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BRIDGE TECHNOLOGY INC  
Form 10-Q  
August 14, 2002

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

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended June 30, 2002  
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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 000-24767  
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Bridge Technology, Inc.

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

Nevada 59-3065437

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

12601 Monarch Street, Garden Grove, California 92841

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

(714) 891-6508

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(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

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## APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$0.01 Par Value - 10,898,110 shares as of June 30, 2002

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## PART I -- FINANCIAL INFORMATION

### Item 1. Financial Statements

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#### Bridge Technology, Inc. and Subsidiaries Consolidated Balance Sheets

|   | DEC. 31<br>2001<br>(Audited) | JUN. 30<br>2002<br>(Unaudited) |
|---|------------------------------|--------------------------------|
|   | -----                        | -----                          |
| <b>Assets</b>   |                              |                                |
| <b>Current assets:</b>  |                              |                                |
| Cash  | \$ 2,413,295                 | \$ 1,891,729                   |
| Restricted cash   | -                            | 317,495                        |
| Accounts receivable less allowance<br>for doubtful accounts of \$308,106<br>and \$302,005 | 11,035,057                   | 6,690,776                      |
| Tax refund receivable   | 500,000                      | 500,000                        |
| Other receivables   | 76,296                       | 189,157                        |
| Inventory   | 21,692,543                   | 18,062,279                     |
| Due from related party  | 22,143                       | 23,195                         |
|   | -----                        | -----                          |
| Total current assets  | 35,739,334                   | 27,674,631                     |
| Property and equipment, net   | 2,681,018                    | 2,516,897                      |
| Goodwill, net of amortization of<br>\$1,242,917 and \$1,242,917                           | 1,949,417                    | 1,949,417                      |
| Investments   | 198,717                      | 89,996                         |
| Other assets  | 96,213                       | 105,096                        |
|   | -----                        | -----                          |
| Total assets  | \$ 40,664,699                | \$ 32,336,037                  |
|   | =====                        | =====                          |
| <br><b>Liabilities and Shareholders' Equity</b>   |                              |                                |
| <b>Current liabilities:</b>   |                              |                                |
| Bank overdraft  | \$ 36,152                    | \$ 65,709                      |
| Line of credit  | 9,000,000                    | 9,504,076                      |
| Current portion of long term debt   | 46,901                       | 46,901                         |

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|  |            |            |
|--|------------|------------|
| Accounts payable, net of accrued rebates<br>and credits of \$698,470 and \$981,298 | 18,019,422 | 6,934,598  |
| Accrued taxes payable  | 6,440      | 128,905    |
| Deferred income tax  | 4,097      | 3,201      |
| Accrued liabilities  | 1,941,560  | 2,869,219  |
| Current portion of related party loan  | 75,118     | 75,118     |
| Shareholder loan   | 2,130,000  | 4,404,732  |
|  | -----      | -----      |
| Total current liabilities  | 31,259,690 | 24,032,459 |
| Related party loans less current portion   | 914,861    | 895,107    |
| Long term debt, less current portion   | 328,300    | 305,084    |
|  | -----      | -----      |
| Total liabilities  | 32,502,851 | 25,232,650 |
|  | -----      | -----      |

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|  |               |               |
|--|---------------|---------------|
| Minority interest  | 820,378       | 865,796       |
| Shareholders' equity:  |               |               |
| Common stock; par value \$0.01 per share,<br>authorized 100,000,000 shares,<br>10,898,110 shares outstanding | 108,632       | 108,981       |
| Additional paid-in capital   | 9,783,013     | 9,809,533     |
| Related party receivable   | (340,000)     | (340,000)     |
| Treasury stock   | (2,000)       | (2,000)       |
| Retained earnings (accumulated deficit)  | (2,187,679)   | (3,316,576)   |
| Accumulated other comprehensive loss   | (20,496)      | (22,347)      |
|  | -----         | -----         |
| Total shareholders' equity   | 7,341,470     | 6,237,591     |
|  | -----         | -----         |
| Total liabilities and shareholders' equity   | \$ 40,664,699 | \$ 32,336,037 |
|  | =====         | =====         |

See accompanying summary of accounting policies and notes to consolidated financial statements.

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Bridge Technology, Inc. and Subsidiaries  
Consolidated Statements of Operations

