LEAPFROG SMART PRODUCTS INC
Form 10QSB
May 18, 2001

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

FORM 10-QSB

(Mark One)

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

For the three months ended MARCH 31, 2001

[ ] 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: 000-20786

LEAPFROG SMART PRODUCTS, INC.

formerly Albara Corporation
(Name of small business issuer in its charter)

COLORADO (State or other jurisdiction of incorporation or organization)	84-1076959 (I.R.S. Employer Identification No.)
1011 Maitland Center Commons, Maitland , Florida (Address of Principal Executive Offices)	32751 (Zip Code)

Issuer's telephone number (407) 838-0400

Securities registered pursuant to Section 12(b) of the Securities Exchange Act:

NONE

Securities registered pursuant to section 12(g) of the Securities Exchange Act:

COMMON STOCK, NO PAR VALUE PER SHARE
(Title of class)

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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

State issuer's revenues for its most recent fiscal year:

December 31, 2000 - $972,724

As of March 31, 2001, 9,011,845 shares of the issuer's
Common Stock were outstanding.

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ITEM 1. FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

The unaudited condensed financial statements of Leapfrog Smart Products, Inc. for the three months ended March 31, 2001 and 2000 follow. The financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim period represented.

It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the annual report on Form 10-KSB for the year ended December 31, 2000.

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LEAPFROG SMART PRODUCTS, INC. AND SUBSIDIARIES
(A Development Stage Company)

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 2001	December 31, 2000
CURRENT ASSETS		
Cash	$ 55,054	$ 107,413
Accounts receivable	89,493	113,092
Inventory	121,863	122,382
Prepaid expenses	102,276	172,060
Notes receivable - related party	4,900	15,900
Other receivables	760	1,980
TOTAL CURRENT ASSETS	374,346	532,827
PROPERTY AND EQUIPMENT, NET	247,031	238,457
OTHER ASSETS		
Related-party advances	99,529	107,009
Deposits	38,136	38,136
Capitalized software costs, net of accumulated amortization of $28,684 and $24,884	186,195	169,137
Costs in excess of fair market value of assets acquired, net of accumulated amortization of $6,250 and $5,500	23,750	24,500
	$ 968,987	$ 1,110,066

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	March 31, 2001	December 31, 2000
CURRENT LIABILITIES		
Notes payable - current portion	$ 976,964	$ 1,452,956
Notes payable - related party	344,608	355,258
Deferred Income	22,449	-
Accounts payable	966,016	1,043,453
Accrued expenses	273,265	212,255
TOTAL CURRENT LIABILITIES	2,583,302	3,063,922
LONG-TERM PORTION OF NOTES PAYABLE, NET	1,460,485	-
TOTAL LIABILITIES	4,043,787	3,063,922
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock - no par value; 30,000,000 shares authorized; 9,011,845 and 8,977,845 shares issued and outstanding	10,676,467	10,488,908
Convertible preferred stock - no par value per share; 10,000,000 shares authorized; Series A- 125,000 shares issued and outstanding	480,000	480,000
Series F- (aggregate liquidation preference of $19,500), 195 shares issued and outstanding	14,625	14,625
Deficit accumulated during development stage	(14,245,892)	(12,937,389)
	(3,074,800)	(1,953,856)
	$ 968,987	$ 1,110,066

See Accompanying Notes

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LEAPFROG SMART PRODUCTS, INC. AND SUBSIDIARIES
(A Development Stage Company)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Quarter Ended March 31, 2001	Quarter Ended March 31, 2001	Cumulative From April 11, 1996 (Inception) Through March 31, 2001
REVENUES	$ 293,738	$ 22,343	$ 2,147,252
COST OF SALES	279,372	29,349	1,775,606
GROSS PROFIT (LOSS)	14,366	(7,006)	371,646
OPERATING EXPENSES			
Personnel and related expenses	774,436	636,617	7,388,907
Consulting fees	117,130	71,248	2,192,244
General and administrative	360,000	452,586	3,764,854
Depreciation and amortization	21,738	22,499	244,747
TOTAL OPERATING EXPENSES	1,273,304	1,182,950	13,590,752
OTHER INCOME (EXPENSE)			
Other income, net	21,090	38,895	83,524
Loss on disposal of assets			(30,389)
Equity interest in loss of subsidiary			(150,000)
Interest expense	(70,655)	(130,637)	(929,921)
	(49,565)	(91,742)	(1,026,786)
NET LOSS	$ (1,308,503)	$ (1,281,698)	$ (14,245,892)
Dividends on preferred stock (undeclared)	(7,397)	(1,890)	
Net loss attributable to common shareholders	$ (1,315,900)	$ (1,283,588)	
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.15)	$ (0.23)	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	8,983,578	5,598,332	

