICRM/V2 functionally integrates six modules including a portal server, user administration and profiling server, advertising server, e-commerce server, content server, and direct e-mail server. The individual modules are:

- * The user administration and profiling server creates user preference profiles based on individuals' navigational habits, e-commerce behavior and personal preferences, allowing companies to obtain customer insight vital to creating and managing online business strategies. This module includes the report generator which is utilized by the other 5 modules.
- * The ad server delivers advertisements to individual users based on navigation and e-commerce habits, enabling a company to manage and maximize the effect of online advertising campaigns.
- * The e-commerce server allows e-commerce merchants to effectively target product promotions based on shoppers' preferences and purchasing behavior.
- * The content server provides companies with the ability to enhance overall customer satisfaction via the delivery of personalized content focused on each customer's usage habits.
- * The direct e-mail server gives marketers the tools to create and manage targeted e-mail campaigns and track the results in real time.

The suite interacts within a report generator module that allows for real-time reporting and sophisticated multi-dimensional analysis of customer behavior and e-marketing campaign efficiency.

ICRM/V2 One-to-One applications are designed for use in mission-critical, high-performance environments by companies with demanding architecture, deployment and maintenance requirements. Some of the key capabilities of the applications include:

- * Ease of use -- tools designed with graphical user interfaces allowing non-technical business managers to modify business rules and content in real time.
- * Scalability -- robust embedded application server functionality allows One-to-One applications to support large numbers of concurrent customers and transactions.
- * Secure transaction processing -- secure handling of a wide range of

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

commerce and financial services transactions includes order pricing and discount/incentive handling, tax computation, shipping and handling charges, payment authorization, credit card processing, order tracking, news and stock feeds through a combination of built-in functionality and integration with other products.

Application Service Provider Model

The Company plans to offer, and is presently offering, its broad suite of customizable software applications on an application service provider ("ASP") model whereby we offer complete Web solutions, utilizing our ICRM/V2 software, at a low initial cost with a predictable monthly fee.

Target Markets - Ibero-America and Mid-Tier U.S.

The Company initially plans to target, and believes that its software solutions and ASP model are ideally suited for, the Ibero-American (Spanish- and Portugese-speaking) and mid-tier U.S. markets, where rapid time to market and competitive, predictable pricing are key determinants of Internet solutions adopted.

Distribution Channels

The Company's initial marketing and distribution efforts are expected to be conducted by our direct sales force in the countries where the Company presently has offices. Longer term, the Company plans to focus on the establishment of relationships with Value Added Resellers, consisting of systems integrators and information technology consultants, as its primary means of delivering its software and solutions to customers.

12

Comparability of Financial Data

Fusion, and the Company, had no operations during the three and six month periods ended June 30, 1999. From July 1999 through May 2000, Fusion was involved in the development of its Internet portal network, with sites being launched in Bogota, Miami, Buenos Aires, Mexico City, Sao Paulo and Madrid, and additional sites planned to be launched in ten additional markets in North America, South America and Europe.

Based on the agreement to sell IDM, the Company recorded a write-down of the goodwill associated with the acquisition of IDM at June 30, 2000 and a loss on the sale of IDM in the third quarter.

From the date of the Merger, April 13, 2000, until June 30, 2000, the Company's results include IDM as discontinued operations.

Because the Company and Fusion had limited operations during 1999 and because of the shift in the Company's business model during 2000, prior year comparative financial information may be of limited value.

Results of Operations for the Three and Nine Months ended September 30, 2000 and September 30, 1999

Revenues. The Company's consolidated revenues totaled \$106,000 for the quarter and nine months ended September 30, 2000 compared to \$-0- for the same periods in 1999. Revenues for the 2000 periods were attributable to the commencement of software licensing by the Company during the September 2000 quarter. Prior to the September 2000 quarter, the Company was engaged in product development

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

activities and reported no revenues.

General and Administrative Expenses. The Company's consolidated general and administrative ("G&A") expense totaled \$1,493,000 for the quarter ended September 30, 2000 and \$4,735,000 for the nine months ended September 30, 2000 compared to G&A expenses of \$39,000 for the quarter and nine month periods in 1999. Sequentially, G&A expense was down 34%, from \$2,245,000, excluding IDM, for the second quarter of 2000. General and administrative expense consists primarily of salaries and corporate overhead. The increase in G&A on a year-over-year basis was attributable to the start-up nature of the Company's operations during the 1999 quarter. The sequential decline in G&A expense from the second quarter to the third quarter of 2000 was attributable to cost control and efficiency measures implemented by the Company's new management beginning late in the second quarter of 2000.

