ERESOURCE CAPITAL GROUP INC
Form 10QSB
May 14, 2002

U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

For the Quarter Ended March 31, 2002

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 1-8662

ERESOURCE CAPITAL GROUP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	23-2265039
(State of Incorporation)	(IRS Employer Identification No.)

5935 CARNEGIE BOULEVARD
SUITE 101
CHARLOTTE, NC 28209
(704) 553-9330
(Address of registrant's principal executive offices including zip code and telephone number, including area code)

Check whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve 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 [ ]

Check whether the issuer filed all reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes [X] No [ ]

The number of shares outstanding of the Registrant's Common Stock as of May 14, 2002: 85,673,715

Transitional Small Business Disclosure Format: Yes [ ] No [X]

ERESOURCE CAPITAL GROUP, INC.

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ERESOURCE CAPITAL GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	March 31, 2002 (Unaudited)	June 3 2001
ASSETS		
Cash and cash equivalents	$ 1,398	$ 1,
Accounts receivable, net	2,321	2,
Inventory	188	
Investments	2,274	1,

Prepaid expenses	3,315	1,
Total current assets	9,496	6,
Deferred costs and other assets	442	
Property and equipment, net	1,527	1,
Goodwill, net	18,420	17,
Total assets	$ 29,885	$ 26,

LIABILITIES AND SHAREHOLDERS' EQUITY

Notes payable - current portion	$ 2,491	$
Notes and amounts due to affiliates	263	
Accounts payable and accrued expenses	5,052	4,
Deposits and other liabilities	41	
Unearned income	1,487	1,
Total current liabilities	9,334	7,
Notes payable	962	
Net liabilities of discontinued operations	--	
Total liabilities	10,296	7,
Shareholders' equity:		
Common stock, $.04 par value, 200,000,000 shares authorized, 85,673,715 and 75,833,728 issued, respectively	3,428	3,
Additional paid-in capital	110,919	109,
Accumulated deficit	(95,472)	(93,
Accumulated other comprehensive income	722	
Treasury stock at cost (24,502 and 35,930 shares, respectively)	(8)	
Total shareholders' equity	19,589	18,
Total liabilities and shareholders' equity	$ 29,885	$ 26,

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

ERESOURCE CAPITAL GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	Three months ended March 31		Nin
	2002	2001	

Revenue			
Services	$ 7,330	$ 4,170	$
Product sales	2,417	--	
Total revenue	9,747	4,170	
Cost of Revenue			
Services	6,018	3,519	
Product sales	2,185	--	
Gross profit	1,544	651	
Selling, general and administrative expenses - compensation related to issuance of stock options and warrants	7	220	
Selling, general and administrative expenses - other	1,580	1,277	
Provision for bad debts	20	--	
Depreciation and amortization	101	554	
Interest expense (income), net	93	(13)	
(Gain) loss on investments, net	(282)	156	
Gain on sale of assets	--	--	
Write-off of web site development costs	--	--	
Write-off of predevelopment costs	--	--	
Income (loss) from continuing operations	25	(1,543)	
Loss of discontinued operations	--	(313)	
Gain on disposal of discontinued operations	--	--	
Income (loss) before cumulative effect of change in accounting principle	25	(1,856)	
Cumulative effect of change in accounting principle	--	--	
Net income (loss)	$ 25	$ (1,856)	$
Basic and diluted net loss per share:			
Income (loss) from continuing operations	$ --	$ (0.03)	$
Loss of discontinued operations	--	(0.01)	
Gain on disposal of discontinued operations	--	--	
Cumulative effect of change in accounting principle	--	--	
Net income (loss)	$ --	$ (0.04)	$
Weighted average shares outstanding	83,062,659	56,822,579	7
Weighted average shares outstanding, assuming dilution	87,179,002	56,822,579	7

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

ERESOURCE CAPITAL GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(IN THOUSANDS)

	Nine months ended March 2002	2001
Cash flows from operating activities:		
Loss from continuing operations	$(1,876)	$(13,314)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	285	1,215
Bad debt expense	85	--
Common stock issued for services	36	--
Stock purchase warrants received for services	(279)	(128)
Affiliate balance converted on sale of home technology franchises	(80)	--
Unrealized loss on stock purchase warrants	191	156
(Gain) loss on sale of assets	(171)	5
Compensation expense related to stock options and warrants	19	6,923
Deferred debt amortization	--	13
Write-off of Web site development costs	--	754
Write-off of predevelopment costs	--	1,164
Changes in operating assets and liabilities:		
Accounts and notes receivables	(300)	(80)
Inventory	(145)	--
Prepaid expenses	(1,424)	(92)
Deferred costs and other assets	(73)	(624)
Accounts payable and accrued expenses	738	196
Due to affiliates	7	193
Deposits and other liabilities	(399)	289
Unearned income	326	--
Cash used in continuing operations	(3,060)	(3,330)
Discontinued operations, net	150	(343)
Net cash used in operations	(2,910)	(3,673)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(225)	(71)
Sale of investments	189	--
Sale of assets	(53)	--
Cash (paid) acquired in connection with business acquisitions, net	(263)	378
Net cash (used in) provided by investing activities	(352)	307
Cash flows from financing activities:		
Notes payable proceeds	2,553	--
Principal debt repayments	(30)	--
Capital contribution by shareholder	50	--
Sale of common stock	801	3,314
Net cash provided by financing activities	3,374	3,314
Net increase (decrease) in cash and cash equivalents	112	(52)

Cash and cash equivalents at beginning of period	1,286	420
Cash and cash equivalents at end of period	$ 1,398	$ 368

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

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ERESOURCE CAPITAL GROUP, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These financial statements include the operations of eResource Capital Group, Inc., a Delaware Corporation ("RCG"), and its subsidiaries (collectively - "the Company"). In October 2000, RCG changed its name from flightserv.com to reflect the new business direction of the Company. Prior to June 30, 2000, the Company was engaged in the development of its private aviation business and limited commercial real estate activities. In fiscal 2001, the Company acquired several companies and businesses. The Company currently operates aviation travel services, telecommunications call center, consulting, home technology services, and Internet/technology solutions businesses in the United States.

All significant intercompany balances and transactions have been eliminated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to the rules of the Securities and Exchange Commission (the "SEC"). Certain prior period amounts have been reclassified to conform to the current period presentation and to reflect the commercial real estate business segment as a discontinued operation. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position of the Company as of March 31, 2002 and of the results of operations for the periods presented have been included. The financial data at June 30, 2001 is derived from audited financial statements which are included in the Company's Annual Report on Form 10-KSB for the year ended June 30, 2001 and should be read in conjunction with the audited financial statements and notes thereto. Interim results are not necessarily indicative of results for the full year.

