

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

NETWORK INSTALLATION CORP
Form 10KSB
April 09, 2004

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

FORM 10K-SB

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of
1934

For the Fiscal Year Ended December 31, 2003

NETWORK INSTALLATION CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Nevada	7389	88-0394012
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Identification Classification Code Number)	(I.R.S. Employer Number)

18 Technology Drive
Suite 140A
Irvine, CA 92618
(Address and telephone number of principal executive offices)

(949) 753-7551

(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act: None

Securities Registered Pursuant to Section 12(g) of the Act: Common Stock, \$0.001
par value.

Check whether the issuer (1) 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 issuer was required to file such
reports), and (2) has been subject to such filing requirements for the past 90
days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of
Regulation S-B contained in this form, and no disclosure will be contained, to
the best of Issuer's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-KSB or any amendment to
this Form 10-KSB.

The Issuer's revenues for the fiscal year ended December 31, 2003 were
\$1,233,908.

As of March 1, 2004 there were 12,684,202 shares of Common Stock issued and
outstanding.

As of March 1, 2004, there were 2,204,519 shares of Common Stock held by
non-affiliates. The aggregate market value of the Issuer's common stock held by
non-affiliates was \$8,818,076 based on the closing price of the Issuer's common

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

stock on March 1, 2004 of \$4.00.

Transitional Small Business Disclosure Format (Check one): Yes [] No [X]

NETWORK INSTALLATION CORPORATION TABLE OF CONTENTS

PART		PAGE NO.
PART I		
ITEM 1	DESCRIPTION OF BUSINESS	2
ITEM 2	DESCRIPTION OF PROPERTY	6
ITEM 3	LEGAL PROCEEDINGS	6
ITEM 4	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	7
PART II		
ITEM 5	MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS	7
ITEM 6	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION	7
ITEM 7	FINANCIAL STATEMENTS	13
ITEM 8	CHANGES IN DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	24
ITEM 8A	CONTROLS AND PROCEDURES	24
PART III		
ITEM 9	DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT	24
ITEM 10	EXECUTIVE COMPENSATION	26
ITEM 11	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	26
ITEM 12	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	27
ITEM 13	EXHIBITS AND REPORTS ON FORM 8-K	30
ITEM 14	PRINCIPAL ACCOUNTANT FEES AND SERVICES	31

PART I

ITEM I BUSINESS

OVERVIEW

We are a project engineering company that designs and installs specialty communication systems for data, voice, video and telecom. We determine our clients' requirements by doing a need analysis and site audit. Then we implement our design and specification of the specialty communication system, which may include Wireless Fidelity, or Wi-Fi, with the deployment of a fixed Wireless Local Area Network. We believe we can integrate superior solutions across a vast majority of communication requirements because we have experts in each aspect of communication services from the design, project management, the installation of our products through the maintaining of our products. We earn revenue for services rendered which include; (i) the installation of data, voice, video and telecom networks; (ii) the sale of networking products that are installed and (iii) consulting services in the assessment of existing networks.

We have a multi-faceted approach to our business model. One is the continued focus on our core competency of project management in wired networking infrastructure, design, installation and support of data, voice and video communications solutions. Second, is to leverage that expertise in our pursuit of the infrastructure build-out of Wi-Fi, Wireless Local Area Networks

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

and Voice over Internet Protocol, or VoIP, applications.

With our experience and expertise in the wired networking infrastructure industry, we can design, manage, install and service our wireless customers with the same processes, personnel and management. Many of our competitors are new to deploying wireless infrastructure and have never installed any type of infrastructure. We believe we can leverage our expertise to compete in this new technology. We conduct operations through our subsidiary.

HISTORY

We incorporated in the State of Nevada as Color Strategies on March 24, 1998. On October 1, 1999, we created a wholly-owned subsidiary named Infinite Technology Holding, Inc. On December 23, 1999, we changed our name to Infinite Technology Corporation. On May 4, 2000, we changed our name from Infinite Technology Corporation to Network Installation Corporation. On the same date, we changed the name of our wholly-owned subsidiary to Network Installation Holdings, Inc.

In May of 2000, we acquired Mardock, Inc., a designer, manufacturer and distributor of apparel and promotional products. In August 2000, we acquired a majority interest in North Texas Circuit Board Co., or NTCB, through the acquisition of 67% of the common stock of Primavera Corporation, the parent company of NTCB, in exchange for 195,000 shares of our common stock, valued at \$325,000, plus a contribution of \$1,250,000 in cash to NTCB as additional working capital. NTCB manufactures high quality printed circuit boards. In September 2000, we acquired 80% of the outstanding stock of OpiTV.com. OpiTV.com was an I-commerce technology company in the development stage with a business plan to market and distribute a TV device. In November 2000, we acquired an additional 13% of Primavera Corporation. This increase in equity brought our indirect ownership of NTCB from 67% to 80%.

In late 2000, we determined that our capital and management resources were spread too thin to properly address the needs of our three subsidiaries. As a result, in July of 2001, we sold all of our common stock ownership in Mardock, Inc. and OpiTV.com.

In July 2001, we acquired the remaining 20% of Primavera's common stock. On August 20, 2002, we sold NTCB to a third party in exchange for cancellation of debt of approximately \$2,255,860 and retention by us of a 10% interest in the after tax profit of NTCB for a period of five years subsequent to the consummation of the transaction. On December 27, 2002, we disposed of 100% of Flexxtech Holdings, Inc. Flexxtech Holdings was the parent corporation of Primavera Corporation. After the sale of NTCB, Flexxtech Holdings had no significant assets and was disposed of to Western Cottonwood Corp., an affiliate, for nominal consideration of \$10.