Product Development and Engineering. The Company's consolidated product development and engineering expenses totaled \$518,000 for the quarter ended September 30, 2000 and \$3,036,000 for the nine months ended September 30, 2000 compared to \$311,000 for the quarter and nine month periods in 1999. Sequentially, product development and engineering expenses were down 48.5%, from \$1,007,000 for the second quarter of 2000. Product development and engineering expenses consist of engineering salaries and consulting fees relating to the development of the Company's software and web sites. The increase in product development and engineering expenses on a year-over-year basis was attributable to the start-up nature of the Company's operations during the 1999 quarter. The sequential decline in product development and engineering expense from the second quarter to the third quarter of 2000 was attributable to the substantial completion of development of the Company's suite of software products early in the third quarter of 2000.

Sales and Marketing. The Company's consolidated sales and marketing expenses totaled \$433,000 for the quarter ended September 30, 2000 and \$1,305,000 for the nine months ended September 30, 2000 compared to \$18,000 for the quarter and nine month periods in 1999. Sequentially, sales and marketing expenses were down 28%, from \$602,000 for the second quarter of 2000. Sales and marketing expenses consist of salaries, travel expense and outdoor advertising costs. The increase in sales and marketing expenses on a year-over-year basis was attributable to the start-up nature of the Company's operations during the 1999 quarter. The sequential decline in sales and marketing expense from the second quarter to the third quarter of 2000 was attributable to our transition from a portal company to a software company.

Merger Expenses. The Company reported \$46,000 in merger expenses in the quarter and nine month periods ended September 30, 1999. The Company reported no similar expenses in the quarter and nine month periods ended September 30, 2000. Merger expenses during 1999 were attributable to the merger transaction with IDM which was consummated in April 2000.

13

Depreciation and Amortization. Consolidated depreciation and amortization expense totaled \$5,000 for the quarter ended September 30, 2000 and \$153,000 for the nine months ended September 30, 2000 compared to \$-0- for the quarter and nine month periods in 1999. The increase in depreciation and amortization expense on a year-over-year basis was attributable to the start-up nature of the Company's operations during the 1999 quarter.

Loss on Sale of Subsidiary. The Company recorded a loss on the sale of IDM of \$1,321,000 during the quarter and nine months ended September 30, 2000.

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

Miscellaneous other Income, Net. Consolidated other income, net, totaled \$83,000 for the quarter ended September 30, 2000 and \$11,000 for the nine months ended September 30, 2000 compared to \$-0- for the same quarter in 1999. Miscellaneous other income consisted principally of foreign currency translation gains.

Interest Income (Expense), Net. Net interest income (expense) totaled (\$58,000) for the quarter ended September 30, 2000 and \$24,000 for the nine months ended September 30, 2000 compared to \$4,000 for the quarter and nine month periods in 1999. The adverse change in net interest was attributable to the sale during June 2000 of \$4.0 million of convertible debentures.

Loss on Discontinued Operations. For the nine month period ended September 30, 2000, the Company reported a loss from discontinued operations of \$8,760,000. The loss from discontinued operations reflects the operating loss and write-down of goodwill attributable to the sale of IDM and reflecting the operations of IDM during the period its was owned by the Company.

Liquidity and Capital Resources

At September 30, 2000, the Company had consolidated working capital of approximately \$973,000 and a cash balance of \$943,000. Fusion had working capital of \$3.1 million and a cash balance of \$3.2 million compared to working capital of \$6.9 million and a cash balance of \$7 million at December 31, 1999. The decrease in working capital and cash of Fusion was attributable to losses incurred in connection with the roll-out of Fusion's portal network and development of various technologies which was partially offset by the sale of \$4 million of convertible debentures.