Three Months Ended

Six Months Ended

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|  | June 30,<br>2001 | June 30,<br>2002 | June 30,<br>2001 | June 30,<br>2002 |
|--|------------------|------------------|------------------|------------------|
|  | (Unaudited)      | (Unaudited)      | (Unaudited)      | (Unaudited)      |
| Net sales  | \$ 34,616,027    | \$ 26,594,227    | \$ 62,406,391    | \$ 53,884,094    |
| Cost of sales  | 32,999,988       | 25,407,503       | 58,092,382       | 51,095,834       |
| Gross profit   | 1,616,039        | 1,186,724        | 4,314,009        | 2,788,260        |
| Research and development   | 448,886          | 189,592          | 655,021          | 387,850          |
| Selling, general and<br>administrative expense                     | 2,162,538        | 1,870,743        | 4,220,184        | 3,581,482        |
| Income (loss) from<br>operations                                   | (995,385)        | (873,611)        | (561,196)        | (1,181,072)      |
| Other income (expense):  |                  |                  |                  |                  |
| Interest income<br>(expense), net                                  | (217,495)        | (268,708)        | (364,933)        | (461,907)        |
| Gain on sale of investment   | -                | 215,556          | -                | 536,427          |
| Other income   | 37,362           | 52,771           | 106,210          | 107,835          |
| Income before<br>income taxes                                      | (1,175,518)      | (873,992)        | (819,919)        | (998,717)        |
| Income taxes provision   | 57,825           | 23,559           | 159,849          | 84,763           |
| Net income (loss)  | (1,233,343)      | (897,551)        | (979,768)        | (1,083,480)      |
| Minority interest  | (46,549)         | (12,465)         | (87,089)         | (45,417)         |
| Net income (loss)<br>applicable to common<br>shares                | \$ (1,279,892)   | \$ (910,016)     | \$ (1,066,857)   | \$ (1,128,897)   |
| Basic weighted average<br>number of common<br>shares outstanding   | 10,863,186       | 10,875,467       | 10,863,186       | 10,869,360       |
| Basic earnings<br>per share  | \$ (0.12)        | \$ (0.08)        | \$ (0.10)        | \$ (0.10)        |
| Diluted weighted average<br>number of common<br>shares outstanding | 10,863,186       | 10,875,467       | 10,863,186       | 10,869,360       |
| Diluted income (loss)<br>per share                                 | \$ (0.12)        | \$ (0.08)        | \$ (0.10)        | \$ (0.10)        |

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Comprehensive income  
and its components  
consist of the  
following:

|  |                |              |                |                |
|--|----------------|--------------|----------------|----------------|
| Net income   | \$ (1,279,892) | \$ (910,016) | \$ (1,066,857) | \$ (1,128,897) |
| Foreign currency<br>translation<br>adjustment,<br>net of tax | (6,734)        | (1,618)      | 8,982          | (1,851)        |
|  | -----          | -----        | -----          | -----          |
| Comprehensive<br>income                                      | \$ (1,286,626) | \$ (911,634) | \$ (1,057,875) | \$ (1,130,748) |
|  | =====          | =====        | =====          | =====          |

See accompanying summary of accounting policies and notes to consolidated financial statements.

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Bridge Technology, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
Increase (Decrease) in Cash and Cash Equivalents

|   | Six Months Ended     |                      |
|---|----------------------|----------------------|
|   | June 30,<br>2001     | June 30,<br>2002     |
|   | -----<br>(Unaudited) | -----<br>(Unaudited) |
| Cash flows from operating activities  |                      |                      |
| Net income (loss)   | \$ (1,066,857)       | \$ (1,128,897)       |
| Adjustments to reconcile net income to<br>net cash provided by (used in)<br>operating activities: |                      |                      |
| Depreciation and amortization   | 428,051              | 258,471              |
| Provision for doubtful accounts   | 18,017               | 82,259               |
| Provision for slow moving inventory   | 200,154              | 231,000              |
| Stock compensation  | -                    | 15,453               |
| Gain on disposal of investment  | -                    | (536,373)            |
| Minority interest   | 87,089               | 45,418               |
| Increase (decrease) from changes in<br>operating assets and liabilities:                          |                      |                      |
| Restricted cash   | -                    | (317,495)            |
| Trade receivables   | 6,176,730            | 4,262,022            |
| Inventory   | (12,766,847)         | 3,410,680            |
| Deferred income taxes   | (38,733)             | (896)                |
| Other receivables   | 921,021              | 44,565               |
| Other current assets  | (116,833)            | (166,309)            |
| Accounts payable  | 1,059,033            | (11,084,824)         |
| Accrued liabilities   | (188,989)            | 927,658              |

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|  |              |              |
|--|--------------|--------------|
| Income taxes payable                           | (96,806)     | 122,466      |
|  | -----        | -----        |
| Net cash used in operating activities          | (5,384,970)  | (3,834,802)  |
|  | -----        | -----        |
| Cash flows from investing activities           |              |              |
| Purchase of property, plant and equipment      | (1,652,397)  | (94,350)     |
| Due from related party                         | (6,962)      | (1,052)      |
| Proceeds from disposal of investment           | -            | 645,094      |
|  | -----        | -----        |
| Net cash used in investing activities          | (1,659,359)  | 549,692      |
|  | -----        | -----        |
| Cash flows from financing activities           |              |              |
| Bank overdraft                                 | -            | 29,557       |
| Repayments on loans payable                    | (107,149)    | (23,216)     |
| Proceeds from line of credit                   | 2,000,000    | 604,076      |
| Repayment of line of credit                    | -            | (100,000)    |
| Proceeds from related party loans              | 2,341,870    | 2,818,215    |
| Repayments of related party loans              | (800,000)    | (563,237)    |
|  | -----        | -----        |
| Net cash provided by financing activities      | 3,434,721    | 2,765,395    |
|  | -----        | -----        |
|  |              |              |
|  |              | 6            |
|  |              |              |
| Effect of exchange rate changes on cash        | 12,268       | (1,851)      |
|  | -----        | -----        |
| Net increase in cash and cash equivalents      | (3,597,340)  | (521,566)    |
|  |              |              |
| Cash and cash equivalents, beginning of period | 4,870,836    | 2,413,295    |
|  | -----        | -----        |
| Cash and cash equivalents, end of period       | \$ 1,273,496 | \$ 1,891,729 |
|  | =====        | =====        |
| Supplemental information                       |              |              |
| Cash paid during the period for:               |              |              |
| Interest                                       | \$ 371,805   | \$ 376,907   |
| Income taxes                                   | 300,000      | -            |
|  | -----        | -----        |