On October 1, 2002, we signed to acquire 80% of the outstanding common shares of W3M, Inc., dba Paradigm Cabling Systems, a privately held California corporation, in a stock for stock exchange. Paradigm is a full service computer cabling, networking and telecommunications integrator contractor. As part of the transaction, we agreed to use our best efforts to arrange for an infusion of \$250,000 in additional capital, either as debt or equity or some combination of both, to Paradigm, in order to increase its working capital. However, we were unable to arrange infusion of the capital per the agreement.

On April 8, 2003, we and Paradigm agreed that the transaction is void ab initio, that is, at its inception, with the effect that Paradigm remains the owner of all of its assets and the shares of our preferred stock are restored to the status of authorized shares. The Purchase Agreement and all related documents and all documents delivered in connection therewith were thereby terminated ab initio and are of no force or effect whatsoever. In connection with funds invested as working capital into Paradigm during the period from October 1, 2002

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

until April 1, 2003, we issued to Ashford Capital LLC and eFund Capital/Barrett Evans, 5 year convertible debentures in the amount of \$65,000 and \$75,000 respectively. Ashford and eFund made investments directly into Paradigm under the assumption that a merger between Paradigm and us would be consummated. As part of the rescission negotiations, we agreed to issue the debentures to Ashford and eFund. Michael Cummings, President of Paradigm also resigned as a Director of our Board of Directors.

On April 9, 2003, we executed a Restructuring Agreement. The Agreement was executed to restructure our balance sheet in order to more easily attract an operating business to merge with or acquire. Pursuant to the Restructuring Agreement, Western Cottonwood Corporation, a related party through a major shareholder, agreed to forgive its notes receivable and interest receivable from us as of December 31, 2002. The receivable totaling \$1,984,850 was booked in consideration for cash we received from Western Cottonwood. The receivable totaling \$1,984,850, was forgiven in exchange for shares of our common stock totaling 4.9% of the total outstanding shares immediately following our first merger or acquisition transaction. At the time of the transaction, the principal shareholder of Western Cottonwood Corporation and Atlantis Partners, Inc. was John Freeland, formerly our largest investor. Mr. Freeland was also formerly an affiliate through his beneficial ownership of 23% of our total outstanding shares through Western Cottonwood. To our knowledge, Mr. Freeland is no longer an affiliate. Pursuant to the agreement, (i) Western Cottonwood and Atlantis Partners shall maintain a combined ownership percentage of a non-dilutive 4.9% and Greg Mardock, our former president, shall maintain a combined ownership percentage of a non-dilutive 2% through our first merger or acquisition transaction and (ii) Mr. Mardock resigned as President and Director (iii) three nominees of Dutchess Private Equities Fund, LP were appointed directors.

In April 2003, we executed a Letter of Intent to merge with Irvine, CA- based Network Installation Corporation. The transaction closed in May, 2003. The total consideration and method of payment was \$50,000 in cash and 7,382,000 shares of our common stock. In addition, we issued a five year option to purchase an additional 618,000 shares of our common stock to Mr. Cummings if our total revenue exceeded \$450,000 for the period beginning on June 1, 2003 and ending August 31, 2003. The option is exercisable at a price equal to the closing bid price of our common stock on August 29, 2003 which was \$2.95. Since our total revenues exceeded \$450,000 for the period beginning on June 1, 2003 and ending August 31, 2003, Mr. Cummings can exercise the option to purchase 618,000 shares of our common stock.

Network Installation was established in July 1997 as a California corporation as a low voltage-cabling contractor and in 1999 changed its focus to provide products, project management, design and installation within the networking and communications sector.

On March 1, 2004, we acquired Del Mar Systems International, Inc., a telecommunications solutions provider. We now have the ability to provide integrated telecom solutions to customers ranging in size from 10 to 30,000 users. Del Mar provides Avaya Enterprise Class IP Solutions to customers as a way to capitalize on the benefits of IP (Internet Protocol) Telephony. Avaya offers a complete communications architecture that provides software, infrastructure and services to help enterprises stay efficient. Del Mar Systems offers both onsite and remote administration of systems equipped with remote access dial up lines. Del Mar has delivered communication solutions to many well known companies including General Electric, Western Digital, Bank of America, SAIC, Marriott, Holiday Inn, Sheraton and Hilton Hotels throughout the U.S.

INDUSTRY OVERVIEW (SPECIALTY COMMUNICATION SYSTEMS)

A structured cabling system is a set of cabling and connectivity products that integrates the voice, data, video, and various management systems of a building,

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

such as safety alarms, security access and energy systems. These systems typically consist of an open architecture, standardized media and layout, standard connection interfaces, adherence to national and international standards, and total system design and installation. Other than the structured cabling system, voice, data, video, and building management systems have nothing in common except similar transmission characteristics, such as analog or digital data signals, and delivery methods such as conduit, cable tray, or raceway, that support and protect the cabling investment.

Modern Ethernet networking equipment is designed around the concept that each device in a building's network has a dedicated media connection to a central "hub". In a standard hub the LAN bandwidth is shared among all the stations. With dedicated hubs, also called switched technology, a given cable is allocated for use by a single device.