On June 15, 2000, the Company sold \$4,000,000 of 6% Secured Convertible Debentures and 1,500,000 Warrants. The Debentures and Warrants were sold to three accredited investors. The Debentures and Warrants were sold for an aggregate offering price of \$4,000,000. A finders fee of 5%, or \$200,000, was paid in connection with the sale of the Debentures and Warrants. The Debentures and Warrants were sold pursuant to the exemption from registration set out in Rule 506 as promulgated pursuant to Section 4(2) of the Securities Act of 1933. The securities were offered without general solicitation in a privately negotiated transaction with three accredited investors.

The Debentures bear interest at 6% per annum, are due on June 13, 2001 and are secured by a pledge of 1,500,000 shares of common stock of Marketing Services Group, Inc. The Debentures are convertible into shares of Common Stock of the Registrant at a fixed conversion price of \$1.75 per share. The Warrants are exercisable to purchase Common Stock of the Registrant at \$1.50 per share.

At September 30, 2000, equity securities held by the Company totaled \$4,500,000 with approximately \$21,000,000 of unrealized loss and a decline in equity of the same amount from December 31, 1999. The decline in value was due to a reduction in the market price of stock of Marketing Services Group, Inc. held by the Company.

The Company requires substantial working capital to support ongoing operations.

The Company began realizing operating revenues in the quarter ended September 30, 2000. Monthly expenditures averaged \$813,000 per month during the quarter ended September 30, 2000 compared to average monthly expenditures of \$1.2 million during the first six months of 2000. Projected monthly expenditures for the following twelve months are approximately \$12,000,000, or \$1,000,000 per month. The decrease in monthly expenditures during the quarter ended September 30, 2000 and the decrease in the projected monthly expenditures is attributable to cost containment measures implemented by management and a decision to defer the opening of additional portal sites in favor of an increased emphasis on

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

Fusion's offering of Internet software packages which are expected to produce more predictable revenue streams more rapidly and at less initial cost. There can be no assurance that actual expenditures will not exceed the projected expenditures over the next twelve months.

In conjunction with the shift in the Company's business model, the Company sold IDM Environmental Corp. during the quarter ended September 30, 2000. The Company received a promissory note in the amount of \$58,881 and was released from a guarantee in the amount of \$300,000 in connection with the sale of IDM.

14

In August 2000, the Company entered into a letter of intent to acquire Visualcom, Inc., a Miami based Internet consulting company specializing in Strategic Consulting, I-Business Solutions, Internet Marketing and Internet Wireless. Under the terms of the letter of intent, the Company agreed to issue 2 million shares of common stock and 2.5 million five year warrants, exercisable at 110% of the average closing price of the Company's common stock over the seven trading days preceding closing, in exchange for all of the issued and outstanding shares of Visualcom. One million of the shares and one million of the warrants issuable under the letter of intent are issuable in escrow subject to release upon satisfaction of certain "earn-out" criteria. The letter of intent also provided that certain shareholders of Visualcom would purchase shares of the Company's common stock with the proceeds of that sale to be used to fund Visualcom operations pending closing.

In September 2000, certain Visualcom shareholders acquired an aggregate of 359,574 shares of common stock of the Company for \$475,000, or \$1.321 per share. The Company utilized the proceeds from the sale to establish a credit facility for Visualcom with funds being advanced subject to forgiveness on closing of the acquisition of Visualcom by the Company.

In October and November 2000, the Company secured a short-term bridge loan in the amount of \$500,000 from the sale of Convertible Bridge Loan Notes and 125,000 Bridge Loan Warrants. The Bridge Loan Notes are due on or before December 31, 2000 with interest accruing at 12% per annum. The Bridge Loan Notes are convertible into common stock, at the option of the holder, at market value on the date of closing. The Bridge Loan Warrants are exercisable for a term of five years to purchase common stock at \$0.845 per share with respect to 100,000 of the warrants and \$0.875 per share with respect to 25,000 of the warrants.

In November 2000, the Company completed the acquisition of Visualcom.

In order to fund operations at its current level, the Company anticipates that it will require as much as \$12 million of additional funding over the following 12 months. The Company has entered into an investment banking relationship with Credit Lyonnais Securities pursuant to which it is anticipated that Credit Lyonnais will act as advisor and placement agent for the Company in securing additional capital to meet its financing requirements. Other than funds expected to be provided by operations and the potential receipt of funds from the exercise of outstanding warrants and options, the Company presently has no sources of financing or commitments to provide financing. There is no assurance that the Company will be successful in securing the financing necessary to support its operations or projected growth.