The Company experienced net losses in recent fiscal years and a net loss of $1,993,000 during the nine months ended March 31, 2002. The Company used cash of $3,060,000 in continuing operations during the nine months ended March 31, 2002 and has cash and cash equivalents and investments totaling $3,672,000 at March 31, 2002. While its operations continue to improve, the Company continues to monitor costs in relation to revenues, and if necessary, to undertake cost reduction measures. In addition, the Company has obtained debt and equity financing in the nine months ended March 31, 2002 and is actively pursuing debt and equity financing alternatives to provide additional cash to support operations and growth.

CASH AND CASH EQUIVALENTS

The Company classifies as cash equivalents any investments which can be readily converted to cash and have an original maturity of less than three months. At times cash and cash equivalent balances at a limited number of banks and financial institutions may exceed insurable amounts. The Company believes it mitigates its risks by depositing cash or investing in cash equivalents in major financial institutions.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, accounts receivable, investments, and notes payable. The Company places its temporary cash with high credit quality financial institutions. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Although due dates of receivables vary based on contract terms, credit losses have been within management's estimates in determining the level of allowance for doubtful accounts. Overall financial strategies are reviewed periodically.

The Company used the following methods and assumptions in estimating its fair value disclosures for financial instruments:

- Cash and cash equivalents: The carrying amount reported in the balance sheet for cash approximates its fair value.

- Accounts receivable and accounts payable: Due to their short term nature, the carrying amounts reported in the balance sheet for accounts receivable and accounts payable approximate their fair value.

- Marketable Securities: The fair values for available-for-sale equity securities are based on quoted market prices.

- Notes Payable: The carrying amount of the Company's notes payable approximates its fair value.

During the three month period ended March 31, 2002, sales to Vacation Express ("VEX"), a customer of the Company's Aviation Travel Services business, represented 66% of the Company's consolidated revenue. For the nine month period then ended, sales to VEX and Aviation Network Services, also a customer of the Company's Aviation Travel Services business, represented 50% and 13%, respectively, of the Company's consolidated revenue.

INVENTORY

Inventory is stated at cost using the first-in, first-out method. Inventory consists primarily of finished goods.

INVESTMENTS

The Company's investments, including certificates of deposit with maturities of greater than three months, not readily marketable equity securities, and other marketable securities, are classified as available for sale. Investment securities that are not readily marketable include securities (a) for which there is no market on a securities exchange or no independent

publicly quoted market, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933 as amended (the "Securities Act"), or (c) that cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or the Company. Certificates of deposit are recorded at cost plus accrued interest. Marketable equity securities are recorded at estimated values based on quoted market values for marketable securities of the investee. If there is no quoted market value, the recorded values are based on the most recent transactions in the securities discounted for lack of marketability. Investment securities transactions are recorded on a trade date basis. The difference between cost and fair value for available for sale securities is recorded as unrealized gain or loss on available for sale securities as a component of comprehensive income.

Investments also include stock purchase warrants, which the Company periodically receives as part of its compensation for services. Stock purchase warrants from companies with publicly traded common stock are considered derivatives in accordance with FAS 133 "Accounting for Derivative Investments and Hedging Activities". The Company recognizes revenue at the fair value of such stock purchase warrants when earned based on the Black - Scholes valuation model. The Company recognizes unrealized gains or losses in the statement of operations based on the changes in value in the stock purchase warrants as determined by the Black - Scholes valuation model subsequent to the date received. The Company recorded an unrealized gain on these warrants of $166,000 in the quarter ended March 31, 2002 and an unrealized loss of $191,000 for the nine months ended March 31, 2002.

PREPAID EXPENSES

Prepaid expenses include insurance, deferred costs, certain taxes, and charter flight costs. Depending upon the volume and timing of charter flight activity, the amount of prepaid charter flight costs can fluctuate significantly.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line basis over the assets' estimated useful lives. Expenditures for maintenance and repairs are expensed as incurred. Expenditures for improvements that extend the useful life or add value to the asset are capitalized and then expensed over the asset's remaining useful life.

Sales and disposals of assets are recorded by removing the related cost and accumulated depreciation amounts with any resulting gain or loss reflected in the statement of operations.

The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that such amounts may not be recoverable. If such an event occurred, the Company would prepare projections of future results of operations for the remaining useful lives of such assets. If such projections indicated that the expected future net cash flows (undiscounted and without interest) are less than the carrying amounts of the property and equipment, the Company would record an impairment loss in the period it made such determination.

GOODWILL AND INTANGIBLE ASSETS

The Company records goodwill and intangible assets arising from

business combinations in accordance with Financial Accounting Standards Board Statement ("FAS") No. 141 "Business Combinations" ("FAS 141") which requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. FAS 141 also specifies the criteria applicable to intangible assets acquired in a purchase method business combination to be recognized and reported apart from goodwill.

The Company accounts for goodwill and intangible assets in accordance with FAS No. 142 "Goodwill and Other Intangible Assets" ("FAS 142"). The Company adopted FAS 142 effective July 1, 2001. In completing the adoption of FAS 142, the Company has allocated its previously existing goodwill as of July 1, 2001 to its reporting units, as defined in FAS 142, and performed an initial test for impairment as of that date. The results of the initial impairment test are summarized in Note 5 to these financial statements.

In accordance with FAS 142, the Company no longer amortizes goodwill. FAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested at least annually for impairment. FAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and be reviewed for impairment.

REVENUE RECOGNITION

Aviation Travel Services

Revenue related to the Company's aviation travel services consists of fees for charter flights and is recognized upon completion of the related flight.

Home Technology

The Company's home technology business completes work in two phases - wiring, then hardware installation. The Company invoices its customers and records revenue as work is completed on each project. Also, the Company sells contracts to customers for alarm monitoring services. The Company recognizes revenue from alarm monitoring contracts when it sells contracts to third parties or monthly over the contract term when the Company retains these contracts.

Sales of franchise licenses are recognized as revenue when the Company's obligations under the franchise agreement are "substantially complete." The Company generally defines "substantially complete" as the completion of training by the franchisee's General Manager and the approval by the Company of the franchise location plan.

Internet/Technology Solutions

Internet services project revenue is recognized on a percentage of completion basis for fixed fee contracts, based on the ratio of costs incurred to total estimated costs for individual projects. Revenue is recognized as services are performed for time and material contracts at the applicable billing rates.

Unbilled revenue represents revenue earned under contracts in advance of billings. Such amounts are normally converted to accounts receivable within 90 days. Unearned income represent amounts billed or cash received in advance of services performed or cost incurred under contracts. Any anticipated losses on contracts are charged to earnings when identified.

The Company provides e-commerce, marketing and business development services to clients pursuant to contracts with varying terms. The contracts generally provide for monthly payments and, in some cases, advance deposits. Revenue is recognized over the respective contract period as services are provided.