This was not always the case. The original design of network systems assumed a common, shared medium: coaxial cable. Structured cabling systems, while having drawbacks with regards to absolute transmission performance, show considerable cost savings to the owner by reducing the costs of moves, changes and additions. These benefits far outweigh the cost of implementation, making structured cabling the optimum choice for building wiring.

The industry had been dominated by thousands of proprietors with former employment experience in telecommunications and electrical contracting. With the boom in technological advances over the past fifteen years, the convergence of data medium; text, voice, and video has placed a premium in obtaining such information, faster, cheaper and now wireless. This paradigm shift in the functionality of data transmission now mandates a more detailed insight into computer science, project management and a thorough understanding of a potential customer's total communications needs.

INDUSTRY OVERVIEW (WI-FI)

We believe, in the past two years, Wireless Fidelity, also known as Wi-Fi, has emerged as the dominant standard for wireless local areas networks, or WLANS worldwide. A Wi-Fi network can cover an area of typically 100-500 feet with Internet access hundreds of times faster than a modem connection. We believe that, unlike other wireless technologies such as CDMA and GSM, Wi-Fi enjoys 100% global acceptance and that it has become a single networking standard for all developers, equipment manufacturers, service providers and users.

Hundreds of equipment manufacturers are now flooding the market with millions of Wi-Fi cards and access points. The single Wi-Fi standard ensures these devices all interoperate with each other, so, for example, an access point made by Netgear will communicate with a network card from Linksys.

Hundreds of new companies have begun setting up Wi-Fi access points called "hot spots" in cafes, hotels, airports, book stores and other public spaces. These hot spot operators install Wi-Fi access points and either sell high speed wireless Internet access for a fee or offer it to the public for free.

Hot Spot Operators include Wayport, STSN, Surf and Sip, StayOnline, Pronto, NetNearU, Deep Blue, Fatport, Air Portal, Ikano, Picopoint, TheCloud and Azure. In the last year, major wireless carriers have thrown their hat in the ring, including T-Mobile, which is building hot spots in Starbucks cafes, Borders book stores, Kinko's stores and airline clubs, AT&T Wireless, British Telecom, Swisscom, Telecom Italia and Sprint PCS.

Forces outside the industry are also rapidly arming users with Wi-Fi radios. Consumers also buying Wi-Fi-compatible hardware in their laptops and PDAs for use in the office or home.

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

We believe Wi-Fi is over 100 times faster than a standard modem connection. Wi-Fi is also significantly faster than the wireless services provided by cellular carriers which typically deliver throughput between 40k and 60k. The actual speed experienced by hot spot users is determined by the hot spot's connection to the Internet, which can range from low-end DSL (384k) to one or more T1s (1.5Mb and up), but this still promises much faster speed than any other available technology.

We are seeking to exploit the rapid build up of wireless networks by focusing our marketing efforts on our currently installed base of universities, K-12, municipalities and Fortune 1000 companies.

In addition, we have increased our ability to take advantage of the rapid acceptance and deployment of internet-based telephone communications as a result of our acquisition of Del Mar Systems International, Inc. Del Mar Systems provides Voice over Internet Protocol, or VoIP, which offers customers the ability to effect local and long distance phone calls via the internet for flat monthly rates, in most cases at a considerable cost savings from traditional per minute charges from the major telecommunications providers. We now have the ability to provide VoIP installation and deployment services to our customers through Del Mar Systems.

OUR BUSINESS

A company's communication network is critical in achieving the timely flow of information. Typically, a company's network expands beyond its existing headquarters to remote offices and remote users. The number of networking applications continues to grow and the demand for high-speed connectivity to move data back and forth is increasing dramatically. Until recently, a company's only alternative in obtaining high-speed connectivity was to contact the telephone company and have a high-speed landline service installed so that connectivity could be achieved between its locations. The issue today is that these high-speed landlines take too much time to install, are not available in all locations, do not solve remote application usage and are costly to use on a monthly basis.

We seek to exploit the growing demand in high-speed connectivity by providing complete network solutions including best of breed wireless products, engineering services for which our technicians design the applications required for the network build out, structured cabling and deployment. We offer the ability to integrate superior solutions across the vast majority of communication requirements.

There are multiple products associated with the deployment of a wireless solution including microwave equipment, free space optical equipment and specialty components. There are also important services such as site design, product integration, structured cabling, network security, training and technical support. The integration of all these products and services is critical in achieving the desired results for the customer. The specific products used and services offered vary depending on the connection speed required and distances between points. We provide specialty communication systems, Wi-Fi deployment and WLANs to corporations, municipalities and educational institutions.

We define wireless deployment as the internal and external design and installation of a wireless solution to support connectivity between two or more points without the utilization of landline infrastructure. End users turn to us to design and integrate a wireless solution, as there are many components from various technology providers. Wireless solutions can offer a user:

- High-speed connectivity;
- Immediate installation;
- Network ownership; and

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

- Low costs.

We also provide network security, train end users and provide on-going technical support to insure a successful installation.

SUPPLIERS

While we are predominately a service company, we purchase and resell products such as networking routers, cable, software and video equipment that are involved in our project installations. We purchase our products from various distributors. Should any of these distributors cease operations, our business would not be adversely affected because these products are readily available from multiple distributors locally, regionally or nationally.