See accompanying summary of accounting policies and notes to consolidated financial statements.

Bridge Technology, Inc. and Subsidiaries  
Notes to the Consolidated Financial Statements  
(Unaudited)

Organization and Business

-----  
Bridge Technology, Inc. ("The Company") was incorporated under the laws

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of the State of Nevada on April 15, 1969. Starting from April 1997, the Company registered to do business in the State of California and is primarily engaged in development and distribution of various hardware, software, and peripheral products used in computer systems and sales to value added resellers and system integrators. The Company started to enter into wireless internet business in 1999.

The Company has the following subsidiaries:

|                                   |      |   |
|-----------------------------------|------|---|
| Bridge R&D, Inc.                  | 100% | Established on June 1, 1997   |
| PTI Enclosures, Inc.              | 100% | Merged on December 14, 1998   |
| Pacific Bridge Net, Inc.          | 80%  | Established on August 16, 1999<br>and ceased operation in 2000      |
| Autec Power Systems, Inc.         | 100% | Merged on December 1, 1999  |
| CMS Technology Limited            | 90%  | Acquired on January 3, 2000 (60%)<br>Acquired on May 15, 2000 (30%) |
| Bridge Technology Ningbo Co. Ltd. | 100% | Established on May 28, 2001   |

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### Note 1. - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles or interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for fair presentation have been included. Operating results for the six months period ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2001.

The accompanying unaudited consolidated financial statements have been prepared assuming that the Company will continue as a going concern. During the year ended December 31, 2001, the Company incurred a net loss of \$2,542,000 and used cash of \$3,635,000 in its operations. Management has undertaken certain actions in an attempt to improve the Company's liquidity and return the Company to profitability. On July 24, 2002, the Company entered into a loan modification and extension agreement with a commercial bank for its outstanding balance of \$4 million at December 31, 2001, which was reduced by \$100,000 payment made in 2002. Pursuant to the terms of the new agreement, monthly interest only payments are to be made through maturity, \$50,000 is due by September 15, 2002 and no less than \$1,000,000 is due on November 30, 2002. The Company owns 90% of all issued and outstanding shares in CMS and pledged 65% of all issued and outstanding shares in CMS against this outstanding balance and the maturity date of the note has been extended until November 30, 2002. However, if the Company makes all of the foregoing payments on a timely basis and has not otherwise defaulted on the loan, the maturity date for the remaining unpaid principal balance will be extended until June 30, 2003. Additionally, management is negotiating with the Company's major shareholders to convert a portion of the Company's indebtedness to them into equity in order to improve the Company's working capital position.

Operationally, management's plans include continuing actions to cut or

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curb non-essential expenses and focusing on improving sales of Autec. No assurance can be given that the Company will be successful in extending or modifying its line of credit or that the Company will be able to return to profitable operations.

Looking for alternatives, the Company is currently seeking for global financing agreement with a major international bank to replace existing credit lines in the U.S. and Hong Kong. No assurance can be given that the alternative funding source will be available.

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### Note 2. - Income Taxes and Refund Receivable

As of December 31, 2001, a valuation allowance has been provided for that portion of the net deferred tax asset which management cannot determine, with reasonable certainty, that the benefit will be realized.

In July 2002, the Company filed its consolidated income tax return for the year ended December 31, 2001 claiming tax refund of approximately \$580,000 that is expected by the Company to receive from IRS in later September 2002.

### Note 3. - Shareholders' Equity

In May 2002 the Company granted a warrant to a consultant which allows him to purchase 15,000 shares of common stock with an exercise price at \$0.55 per share and expiration date at January 15, 2005 in lieu of payroll payable of \$9,675.

In May 2002, the Company issued aggregate 34,924 shares of common stock to a vendor in lieu of payment for purchasing certain inventory. The shares issued were priced at the fair market value of \$0.37 and \$0.32 at respective issuing dates.

In June 2002, the Company issued a warrant of purchase 30,000 share of common stock with an exercise price of \$0.55 per share and expiration date at June 30, 2007 for settlement of a lawsuit. As result of this issuance, the Company recorded the fair value of \$5,778 for the warrant.