Revenue from uncollateralized e-commerce sales or sales of hardware and software is recognized upon passage of title of the related goods to the customer.

NET LOSS PER SHARE

The Company computes net loss per share in accordance with FAS No. 128, "Earnings per Share" ("FAS 128") which requires dual presentations of basic earnings per share ("EPS") and diluted EPS.

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares and potentially dilutive shares outstanding during the period. Options and warrants to purchase 26,569,043 and 27,380,120 shares of the Company's common stock, par value $0.04 per share (the "Common Stock"), were outstanding at March 31, 2002 and 2001, respectively. A portion of such outstanding options and warrants were dilutive to earnings per share in the quarter ended March 31, 2002, but with respect to the nine month period ended March 31, 2002 and the three and nine month periods ended March 31, 2001, these potentially dilutive options and warrants have not been included in the computation of diluted net loss per share as the impact would have been anti-dilutive.

	Three months ended March 31		Nine months ended March 31	
	2002	2001	2002	2001
Basic average shares	83,062,659	56,822,579	78,943,358	48,740,469
Potential dilutive shares	4,116,343	--	--	--
Diluted average shares	87,179,002	56,822,579	78,943,358	48,740,469

ADVERTISING

The Company expenses advertising costs as incurred. Advertising expense aggregated approximately $39,000 and $62,000, respectively, for the three month periods ended March 31, 2002 and 2001 and $220,000 and $501,000 for the nine month periods then ended.

COMPREHENSIVE INCOME (LOSS)

Components of comprehensive income are net income (loss) and all other non-owner changes in equity. The only component of other comprehensive income consists of unrealized holding gains/losses on securities available for sale. Total comprehensive income for the quarter ended March 31, 2002 was $659,000 and total comprehensive loss for the nine month period ended March 31, 2002 was $1,230,000. Total comprehensive loss for the three and nine month periods ended March 31, 2001 was $1,920,000 and $13,958,000, respectively.

INCOME TAXES

The Company accounts for income taxes in accordance with the liability method as provided under FAS No. 109, "Accounting for Income Taxes" ("FAS 109") Accordingly, deferred income taxes are recognized for the tax consequences of differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The measurement of deferred tax assets is reduced, if necessary, by the amount of any benefits that, based on available evidence, are not expected to be realized.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of

contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2001, the Financial Accounting Standards Board issued FAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". FAS 144 addresses financial accounting and reporting for the disposal of long-lived assets. FAS 144 becomes effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The Company is currently evaluating the potential impact, if any, the adoption of FAS 144 will have on its financial position and results of operations.

NOTE 2. CONTINUING OPERATIONS

Aviation Travel Services

In fiscal 2000, the Company introduced its Private Seats charter flight program to provide Internet access to private jet flight and related travel services and operated the business from March 2000 through June 30, 2000. Due to limited capital availability, the Company did not actively pursue development of the Private Seats program and, as a result, did not realize any revenue from this business after June 30, 2000. In fiscal 2001, the Company determined that it would not pursue further development or marketing of the Private Seats program.

In August 2000, the Company completed the acquisition of Internet Aviation Services, Ltd. ("IASL"). IASL was a new leisure and business travel services company, which offered charter services. The Company now operates its charter aviation services as part of its aviation travel services business through the Company's subsidiary, flightserv.com, Inc., a Delaware corporation ("FSW").

In October 2000, FSW entered into a contract with Southeast Airlines to charter two jet aircraft to provide jet shuttle service between Norfolk, Virginia and New York City, New York and between Norfolk and Orlando, Florida. Due to low consumer demand for this service FSW suspended its jet shuttle operations in January 2001 and terminated its contract with Southeast for the two aircraft.

Since December 2000, FSW has operated charter aircraft for tour operators. In July 2001, FSW entered into an agreement with Vacation Express to create a passenger hub in Orlando-Sanford International Airport. Pursuant to the terms of the agreement, six commercial jet aircrafts originate in six eastern and midwestern cities and serve five Caribbean destinations and Orlando. The Company began operating the service in November 2001 and at December 31, 2001 four (4) aircraft were in operation and two (2) additional aircraft began operating during the quarter ended March 31, 2002.

Telecommunications Call Center

In September 2000, the Company completed the acquisition of DM Marketing, Inc. ("DMM"), which operates a telecommunications call center providing telemarketing, help desk and other services for Internet related and other companies.

Home Technology

In April 2001, the Company acquired LST, Inc. d/b/a Lifestyle Technologies ("LST"), which is a full service home technology integration company providing builders, homeowners, and commercial customers with complete installation and equipment for structured wiring, security, personal computer networking, audio, video, home theater, central vacuum and accent lighting. LST also provides similar products and services to the commercial market. LST has also secured relationships with product manufacturers, distributors and service providers (cable, Internet service, broadband and security).

On July 10, 2001, the Company acquired certain net assets, liabilities and the business of a home technology company located in Atlanta, GA for an aggregate purchase price of $1,255,000, which was paid by delivery of a cash payment ($275,000), Common Stock (975,556 shares) and a four-year term promissory note ($250,000). Including direct acquisition costs, the total purchase price aggregated $1,259,857 and the transaction was accounted for using the purchase method of accounting. The excess value of the purchase price over the fair value of the net assets on the acquisition date aggregated approximately $1,184,184 which was allocated to goodwill.

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In September 2001, LST commenced its national franchising program. In connection with the franchising program, LST has completed the sale of franchise licenses in 13 markets located primarily in the south and southeastern United States. In addition, LST owns and operates the Charlotte, NC and Atlanta, GA markets.

On April 17, 2002 the Company signed a letter of intent to raise $4.35 million in cash and other assets through the sale of a 25% interest in its home technology business to Princeton Mining Company ("PRNM"). The transaction is expected to close no later than June 30, 2002, at which time LST will become a wholly-owned subsidiary of PRNM. Under the terms of the letter of intent, at closing, the Company will receive 16,000,000 shares of PRNM common stock, which is expected to represent approximately 75% of the outstanding stock of PRNM. Upon assuming control of PRNM through this transaction, RCG anticipates changing PRNM's name to reflect the new corporate direction. The transaction is contingent upon PRNM having no more than 5.5 million shares outstanding at closing. The transaction is expected to add approximately $1.3 million of cash and $3.05 million of other assets to the existing assets of LST.

Internet/Technology Solutions

The Company's Internet/Technology Solutions business is the result of the acquisitions of Avenel Alliance, Inc. ("Alliance") in February 2001 and Logisoft Corp. (formerly Logisoft Computer Products Corp.), and its wholly-owned subsidiary eStorefronts.net Corp. (together with Logisoft Corp., "Logisoft") in June 2001. Avenel Alliance was a wholly-owned subsidiary of Avenel Ventures, Inc. ("Ventures"), which was also acquired by the Company in February 2001.