We have agreements with Vivato, Motorola Inc. and Aruba Wireless Networks that give us what we believe to be the finest suite of products in the installation of wireless solutions. Through our Motorola agreement and the use of one of its flagship wireless products "The Canopy," we have the ability to install point to point service directly for Wireless Internet Service Providers or proprietors of WLANs or expanded 'Hot Zones' up to 4 kilometers through our Vivato agreement. Vivato is a San Francisco-based network infrastructure company and manufacturer of the industry's first Wi-Fi switches for enterprises and service providers. Adhering to the IEEE 802.11 standard, Vivato's patent-pending PacketSteering(TM) technology changes the old rules of Wi-Fi deployment. Vivato Wi-Fi switches deliver unprecedented range and capacity, with enterprise-class security. Aruba's family of Wi-Fi switches deliver centralized wireless security and management of all types of enterprise environments.

SALES AND MARKETING

Our employees market and sell our services through a direct team of five sales and project management professionals. We are proactive and able to visit personally with our clients from time to time. We do not employ an outside sales force.

We also use several methods of mass marketing to advertise our products and services including direct mailings, and the distribution of brochures which describe our services. Additionally, we maintain a web site that describes our services. We believe that these methods of marketing are a key factor in the securing of new business.

CUSTOMERS

We currently provide our products and services to the markets in K-12 education, universities, municipalities and Fortune 1000 companies. Some of our current customers include the University of California - Los Angeles, University of Southern California, Wells Fargo and Safeway. The University of California - Los Angeles currently represents approximately 30% of our annual revenue. No other customer represents more than 10% of our annual revenue.

COMPETITION

The network cabling market is very fragmented and highly competitive. In the markets where we operate, we experience intense competition from other independent providers of network solutions. Our competitors include regional, privately-held companies including Sunglo Communications, Pacific Coast Cabling, and Netversant. We are aware of only one publicly-traded competitor, WPCS International Inc. There is no one dominant competitor. We believe that success in the industry is based on maintenance of product quality, competitive pricing, delivery efficiency, customer service and satisfaction levels, maintenance of satisfactory dealer relationships, and the ability to anticipate technological changes and changes in customer preferences. We believe our competitive

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

advantage lies in our ability to provide superior customer service while offering a more diverse line of hard product offering than our competitors.

EMPLOYEES

As of February 9, 2004, we employed 19 full time employees, four are executives, three are in sales and marketing, eleven are project managers or technicians and one is in administration. We believe our relations with all of our employees are good.

ITEM 2 DESCRIPTION OF PROPERTY

We currently sublease 2,500 sq ft. of office space located in a technology park at 18 Technology Dr., Suite 140A, Irvine, CA. Our monthly rent is approximately \$2,289 per month, and our lease runs month to month.

ITEM 3 LEGAL PROCEEDINGS

In the year ended December 31, 2002, a suit was brought against us and our former management in the Superior Court of the State of California, County of San Francisco, by Martin Mast an individual alleging that we made false written and oral representations to induce the plaintiff to invest in our company and that such investment occurred despite the plaintiff's request that the funds be held in a brokerage account maintained by a related entity. A co-defendant Aslam Shaw an individual in the case also filed a cross-complaint in the action alleging theories of recovery against us and several other defendants and alleging fraud, breach of contract, misrepresentation, conversion and securities fraud against us. On November 21, 2003, we reached a settlement with Martin Mast for \$160,000. We are making payments in installments through April 2004. Through April 1, 2004 \$130,000 has been paid. We had accrued \$300,000 in the accompanying financial statements against any possible outcome.

On April 25, 2003 the Superior Court of the State of California, County of Orange, entered a judgment in the amount of \$46,120 against us and our former management in favor of Insulectro Corp., a vendor of our former subsidiary, North Texas Circuit Board, or NTCB. We believe that we were never issued proper service of process for the complaint. In addition, on August 20, 2002 we sold NTCB to BC Electronics Inc. Pursuant to terms of the share purchase agreement, BC Electronics assumes all liabilities of NTCB. In December 2003, we filed a motion to vacate the judgment for lack of personal service. In February 2004, the Court ruled in our favor and the judgment was vacated. Although we are the guarantor on the loan, NTCB is the principal debtor and (i) we will bring action against NTCB to seek relief or (ii) because partial payment was made by NTCB, it could affect the legal status of the guarantee, which we believe may absolve us of liability. In February 2004, the plaintiff re-filed the complaint. Although we will continue to oppose the action we have begun settlement discussions with the plaintiff.

On April 29, 2003, Arman Moheban an individual brought a suit against us and our former management in the Superior Court of the State of California, County of Los Angeles, alleging breach of contract pursuant to a settlement agreement dated November 20, 2002. The suit alleges that we are delinquent in our repayment of a \$20,000 promissory note, of which \$5,000 has been repaid to date. Although we plan to vigorously oppose the claim, we plan to begin settlement discussion with the plaintiff.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

None.