### Note 4. - Inventory

Inventory consists of:

|                                 | December 31,<br>2001 | June 30,<br>2002 |
|---------------------------------|----------------------|------------------|
|                                 | -----                | -----            |
| Service parts                   | \$ 1,633,919         | \$ 1,261,871     |
| Work in process                 | 329,730              | 579,923          |
| Finished goods                  | 20,528,669           | 17,971,558       |
| Allowance for slow moving items | (799,775)            | (1,734,473)      |
|                                 | -----                | -----            |
|                                 | \$ 21,692,543        | \$ 18,078,879    |
|                                 | =====                | =====            |

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### Note 5. - Goodwill



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Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (SFAS 142). Under SFAS 142, Goodwill and indefinite life intangible assets are no longer amortized but will be reviewed annually, or more frequently if impairment indicators arise, for impairment. The Company discontinued the amortization of its goodwill balances effective January 1, 2002. As provided under SFAS 142, the initial testing of goodwill for possible impairment will be completed within the first six months of 2002 and final testing, if possible impairment has been identified, by the end of the year.

In accordance with SFAS 142, prior period amounts were not restated. A reconciliation of reported net income to net income adjusted for the exclusion of amortization of goodwill and indefinite life intangible assets follows:

|  | June 30,       |                |
|--|----------------|----------------|
|  | 2001           | 2002           |
| Reported net loss  | \$ (1,066,857) | \$ (1,128,897) |
| Add back: Goodwill amortization                                | 318,454        | -              |
| Adjusted net income  | (748,403)      | (1,128,897)    |
| Basic weighted average number of common<br>stock outstanding   | 10,863,186     | 10,869,360     |
| Basic earnings per share                                       | \$ (0.10)      | \$ (0.10)      |
| Adjusted earnings per share                                    | \$ (0.07)      | \$ (0.10)      |
| Diluted weighted average number of common<br>stock outstanding | 10,863,186     | 10,869,360     |
| Diluted earnings per share                                     | \$ (0.10)      | \$ (0.10)      |
| Adjusted diluted earnings per share                            | \$ (0.07)      | \$ (0.10)      |

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

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### Note 6. - Legal Proceedings

On November 14, 2001, a complaint was filed by Oppenheimer Wolff & Donnelly LLP in the Orange County Superior Court, Santa Ana, California against the Company for fees allegedly owed by the Company. The Company intends to vigorously defend this claim because the amount invoiced was deemed excessive comparing to the quality of services rendered. The estimated liability including interest, costs and statutory attorney's fees was approximately \$100,000. At December 31, 2001 the Company has recorded liabilities for this amount. In July 2002, a non-binding arbitration was initiated and the Company is waiting for the final decision from the arbitrators.

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On April 16, 2002, a complaint was filed by Danton Mak Esq. in the Superior Court of Los Angeles against Autec Power Systems, Inc. for fees allegedly owed by Autec. The matter was submitted to binding arbitration schedule for hearing in April 2002. An estimated liability of \$136,000 has been recorded at December 31, 2001. In July 2002 this matter has been settled for \$110,000 by stipulation of four equal payments of \$27,500 due on June 1, July 1, August 1 and September 1, 2002.

On April 24, 2002 a complaint was filed against the Company in the Orange County Superior Court, Santa Ana, California by Mason Tarkeshian for fees alleged to be due on an acquisition which was not consummated. The complaint sought for damage of approximately \$2 million where as the Company believes that the complaint was without merit and would be resolved in favor of the Company. The Company tendered this case to the insurance carrier for settlement and had not accrued any liabilities for this matter as of December 31, 2001. In 2002, this complaint was settled by the Company's insurance carrier and the Company. The Company's portion of contribution to the settlement was to issue a warrant to purchase 25,000 shares of common stock of Bridge at \$0.55 per share. The Company issued that warrant in July 2002 and is awaiting the receipt of a specific and general release.

On October 1, 2001, a complaint was filed by a Trustee in U.S. Bankruptcy Court against the Company for an alleged transfer of assets, technology, trade secrets, confidential information, business opportunities from Allied Web, a corporation owned by the Company's former president, which filed for liquidation under federal bankruptcy laws on April 6, 2000. At December 31, 2001, management of the Company was unable to assess the possibility of incurring future liability and estimate the reasonable amount of contingent liability. Therefore, the Company did not record any accrued liability for this matter. In July 2002, this case was settled by the Company's insurance carrier and the Company in principal and the drafted settlement agreement was sent to plaintiff's attorney for approval. Accordingly, the Company accrued a contingent liability of approximately \$265,000 as of June 30, 2002. The Company is waiting for the finalized document to be signed soon.

