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CENTRAXX INC
Form 10QSB
June 18, 2001

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

FORM 10-QSB

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

For the quarterly period ended: March 31, 2001

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ----- to -----

Commission File Number 33-3358-NY

CENTRAXX, INC.

(Name of small business issuer in its charter)

Nevada

88-0224219

(State or other Jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

267 Matheson Blvd. E
Mississauga, Ontario Canada L4Z 1X8

(Address of principal executive offices)

(Zip Code)

Issuer's telephone number (905) 502-5212

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

(1) Yes No

(2) Yes No

(ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PAST FIVE YEARS)

Check whether the issuer has filed all documents and 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 No X
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(APPLICABLE ONLY TO CORPORATE ISSUERS)

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

March 31, 2001
common - 18,142,142 shares

Transitional Small Business Disclosure Format (Check One) : Yes No

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Item 1. Financial Statements

The consolidated financial statements of the Company required to be filed with this Form 10-QSB Quarterly Report were prepared by management and reviewed by the Company's Independent Auditor and commence on the following page, together with related Notes. In the opinion of management, these Consolidated Financial Statements fairly present the financial condition of the Company.

Centraxx, Inc.
 (A Development Stage Company)
 Condensed Consolidated Statements of Operations
 (Expressed in U.S. Dollars)
 (Unaudited)

Three Months Ending March 31	2001	2000	Aug 8, 1997 to March 31, 2001 Cumulative
Sales	\$ -	\$ -	\$ -
Cost of sales	-	-	-
Gross margin	-	-	-
Expenses			
Marketing and public relations	454	55,859	579,817
Management fees	29,454	61,644	483,035
Professional fees	1,417	15,745	708,937
Salaries and other administration	115,418	162,925	2,076,660
Research and development costs	175,386	320,158	4,486,284
Depreciation and amortization	22,904	20,279	275,460
Interest	69,010	27,776	275,111
Foreign exchange (gain) loss	339,123	130	442,596
	753,166	664,516	9,327,900
Net loss	\$753,166	\$664,516	\$9,327,900
Net loss per share, basic and diluted (Note 1)	\$ (0.04)	\$ (0.04)	
Weighted average shares, basic and diluted	18,039,779	17,946,481	

See accompanying notes to the condensed consolidated financial statements.

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Centraxx, Inc.
 (A Development Stage Company)
 Condensed Consolidated Balance Sheets
 (Expressed in U.S. Dollars)
 (Unaudited)

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	March 31, 2001	December 31, 2000
Assets		
Current		
Cash	\$ 1,899	\$ 3,990
Prepaid expenses	7,450	11,967
	9,349	15,957
Capital assets	260,975	297,677
Other assets	17,899	18,816
	\$ 288,223	\$ 332,450
Liabilities		
Current		
Accounts payable and accrued liabilities	\$2,872,594	\$ 2,600,266
Short Term Loan	1,000,000	1,000,000
Long term convertible debentures	2,000,000	2,158,114
	5,872,594	5,758,380
Shareholders' Deficiency		
Capital stock	18,142	18,142
Contributed surplus	3,065,133	3,065,133
Accumulated other comprehensive loss	660,254	65,529
Deficit	(9,327,900)	(8,574,734)
	(5,584,371)	(5,425,930)
	\$ 288,223	\$ 332,450

See accompanying notes to the condensed consolidated financial statements.

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Centraxx, Inc.
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows
(Expressed in U.S. Dollars)
(Unaudited)

Three Months Ending March 31	2001	2000
Cash flows from (applied to)		
Operating		
Net loss	\$ (753,166)	\$ (664,516)
Depreciation and amortization	22,904	20,279
	(730,262)	(644,237)
Changes in		
Prepaid expenses	4,517	8,212
Accounts payable and accrued liabilities	272,328	(156,834)
	(453,417)	(792,859)

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Financing			
Issue of shares	-		-
Issue of convertible debenture	-	1,093,681	
	-	1,093,681	
Investing			
Purchase of capital assets	-		(49,647)
Foreign currency effect on cash	451,326		(759)
Net increase in cash during the year	(2,091)		250,416
Cash, beginning of period	3,990		234
Cash, end of period	\$ 1,899	\$	250,650

See accompanying notes to the condensed consolidated financial statements.

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Centraxx, Inc.

(A Development Stage Company)

Notes to the Condensed Consolidated Financial Statements

(Expressed in U.S. Dollars)

(Unaudited)

March 31, 2001

1. General

The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation for each of the periods presented. The results of operations for interim periods are not necessarily indicative of results to be achieved for full fiscal years.

As contemplated by the Securities and Exchange Commission (SEC) under Rule 10-01 of Regulation S-X, the accompanying consolidated financial statements and related footnotes have been condensed and do not contain certain information that will be included in the Company's annual consolidated financial statements and footnotes thereto. For further information, refer to the consolidated financial statements and related footnotes for the year ended December 31, 2000 included in the Company's Annual Report on Form 10-KSB.