PART II

ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Bid and ask quotations for our common shares are routinely submitted by registered broker dealers who are members of the National Association of Securities Dealers on the NASD Over-the-Counter Electronic Bulletin Board. These quotations reflect inner-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. The high and low bid information for our shares for each quarter for the last two years, so far as information is reported, through the quarter ended December 31, 2003, as reported by the Bloomberg Financial Network, are as follows:

Quarter Ended	High Bid	Low Bid
31-Mar-02 . .	\$ 0.86	\$ 0.22
30-Jun-02 . .	\$ 0.51	\$ 0.15
30-Sep-02 . .	\$ 0.20	\$ 0.02
31-Dec-02 . .	\$ 0.03	\$ 0.00
31-Mar-03 . .	\$ 2.00	\$ 0.05
30-Jun-03 . .	\$ 0.35	\$ 0.15
30-Sep-03 . .	\$ 5.35	\$ 0.80
31-Dec-03 . .	\$ 3.50	\$ 3.10

NUMBER OF SHAREHOLDERS

As of January 14, 2004, we had approximately 1,000 shareholders of record.

DIVIDEND POLICY

We have not paid any dividends since inception and presently anticipate that all earnings, if any, will be retained for development of our business. We expect that no dividends on the shares of common stock will be declared in the foreseeable future. Any future dividends will be subject to the discretion of our Board of Directors and will depend upon, among other things, our future earnings, operating and financial condition, capital requirements, general business conditions and other pertinent facts.

RECENT SALES OF UNREGISTERED SECURITIES

In October 2003, we issued a \$75,000 convertible debenture to Dutchess Private Equities Fund, LP. The debenture converts into common stock at the lesser of (i) 75% of the lowest closing bid price during the fifteen trading days prior to the Conversion Date or (ii) 100% of the average of the closing bid prices for the twenty trading days immediately preceding the Closing Date of the Transaction.

ITEM 6 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this section together with our consolidated financial statements and related notes thereto included elsewhere in this report.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that involve risks and

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

uncertainties. We generally use words such as "believe," "may," "could," "will," "intend," "expect," "anticipate," "plan," and similar expressions to identify forward-looking statements, including statements regarding our expansion plans. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons, including the risks described in our "Risk Factor" section and elsewhere in this report. Although we believe the expectations reflected in the forward-looking statements are reasonable, they relate only to events as of the date on which the statements are made, and our future results, levels of activity, performance or achievements may not meet these expectations. We do not intend to update any of the forward-looking statements after the date of this document to conform these statements to actual results or to changes in our expectations, except as required by law.

CRITICAL ACCOUNTING POLICIES

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations are discussed throughout this section where such policies affect our reported and expected financial results. Our preparation of our Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

Our accounting policies that are the most important to the portrayal of our financial condition and results, and which require the highest degree of management judgment relate to revenue recognition, the provision for uncollectible accounts receivable, property and equipment, advertising and issuance of shares for service.

Our revenue recognition policies are in compliance with all applicable accounting regulations, including American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Revenues from installations, cabling and networking contracts are recognized when the contracts are completed. The completed-contract method is used because the contracts are short-term in duration or we are unable to make reasonably dependable estimates of the costs of the contracts. Our revenue recognition policy for sale of network products is in compliance with Staff accounting bulletin (SAB) 101. Revenue from the sale of network products is recognized when a formal arrangement exists, the price is fixed or determinable, the delivery is completed and collectibility is reasonably assured.

We estimate the likelihood of customer payment based principally on a customer's credit history and our general credit experience. To the extent our estimates differ materially from actual results, the timing and amount of revenues recognized or bad debt expense recorded may be materially misstated during a reporting period.

Property and equipment is carried at cost. Depreciation of property and equipment is provided using the declining balance method over the estimated useful lives of the assets at five to seven years. Expenditures for maintenance and repairs are charged to expense as incurred.

We expense advertising costs as incurred.

We account for the issuance of equity instruments to acquire goods and services based on the fair value of the goods and services or the fair value of the equity instrument at the time of issuance, whichever is more reliably

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

measurable.

GOING CONCERN OPINION

Our audited financial statements for the fiscal year ended December 31, 2003, reflect a net loss of \$3,434,607. Although these conditions raised substantial doubt about our ability to continue as a going concern if we do not acquire sufficient additional funding or alternative sources of capital to meet our working capital needs, we believe we could continue operating for the next twelve months without additional capital but would have to curtail our operations and plans for expansion. Our plan to continue operations in relation to our going concern opinion is to complete the registration process with the SEC so we can access the Equity Line of Credit provided by Preston Capital. We believe proceeds from this offering should enable us to return to profitability.

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2003 AS COMPARED TO TWELVE MONTH PERIODS ENDED DECEMBER 31, 2002 (RESTATED FOR DISPOSAL OF SUBSIDIARIES)

NET REVENUES

Net revenues for the year ended December 31, 2003 were \$1,233,908 compared to \$804,080 for the year ended December 31, 2002 due to increased marketing and contracts received. We also experienced an increase in higher education contracts during the period ended December 31, 2003 vs. same period 2002 due to an increase in target marketing to this sector. Our year to date revenues are higher than the same period a year ago due to an increase in the total amount of new contracts received. All of our revenue in the current period is from Network Installation Corp. Our operations from the subsidiaries disposed off in 2002 have been separately classified in the Statements of Operations.

COST OF REVENUES

Cost of revenues for the year ended December 31, 2003 were \$965,569 compared to \$568,444 for the year ended December 31, 2002. Our Cost of Revenue increased for the 12 months ended December 31, 2003 when compared to the same period in 2002, due to a decrease in Revenues for the three month period ended September 30, 2003.

OPERATING EXPENSES

Operating Expenses for the year ended December 31, 2003 were \$2,306,774 compared to \$340,267 for the year ended December 31, 2002 due to the issuance of shares of common stock recorded as \$889,550 for consulting fees and \$1,199,700 for the issuance of common stock for an investment recorded as interest expense.