The Company's Internet/Technology Solutions business provides integrated products and services to assist customers in meeting their strategic technology initiatives. The Company's products and services include software distribution to the educational market and corporate customers, full service Internet development, Internet site hosting and co-location and Internet business development services encompassing partner site management and marketing. In its Internet business development and marketing services, the Company generally participates in the development and implementation of the business plan in exchange for revenue-sharing and/or equity-based arrangements.

The Company's consolidated results of operations include the results of operations of each of the acquired companies discussed above for the period from each respective purchase date through March 31, 2002 and 2001.

Pro Forma Results of Operations

Following is selected pro forma consolidated financial information reflecting the Company's acquisitions of IASL, DMM, Ventures, LST and Logisoft as if such acquisitions had occurred as of the beginning of the nine month period ended March 31, 2001 (in thousands, except share amounts):

Revenue..	$ 13,712
Net loss from continuing operations................	$ (22,014)
Net loss...	$ (22,595)
Net loss per share.................................	$ (.32)
Weighted average shares............................	70,292,464

NOTE 3. DISCONTINUED OPERATIONS

Commercial Real Estate

In fiscal 2001, the Company discontinued its commercial real estate business, which consisted of two strip-mall shopping centers in the Atlanta, GA area. In August 2001, the Company completed the sale of all of the outstanding shares of the capital stock of the Company's subsidiary which owned the commercial real estate business in exchange for cash ($312,500) and a 60-day note receivable ($62,500), which was collected in October 2001. The Company realized a gain of approximately $576,000 on the sale in the quarter ended September 30, 2001. The Company's financial statements for the periods ended March 31, 2001 have been reclassified to reflect the commercial real estate business as a discontinued operation.

Residential Real Estate

In fiscal 1999, the Company discontinued its residential real estate development operations. Residential real estate operations included developed lots, undeveloped land, and equity investments in residential real estate development companies, partnerships, and joint ventures. The Company completed

the disposal of its residential real estate business in fiscal 2001.

NOTE 4. INVESTMENTS

Investments consist of the following (in thousands):

	March 31, 2002			June 30, 2001		
	Cost	Gross Unrealized Gains	Fair Value	Cost	Gross Unrealized Gains	Fair Value
Equity securities	$1,079	$ 722	$1,801	$1,020	$ 88	$1,108
Certificates of deposit	50	--	50	99	--	99
	$1,129	$ 722	$1,851	$1,119	$ 88	$1,207
Stock purchase warrants			423			385
			$2,274			$1,592

The Company's certificates of deposit at March 31, 2002 are pledged as collateral security for the Company's letters of credit for office space leases.

As of March 31, 2002, $1,494,000 of the Company's equity securities and $300,000 of its stock purchase warrants related to Team Sports Entertainment, Inc.

NOTE 5. GOODWILL

The changes in goodwill, by segment, for the nine month period ended March 31, 2002, are as follows:

	Aviation Travel Services	Internet/ Technology Solutions	Home Technology	Corporat
Balance at June 30, 2001	$939	$ 8,263	$7,696	$1,000
Cumulative effect of change in accounting principle (adoption of FAS 142)	--	(693)	--	--
Balance on July 1, 2001	939	7,570	7,696	1,000
Goodwill acquired during period	--	--	1,184	--
Other goodwill adjustments	--	16	15	--
Balance at March 31, 2002	$939	$ 7,586	$8,895	$1,000

Goodwill was reduced by $693,000 in the Internet/Technology Solutions segment as a result of the implementation of FAS 142. This adjustment relates primarily to the discounting of the future net cash flows in the segment's

Internet business development activity that was acquired as a part of the purchase of Alliance.

Goodwill allocated to the Corporate segment relates to investment banking activities that were acquired by the Company as a part of the acquisition of Ventures in February 2001 and integrated into Corporate.

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In July 2001, the Company acquired a home technology business in the Atlanta, GA market, which resulted in the recording of $1,184,000 in goodwill. The other goodwill adjustments relate to resolutions of contingencies that existed as of the dates that the related businesses were acquired by the Company.

Reported net income (loss) adjusted for the amounts of goodwill amortization recorded by the Company prior to the adoption of FAS 142 is as follows:

	Three months ended March 3	
	2002	2001
Reported income (loss) before cumulative effect of change in accounting principle	$ 25	$ (1,856)
Add back: Goodwill amortization	--	543
Adjusted income (loss) before cumulative effect of change in accounting principle	25	(1,313)
Cumulative effect of change in accounting principle	--	--
Adjusted net income (loss)	$ 25	$ (1,313)
Basic and diluted net income (loss) per share:		
Reported income (loss) before cumulative effect of change in accounting principle	$ --	$ (0.04)
Add back: Goodwill amortization	--	0.01
Adjusted income (loss) before cumulative effect of change in accounting principle	--	(0.03)
Cumulative effect of change in accounting principle	--	--
Adjusted net income (loss)	$ --	$ (0.03)

The effect of the adoption of FAS 142 on the quarter ended September 30, 2001 was to increase the Company's reported net loss of $724,000 ($.01 per share) by the amount of the cumulative effect of change in accounting principle measured as of July 1, 2001, $693,000 ($.01 per share), to $1,417,000 ($.02 per share).

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NOTE 6. NOTES PAYABLE

Notes payable consists of the following (in thousands):

Notes payable - due on demand with an interest rate of 12% and unsecured
Note payable - due on demand bearing interest at the prime rate plus 1.0% and secured by assets p
by an affiliate of the Company
Notes payable - due on demand with interest imputed at 8% and unsecured
Mortgage payable to a bank in monthly installments of $1,751, including interest
at 7.96% through October 2015 and collateralized by a building
Note payable - due in monthly installments of $3,000 and a balloon payment in July 2005
with monthly interest at 8.00% and collateralized by home technology accounts receivable
Note payable - due in July 2002 with interest at 10% and collateralized by certain home technolog
Note payable - due in July 2002 with interest at 12% and unsecured
Note payable - due in July 2002 with interest at 10% and unsecured
Note payable - due in September 2002 with interest at 12% and collateralized by certain home tech
accounts receivable and inventory (1)
Note payable - $200,000 due December 31, 2002 and $600,000 due December 31, 2003 with interest at
collateralized by certain aviation travel service business assets (2)

Less current maturities

Long-term portion

(1) At the option of the noteholder, this note can be converted into RCG's Common Stock at a ratio of one (1) share of Common Stock for each $0.65 of outstanding principal and interest.

(2) In connection with this note, the Company issued 500,000 shares of restricted stock and 300,000 warrants to purchase its Common Stock at a price of $0.35 and for a term of three years, both as loan origination fees. This note is convertible into the Company's Common Stock at the option of the debt holder at a per share price of the lesser of $0.30 or a 25% discount. The Company can force the debt holder to convert to stock at $1.00 per share under certain conditions.