See Accompanying Notes

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LEAPFROG SMART PRODUCTS, INC. AND SUBSIDIARIES
(A Development Stage Company)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock No Par Value		Preferred Stock No Par Value		Deficit Accumulated During Development Stage	Total Stockholders Equity (Deficit)
	Shares	Amount	Shares	Amount		
BALANCE- DECEMBER 31, 2000	8,977,845	$10,488,908	125,195	$ 494,625	$ (12,937,389)	$ (1,953,856)
ISSUANCE OF COMMON STOCK AND OPTIONS FOR SERVICES AND INTEREST	30,000	186,559	-	-	-	186,559
ISSUANCE OF COMMON STOCK ON EXERCISE OF OPTIONS	4,000	1,000	-	-	-	1,000
NET LOSS	-	-	-	-	(1,308,503)	(1,308,503)
BALANCE - MARCH 31, 2001	9,011,845	$10,676,467	125,195	$ 494,625	$ (14,245,892)	$ (3,074,800)

See Accompanying Notes

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LEAPFROG SMART PRODUCTS, INC. AND SUBSIDIARIES
(A Development Stage Company)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY (DEFICIT) (Continued)

	Common Stock No Par Value		Preferred Stock No Par Value		Deficit Accumulated During Development Stage	Total Stockholders Equity (Deficit)
	Shares	Amount	Shares	Amount		
Deficit Accumulated						
BALANCE - DECEMBER 31, 1999	5,189,769	$ 4,006,025	-	-	$(5,510,645)	$ (1,504,620)
MERGER TRANSACTION						

WITH ALBARA CORPORATION	616,797	(14,625)	195	$ 14,625	-	-
ISSUANCE OF COMMON AND PREFERRED STOCK FOR CASH	211,000	838,500	125,000	480,000	-	1,318,500
ISSUANCE OF COMMON STOCK FOR SERVICES	51,000	103,500	-	-	-	103,500
ISSUANCE OF COMMON STOCK FOR PAYMENT OF DEBT	2,500	6,500	-	-	-	6,500
ISSUANCE OF COMMON STOCK RELATED TO DEBT FINANCING	75,000	56,250	-	-	-	56,250
NET LOSS	-	-	-	-	(1,281,698)	(1,281,698)
BALANCE - MARCH 31, 2000	6,146,066	$ 4,996,150	125,195	$ 494,625	$(6,792,343)	$ (1,301,568)

See Accompanying Notes

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LEAPFROG SMART PRODUCTS, INC. AND SUBSIDIARIES
(A Development Stage Company)

UNAUDITED CONDENSEDCONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter Ended March 31, 2001	Quarter Ended March 31, 2001	Cumulative From April 11, 1996 (Inception) Through March 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (1,308,503)	$ (1,281,698)	$(14,245,892)
Reconciliation of net loss to net cash used in operating activities			
Depreciation	17,188	17,949	215,444
Depreciation and amortization charged to cost of sales	-	11,080	38,460
Amortization	4,550	4,550	26,292
Assets expensed to research and development	-	-	28,968
Loss on disposal of assets, net	-	-	33,639
Loss on write-off of related party note receivable	-	-	17,870

Gain on write-off of notes payable	(20,000)	-	(20,000)
Employee compensation for options issued below market	-	-	1,167,580
Common stock and options issued for services and interest	156,559	166,250	2,159,039
Discount on issuance of debt	(147,633)	-	(147,633)
Cash provided by (used in) change in:			
Accounts receivable	23,599	1,844	(89,493)
Related party advances	7,480	(46,168)	(99,529)
Other receivables	1,220	6,873	(760)
Inventory	519	(27,625)	(121,863)
Prepaid expenses and other assets	69,784	56,626	(140,412)
Accounts payable	(36,437)	(121,162)	1,055,256
Accrued expenses	163,404	86,724	443,621
Deferred income	22,449	5,975	22,449
NET CASH USED IN OPERATING ACTIVITIES	(1,045,821)	(1,118,782)	(9,656,964)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	(25,762)	(45,091)	(563,373)
Net increase in notes receivable - related party	-	(8,447)	(63,124)
Capitalization of software costs	(20,858)	-	(214,879)
Proceeds from sale of vehicles	-	-	8,473
NET CASH USED IN INVESTING ACTIVITIES	(46,620)	(53,538)	(832,903)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of notes payable	1,300,000	550,000	4,517,768
Payments on notes payable	(258,414)	(363,500)	(1,085,389)
Proceeds from exercise of common stock options	1,000	-	470,870
Proceeds from sale of common stock	-	838,500	5,808,918
Proceeds from sale of preferred stock	-	480,000	480,000
Proceeds from related-party borrowings	-	40,000	362,658
Repayments of related-party borrowings	(2,504)	-	(9,904)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,040,082	1,545,000	10,544,921
NET INCREASE (DECREASE) IN CASH	(52,359)	372,680	55,054
CASH AT BEGINNING OF PERIOD	107,413	18,529	-
CASH AT END OF PERIOD	$ 55,054	$ 391,209	$ 55,054

See Accompanying Notes

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LEAPFROG SMART PRODUCTS, INC. AND SUBSIDIARIES
(A Development Stage Company)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Quarters Ended March 31, 2001 and 2000

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Leapfrog Smart Products, Inc. and Subsidiaries' operations include the design, development, and licensing of Smart card applications and related database management systems and services. The Smart card is a wallet-sized plastic card with an embedded computer chip carrying accessible data that is retrievable on demand and is capable of integrating various functions with security features.