OTHER INCOME (EXPENSE)

Other Income (Expense) for the year ended December 31, 2003 were (\$1,394,607) compared to (\$4,375) for the year ended December 31, 2002. The increase on Other Expenses is primarily due increased interest expenses from the conversion of debentures, and shares of common stock issued in conjunction with convertible debentures which were recorded as Loss on Conversion and Interest Expense respectively.

NET LOSS

Net Loss for the year ended December 31, 2003 was (\$3,434,607) compared to (\$109,006) for the year ended December 31, 2002 due to increased General, Administrative and Selling Expenses for the year ended December 31, 2003 compared to the year ended December 31, 2002.

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

BASIC AND DILUTED LOSS PER SHARE

Our basic and diluted loss for the year ended December 31, 2003 was (\$0.34) compared to (\$0.01) for the year ended December 31, 2002 due to an increase of our Net Loss.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2003, our Current Assets were \$556,075 and Current Liabilities were \$2,554,680. Cash and cash equivalents were \$667. Our Stockholder's Deficit at December 31, 2003 was (\$2,594,707). We had a net usage of cash due to operating activities in December 31, 2003 and 2002 of \$747,380 and \$43,584 respectively. We had net cash provided by financing activities of \$730,061 and \$(34,142) for the twelve month period ended December 31, 2003 and 2002, respectively. We had \$303,399 from borrowings in the period ended December 31, 2003 as compared to \$0 in the corresponding period last year.

Our obligations include:

- a \$3,500 payable based on the purchase agreement of our subsidiary;
- \$198,691 in loans from a major shareholder and officer. The amount is unsecured, due on demand and non interest bearing.
- We defaulted on a note that prohibited certain acquisitions when we acquired our subsidiary. We are in the process of making payments with a financing institution. The amount outstanding at December 31, 2003, amounted to \$45,500.
- We have notes payable to unrelated parties amounting to \$21,781. These notes are due on demand, bear interest rate of 6% per annum and are unsecured.

On February 27, 2003, our subsidiary entered into a factoring and security agreement to sell, transfer and assign certain accounts receivable to Orange Commercial Credit, or OCC. OCC may at its sole discretion purchase any specific account. All accounts sold are with recourse on seller. All of the property of our subsidiary including accounts receivable, inventories, equipment and promissory notes are collateral under this agreement. Any assets held at the Corporate level are not collateral under this agreement, however as of February 9, 2004, the amount of assets at the Corporate level is not material. OCC will advance 80% of the face amount of each account. The difference between the face amount of each purchased account and advance on the purchased account shall be reserve and will be released after deductions of discount and charge backs on the 15th and the last day of each month. OCC charges 1% of gross face value of purchased receivable for finance charge and 1% for administrative fees with minimum charge of \$750 on each settlement date. As of December 31, 2003, we factored receivables of approximately \$205,929. In connection with the factoring agreement, we included fees of \$16,555 in the period ended December 31, 2003.

On September 17, 2003, our subsidiary entered a factoring agreement with a related entity for \$76,000 face amount. This amount is payable in 30 days and certain receivables were assigned and delivered. In the event that on the maturity date, any amounts on the note remain, the holder can exercise its right to increase the face amount by \$10,000 per month that the Note remains unpaid.

In the year ended December 31, 2001, we issued debentures amounting to \$720,000, carrying an interest rate of 6% per annum, due in August 2003. The term of the debentures were subsequently extended to August 2008. Pursuant to the terms of the debentures, interest is payable on the date of conversion. The holders are entitled to, at any time or from time to time, convert the conversion amount into shares of our common stock at a conversion price for each share of common

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

stock equal to the lower of (a) 120% of the losing bid price per share on the closing date, and (b) 80% of the lowest closing bid price per share of our common stock for the five trading days immediately preceding the date of conversion. As of December 31, 2003, the outstanding balance of the debentures amounted to \$443,501.

On April 7, 2003, we issued convertible debentures of \$75,000 to eFund Capital and \$65,000 to Ashford Capital LLC. The holders of the debentures are entitled to convert the face amount of this debentures, plus accrued interest at the lesser of (i) 75% of the lowest closing bid price during the 15 trading days prior to the conversion date or (ii) 100% of the average of the closing bid prices for the 20 trading days immediately preceding the closing date. The convertible debentures shall pay 6% cumulative interest, in cash or in shares of common stock, at our option, at the time of each conversion. The debentures are payable on April 8, 2008. The convertible debentures are convertible into shares of our common stock.

During the period ended December 31, 2003, we issued \$338,000 debentures to Dutchess Private Equities Fund, LP. These debentures carry an interest rate of 6% per annum, due in July to September 2008. The face amount of these debentures may be converted, in whole or in part, any time following the closing date. Pursuant to the terms of the debentures, interest is payable on the date of conversion. The holder is entitled to convert the face amount of this debenture, plus accrued interest, anytime, at the lesser of (i) 75% of the lowest closing bid price during the 15 trading days prior to the Conversion Date or (ii) 100% of the average of the closing bid prices for the 20 trading days immediately preceding the Closing Date. The convertible debentures are convertible into shares of our common stock.