Certain Factors Affecting Future Operating Results

Beginning with the hiring of a new Chief Executive Officer in May 2000, the Company has substantially altered certain aspects of its operating plan. First, the focus of Fusion has been modified to adopt as its principal objective the

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

marketing, sales and support of turnkey Internet software and service packages. Second, Fusion re-developed its integrated software as six separate stand alone components, which are applications suitable for any Internet presence (Website or Portal) as well as working along with most third party applications. The "new" products are scheduled to be rolled out by the end of the first quarter 2001. Third, a determination was made to abandon the Company's efforts to turn-around and grow the environmental services business of IDM and IDM was sold.

Relative to Fusion's Internet software business model, new management determined that, in order to expand and accelerate the revenue and profit potential of the Fusion, Fusion should utilize, package and market the "next generation" Internet capabilities which it had developed in connection with the roll-out of Fusion's portal network to develop and offer turnkey web-site development and maintenance software and services. To that end, in August 2000, Fusion began actively marketing and providing a suite of "next generation" Internet tools, services and customer-oriented applications including integrated One-to-One Internet marketing software, portal technology, applications and personalized content, community services, Internet portal design and e-commerce platforms which will be sold separately as add-on applications, suitable for any website or portal, as well as an entire portal package, all designed to enable corporate customers to develop effective Spanish, English and Portuguese-related Internet strategies.

15

Initial efforts with respect to the marketing of turnkey Internet software and service packages has produced, from July 1, 2000 to September 30, 2000, ten agreements to create and maintain co-branded portals for customers. Each of those contracts provides for a revenue share in the range of 50% to 75% of the ongoing portal's revenues. Fusion will serve the future portals it licenses as an ASP (Application Service Provider) hosting, maintaining, updating and invoicing on behalf of its customers for a licensing fee of \$ 6,800 per month for the basic package. Additional implementation and customization fees will be charged, as specifications require at the time of deployment.

In November 2000, the Company acquired Visualcom, Inc., a Miami based Internet consulting company specializing in Strategic Consulting, I-Business Solutions, Internet Marketing and Internet Wireless.

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21e of the Securities Exchange Act of 1934. Actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference include the following: uncertainty with respect to the market acceptance of Fusion's offering of turnkey Internet services and software; uncertainty with respect to the timing of collection of turnkey fees; the ability of the Company to finance continuing operating losses; the ability of the Company to complete the sale of IDM and the terms of that sale; increases in competition in the Internet software and services market which may adversely impact revenues and profitability; and other factors generally affecting the timing and receipt of revenues and cost of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not Applicable.

PART II - OTHER INFORMATION

Edgar Filing: FUSION NETWORKS HOLDINGS INC - Form 10-Q/A

Item 2. Changes in Securities and Use of Proceeds

In October and November 2000, the Company secured a short-term bridge loan in the amount of \$500,000 from the sale of Convertible Bridge Loan Notes and 125,000 Bridge Loan Warrants. The Bridge Loan Notes are due on or before December 31, 2000 with interest accruing at 12% per annum. The Bridge Loan Notes are convertible into common stock, at the option of the holder, at market value on the date of closing. The Bridge Loan Warrants are exercisable for a term of five years to purchase common stock at \$0.845 per share with respect to 100,000 of the warrants and \$0.875 per share with respect to 25,000 of the warrants. The Convertible Bridge Loan Notes and Bridge Loan Warrants were sold to a single accredited investor in a privately negotiated transaction without the use of a broker or the payment of placement fees. The sale of those securities was made pursuant to the exemption from registration set out in Section 4(2) of the Securities Act of 1933, as amended.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
10.1*	Loan Agreement re: Bridge Loan
10.2*	12% Convertible Bridge Loan Note
10.3*	Bridge Loan Warrant
27.1	Financial Data Schedule

* Previously filed

(b) Reports on Form 8-K

Form 8-K, dated August 18, 2000, was filed reporting, under Item 2, the sale of IDM Environmental Corp.

16

SIGNATURES

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

FUSION NETWORKS HOLDINGS, INC.

Dated: January 12, 2001

By: /s/ Gary M. Goldfarb

Gary M. Goldfarb, President

Dated: January 12, 2001

By: /s/ Enrique Bahamon

Enrique Bahamon, Principal
Financial and Accounting Officer