NOTE 7. INCOME TAXES

As of March 31, 2002, the Company had approximately $36,800,000 of net operating loss carry forwards ("NOLs") for federal income tax purposes, which expire between 2019 through 2021. A deferred income tax asset valuation allowance has been established against all deferred income tax assets as management is not certain that the deferred income tax assets will be realized. In addition, due to the substantial limitations placed on the utilization of net operating losses following a change in control, utilization of such NOLs could be limited.

In January 2002, the Company received an Internal Revenue Service report on the Company's 1996 and 1997 and one of its subsidiary's 1994 and 1995 tax returns, which the Company has appealed. At March 31, 2002 and June 30, 2001, the Company had recorded a federal tax liability of $305,830 related to such assessment.

NOTE 8. ISSUANCE OF COMMON STOCK

In July 2001, the Company issued 975,556 shares of restricted Common Stock in connection with the acquisition of a home technology business.

In September 2001, the Company issued 11,428 shares of restricted Common Stock from treasury stock in connection with the payment of certain legal fees.

In December 2001, the Company issued 795,599 shares of Common Stock with an aggregate market value of approximately $165,000 in connection with the payment of a loan origination fee, legal expenses, investor relation services and general and

administrative expenses. Of the $165,000, the Company recorded approximately $133,000 as deferred debt expense, which is being amortized over two years, the term of the note.

The Company's purchase agreements for LST and Logisoft provide for 2,000,000 and 500,000 additional shares of Common Stock, respectively, to be issued to certain parties, contingent upon operating performance criteria for each company acquired. In October 2001 and March 2002, the Company issued 20,834 and 62,500 shares of Common Stock, respectively, representing additional shares earned in accordance with the Logisoft purchase agreement. No additional shares have been earned in accordance with the LST purchase agreements.

In December 2001, the Company's Board of Directors approved a private placement of up to 10,000,000 shares of the Company's restricted Common Stock at a price of $0.10 per share. The Company is managing the private placement directly and, as a result, will not incur any investment banking fees. The Company sold 2,500,000 shares under the private placement in December 2001, 5,510,000 shares in the quarter ended March 31, 2002, and expects to complete the sale of the remaining 1,990,000 shares on or before May 31, 2002.

NOTE 9. STOCK OPTIONS AND WARRANTS

The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued To Employees" ("APB 25") and options and warrants issued to non-employees under FAS No. 123, "Accounting For Stock Based Compensation" ("FAS 123"). For the options and warrants issued to non-employees, the fair value of each award has been calculated using the Black-Scholes Model in accordance with FAS 123.

In fiscal 2001, the Company adopted a stock compensation plan (the "Option Plan"). The Option Plan provides for the granting of either incentive stock options or non-qualified options to purchase shares of the Company's Common Stock to provide incentives to employees, directors and other individuals or companies at the discretion of the Board of Directors. The Option Plan allows participants to purchase Common Stock of the Company at prices set by the Board of Directors, but in the case of incentive stock options not less than fair market value at the date the option is granted. Unexercised options expire 10 years after the date of grant unless otherwise specified by the Board of Directors. There are 20,000,000 shares authorized for the granting of incentive stock options under the Option Plan. In the nine months ended March 31, 2002, the Company issued qualified and non-qualified options to certain employees under the Option Plan to purchase 1,775,000 shares of Common Stock and cancelled options of terminated employees to purchase 2,049,625 shares of Common Stock.

The following table summarizes the Company's outstanding options:

March 31, 2002				June 30, 2001		
Shares	Exercise Price	Term (Years)	Vesting Period (Months)	Shares	Exercise Price	Term (Year
705,000	$ 0.18	10 *	48 *	--	$ --	--
3,370,000	0.25 to .28	10	12 to 48	2,940,000	0.25	10
2,300,000	0.70	10	12	3,100,000	0.70	10
1,000,000	0.75	10	--	1,000,000	0.75	10
123,069	0.78	10	18	220,628	0.78	10
257,500	0.84	10	36 to 42	480,000	0.84	10
738,354	0.85	10	12 to 38	1,027,650	0.85	10
270,000	0.95	10	12 to 46	270,000	0.95	10
100,000	1.00	10	46	100,000	1.00	10
500,000	1.44	10	--	500,000	1.44	10
125,000	3.00	10	--	125,000	3.00	10
9,488,923				9,763,278		

* 250,000 non-qualified options issued to an employee in December 2001 have a three-year term and are fully vested.

Of the outstanding options at March 31, 2002, 7,746,539 are exercisable.

The Company has issued warrants to purchase shares of its Common Stock in exchange for consulting and legal services and for strategic vendor alliances provided by outside third parties. In addition, the Company has issued warrants in connection with Common Stock private placement and term loan financing transactions. Certain of the warrants issued contained registration rights provisions.

The following table summarizes the Company's outstanding warrants:

March 31, 2002			June 30, 2001		
Shares	Exercise Price	Term (Months)	Shares	Exercise Price	Term (Months)
5,556,377	$ 0.04	54	5,556,377	$ 0.04	54
300,000	0.35	36	--	--	--
400,000	0.50	120	400,000	0.50	120
4,753,743	0.75	120	4,753,743	0.75	120
100,000	0.81	48	100,000	0.81	48

10,000	1.00	--	10,000	1.00	--
50,000	1.10	36	50,000	1.10	36
675,000	1.75	--	600,000	1.75	--
575,000	3.00	*	575,000	3.00	*
3,625,000	4.00	120*	3,625,000	4.00	120*
16,045,120			15,670,120		

* All of the $3.00 warrants and 575,000 of the $4.00 warrants in the above table have a term that is variable, subject to the market value of the Common Stock and other conditions.

At March 31, 2002, all of the above warrants are exercisable, except for 555,638 with an exercise price of $0.04 which vest on December 31, 2002, 100,000 with an exercise price of $0.81 that vest over 36 months, and 50,000 with an exercise price of $1.75 that vest upon performance of certain services.

The total compensation cost recognized during the nine month periods ended March 31, 2002 and 2001 for these awards was $19,000 and $6,923,000, respectively. Compensation costs were $7,000 and $220,000, respectively, for the three month periods ended on March 31, 2002 and 2001, respectively.

NOTE 10: GENERAL AND ADMINISTRATIVE EXPENSE - OTHER

Following is a summary of the Company's general and administrative expenses (in thousands):

	Three months Ended March 31,		Nine months Ended March 31	
	2002	2001	2002	2001
Compensation expense	$ 831	$ 584	$3,048	$1,314
Legal and professional fees	130	160	380	623
Public and investor relations	(46)	67	28	148
Marketing and advertising	39	62	220	501
Rent expense	136	68	465	164
Insurance	84	57	280	137
Telecommunications	51	60	230	106
Office and printing expense	145	85	352	329
Travel and entertainment	60	66	220	156
Other	150	68	288	188
	$ 1,580	$1,277	$5,511	$3,666

Public and investor relations expenses were reduced by $90,000 during the quarter ended March 31, 2002 as a result of the favorable settlement of a contract with a service provider.