Convertible promissory note payable

In the year ended December 31, 2001, we issued convertible promissory notes of \$100,000 due on April 1, 2004, carrying an interest rate of 10% per annum. The holder of \$100,000 promissory notes is entitled to convert the conversion amount into shares of common stock of the Company, par value \$.001, at any time, per share at a conversion price for each share of common stock equal \$7.00 per share of common stock. The note is secured and collateralized by shares of common stock of the Company at one share per every five dollars of the principal. As of December 31, 2003, the outstanding value of this note is \$75,000.

Investment Agreement

We have signed an Investment Agreement with Preston Capital for \$2,500,000 in an Equity Line arrangement. The Investment Agreement allows us to "put" to Preston Capital at least \$10,000, but no more than \$100,000. The purchase price for our common stock identified in the Put Notice shall be equal to 95% of the average of four lowest posted bid prices of our common stock during the five days after we deliver the put notice to Preston Capital. We can initiate a new put after we close on the prior put. We can not access the Investment Agreement with Preston Capital until we have an effective registration statement. As of March 31, 2004, we did not have an effective registration statement.

SUBSIDIARY

As of March 1, 2004, we had two wholly-owned subsidiaries, Network Installation Corp. and Del Mar Systems International, Inc. Network Installation Corp. is the name of both the parent company incorporated in the state of Nevada and the subsidiary incorporated in the state of California. On March 1, 2004, we acquired Del Mar Systems International, Inc., a telecommunications solutions provider.

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors, other information included in this prospectus and information in our periodic reports filed with the SEC. If any of the following risks actually occur, our business, financial condition or results of operations could be materially and adversely affected, and you may lose some or all of your investment.

RISKS ABOUT OUR BUSINESS

OUR INDEPENDENT ACCOUNTANTS HAVE ISSUED A GOING CONCERN OPINION.

Our audited financial statements for the fiscal year ended December 31, 2003, reflect a net loss of \$3,134,607. These conditions raised substantial doubt about our ability to continue as a going concern. If we do not acquire sufficient additional funding or alternative sources of capital to meet our working capital, we may have to substantially curtail our operations and business plan.

WE HAVE SUBSTANTIAL INDEBTEDNESS WHICH MAY AFFECT OUR ABILITY TO MAINTAIN OR GROW OUR OPERATIONS.

We currently have \$2,554,680 in current liabilities. As a result of our level of debt and the terms of our debt instruments:

- our vulnerability to adverse general economic conditions is heightened;
- we will be required to dedicate a substantial portion of our cash flow from operations to repayment of debt, limiting the availability of cash for other purposes;
- we are and will continue to be limited by financial and other restrictive covenants in our ability to borrow additional funds, consummate asset sales, enter into transactions with affiliates or conduct mergers and acquisitions;
- our flexibility in planning for, or reacting to, changes in its business and industry will be limited; and
- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired.

Our ability to pay principal and interest on our indebtedness and to satisfy our other debt obligations will partly depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, some of which are beyond our control. If we are unable to service our indebtedness, we will be forced to take actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness, or seeking additional equity capital. We may not be able to affect any of these remedies on satisfactory terms, or at all.

OUR OPERATING RESULTS WILL FLUCTUATE SIGNIFICANTLY FOR THE FORESEEABLE FUTURE, WHICH MAY AFFECT OUR STOCK PRICE.

Our quarterly results of operations have varied in the past and are likely to continue to vary significantly from quarter to quarter. Our operating expenses are based on expected future revenues and are relatively fixed in the short term. If our revenues are lower than expected, our results of operations could be adversely affected. Additionally, we are unable to forecast our future revenues with certainty because our business plan contemplates the acquisition of new enterprises. Many factors can cause our financial results to fluctuate, some of which are outside of our control. Quarter-to-quarter comparisons of our operating results may not be meaningful and you should not rely upon them as an indication of our future performance. In addition, during certain future periods

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

our operating results likely will fall below the expectations of public market analysts and investors. In this event, the market price of our common stock likely would decline.

WE NEED ADDITIONAL CAPITAL TO GROW OUR BUSINESS AND WE MAY NOT BE ABLE TO FIND SUCH CAPITAL ON ACCEPTABLE TERMS.

Our business plan contemplates the acquisition of new enterprises and the proceeds from our existing financing arrangements may not be sufficient to fully implement our business plan. Additionally, we may not be able to generate sufficient revenues from our existing operations to fund our capital requirements. Accordingly, we may require additional funds to enable us to operate profitably. Such financing may not be available on terms acceptable to us. We currently have no bank borrowings or credit facilities, and we may not be able to arrange any such debt financing. Additionally, we may not be able to successfully consummate additional offerings of stock or other securities in order to meet our future capital requirements. If we cannot raise additional capital through issuing stock or bank borrowings, we may not be able to grow our business.

OUR BUSINESS STRATEGY INCLUDES IDENTIFYING NEW BUSINESSES TO ACQUIRE, AND IF WE CAN NOT INTEGRATE ACQUISITIONS INTO OUR COMPANY SUCCESSFULLY, WE MAY NOT BECOME PROFITABLE.

Our success partially depends upon our ability to identify and acquire undervalued businesses. Although we believe that there are companies available for potential acquisition that are undervalued and might offer attractive business opportunities, we may not be able to make any acquisitions, and if we do make acquisitions, they may not be profitable.

WE DEPEND ON OUR KEY PERSONNEL AND IF THOSE PERSONNEL LEAVE THE COMPANY, OUR BUSINESS MAY BE HARMED.