Basis of presentation

The condensed consolidated financial statements include the accounts of Centraxx, Inc. and its wholly owned subsidiaries, Centraxx Corporation, Centraxx Research Inc., Wireless Location Services Inc. and Centraxx International Inc.

On May 18, 1999, Centraxx, Inc. acquired 100% of the outstanding common stock of Centraxx Corp. from various shareholders (the Acquisition). The Acquisition resulted in the owners and management of Centraxx Corp. having effective control of the combined entity.

Under reverse takeover accounting, the post reverse-acquisition comparative

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historical financial statements of the "legal acquirer" (Centraxx, Inc.), are those of the "legal acquiree" (Centraxx Corp.) (i.e. the accounting acquirer).

Income taxes

Income taxes for the interim periods were computed using the effective tax rate estimated to be applicable for the full fiscal year, which is subject to ongoing review and evaluation by management.

Loss per share

The Company reports earnings per share in accordance with the provisions of SFAS No. 128, Earnings Per Share. SFAS No. 128 requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common shares by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

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Centraxx, Inc.

(A Development Stage Company)

Notes to the Condensed Consolidated Financial Statements

(Expressed in U.S. Dollars)

(Unaudited)

March 31, 2001

1. General (continued)

There were stock options outstanding at March 31, 2001, to purchase 885,500 shares of common stock which were not included in the computation of diluted earnings per share because to do so would be antidilutive.

Basic weighted average shares outstanding for the period were 18,039,799 (2001 17,946,481).

2 The Company initiated a stock option plan on January 18, 1999 for employees and on October 1, 1999 for Directors. The plan allows the Company to grant options to directors and employees up to an aggregate of 20% of the outstanding common shares of the company. The options have a term expiring five (5) years after the grant date or 30 days after the individual ceases to be an employee. The exercise price for each option will be at fair market value per share at the date the options are granted. A large decrease can be noted in the options outstanding due to those which expired as a result of the staff reductions.

A summary of the status of the Company's option plans as of March 31, 2000 and changes during the period ending on that date is represented below:

	Shares
Outstanding, beginning of period	2,878,500
Granted	-
Exercised	-
Forfeited	(1,993,000)
Outstanding, end of period	885,500

3. Investment

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In 2000, the Company and Samsung SDS Co. Ltd. incorporated Centraxx Korea Co. Ltd. to jointly market and distribute the Company's products in South Korea.

The Company's 30% equity interest, at a cost of \$250,000, is to be financed, by agreement between the parties, with future product. Until the product is delivered the liability will bear interest at Libor + 1%, per annum. The Company has provided no product, therefore no balance sheet or income statement effect has been recorded.

Centraxx Korea Co. Ltd. generated a net loss in the first quarter. The Company has not recorded its' share of the equity loss (\$40,102) in these financial statements.

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4. Subsequent events

During May 2001 equipment totalling a value of \$16,744 was returned to the manufacturer.

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Management's Discussion and Analysis

Plan of Operation

To date, the Company's focus has been on research and development of its UNI-POINT (trademark) technology, the engineering sample of which was successfully demonstrated on December 9, 1999. However, management feels that the Company must move quickly into revenue generation. As reflected in this report, Centraxx is currently focusing its efforts to become self-sustaining through the sale of hardware and services that operate on existing public networks with the PN Tag while continuing development of the UniPoint technology. Ultimately, the PN tag system can complement the UniPoint system to form a complete end-to-end supply chain management system, combining the low cost advantages of UniPoint with the Network coverage afforded by the Public Networks.

The Company has entered into some geographic joint ventures and is negotiating with other joint venture partners and distributors, to form alliances to penetrate the potential market. There can be no assurances that any agreements will be obtained or that if they are obtained that they will provide material financial benefit to the Company.

Frankopan, a merchant bank focused on developing technology-based companies, has directly or indirectly supplied the initial and ongoing funding to Centraxx. Frankopan is under contract with Centraxx to manage the business of Centraxx including financial affairs, legal and corporate governance, public and investor relations service. Overall management of Centraxx, is being provided by Michael Ivezic, CEO & Chairman of Centraxx Inc. and Managing Director of Frankopan & Co. Inc.

Although a nominal amount of funding has been advanced from Frankopan, Centraxx has continued to reduce its workforce. Further cost savings were realized by relocating to a smaller office at 267 Matheson Blvd. during the first quarter of 2001. The company is actively seeking other sources of finance. Failure to secure adequate financing in the near future will adversely effect the Company's ability to continue to operate. The board is cautiously optimistic that financing can be found given the nature of the Company's technology and its potential. The Company is in discussions with a

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number of potential sources.

The Company has not yet generated any revenues except some deposits from potential joint venture partners.