NOTE 11. RELATED PARTY TRANSACTIONS

In fiscal 2001, Michael D. Pruitt, the President, Chief Executive Officer and a director of the Company, and a company owned by Mr. Pruitt made loans to the Company. Also, in the quarter ended December 31, 2001, Mr. Pruitt loaned the Company $50,000 which was repaid to Mr. Pruitt in December 2001. At March 31, 2002, notes and advances due to affiliates of the Company consist of the following (in thousands):

Note payable to Mr. Pruitt	$ 100
Advance payable to Mr. Pruitt	45
Notes payable to a company owned by Mr. Pruitt	118
	$ 263

The note payable to Mr. Pruitt indicated in the above table bears interest at 12% per annum and is due on demand. The advance to Mr. Pruitt and notes payable to the company owned by Mr. Pruitt bear imputed interest at 8% and are due on demand.

Mr. Pruitt has pledged certain of his personal assets to secure a $100,000 bank credit facility for the Company's home technology business. At March 31, 2002, the balance outstanding on this bank facility was $100,000.

Mr. Pruitt is also a minority investor in a company that has purchased franchise licenses and business operations of the Company's home technology business in three markets in South Carolina and in another company that is a franchisee of the Company's home technology business in three locations in the state of Maryland. During the quarter ended March 31, 2002, $80,000 of the notes payable to a company owned by Mr. Pruitt was used as payment for the purchase price of two Maryland franchise locations of the Company's home technology business.

Paul B. Johnson, a director of the Company, is an investor in a company, which in November 2001 became a franchisee of the Company's home technology business in the Dallas, Texas market.

NOTE 12. BUSINESS SEGMENT INFORMATION

Information related to business segments for the Company's continuing operations is as follows (in thousands):

Three months ended March 31, 2002:	Aviation Travel Services	Call Center	Internet/ Technology Solutions	Home Technology
Revenue	$6,669	$ 14	$ 2,233	$ 629
Income (loss) from continuing operations	300	(14)	(69)	(359)
Identifiable assets	5,006	380	10,445	10,361

Capital expenditures	10	--	28	61
Depreciation and amortization	25	4	58	21

Three months ended March 31, 2001:	Aviation Travel Services	Call Center	Internet/ Technology Solutions	Home Technology
Revenue	$3,905	$ 68	$ 67	$ --
Income (loss) from continuing operations	(67)	(319)	(256)	--
Identifiable assets	1,796	5,120	5,524	--
Capital expenditures	--	--	--	--
Depreciation and amortization	72	291	191	--

Nine months ended March 31, 2002:	Aviation Travel Services	Call Center	Internet/ Technology Solutions	Home Technology
Revenue	$17,021	$ 50	$ 6,800	$ 2,366
Income (loss) from continuing operations	621	(85)	(575)	(660)
Identifiable assets	5,006	380	10,445	10,361
Capital expenditures	11	--	65	148
Depreciation and amortization	37	13	170	57

Nine months ended March 31, 2001:	Aviation Travel Services	Call Center	Internet/ Technology Solutions	Home Technology
Revenue	$6,181	$ 169	$ 67	$ --
Income (loss) from continuing operations	(1,429)	(779)	(256)	--
Identifiable assets	1,796	5,120	5,524	--
Capital expenditures	41	22	--	--
Depreciation and amortization	344	680	191	--

Corporate includes certain investment banking activities that were acquired by the Company as a part of the acquisition of Ventures in February 2001.

The Company's sales are primarily to customers in the United States of America. International sales are minimal.

Item 2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

In the quarter ended September 30, 2000, the Company acquired its leisure aviation travel services and telecommunications call center businesses. In the third and fourth quarters of fiscal 2001, the Company acquired its home technology and Internet/technology solutions businesses. Also, in the quarter ended September 30, 2001, the Company acquired an additional home technology business.

The following table summarizes results of operations by business segment for the Company's continuing operations (in thousands):

	Three Months Ended March 31, 2002			Three Months Ended	
	Revenue	Gross Profit	Income (Loss)	Revenues	Gross Profi
Aviation Travel Services	$6,669	$ 707	$ 306	$ 3,905	$ 3
Telecommunications Call Center	14	14	(14)	68	
Home Technology	2,233	210	(359)	--	
Internet/Technology Solutions	629	411	(69)	67	
Corporate	202	202	161	130	1
	$9,747	$1,544	$ 25	$ 4,170	$ 6

	Nine Months Ended March 31, 2002			Nine Months Ended	
	Revenue	Gross Profit	Income (Loss)	Revenues	Gross Profi
Aviation Travel Services	$17,021	$1,500	$ 621	$ 6,181	$ 1
Telecommunications Call Center	50	50	(85)	169	1
Home Technology	6,800	844	(660)	--	
Internet/Technology Solutions	2,366	1,463	(575)	67	
Corporate	279	279	(1,177)	130	1
	$26,516	$4,136	$ (1,876)	$ 6,547	$ 5

Results of Continuing Operations

The Company's revenues in the three and nine months ended March 31, 2002 were $9,747,000 and $26,516,000, respectively, compared to $4,170,000 and $6,547,000, respectively, in the same periods a year ago. The increase in the current period is due to the newly acquired businesses and the expanded charter aviation business. These increases were partially offset by the termination of the jet shuttle services and a decline in the call center operations. Revenue

reported in the Corporate segment relates primarily to fees received for investment banking services.

During the three month period ended March 31, 2002, sales to Vacation Express ("VEX"), a customer of the Company's Aviation Travel Services business, represented 66% of the Company's consolidated revenue. For the nine month period then ended, sales to VEX and Aviation Network Services, also a customer of the Company's Aviation Travel Services business, represented 50% and 13%, respectively, of the Company's consolidated revenue.

Gross profit in the three and nine months ended March 31, 2002 was $1,544,000 and $4,136,000 compared to $651,000 and $527,000, respectively, in the same periods a year ago. The increases in the current period are due to the newly acquired businesses, the expanded charter aviation business and elimination of the jet shuttle business, which operated at a gross margin deficit.

In the three and nine months ended March 31, 2001, the Company recognized $220,000 and $6,923,000, respectively, of non-cash expense related to the issuance of stock options and warrants. The Company incurred only $7,000 and $19,000 of any such

expense in the three and nine months ended March 31, 2002, respectively, because the Company granted fewer compensatory options and warrants in the current year.