Leapfrog Smart Products, Inc. ("Leapfrog") was incorporated under the laws of the State of Florida in 1996 originally under the name Telephones! Telephones!, Inc.

Effective February 18, 2000, Albara Corporation ("Albara"), a Colorado corporation, acquired, through its wholly owned subsidiary Leapfrog Merger, Inc., a Florida corporation, 100% of the outstanding common stock of Leapfrog in exchange for 5,350,049 shares of Albara common stock. Additionally, the outstanding stock options of the Company were converted, on a pro rata basis, into 2,434,950 Albara stock options. Prior to the merger, Albara was considered to be a publicly held shell company with no revenues and insignificant expenses, assets and liabilities. Upon completion of the merger, the original shareholders of Albara held 616,797 shares of its common stock and 195 shares of its Series F Preferred Stock. As a result of the exchange, the former shareholders of Leapfrog gained control of Albara. For accounting purposes, the acquisition has been accounted for as a recapitalization of Leapfrog with Leapfrog being treated as the acquiring entity (reverse acquisition) with no goodwill recorded. Accordingly, the historical financial statements prior to February 18, 2000 are those of Leapfrog Smart Products, Inc. and Subsidiaries with the related stockholders' equity section being retroactively restated to reflect the equivalent number of Albara shares received in the merger after giving effect to the differences in par value. In connection with the merger, Albara changed its name to Leapfrog Smart Products, Inc. Leapfrog recorded a charge to general and administrative expenses of $64,000 for direct and other merger related costs pertaining to the merger transaction. Merger transaction costs consisted primarily of fees for legal, investment banking and other related charges.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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(Continued)

Leapfrog owns approximately 95% of the outstanding common stock of Leapfrog Global IC Products, Inc. ("LGIC") and approximately 96% of the outstanding common stock of Conduit Healthcare Solutions, Inc. ("Conduit"). By licensing agreement, LGIC owns all of Leapfrog's technology and distribution rights of its product line outside of North America, except for the territories subsequently granted to Smart Products, International Pte., Ltd. The agreement expires in 2009, calls for revenue sharing, and may be terminated if certain performance measures are not met. Conduit was originally incorporated in 1997 under the name Leapfrog Healthcare Products, Inc. Certain employees and consultants of Leapfrog hold stock options to purchase an aggregate of 10% of LGIC at an exercise price of $11,500. These individuals also have the right to receive additional options to purchase up to an additional 48 % of LGIC for $48,000 if certain performance measures are met. Certain employees of and consultants to Leapfrog hold stock options to purchase an aggregate of 17.8% of Conduit at an exercise price of $2,250. In 2000, LGIC created Leapfrog China, Inc., as a wholly owned subsidiary, for the purpose of pursuing opportunities in Asia.

The consolidated financial statements include the accounts of Leapfrog Smart Products, Inc., Leapfrog Merger, Inc., Conduit Healthcare

Solutions, Inc., Leapfrog Global IC Products, Inc. and Leapfrog China, Inc. (collectively, the "Company"). In the first quarter of 2001, Leapfrog Merger, Inc. changed its name to Leapfrog Smart Products, Inc. The Company's 50% ownership interest in Smart Products International Pte., Ltd. is accounted for on the equity method. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements.

These financial statements should be read in conjunction with the Company's annual financial statements included in the Company's Form 10-KSB for the year ended December 31, 2000. They have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of 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 a fair presentation of the results of operations for the periods presented have been included. Operating results for the three month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for the full year.

Development Stage Company

Since its inception, the Company=s planned principal operations have not yet begun to produce significant revenue; accordingly, the Company is considered to be a development stage enterprise.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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(Continued)

Revenue and Expense Recognition

Revenues are generally recognized when the service has been preformed and related costs and expenses are recognized when incurred. Contracts for the development of software and installation of the related hardware that extend over more then one reporting period are accounted for using the percentage-of-completion method of accounting. Revenue recognized at the financial statement date under these contracts is that portion of the total contract price that costs expended to date bears to the total anticipated final cost, based on current estimates of cost to complete. Revisions in total costs and earnings estimated during the course of the contract are reflected in the accounting period in which the circumstances necessitating the revision become known. At the time a loss on a contract becomes known the entire amount of the estimated loss is recognized in the financial statements. Costs attributable to contract disputes are carried in the accompanying balance sheet only when realization is probable. Amounts received on contracts in progress in excess of the revenue earned, based upon the percentage of completion method, are recorded as deferred revenue and the related costs and expense incurred are recorded as deferred costs.

In 2000, the Company entered into a contract with the U.S. General Services Administration (GSA) to supply GSA with hardware and software products related to Smart card technologies and applications. Significant portions of these contracts may be fulfilled by subcontractors (the Subcontractors) authorized by the Company and GSA. Revenues earned under the GSA contract are recorded by the Company at the gross amount billed to GSA and the corresponding cost of sales are recorded at the amount serviced by the Subcontractors. Revenues and cost of sales recognized under the GSA contract during the three month periods ended March 31, 2001 and 2000 approximated $243,000 and $ 0, respectively.