On December 12, 2001, a former shareholder of Autec Power Systems has filed a complaint in Ventura County Superior Court against the controlling shareholder of Autec, Mr. Winston Gu and Bridge Technology, Inc. alleging that the complainant did not receive sufficient exchange of shares in this acquisition by Bridge Technology, Inc. The Company believes that the complaint is without merit and will defend it vigorously. At December 31, 2001, management of the Company was unable to assess the possibility of incurring future liability and estimate the reasonable amount of contingent liability. Therefore, the Company did not record any accrued liability for this matter at December 31, 2001. In 2002, this complaint was dismissed by the Court and the plaintiff is trying to re-file this case. As of August 12, 2002, the Company is unable to predict any consequence about this matter.

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### Note 7. - Subsequent Events

In 2000, the Company obtained a revolving line of credit, as amended, from a commercial bank with an aggregate amount of principal not to exceed \$4,000,000. Advances bear interest at the prime rate (5.25% at December 31, 2001). The outstanding balance at December 31, 2001 was \$4,000,000. Outstanding interest and principal was originally payable no later than June 30, 2001. The revolving line of credit is subject to certain restrictive covenants and is collateralized by

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substantially all of the assets located in the US. As of December 31, 2001, the Company had not repaid the bank for amounts due under the line of credit and, therefore, was in default. On July 24, 2002, the Company entered into a loan modification and extension agreement with the bank. Pursuant to the terms of the new agreement, monthly interest only payments are to be made through maturity, \$50,000 is due by September 15, 2002 and no less than \$1,000,000 is due on November 30, 2002 and the maturity date of the note has been extended until November 30, 2002. However, if the Company makes all of the foregoing payments on a timely basis and has not otherwise defaulted on the loan, the maturity date for the remaining unpaid principal balance will be extended until June 30, 2003. In exchange for agreeing to the modifications, the Company granted to the bank a security interest in the 65% of all issued and outstanding common stock of CMS, subordinated the loans due to the Company's shareholders, and issued two warrants to the bank each of which grants the bank the right to purchase 250,000 shares of the Company's common stock at a per share price of \$1.00. If the Company either pays off the entire \$3.9 million of outstanding balance or pledges 90% of all issued and outstanding CMS shares that the Company owns by December 31, 2002, one of the warrants may be cancelled.

### Note Payable to IBM

In 2000, the Company's 90% owned Hong Kong based subsidiary, CMS, entered into a revolving credit arrangement with International Business Machines Corp ("IBM") for the purposes of financing CMS' purchases from IBM. The facility was originally set to expire in 2001 but has been extended until October 31, 2002. Advances under the loan arrangement are secured by CMS' receivables and certain of its other assets, as well as by a guaranty provided by the Company, with interest at a variable rate of prime (as determined by the Hong Kong and Shanghai Banking Corporation) plus 2% (11.5% at December 31, 2001) with a floor of 9%. At December 31, 2000 and 2001, outstanding borrowings totaled \$2,000,000 and \$5,000,000, respectively. The arrangement also provides restrictions on CMS' ability to transfer funds to the Company or any other subsidiaries without IBM's written consent. At December 31, 2000 and 2001, CMS' net assets subject to this restriction were \$6,815,003 and \$8,346,680.

In July 2002, CMS paid off the entire outstanding balance of US\$5 million and reduced its regular trade accounts payable to IBM from approximately US\$11.9 million at December 31, 2001 to approximately US\$3.3 million as of June 30, 2002. Consequently, the above restriction on CMS's ability to transfer funds to the Company and other subsidiaries will be removed with a written acknowledgement from IBM.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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

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obligations to update these forward-looking statements.

Results of Operations for the Three Months Ended June 30, 2002 as Compared to the Three Months Ended June 30, 2001

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Net sales of \$26,594,227 for the three months ended June 30, 2002 decreased by \$8,021,800, representing approximately a 23.17% decrease, over net sales of \$34,616,027 for the same period of 2001. The decrease was due primarily to the decrease of approximately \$4 million in U.S. operations and approximately \$4 million in Asia operations.

Asia revenue for the three months ended June 30, 2002 were \$20,302,572 compared to \$24,203,905 for the three months ended June 30, 2001, a decrease of \$3,901,333 or 16%. The decrease relates primarily to lower sales volume at CMS Technology Limited.

United States revenues for the three months ended June 30, 2002 were \$6,291,655 compared to \$10,412,122 for the three months ended June 30, 2001, a decrease of \$4,120,467 or 39.6%. Decreases relate primarily to decreased sales at Autec Power Systems, Inc.

Revenues for the Company's distribution businesses were \$24,575,198 for the three months ended June 30, 2002 compared to \$30,123,950 for the three months ended June 30, 2001, a decrease of \$5,548,752 or 18.4%. The decrease relates primarily to decreased sales volume at CMS Technology Limited and excluding sales generated by a former subsidiary Newcorp Technology (Japan).

Revenues for the Company's manufacturing businesses were \$2,019,029 for the three months ended June 30, 2002 compared to \$4,492,077 for the three months ended June 30, 2001, a decrease of \$2,473,048 or 55%. The decrease relates primarily to decreased sales at Autec.