Selling, general and administrative expenses-other in the three and nine months ended March 31, 2002 was $1,580,000 and $5,511,000, respectively, compared to $1,277,000 and $3,666,000, respectively, in the comparable periods a year ago. These increases are due to expenses of the newly acquired businesses and increased staff in the aviation travel services business to support its expanded charter operations partially offset by reduced corporate expenses, settlement of a contract with a service provider that reduced expenses during the quarter ended March 31, 2002 by $90,000, and by lower marketing expenses, particularly in the nine month period, due to the termination of the jet shuttle service.

Bad debt expense in the three and nine months ended March 31, 2002 was $20,000 and $85,000, respectively, and is related to the newly acquired businesses.

The Company's depreciation and amortization expense in the three and nine month periods ended March 31, 2002 was $101,000 and $285,000, respectively, compared to $554,000 and $1,215,000, respectively, in the same periods a year ago. The decrease is due primarily to the discontinuance of goodwill amortization ($1,182,000 for the nine months ended March 31, 2001) in accordance with FAS 142 offset partially by depreciation of the fixed assets of newly acquired businesses.

In the three and nine month periods ended March 31, 2002, the Company incurred $93,000 and $186,000, respectively, of net interest expense related to its debt portfolio, which increased from $668,000 at June 30, 2001 to $3,453,000 at March 31, 2002. During the three and nine months ended March 31, 2001, the Company recorded net interest income of $13,000 and $37,000.

In the quarter ended March 31, 2002, the Company recorded a net gain on investments of $282,000 of which $166,000 relates to market adjustments of warrants and $116,000 represents realized gains on sales of securities. For the nine month period ended March 31, 2002, the Company recognized a net loss on

investments of $97,000. These results are reported primarily in the Corporate segment results. The results for the nine months ended March 31, 2002 also include a gain of $171,000 on the sale of certain home technology net assets to companies that are operating these businesses as franchises.

The Company realized a gain of $576,000 on the sale of its discontinued commercial real estate business in the three months ended September 30, 2001.

In fiscal 2002, the Company recorded the cumulative effect of a change in accounting principle of $693,000, increasing the Company's reported net loss, as a result of its implementation of FAS 142. This adjustment was recorded as of July 1, 2001.

Liquidity and Capital Resources

The net loss in the nine months ended March 31, 2002 of $1,993,000 was offset by increases to shareholders' equity related to a business acquisition, a capital contribution, unrealized gains on marketable securities of $634,000 and sale of common stock resulting in a net increase in shareholders' equity of $601,000. This increase was $1,294,000 excluding the impact of the adoption of FAS 142.

In the nine months ended March 31, 2002, continuing operations used $3,060,000 of cash and discontinued operations provided $150,000 of cash. Note payable proceeds of $2,553,000 and sale of common stock offset this decrease resulting in a net cash increase of $112,000 for the nine months ended March 31, 2002. At March 31, 2002, the Company had working capital of $162,000, including cash and cash equivalents of $1,398,000 and investments of $2,274,000.

The Company's aviation travel service business was cash flow positive in the current quarter, as it has been for the entire fiscal year. The Company expects cash flow from this business to increase again in the fourth quarter of fiscal 2002 when the full schedule of flights under its leisure charter contract are in place for the entire quarter. This contract is expected to generate $32,000,000 in annual revenues and $1,500,000 to $2,000,000 of annual cash flow. Six (6) aircraft were in operation under the contract at March 31, 2002. The Company continues to service its existing contracts and to market complementary flights to further utilize the aircraft it has under contract.

The Company is in the process of re-establishing the operations of its 35-seat telecommunication call center, which will also provide support to its aviation travel services business as a reservations and customer care center for airlines, tour operators and

for internal programs for which the Company will take reservations from travelers. The Company expects the call center to break even during the second quarter of fiscal 2003.

In the quarter ended September 30, 2001, the Company implemented a national franchising program for its home technology business. Since its launch, the Company has sold 13 geographic markets to franchisees, primarily in the south and southeastern United States. During the three and nine month periods ended March 31, 2002, the Company recognized revenue for the sale of five and 12 franchises sold, respectively. Total revenue from franchise sales and royalties was $253,000 and $591,000, respectively, for the three and nine month periods ended March 31, 2002. For the nine months ended March 31, 2002, the Company's home technology business reported a loss of $660,000 due primarily to investments made in the establishment and growth of the franchising program and

losses in the two markets that the Company presently operates, Charlotte, NC and Atlanta, GA. For the quarter ended March 31, 2002 the home technology business reported a loss of $359,000 due to increased staffing to support franchisor operations and lower sales in its two owned markets. Sales in the Company's two owned markets for the March 31, 2002 quarter decreased by $272,000 from the previous quarter due to seasonality and the impact of a customer selectivity program in which certain builder relationships were terminated, to allow the Company to focus on building relationships with higher end builders and in the commercial market. The continued implementation of the franchise plan and the development of its owned markets are expected to result in reduced, but continued operating losses for the near term. In April 2002, the Company signed a binding letter of intent to sell a 25% interest in its home technology business for cash of $1,300,000 and other assets of approximately $3,050,000 (the "Princeton Transaction"). The Princeton Transaction is expected provide the business additional capital to continue implementing its business plan to build a national operation.

In fiscal 2002, the Company has proceeded with the development of its Internet/technology solutions business through the expansion of its products, services and its sales force while reducing its operating expenses. The Company's Internet/Technology solutions business has reduced its loss from operations in each of the last three (3) quarters as a result of revenue growth and cost control. During the quarter ended March 31, 2001, the Internet/Technology Solutions business reported a loss of $69,000 and achieved a break-even result excluding depreciation, interest and taxes (EBITDA), versus a loss of $168,000 in the quarter ended December 31, 2001. The Company expects these improvements in operating results to continue.

Also, the Company's corporate expense in the current nine months decreased from a year ago due to the issuance of fewer stock options and warrants, staff reductions, favorable settlement of a contract with a service provider and other costs saving measures. The Company expects to realize additional corporate savings during the last quarter of fiscal 2002. In addition, The Company recorded $202,000 in revenue from advisory services during the quarter ended March 31, 2002.

In addition to the operational improvements and the funding transaction for the home technology business discussed above, the Company in December, 2001 obtained an $800,000 term loan and commenced a $1,000,000 private placement sale of Common Stock. Through March 31, 2002, the Company had received $801,000 from the private placement program and expects to receive the remaining $199,000 on or before May 31, 2002. The Company continues to actively pursue debt and equity financing alternatives to provide additional cash to support operations and growth. The Company believes its existing balances of cash and cash equivalents and investments combined with operating cash flows, funds to be raised as a result of the Princeton Transaction and the proceeds from the private placement sale of Common Stock will be sufficient to meet working capital and capital expenditure requirements of our continuing operations. The Company may need additional debt or equity financing depending upon its ability to grow its businesses or improve cash flow from operations or if the Princeton Transaction is delayed or does not close. There can be no assurance that additional financing will be available when needed or, if available, that it will be on terms favorable to the Company and its stockholders. If the Company is not successful in generating sufficient cash flow from operations, or in raising additional capital when required in sufficient amounts and on terms acceptable to the Company, these failures would have a material adverse effect on the Company's business, results of operations and financial condition. If additional funds are raised through the issuance of equity securities, the percentage ownership of its then-current stockholders would be diluted.