Net Loss Per Share of Common Stock

The basic and diluted net loss per common share in the accompanying consolidated statements of operations are based upon the net loss after the deduction of preferred dividends divided by the weighted average number of common shares outstanding during the periods presented. Diluted net loss per common share is the same as basic net loss per common share since the inclusion of all potentially dilutive common shares that would be issuable upon the exercise of outstanding stock options and the convertible preferred stock and promissory notes would be anti-dilutive.

Statement of Cash Flows

As an incentive to several investors in debentures, 75,000 shares of stock were issued for a dollar value of $56,250 for the three months ended March 31, 2000.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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(Continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Continued Operations

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements during the three month periods ended March 31, 2001 and 2000, the Company incurred losses of approximately $1.3 million and $1.3 million, respectively, and had a deficiency in working capital of approximately $2.2 million at March 31, 2001. These factors, among others, may indicate the Company will be unable to continue as a going concern for a reasonable period of time. The accompanying consolidated financial statements do not include any adjustments relating to the outcome of this uncertainty.

Liquidity and Plan of Operations

At March 31, 2001, the Company had cash of approximately $55,000 and a deficiency in working capital of $2.2 million.

The Company has a limited operating history and its prospects are subject to the risks, expenses and uncertainties frequently encountered by companies in new and rapidly evolving markets such as Smart card products and services. These risks include the failure to develop and extend the Company's products and services, the rejection of such services by Smart card customers, vendors and/or advertisers, the inability of the Company to maintain and increase its customer base, as well as other risks and uncertainties. In the event that the Company does not successfully implement its business plan, certain assets may not be recoverable.

The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis. The Company's primary source of liquidity has been through the private placement of equity and debt securities. The Company is presently exploring possibilities with respect to raising working capital through additional equity and/or debt financings in the near future. In July 2000, the Company received approval from the Securities and Exchange Commission ("SEC") for an SB-1 authorizing a total of 2,909,635 registered shares. This was amended to 3,433,923 shares on September 7, 2000.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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(Continued)

However, there can be no assurance that the Company will be successful in achieving profitable operations or acquiring additional capital or that such capital, if available, will be on terms and conditions favorable to the Company. Based upon its current business plan, the Company believes that it will generate sufficient cash flow through operations and external sources of capital to continue to meet its obligations in a timely manner. If anticipated financing transactions and operating results are not achieved, management has the intent and believes that it has the ability to delay or reduce expenditures so as not to require additional financial resources, if such resources were not available on terms acceptable to the Company.

Reclassifications

Certain amounts in the 2000 financial statements have been reclassified to conform with the 2001 presentation.

NOTE 2 - NOTES PAYABLE

In the first quarter of 2001, the Company issued a note to a shareholder and noteholder for $2 million to be funded in various installments from January 25, 2001 through May 15, 2001. As of March 31, 2001, $1.3 million of the installments had been received. The remaining $700,000 was received by May 15, 2001. The note is secured by all assets of the Company. Interest accrues at 12% and is due and payable quarterly beginning July 1, 2001. The note matures on July 1, 2002. The note or any portion thereof, is convertible into shares of the Company's stock at the rate of $1.00 per share. As part of this financing agreement, the noteholder received an option to purchase up to 1,000,000 shares of the Company's common stock at $1.00 per share through June 30, 2002. These options were valued at $157,000. The value is recorded as a discount on the issuance of debt and will be amortized to interest expense through the due date of the note. The interest expense recognized in the three month period ended March 31, 2001 was $9,000.

Proceeds from the note were used to repay the $200,000 remaining balance on a note that was secured by all assets of the Company that was due in January 2000.

During the quarter ended March 31, 2001, the Company renegotiated the terms on much of the remaining outstanding debt. The $100,000 note with the bank has been extended to October 1, 2002. Notes were issued to replace past due debentures that brought approximately $477,000 of the debentures outstanding at December 31, 2000 current. The majority of the new notes call for repayment of the principal and interest over 24 months either beginning in March or August 2001.

In the first quarter of 2000, the Company issued an aggregate of

$550,000 of 10% debentures notes. The Company also issued an aggregate of 75,000 shares of its common stock to some of the debenture holders as incentive to enter into the agreements. For accounting purposes, these shares of common stock were valued at $56,250 and that value was included in interest expense. During the first quarter of 2000, the Company repaid $350,000 in bank notes with the proceeds of the above debentures and issuances of stock.

NOTE 2 - NOTES PAYABLE (CONT'D)

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Cash paid for interest during the first quarters of 2001 and 2000 was $26,037 and $19,439, respectively.

Except for the notes discussed above, all remaining notes payable remain past due. The Company is attempting to work with the note holders to extend the due dates or change the terms.

NOTE 3 - STOCKHOLDERS' EQUITY

Options

During the first quarter of 2001, the stock options described above in Note 2 were issued to a note holder. In addition, 1,150,000 stock options were issued to three key employees as part of their new employment agreements. The options have a strike price of $1.00 with various vesting dates through January 1, 2002 and expiration dates ranging from January 16, 2004 through December 31, 2005.