Gross profit for the three months ended June 30, 2002 was \$1,186,724 decreasing by \$429,315 and representing approximately a 26.6% decrease, compared to \$1,616,039 for the same period of 2001. The reason for this decrease is due mainly to the decrease in sales of Autec for the quarter ended June 30, 2002. Gross profit as a percentage of net sales declined from 4.7% for the three months ended June 30, 2001 to 4.5% for the three months ended June 30, 2002. The decrease is principally due to the lower margin generated through the sales of Autec. Autec's product mix has changed to lower profit products.

Asia gross profit as a percentage of sales for the three months ended June 30, 2002 was 3.1% compared to 4.7% for the three months ended June 30, 2001 primarily due to an increase in Return Merchandise Authorization at CMS Technology Limited.

United States gross profit as a percentage of sales for the three months ended June 30, 2002 was 4.6% compared to 8.9% for the three months ended June 30, 2001. The decrease is primarily attributable to decreased gross margins at Autec.

Gross profits for the Company's distribution businesses as a percentage of sales for the three months ended June 30, 2002 was 9.3% compared to 8.8% for the three months ended March 31, 2001.

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Gross profits for the Company's manufacturing businesses as a percentage of sales for the three months ended June 30, 2002 was 36% compared to 58.8% for the three months ended June 30, 2001. The decrease is primarily attributable to decreased gross margins at Autec.

Research and development expenses decreased by \$259,294 to \$189,592 in the three months ended June 30, 2002, compared to \$448,886 for the three months ended June 30, 2001. This represents approximately a 57.8% decrease as a percentage of revenue. Research and development expenses decreased from .013% in the three months ended June 30, 2001 to .007% in the same period in 2002.

Selling, general and administrative expenses decreased by \$291,795 to \$1,870,743 in the three months ended June 30, 2002 compared to \$2,162,538 for the three months ended June 30, 2001. As a percentage of revenue, these expenses increased from 6.3% in the three months ended June 30, 2001 to 7.0% in the three months ended June 30, 2002. The increase is due to the decrease in revenues for the quarter ended June 30, 2002.

Losses from operations decreased from a loss of \$995,385 for the three months ended June 30, 2001 to loss of \$873,611 in the three months ended June 30, 2002. The decrease primarily reflects the cost savings efforts instituted in 2002. Loss from operations as a percentage of revenue increased from 2.9% for the three months ended June 30, 2001 to a loss from operations as a percentage of revenue to 3.3% for the three months ended June 30, 2002.

Net interest expense increased by \$51,213 from \$217,495 for the three months ended June 30, 2001 to net interest expense of \$268,708 for the three months ended June 30, 2002. The increase is mainly the result of increased borrowings from shareholders during the three months ended June 30, 2002.

Other income increased by \$230,965 from \$37,362 for the three months ended June 30, 2001 to \$268,327 for the three months ended June 30, 2002. The main source for this increase is the gain on the disposal of an investment of \$215,556 in the three months ended June 30, 2002.

Net loss decreased by \$335,792 from net loss of \$1,233,343 for the three months ended June 30, 2001 to net loss of \$897,551 for the three months ended June 30, 2002. These results reflect a loss of \$0.11 per share for the three months ended June 30, 2001 to a loss of \$0.08 per share for the three months ended June 30, 2002.

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Results of Operations for the Six Months Ended June 30, 2002 as Compared to the Six Months Ended June 30, 2001

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Net sales of \$53,884,094 for the six months ended June 30, 2002 decreased by \$8,522,297, representing approximately a 14% decrease, over net sales of \$62,406,391 for the same period of 2001. The decrease was due primarily to the decrease of approximately \$5.6 million in U.S. operations and approximately \$2.8 million in Asia operations.

Asia revenue for the six months ended June 30, 2002 were \$41,841,743 compared to \$44,651,153 for the six months ended June 30, 2001, a decrease of \$2,809,410 or 6.3%. Decreases relate primarily to decreased sales volume at CMS Technology Limited.

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United States revenues for the six months ended June 30, 2002 were \$12,042,621 compared to \$17,755,238 for the six months ended June 30, 2001, a decrease of \$5,712,617 or 32.2%. Decreases relate primarily to decreased sales at Autec.

Revenues for the Company's distribution businesses were \$49,758,106 for the six months ended June 30, 2002 compared to \$52,895,945 for the six months ended June 30, 2001, a decrease of \$3,137,839 or 5.9%. Decreases relate primarily to decreased sales volume at CMS Technology Limited and excluding the sales of former subsidiary Newcorp Technology (Japan).

Revenue for the Company's manufacturing businesses were \$4,125,988 for the six months ended June 30, 2002 compared to \$9,484,506 for the six months ended June 30, 2001, a decrease of \$5,358,518 or 56.5%. The decrease relates primarily to decreased sales at Autec.

Gross profit for the six months ended June 30, 2002 was \$2,788,260 decreasing by \$1,525,749 and representing approximately a 35% decrease, compared to \$4,314,009 for the same period of 2001. The reason for this decrease is due mainly to the decrease in sales of Autec for the six months ended June 30, 2002. Gross profit as a percentage of net sales declined from 6.9% for the six months ended June 30, 2001 to 5.1% for the six months ended June 30, 2002. The decrease is principally due to the lower margin generated through the sales of Autec. Autec's product mix has changed to lower profit products.