The Company's business, results of operations, and financial condition are subject to many risks. In addition, statements in this quarterly report

relating to matters that are not historical facts are forward-looking statements based on management's belief and assumptions based on currently available information. Such forward-looking statements include statements relating to estimates of future revenue and operating income, cash flow and liquidity. Words such as "expects", "intends", "believes", "may", "will" or similar expressions are intended to identify certain forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any

assurances that these expectations will prove to be correct. Such statements involve a number of risks and uncertainties, including, but not limited to those discussed herein or in other documents filed by the Company with the SEC, including the Company's Annual Report on Form 10-KSB filed on October 4, 2001.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The Company and its subsidiaries are involved from time to time in various claims and legal actions in the ordinary course of business. In the opinion of management, the Company and its subsidiaries are not party to any legal proceedings, the adverse outcome of which, would have any material adverse effect on the Company's business, its assets, or results of operations.

ITEM 2. CHANGES IN SECURITIES

Since July 1, 2001, the Company has issued 9,875,917 shares of restricted Common Stock in connection with the following transactions:

(i) In July 2001, the Company issued 975,556 shares of restricted Common Stock in connection with the acquisition of a home technology business located in Atlanta, GA;

(ii) In September 2001, the Company issued 11,428 shares of restricted Common Stock from treasury stock in exchange for legal services rendered to the Company;

(iii) In October 2001, the Company issued 20,834 shares of restricted Common Stock to former shareholders of Logisoft in exchange for Logisoft reaching certain performance criteria set forth in the purchase agreement governing the Company's acquisition of Logisoft;

(iv) In December 2001, the Company issued 129,630 shares of restricted Common Stock in exchange for investor relations services rendered to the Company;

(v) In December 2001, the Company issued 100,000 shares of restricted Common Stock in exchange for legal services rendered to the Company;

(vi) In December 2001, the Company issued 500,000 shares of restricted Common Stock as a loan origination fee;

(vii) In December 2001, the Company issued 65,969 shares of

restricted Common Stock to an employee as reimbursement of general and administrative expenses;

(viii) In the period from December 2001 to May 14, 2002, the Company issued an aggregate of 8,010,000 shares of restricted Common Stock in connection with a private placement sale of Common Stock; and

(ix) In March 2002, the Company issued 62,500 shares of restricted Common Stock to former shareholders of Logisoft in exchange for Logisoft reaching certain performance criteria set forth in the purchase agreement governing the Company's acquisition of Logisoft.

The securities issued in connection with the Company's acquisition of Logisoft, the home technology businesses and the private placement of Common Stock referenced above were issued without registration under the Securities Act in reliance upon the exemption in Regulation D promulgated under Section 4(2) of the Securities Act. The Company based such reliance on factual representations made to the Company by the recipients of such securities as to such recipients' investment intent and sophistication, among other things.

The securities issued in connection with the legal services, investor services, loan fees and other general and administrative services rendered to the Company were issued without registration under the Securities Act in reliance upon Section 4(2) of the

Securities Act. The Company based such reliance on representations made to the Company by the recipient of such securities as to such recipient's investment intent and sophistication, among other things.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

2.1 Stock Purchase Agreement between the Company and the majority of the stockholders of LST (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on April 18, 2001).

2.2 Stock Purchase Agreement dated as of March 16, 2001 between the Company and Glenn Barrett, Jr. (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed on April

18, 2001).

2.3 Stock Purchase Agreement dated as of March 31, 2001 between the Company and Brandon Holdings, Inc. (incorporated by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K filed on April 18, 2001).

2.4 Agreement and Plan of Merger dated as of June 5, 2001 between the Company, Logisoft Acquisition Corporation and the individuals listed on Exhibit A thereto (the "Logisoft Merger Agreement") (incorporated by reference to Exhibit 2.1 the Company's Current Report on Form 8-K filed on June 13, 2001).

2.5 Joinder to the Logisoft Merger Agreement executed by Logisoft (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed on June 13, 2001).

2.6 Asset Purchase Agreement dated as of June 20, 2001, by and among Greater Atlanta Alarm Services, Inc., the Company, a wholly-owned subsidiary of the Company, Glenda Watson and David Watson (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on August 14, 2001).

2.7 Stock Purchase Agreement dated as of May 15, 2001 between the Company and Brikor, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on September 17, 2001).

(b) Financial Reports on Form 8-K

The Company has filed the following reports on Form 8-K and 8-K/A with the SEC since December 31 , 2001:

(i) The Company filed a Current Report on Form 8-K with the SEC on February 7, 2002 reporting under Item 4 of such report the change in the Company's certifying accountant. The Company amended this filing with the Form 8/KA filing on February 22, 2002.

(ii) The Company filed a Current Report on Form 8-K with the SEC on April 22, 2002 reporting under Item 5 that the Company signed of a letter of intent to raise $4,350,000 in cash and other assets through the sale of a minority interest of approximately 25% in the Company's home technology business.

SIGNATURE

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

eResource Capital Group, Inc.

Date: May 14, 2002

By: /s/ John W. Van Heel

John W. Van Heel
Vice President, Treasurer

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Exhibit Index

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2.2 Stock Purchase Agreement dated as of March 16, 2001 between the Company and Glenn Barrett, Jr. (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed on April 18, 2001).

2.3 Stock Purchase Agreement dated as of March 31, 2001 between the Company and Brandon Holdings, Inc. (incorporated by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K filed on April 18, 2001).

2.4 Agreement and Plan of Merger dated as of June 5, 2001 between the Company, Logisoft Acquisition Corporation and the individuals listed on Exhibit A thereto (the "Logisoft Merger Agreement") (incorporated by reference to Exhibit 2.1 the Company's Current Report on Form 8-K filed on June 13, 2001).

2.5 Joinder to the Logisoft Merger Agreement executed by Logisoft (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed on June 13, 2001).

2.6 Asset Purchase Agreement dated as of June 20, 2001, by and among Greater Atlanta Alarm Services, Inc., the Company, a wholly-owned subsidiary of the Company, Glenda Watson and David Watson (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on August 14, 2001).

2.7 Stock Purchase Agreement dated as of May 15, 2001 between the Company and Brikor, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on September 17, 2001).

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