Issuances of Common or Preferred Stock

Subsequent to the merger, the Company issued 125,000 shares of Series A Convertible Preferred Stock and received net proceeds of $480,000. The holders of the Series A Preferred Shares are entitled to cumulative dividends at the rate of 6% per annum. Each share of Series A convertible Preferred Stock is convertible into one share of common stock at the election of the holder thereof. The Company may require mandatory conversion of all, but not less than all, of the Series A Preferred shares on or after the first anniversary of the initial sale if certain stock trading prices are attained or if there is a reorganization of the Company involving an exchange of its common stock for shares of a United States domiciled corporation the shares of which are traded on a national exchange or an the NASDAQ national market system. For as long as at least 50% of the Series A Convertible Preferred shares are outstanding, the holders thereof may elect one board member to the Company's board of directors.

During the first quarter of 2000, the Company issued an aggregate of 211,000 shares of its common stock for cash and received proceeds of $838,500.

The shares issued to Albara shareholders consisted of 616,797 shares of common stock and 195 shares of preferred stock. The preferred stock is Series F and is entitled to receive dividends on a pro rata basis with holders of common stock. These holders are entitled to a $100 per share preference on any liquidation of the Company and shall share pro rata with the common stockholders in any remaining amounts distributed. Each share is convertible into 15 shares of common stock after August 31, 1993.

Authorized Shares

In January 2000, prior to the merger, the authorized shares of no par value common stock were increased to 30,000,000 and the authorized shares

of no par value preferred stock were increased to 10,000,000.

NOTE 3 - STOCKHOLDERS' EQUITY (CONTINUED)

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Warrant

On January 31, 2000 a warrant was issued to the former majority shareholder of Albara for the right to purchase 500,000 shares of common stock at $3.50 per share on or after April 30, 2000. The warrant expires on January 31, 2010. The exercise price of $3.50 shall be adjusted to $.035 in the event the Company has not closed an equity offering raising an aggregate of at least $2,500,000 by June 29, 2000.

NOTE 4 - LEGAL PROCEEDINGS

The Company is party to various legal proceedings. However, management does not believe the ultimate outcomes to any of these actions will have a material impact to the Company's financial position and there have been no material changes since yearend in the status of the proceedings.

NOTE 5 - EMPLOYMENT CONTRACTS

On January 16, 2001, the Board of Directors approved employment contracts with three key employees. The terms of the contracts extend to dates ranging from January 24, 2002 to September 30, 2003. The agreements call for aggregate salaries of $390,000 with annual 4% increases. These agreements call for the issuance of an aggregate of 1,150,000 stock options to purchase common stock of the Company. The options all have a strike price of $1.00 each with various vesting dates through January 1, 2002 and expiration dates ranging from January 16, 2004 through December 1, 2005. A provision to one of the contracts involves the payment of a cash bonus equal to 1% of the Company's net profits, defined as net earnings before insurance taxes and amortization. Another contract requires the payment of a cash bonus equal to 4% of the Company's income from U.S. operations, defined as net income before taxes, minority interests, extraordinary items, amortization of intangible assets, interest on long-term debt and any incentive compensation to employees.

NOTE 6 - SUBSEQUENT EVENT

On April 2, 2001, the Company entered into an agreement for the sale of approximately 82% of Conduit with closing to be within 120 days, with a two-year right-of-first refusal to purchase the remaining shares of Conduit held by the Company at an equivalent price per share. The sale of Conduit includes licensing rights for the Company's software assets solely related to the healthcare industry in the United States, which includes, but is not limited to hospitals, physician offices, pharmacies, insurance companies, managed care organizations, clinics, dental offices, chiropractic, podiatry, ocular health, governmental healthcare agencies, providers and payors, ambulances, nursing homes, and home healthcare agencies. The Agreement provides that in exchange for selling the controlling interest in Conduit, the purchaser will pay the Company $510,000 and provide Conduit with $1.9 million to fund its ongoing business, as well as guaranteeing software development fees of $3 million pursuant to the terms of a software development agreement, which Conduit and the Company executed in connection with the stock purchase agreement. The purchaser is required to pay the Company $250,000 by May 29, 2001. Between that date and closing, the purchaser will pay the Company not less than 20% of all cash collected, up to a maximum of $510,000, including the $250,000 paid by May 29, 2001, in any private offering of Conduit securities undertaken to satisfy the purchaser's obligation to provide the Conduit funding. The balance, if any, will be paid at closing. The future exercise of any

outstanding options of Conduit as of April 2, 2001 would be the obligation of the Company to satisfy. The revenues for Conduit were $15,000 for the three months ended March 31, 2001 and the assets as of March 31, 2001 were $17,000.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OR PLAN OF OPERATION

The following discussion should be read in conjunction with the Financial Statements and notes thereto.

PLAN OF OPERATION

LEAPFROG did not have any external sources of working capital since inception except for the sale of stock to individuals and the issuance of short-term notes payable while it was a private company. On February 18, 2000, LEAPFROG merged with Albara Corporation through a reverse acquisition in which Albara acquired LEAPFROG and the existing shareholders of LEAPFROG obtained control of Albara. Even with the completion of this business combination transaction, there can be no assurance that the combined companies will have sufficient funds to undertake any significant development, marketing and manufacturing activities. Accordingly, the Company is being required to seek additional debt or equity financing or funding from third parties, in exchange for which the Company might be required to issue a substantial equity position.