The \$2.0M Debenture owed by the Company to Frankopan and all the outstanding Frankopan additional advances were assigned to a third party on May, 28 2001. The third party, Eribesdur Corporation B. V., currently holds a \$1.0M secured Promissory Note payable by Centraxx.

On June 7, 2001, Eribesdur issued a final demand that all monies owed be repaid, due to Centraxx being in default of both the Debenture Loan Agreement and the Promissory Note. Centraxx is currently in the process of negotiating a debt restructuring plan with Eribesdur.

Results of Operations

For Three Months Ended March 31, 2001, compared to March 31, 2000

The current period loss was \$(753,166) compared to \$(664,516) for the corresponding three months in 2000.

General and administrative costs decreased by \$149,429 or 50.5% in the first quarter 2001 over the same period in 2000, due to decreased marketing, management and "salaries and other administrative" expenses. This overall decrease in general and administrative costs reflects the restructuring initiated during Q4 2000 and continued in Q1 2001.

The Company's research and product development costs decreased by \$144,772 during the three months ended March 31, 2001 as compared to the three month period end March 31, 2000. The primary reasons for this included reduced development staff and effectively no spending on R&D materials. Centraxx has invested \$4,486,284 in R&D since inception, which represents approximately 48.1% of the companies operating expenses.

Interest charges totaled \$69,010 in Q1 2001, an increase of \$41,234 over the same period in 2000. This increase is due to the financing costs associated with both the note payable of \$1.0M which was not in place during Q1 2000, along with the entire \$2.0M convertible debenture amount which was not fully in place at the beginning of Q1 2000. Depreciation and amortization were not materially different during Q1 2001 versus Q1 2000.

A large increase in the foreign exchange adjustment was noted in first quarter 2001 compared to the first quarter in 2000. The increase of \$338,993 resulted from the significant devaluation in the Canadian dollar relative to the US dollar. The ending March 2000 exchange rate was C\$1.4553/US\$1.00 while the ending exchange rate at March 31, 2001 was C\$1.5763/US\$1.00

Liquidity

The Company anticipates that during the next twelve months its working capital requirements will be \$0.6 million for the PN tag product. The planned use from such funding will be for the production and marketing of the PN tag. Funding requirements to complete the commercialization of the UniPoint technology are \$1.5M-2.5M. Thereafter, the Company expects that it will need to seek additional capital through one or more public or private offerings of debt or equity to fund network deployment. There can be no assurance that the Company will be successful in obtaining any such funds on terms acceptable to it, if at all.

An increase in the number of employees, primarily in marketing, sales and distribution are anticipated during the third quarter of 2001, when

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the Company's products are expected to be ready for market launch.

Risks and Uncertainties

As of the date of this report, the Company anticipates that its UniPoint technology will not be available for sale for distribution for at least the next 4 quarters and that the PN tag will not be available until the 3rd quarter 2001. The Company has no established source of revenues and is dependent on its ability to raise further funding. There can be no assurance that the Company will be successful in obtaining any funding at reasonable terms. There can be no assurance that the Company will be able to complete the commercial development of the UniPoint technology at that time or at any time, or that the Company will be able to sell or distribute its PN tag product or the UniPoint technology to generate profitable operations at that time or in the foreseeable future. There can be no assurance that the technology will be successfully released to the market or that the Company will profit therefrom. The Company is currently in financial difficulty and without a source of funds in the near future the Company's ability to launch the PN tag product is unlikely. The Company is currently in default of its obligations to Revenue Canada and has in excess of \$3 million of debt outstanding. Even with a successful launch of the PN tag product, there is no assurance that the Company can meet the operational funding requirements.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None, not applicable.

Item 2. Changes in Securities.

None, not applicable.

Item 3. Defaults Upon Senior Securities.

The \$2.0M Debenture owed by the Company to Frankopan and all the outstanding Frankopan additional advances were assigned to a third party on May, 28 2001. The third party, Eribesdur Corporation B. V., currently holds a \$1.0M secured Promissory Note payable by Centraxx.

On June 7, 2001, Eribesdur issued a final demand that all monies owed be repaid, due to Centraxx being in default of both the Debenture Loan Agreement and the Promissory Note. Centraxx is currently in the process of negotiating a debt restructuring plan with Eribesdur.

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

None, not applicable.

Item 5. Other Information.

None, not applicable.

Item 6. Exhibits and Other Reports on Form 8-K.

(a) Exhibits.

Annual Report on Form 10-KSB for the calendar year ended December 31, 2000, incorporated herein by reference.

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(b) Reports on Form 8-K.

None, not applicable.

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTRAXX, INC.

Date: 6/15/2001

/s/Mike Ivezic

Mike Ivezic, CEO, President and
Director

Pursuant to the requirements of the Securities and Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

CENTRAXX, INC.

Date: 6/15/2001

/s/Mike Ivezic

Mike Ivezic, CEO, President and
Director