Asia gross profit as a percentage of sales for the six months ended June 30, 2002 was 3.4% compared to 4.7% for the six months ended June 30, 2001 primarily due to an increase in Return Merchandise Authorization at CMS Technology Limited.

United States gross profit as a percentage of sales for the six months ended June 30, 2002 was 11.4% compared to 12.4% for the six months ended June 30, 2001. The decrease is primarily attributable to decreased gross margins at Autec.

Gross profits for the Company's distribution businesses as a percentage of sales for the six months ended June 30, 2002 was 10.2% compared to 12.3% for the six months ended June 30, 2001.

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Gross profits for the Company's manufacturing businesses as a percentage of sales for the six months ended June 30, 2002 was 45.4% compared to 67.6% for the six months ended June 30, 2001. The decrease is primarily attributable to decreased gross margins at Autec.

Research and development expenses decreased by \$267,171 to \$387,850 in the six months ended June 30, 2002, compared to \$655,021 for the six months ended June 30, 2001. This represents approximately a 40.1% decrease.

Selling, general and administrative expenses decreased by \$638,702 to \$3,581,482 in the six months ended June 30, 2002 compared to \$4,220,184 for the six months ended June 30, 2001. As a percentage of revenue, these expenses decreased 6.8% in the six months ended June 30, 2002. The decline is due to the cost saving effort implemented by management for the six months ended June 30, 2002. Cost saving efforts included significant layoffs at Autec as well as cutbacks in operating expenses such as travel expense and purchases of supplies.

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Losses from operations increased from \$561,196 for the six months ended June 30, 2001 to \$1,181,072 in the six months ended June 30, 2002. The increase primarily reflects the decline in profitability at Autec. Losses from operations as a percentage of revenue increased from 0.9% for the six months ended June 30, 2001 to a loss from operations as a percentage of revenue to 2.2% for the six months ended June 30, 2002.

Net interest expense increased by \$96,974 from \$364,933 for the six months ended June 30, 2001 to net interest expense of \$461,907 for the six months ended June 30, 2002. The increase is mainly the result of increased borrowings from shareholders during the six months ended June 30, 2002.

Other income increased by \$538,052 from \$106,210 for the six months ended June 30, 2001 to \$644,262 for the six months ended June 30, 2002. The main source for this increase is the gain on the disposal of an investment of \$536,427 in the six months ended June 30, 2002.

Net loss increased by \$62,040 from net loss of \$1,066,887 for the six months ended June 30, 2001 to net loss of \$1,128,897 for the six months ended June 30, 2002. These results reflect a loss of \$0.10 per share for the six months ended June 30, 2001 to a loss of \$0.10 per share for the six months ended June 30, 2002.

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### Liquidity and Capital Resources

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The Company's capital requirements have been and will continue to be significant and its cash and cash equivalents have been sufficient. At June 30, 2002, the Company had working capital approximately \$3.7 million and cash of \$1.9 million compared to a working capital of approximately \$4.6 million and cash of \$2.4 million at December 31, 2001.

Net cash used in operating activities for the six months ended June 30, 2002 was \$3,834,802 as compared to \$5,384,970 used in operating activities for the six months ended June 30, 2001. The difference is mainly due to decrease in inventory, trade receivables and accounts payable.

Net cash provided in investing activities for the six months ended June 30, 2002 was \$549,692 mainly from the proceeds from sale of investment, as compared to \$1,659,359 net cash used in investing activities for the six months ended June 30, 2001 for the investment in China.

Net cash provided by financing activities for the six months ended June 30, 2002 was \$2,765,395 as compared to \$3,434,721 in the six months ended June 30, 2001. The significant changes are attributable to proceeds from line of credit and shareholder loans.

Management believes that the Company does have the economic wherewithal to maintain its operations for the foreseeable future. In July, 2002 the Company entered into a loan modification and extension agreement with a commercial bank for its outstanding balance of \$4 million at December 31, 2001, which was reduced by \$100,000 payment made in 2002. Pursuant to the terms of the new agreement, monthly interest only payments are to be made through maturity, \$50,000 is due by September 15, 2002 and no less than \$1,000,000 is due on November 30, 2002. The Company owns 90%

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of all issued and outstanding shares in CMS and pledged 65% of all issued and outstanding shares in CMS against this outstanding balance and the maturity date of the note has been extended until November 30, 2002. However, if the Company makes all of the foregoing payments on a timely basis and has not otherwise defaulted on the loan, the maturity date for the remaining unpaid principal balance will be extended until June 30, 2003. In addition, management is negotiating with the Company's major shareholders to convert a portion of the Company's indebtedness to them into equity in order to improve the Company's working capital position. Operationally, management's plans include continuing actions to cut or curb non-essential expenses and focusing on improving the sales of Autec. No assurance can be given that the Company will be successful in extending or modifying its line of credit beyond June 30, 2003 or that the Company will be able to return to profitable operations. Looking for alternatives, the Company is currently seeking a global financing agreement with a major international bank to replace existing credit lines in U.S. and Hong Kong. No assurance can be given that the alternative funding source will be available.