In the first quarter of 2001, the Company issued a note to a shareholder and noteholder for $2 million to be funded in various installments from January 25, 2001 through May 15, 2001. As of March 31, 2001, $1.3 million of the installments had been received. The remaining $700,000 was received by May 15, 2001. The note is secured by all assets of the Company. Interest accrues at 12% and is due and payable quarterly beginning July 1, 2001. The note matures on July 1, 2002. The note or any portion thereof, is convertible into shares of the Company's stock at the rate of $1.00 per share. As part of this financing agreement, the noteholder received an option to purchase up to 1,000,000 shares of the Company's common stock at $1.00 per share through June 30, 2002.

A portion of the proceeds from the note were used to repay the $200,000 remaining balance on a note that was secured by all assets of the Company that was due in January 2000.

During the quarter ended March 31, 2001, the Company renegotiated the terms on much of the remaining outstanding debt. The $100,000 note with the bank has been extended to October 1, 2002. Notes were issued to replace past due debentures that brought approximately $477,000 of the debentures outstanding at December 31, 2000 current. The majority of the new notes call for repayment of the principal and interest over 24 months either beginning in March or August 2001.

There is no assurance that the Company will be able to obtain additional financing on terms acceptable to the Company. If Management is successful in obtaining additional funding, these funds will be used primarily to provide working capital needed for repayment of outstanding notes payable, software development, sales and marketing expense, to finance research, development and advancement of intellectual property concerns and for general administration.

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In July 2000, the Company received approval from the Securities and Exchange Commission ("SEC") for an SB-1 authorizing a total of 2,909,635 registered

shares. This was amended to 3,433,923 shares on September 7, 2000. This increased the Company's ability to obtain equity financing.

RESULTS OF OPERATIONS

Revenues and Gross Profits:

LEAPFROG is a development stage company with revenues just beginning to be recognized. Revenues for the quarter ended March 31, 2001 increased $271,000, from $22,000 to $294,000 compared to the quarter ended March 31, 2000. Revenues in the first quarter of 2001 increased $243,000 from purchases by the U.S. Government made through the Company's GSA contract. In addition to these GSA contract revenues, the increase in revenues during 2001 was due to the recognition of revenue on the percentage of completion method of accounting for several substantially complete projects involving both hardware and software installation and development. All revenues from these projects were associated with the sale of predominately hardware related items such as Smart card readers/writers utilized in pilot evaluation programs, software testing programs and specialized software solutions by potential future users of the Company's software products. Gross margin for the three months ended March 31, 2001 was 5% of revenue. This margin can be broken down into the margin on the GSA revenues which was 4% and the margin on all other revenues which was 9%. The margins on the GSA contract revenues are lower since the sales are currently being made through the contract using an agent company so the net margin to the Company is usually 4%. The margins on other revenues are expected to be higher in the future, but due to many of the projects being the first installation of a new software solution the economies of scale and experience have not been realized. The negative margin for the three months ended March 31, 2000 was due to a loss taken on a specialized software solution and the related hardware with the intention of using this as an investment in future projects.

Total Operating Expenses:

Total operating expenses for the quarter ended March 31, 2001 increased $90,000 from $1.2 million to $1.2 million, a 7% increase compared to the same period in 2000. This increase is net of $21,000 in software development expenditures that were capitalized during the quarter ended March 31, 2001. This increase is primarily associated with increased personnel expenses with the increase in sales and engineering staff. This increase was partially offset by the decrease in general and administrative expenses. The decrease in general and administrative expenses was primarily due to the increased legal and other professional costs incurred in the first quarter of 2000 related to the closing of the merger in February 2000.

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Personnel and related expenses increased $138,000 or 22% to $774,000 for the quarter ended March 31, 2001 compared to the $637,000 for the same period in 2000. The increase is net of $21,000 in software development expenditures that were capitalized during the first three months of 2001. This net increase was primarily due to the increase in the staff from an average of 35 in the first quarter of 2000 to 41 in the first quarter of 2001. This 17% increase in the number of employees is partially offset by the direct cost savings realized from processing payroll and benefits in-house versus through an outside vendor. The increases in staff were evenly distributed between engineering and sales in preparing for rollouts of products in 2001 and 2000 and developing new products and staffing for revenue projects and installations.

Consulting fees increased by $46,000 from the $71,000 incurred for the quarter ended March 31, 2000 to $117,000 for the quarter ended March 31, 2001. The

expenses in 2001 and 2000 related primarily to fees paid to individuals and companies that assisted the Company in identifying potential contract opportunities and recruiting distributors and value added resellers who may participate in the intended product rollouts. Additionally, the consulting fees also consisted of amounts paid for services in maintaining a public market presence. These expenses were higher in 2001.

General and administrative expenses decreased to $360,000 for the quarter ended March 31, 2001 from $453,000 for the same period in 2000. This $93,000 or 21% decrease was due largely to decreased legal and other professional costs related to the merger. This was only partially offset by other general and administrative expenses increasing in several areas with the hiring of new personnel requiring more space and general overhead.

Depreciation and amortization expenses decreased less than $1,000 or 3% to $22,000 for the quarter ended March 31, 2001 compared to $22,000 for the same period in 2000. Assets purchases have been close to the amount of assets disposed of and becoming fully depreciated accounting for the stable depreciation expense.