At this time, we are almost totally dependent upon Michael Cummings as our only operating officer and on the directors of Network Installation Corporation, our only business asset that is producing significant revenues. While we have an employment agreement with Mr. Cummings, it does not obligate him to remain as our Chief Executive Officer. We do not maintain insurance on the lives of our officers, directors or key employees. The loss of their services would have a material adverse effect on our business. We elect our directors each year and while we expect to reelect our directors currently on the Board, our directors are not obligated to continue in their positions.

SOME OF OUR POTENTIAL FUTURE GROWTH DEPENDS ON INCREASING CUSTOMER ACCEPTANCE OF WIRELESS NETWORKS, AND TO THE EXTENT THAT SUCH ACCEPTANCE FAILS TO INCREASE, WE MAY NOT GROW OUR BUSINESS.

While the majority of our revenues are currently derived from the installation of cable systems, we believe that improving wireless technology will eventually make wireless systems an acceptable alternative to many of our potential customers. We have begun to enter the wireless marketplace and believe this technology could lead to future growth for our company. The wireless industry has historically experienced a dramatic rate of growth both in the United States and internationally. If the rate of growth should slow down and end users continue to reduce their capital investments in wireless infrastructure or fail to expand their networks, we may not be able to expand our business.

OUR INDUSTRY HAS RAPIDLY CHANGING TECHNOLOGY AND, IF WE DO NOT STAY CURRENT, WE MAY LOSE CUSTOMERS AND OUR BUSINESS WILL BE HARMED.

The network installation industry and related technology business involve a broad range of rapidly changing technologies. Our technologies may not remain

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

competitive over time, and others may develop technologies that are superior to ours which may render our products non-competitive. Our business may depend on trade secrets, know-how, continuing innovations and licensing opportunities to develop and maintain our competitive position. Others may independently develop equivalent proprietary information or otherwise gain access to or disclose our information. Our confidentiality agreements on which we rely may not provide meaningful protection of any trade secrets on which we may depend for success, or provide adequate remedies in the event of unauthorized use or disclosure of confidential information or prevent our trade secrets from otherwise becoming known to or independently discovered by our competitors.

ITEM 7 FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors
Network Installation Corp.

We have audited the accompanying consolidated balance sheet of Network Installation Corp. (formerly, Flexxtech Corporation), a Nevada Corporation and subsidiary, as of December 31, 2003 and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the two years in the period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Network Installation Corporation and subsidiary as of December 31, 2003 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

The Company's consolidated financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has accumulated deficit of \$5,466,840 including net losses of \$3,434,607 and \$109,806 for the years ended December 31, 2003 and 2002, respectively. These factors as discussed in Note 3 to the financial statements raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

KABANI & COMPANY, INC.
 CERTIFIED PUBLIC ACCOUNTANTS

Fountain Valley, California

March 12, 2004

NETWORK INSTALLATION CORP.
 (FORMERLY, FLEXXTECH CORPORATION)
 CONSOLIDATED BALANCE SHEET
 DECEMBER 31, 2003

ASSETS

Current Asset:	
Cash and cash equivalents	\$ 667
Accounts receivable, net	353,119
Work in progress	200,000
Other current assets	2,289

Total Current assets	556,075
Property and Equipment, net	6,898

TOTAL ASSETS	\$ 562,973
	=====

LIABILITIES & STOCKHOLDERS' DEFICIT

Current Liabilities:	
Accounts payable and accrued expenses	\$ 1,532,893
Deferred revenue	280,924
Loans payable	45,500
Loans payable related parties	163,691
Due to factor	14,056
Convertible debt - current	517,616

Total Current Liabilities	2,554,680
Long-term Liabilities:	
Loans Payable	65,000
Loans payable related parties	35,000
Convertible debt	165,000
Convertible debt -related parties	338,000

Total Long-term Liabilities	603,000
STOCKHOLDERS' DEFICIT	
Common stock, authorized 100,000,000 shares at \$.001 par value, issued and outstanding 12,616,330 shares	12,616
Additional paid in capital	2,743,222
Shares to be issued	116,295
Accumulated deficit	(5,466,840)

Total Stockholders' Deficit	(2,594,707)

Edgar Filing: NETWORK INSTALLATION CORP - Form 10KSB

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT. \$ 562,973
=====

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

NETWORK INSTALLATION CORP.
(FORMERLY, FLEXXTECH CORPORATION)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
	-----	-----
NET REVENUE.	\$ 1,233,908	\$ 804,080
COST OF REVENUE.	965,569	568,444
	-----	-----
GROSS PROFIT	268,339	235,636
OPERATING EXPENSES	2,306,744	340,267
	-----	-----
LOSS FROM OPERATIONS	(2,038,405)	(104,631)
Other income (expense)		
Loss on conversion of debenture.	(91,110)	-
Interest expense	(1,303,492)	(4,375)
	-----	-----
Total other income (expense).	(1,394,602)	(4,375)
	-----	-----
LOSS BEFORE INCOME TAXES	(3,433,007)	(109,006)
Provision of Income taxes.	1,600	800
	-----	-----
NET LOSS	\$ (3,434,607)	\$ (109,806)
	=====	=====
BASIC AND DILUTED NET LOSS PER SHARE:*	\$ (.34)	\$ (.01)
	=====	=====
Basic and diluted weighted average shares outstanding.	10,151,468	7,382,000
	=====	=====