### Effects of Inflation

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

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### Effects of Fluctuation in Foreign Exchange Rates

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

### Newly Issued Accounting Standards

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

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". This statement eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent, in accordance with the current GAAP criteria for extraordinary classification. In addition, SFAS 145 eliminates an inconsistency in lease accounting by requiring that modifications of capital leases that result in reclassification as operating leases be accounted for consistent with sale-leaseback accounting rules. The statement also contains other nonsubstantive corrections to authoritative accounting literature. The changes related to debt extinguishment will be effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting will be effective for



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transactions occurring after May 15, 2002. Adoption of this standard will not have any immediate effect on the Company's consolidated financial statements. The Company will apply this guidance prospectively.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force (EITF) Issue No. 94-3. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of a company's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146 may affect the timing of recognizing future restructuring costs as well as the amount recognized. The provisions of SFAS 146 are to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Management believes that the adoption of this standard will not have any immediate effect on the Company's consolidated financial statements.

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

## PART II -- OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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On November 14, 2001, a complaint was filed by Oppenheimer Wolff & Donnelly LLP in the Orange County Superior Court, Santa Ana, California against the Company for fees allegedly owed by the Company. The Company intends to vigorously defend this claim because the amount invoiced was deemed excessive comparing to the quality of services rendered. The estimated liability including interest, costs and statutory attorney's fees was approximately \$100,000. At December 31, 2001 the Company has recorded liabilities for this amount. In July 2002, a non-binding arbitration was initiated and the Company is waiting for the final decision from the arbitrators.

On April 16, 2002, a complaint was filed by Danton Mak Esq. in the Superior Court of Los Angeles against Autec Power Systems, Inc. for fees allegedly owed by Autec. The matter was submitted to binding arbitration schedule for hearing in April 2002. An estimated liability of \$136,000 has been recorded at December 31, 2001. In July 2002 this matter has been settled for \$110,000 by stipulation of four equal payments of \$27,500 due on June 1, July 1, August 1 and September 1, 2002.

On April 24, 2002 a complaint was filed against the Company in the Orange

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County Superior Court, Santa Ana, California by Mason Tarkeshian for fees alleged to be due on an acquisition which was not consummated. The complaint sought for damage of approximately \$2 million where as the Company believes that the complaint was without merit and would be resolved in favor of the Company. The Company tendered this case to the insurance carrier for settlement and had not accrued any liabilities for this matter as of December 31, 2001. In 2002, this complaint was settled by the Company's insurance carrier and the Company. The Company's portion of contribution to the settlement was to issue a warrant to purchase 25,000 shares of common stock of Bridge at \$0.55 per share. The Company issued that warrant in July 2002 and is awaiting the receipt of a specific and general release.

On October 1, 2001, a complaint was filed by a Trustee in U.S. Bankruptcy Court against the Company for an alleged transfer of assets, technology, trade secrets, confidential information, business opportunities from Allied Web, a corporation owned by the Company's former president, which filed for liquidation under federal bankruptcy laws on April 6, 2000. At December 31, 2001, management of the Company was unable to assess the possibility of incurring future liability and estimate the reasonable amount of contingent liability. Therefore, the Company did not record any accrued liability for this matter. In July 2002, this case was settled by the Company's insurance carrier and the Company in principal and the drafted settlement agreement was sent to plaintiff's attorney for approval. Accordingly, the Company accrued a contingent liability of approximately \$265,000 as of June 30, 2002. The Company is waiting for the finalized document to be signed soon.

On December 12, 2001, a former shareholder of Autec Power Systems has filed a complaint in Ventura County Superior Court against the controlling shareholder of Autec, Mr. Winston Gu and Bridge Technology, Inc. alleging that the complainant did not receive sufficient exchange of shares in this acquisition by Bridge Technology, Inc. The Company believes that the complaint is without merit and will defend it vigorously. At December 31, 2001, management of the Company was unable to assess the possibility of incurring future liability and estimate the reasonable amount of contingent liability. Therefore, the Company did not record any accrued liability for this matter at December 31, 2001. In 2002, this complaint was dismissed by the Court and the plaintiff is trying to re-file this case. As of August 12, 2002, the Company is unable to predict any consequence about this matter.

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### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

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None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

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There are no defaults upon senior securities.

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

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

### ITEM 5. OTHER INFORMATION

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None.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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There are no exhibits and reports on Form 8-K.

SIGNATURES

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

Bridge Technology, Inc.

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(Registrant)

Date: August 14, 2002

Winston Gu

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Winston Gu, CEO

Date: August 14, 2002

James Djen

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James Djen, President, CEO

Date: August 14, 2002

John T. Gauthier

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John T. Gauthier, CFO