Other income and expense:

Interest expense for the quarter ended March 31, 2001 decreased $60,000 from $131,000 to $71,000 when compared to the same period in 2000. In January 2000, the Company issued an aggregate of $550,000 of 10% debenture notes. The Company also issued an aggregate of 75,000 shares of it common stock to some of the debenture holders as incentive to enter into the agreements. For accounting purposes, these shares of common stock were valued at $56,250 and that value was included in interest expense. The remaining decrease in interest expense even with the increase in debt was due to forgiveness of some interest on debt that was renegotiated.

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Net loss:

The net loss for the quarter ended March 31, 2001 increased only slightly by $27,000 from $1.3 million to $1.3 million, a 2% increase compared to the quarter ended March 31, 2000. This increase is net of $21,000 in software development expenditures that were capitalized during the quarter ended March 31, 2001. The slight increase is primarily associated with increased consulting fees and personnel expenses with the increase in sales and engineering staff. This increase was partially offset by the decrease in interest expense and general and administrative expenses. The decrease in general and administrative expenses was primarily due to the increased legal and other professional costs incurred in the first quarter of 2000 related to the closing of the merger in February 2000. Net loss per share of common stock decreased from $.23 per share in 2000 to $.15 in 2001. This decrease is due to the increase in the weighted average number of common shares outstanding from 5,598,332 for the quarter ended March 31, 2000 to 8,983,578 for the quarter ended March 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used by operating activities decreased $73,000 from $1.1 million for the quarter ended March 31, 2000 to $1.1 million for the quarter ended March 31, 2001. The decrease is primarily due to a smaller paydown of accounts payable during 2001.

Net cash used for investing activities decreased $7,000 from $54,000 in the first quarter of 2000 compared to $47,000 in the same period of 2001. The decrease was primarily due to less being spent on fixed assets acquisitions

offset by the capitalization of software costs in the first quarter of 2001.

Net cash provided by financing activities decreased $505,000 from $1.5 million for the quarter ended March 31, 2000 to $1.0 million for the quarter ended March 31, 2001. Financing activities during 2001 consisted primarily of bridge financing of $1.3 million that was partially used to paydown debt by $258,000. Financing activities during 2000 included the issuance of common and preferred stock providing $1.3 million in the aggregate and the issuance of notes payable which provided $550,000 offset by an $363,500 repayment of existing notes payable.

Like many early stage technology companies, the majority of LEAPFROG's assets are intangible assets such as copyrights, trademarks, and research and development costs which by their very nature are not reflected in the Company's balance sheet as assets.

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In the past, LEAPFROG's Management has been successful in attracting accredited investors who have purchased newly issued common stock. However, there can be no assurance that the Company will be able to obtain additional equity financing on similar terms in the future. Over the past two years all of LEAPFROG's debt financing has been short-term notes payable. These notes can only be repaid if the Company successfully raises additional equity or debt financing. In addition to the cash requirement associated with repaying these notes, LEAPFROG will not be able to mount an effective national marketing campaign for its products without an additional infusion of capital. The Company does not have any commitments to provide additional capital funding. Accordingly, there can be no assurance that any additional funds will be available to the Company to allow it to repay its outstanding debt and to cover the expenses associated with executing its sales and marketing plan.

Y2K COMPLIANCE

LEAPFROG concluded its efforts concerning its exposure relative to year 2000 issues for both information and non-information technology systems. Management actively monitors the status of the readiness program of the Company. LEAPFROG's out of pocket cost associated with becoming Year 2000 compliant were not significant. These cost were expensed as incurred, and the Company does not anticipate any additional material expenditure as a result of Year 2000 issues. Based on operations since January 1, 2000, including the leap year date of February 29, 2000, the Company has not experienced any significant disruption or change, and does not expect any significant impact to its ongoing business a result of the Year 2000 issue. Additionally, the Company is not aware of any significant Year 2000 issues or problems that have arisen for its significant customers, vendors or service providers. As there can be no assurance that the Company's efforts to achieve Year 2000 readiness have been completely successful or that customers, vendors and service providers will not experience Year 2000 related failures in the future, the Company will continue to monitor its exposure to Year 2000 issues and will leave its contingency plans in place in the event that any significant Year 2000 related issues arise.

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FORWARD LOOKING STATEMENT

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of forward-looking statements that reflect Management's current views with respect to future events and financial performance. Those statements include statements regarding the intent, belief or current expectations of LEAPFROG and members of its management team as well

as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Readers are urged to carefully review and consider the various disclosures made by the Company in this report and in the Company's other reports filed with the Securities and Exchange Commission. Important factors currently known to Management could cause actual results to differ materially from those in forward-looking statements. The Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in the future operating results over time. The Company believes that its assumptions are based upon reasonable data derived from and known about its business and operations and the business and operations of LEAPFROG. No assurances are made that actual results of operations or the results of the Company's future activities will not differ materially from its assumptions.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Leapfrog and its subsidiary, Leapfrog Global IC Products, Inc. ("LGIC") were named in an action (Valenti vs. Leapfrog Smart Products, Inc. ("LSP") et al) alleging that the companies failed to disclose certain corporate records as required by Florida Law. LSP's special Florida litigation counsel has advised the company that the remedies asked for in the complaint against LSP are not available because LSP is a Colorado corporation. In any event, the plaintiff is seeking primarily equitable relief, and not monetary damages except attorney's fees, against both LSP and LGIC. As such, even if the suit was successful, it would not materially impact the financial condition of either LSP or LGIC.

Real Provencher v. Leapfrog Smart Products, Inc., f/k/a Albara Corporation, and American Securities Transfer Incorporated was filed in the U.S. District Court for the Southern District of Texas, Houston Division. Plaintiff, a shareholder of the Company, has filed the following claims against the Company: 1) the Company breached its statutory duty to register and transfer Plaintiff's shares in the Company; 2) the Company violated his statutory right under Rule 144(k) of the Securities Act of 1934 to terminate restrictions to sell his shares; 3) the Company committed common law and statutory fraud; 4) breach of contract under a Bleed Out Agreement; 5) and tortuous interference with Plaintiff's contract to sell 77,300 shares of stock. Plaintiff has alleged actual damages of $2,576,000 plus attorney's fees, and pre-and post-judgement interest.

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The Company filed a lawsuit styled Leapfrog Smart Products, Inc. v. Real Provencher, in the U.S. District Court of the Middle District of Florida, Orlando Division with the following claims: 1) breach of contract under a Consulting Agreement; 2) breach of contract under the terms of a Bleed Out Agreement; 3) violation of Rule 16 of the Securities Act of 1934; 4) fraudulent misrepresentation and common law fraud; and 5) violation of Rule 144 of the Securities Act of 1934. The Company alleged compensatory damages, costs, and further relief, as the court finds appropriate. The Florida Court has transferred venue to the U.S. District Court for the Southern District of Texas, Houston Division and the two cases have been consolidated.

As part of a consulting agreement with Provencher, a warrant with an effective

date of February 18, 2000 was issued for the right to purchase 500,000 shares of common stock at $3.50 per share on or after April 30, 2000. The warrant expires on January 31, 2010. The exercise price of $3.50 was to be adjusted to $0.035 in the event the Company did not close an equity offering raising an aggregate of at least $2.5 million by July 16, 2000. Although, Provencher has not attempted to exercise the warrants, as part of the lawsuit the Company is attempting to have the warrants declared null and void due to the alleged non-performance under the Consulting Agreement.

Discovery is underway in the case. Some settlement discussions have begun but no settlement has occurred at this time. We are unable to determine the likelihood of an unfavorable outcome in this case nor are we able to estimate the potential loss to the Corporation at this time. Accordingly, the financial statements include no provision or liability related to the ultimate outcome of this matter.

The Company was party to a lawsuit brought by Publicard, Inc. regarding the repayment of $100,000 in notes due to them from the Company. It was the Company's position that although these notes were recorded with interest accruing, the notes should be offset with certain costs incurred by the Company. This lawsuit was settled on February 2, 2001, requiring that the Company repay $90,000 in nine $10,000 monthly installments beginning February 2001.

The lessor of the Company's former office space has sued the Company for breach of contract and lien foreclosure based on the Company's breach of lease and failure to pay rent. Damages requested are $270,400, plus attorney's fees and costs. The Company brought a counter suit against the lessor for a declaratory action, breach of lease, tortuous interference with an advantageous business relationship, and breach of good faith and fair dealings regarding reletting the property. The Company has accrued an insignificant portion of the lessor's claims in an amount equal to the unpaid lease payments that would have been due under the lease through December 31, 2000. No other amounts have been recorded in the accompanying financial statements for this uncertainty, as management cannot reasonably estimate the ultimate outcome.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

The following documents are filed herewith or have been included as exhibits to previous filings with the Commission and are incorporated herein by this reference:

	Exhibit No.	Exhibit
###	2.1	Agreement and Plan of Merger
##	3(a)	Articles of Incorporation
##	3(b)	Bylaws
#	4(a)	Agreements Defining Certain Rights of Shareholders
#	4(b)	Specimen Stock Certificate
#	10(a)	Pre-incorporation Consultation and Subscription Agreement
##	10.1	Consultation Services Agreement
##	10.2	Legal Services Engagement Agreement
#	99.1	Safe Harbor Compliance Statement

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x filed herewith

previously filed with the Company's Definitive Information Statement on Schedule 14C on January 18, 2000.

previously filed with the Company's Registration Statement on Form S-8 on February 29, 2000

previously filed with the Company's Form 8-K dated March 8, 2000

previously filed with the Company's Form 8-K dated March 17, 2000

(b) REPORTS ON FORM 8-K

The Company filed the following reports on Form 8-K during the first quarter of the 2001 fiscal year:

None

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LEAPFROG SMART PRODUCTS, INC.

By: /s/ Les Bromwell

Les Bromwell, CEO

Date: May 18, 2001

In accordance with the Exchange Act, this report has been signed below by the

following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Les Bromwell Les Bromwell	CEO & President	May 18, 2001
/s/ Jon Gerster Jon Gerster	Chief Financial Officer	May 18, 2001