

Edgar Filing: NETWORK INSTALLATION CORP - Form 10-Q/A

NETWORK INSTALLATION CORP  
Form 10-Q/A  
July 12, 2004

Washington, D.C. 20549

FORM 10-QSB/A  
(Mark One)

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

For the quarterly period ended March 31, 2004

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-25499

NETWORK INSTALLATION CORPORATION  
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(Exact name of small business issuer as specified in its charter)

Nevada  
-----

88-0390360  
-----

State or other jurisdiction of  
Incorporation or organization

(IRS Employer  
Identification Number)

18 Technology Dr., Suite 140A  
Irvine, CA  
-----

92618  
-----

(Address of principal executive offices)

(Zip Code)

(949) 753-7551  
-----

(Issuer's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

As of March 31, 2004, the Issuer had outstanding 12,960,857 shares of its common stock, \$0.001 par value.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE) YES  NO

PART I-FINANCIAL INFORMATION

Item 1. Financial Statements

NETWORK INSTALLATION CORP. AND SUBSIDIARIES

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NETWORK INSTALLATION CORP  
CONSOLIDATED BALANCE SHEETS

ASSETS

|   | (Unaudited)<br>March 31,<br>2004 | (Audited)<br>December 31,<br>2003 |
|---|----------------------------------|-----------------------------------|
|   | -----                            | -----                             |
| CURRENT ASSETS  |                                  |                                   |
| Cash and cash equivalents . . . . .   | \$ -                             | \$ 667                            |
| Accounts receivable, net of allowance for doubtful<br>accounts of \$80,000 and \$79,309 at March 31, 2004<br>and December 31, 2003, respectively. . . . . | 80,946                           | 353,119                           |
| Work in progress. . . . .   | 35,987                           | 200,000                           |
| Prepaid expenses. . . . .   | 162,500                          | -                                 |
| Other current assets. . . . .   | 4,461                            | 2,289                             |
|   | -----                            | -----                             |
| TOTAL CURRENT ASSETS. . . . .   | 283,894                          | 556,075                           |
|   | -----                            | -----                             |
| NET PROPERTY & EQUIPMENT. . . . .   | 4,648                            | 6,898                             |
|   | -----                            | -----                             |
| Goodwill. . . . .   | 1,000,000                        | -                                 |
|   | -----                            | -----                             |
| TOTAL ASSETS. . . . .   | \$ 1,288,542                     | \$ 562,973                        |
|   | =====                            | =====                             |

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES

|   |           |           |
|---|-----------|-----------|
| Book Overdraft . . . . .                        | \$ 17,271 | \$ -      |
| Accounts payable and accrued expenses . . . . . | 1,191,384 | 1,532,893 |
| Deferred revenue. . . . .                       | 78,869    | 280,924   |
| Loans payable . . . . .                         | 504,780   | 45,500    |
| Loans payable - related parties . . . . .       | 134,180   | 163,691   |
| Due to factor . . . . .                         | 10,759    | 14,056    |
| Convertible debt - current. . . . .             | 21,781    | 517,616   |
|   | -----     | -----     |
| TOTAL CURRENT LIABILITIES . . . . .             | 1,959,024 | 2,554,680 |
|   | -----     | -----     |

LONG TERM LIABILITIES

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|   |              |             |
|---|--------------|-------------|
| Loans payable . . . . .   | 25,000       | 65,000      |
| Loans payable - related parties . . . . .   | 0            | 35,000      |
| Convertible debt . . . . .  | 165,000      | 165,000     |
| Convertible debt - related parties . . . . .  | 753,500      | 338,000     |
| Debt discount . . . . .   | -            | -           |
|   | -----        | -----       |
| TOTAL LONG TERM LIABILITIES . . . . .   | 943,500      | 603,000     |
|   | -----        | -----       |
| TOTAL LIABILITIES . . . . .   | 2,902,524    | 3,157,680   |
|   | -----        | -----       |
| COMMITMENTS AND CONTINGENCIES   |              |             |
| SHAREHOLDERS' EQUITY (DEFICIT)  |              |             |
| Common stock, authorized 100,000,000 shares at \$.001 par value, issued and outstanding 12,960,857 shares . . . . . | 12,962       | 12,616      |
| Additional paid-in capital . . . . .  | 4,269,734    | 2,743,222   |
| Shares to be issued . . . . .   | 116,284      | 116,295     |
| Accumulated deficit . . . . .   | (6,012,962)  | (5,466,840) |
|   | -----        | -----       |
| TOTAL SHAREHOLDERS' EQUITY (DEFICIT) . . . . .  | (1,613,982)  | (2,594,707) |
|   | -----        | -----       |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT) . . . . .  | \$ 1,288,542 | \$ 562,973  |
|   | =====        | =====       |
| See notes to financial statements   |              |             |

NETWORK INSTALLATION CORP  
Consolidated Statements of Operations

|                                   | March 31,<br>2004 | March 31,<br>2003 |
|-----------------------------------|-------------------|-------------------|
|                                   | -----             | -----             |
| NET REVENUE . . . . .             | \$ 510,522        | \$442,463         |
| COST OF REVENUE . . . . .         | 320,220           | 186,359           |
|                                   | -----             | -----             |
| GROSS PROFIT . . . . .            | 190,302           | 256,104           |
| OPERATING EXPENSES . . . . .      | 584,367           | 265,019           |
|                                   | -----             | -----             |
| Loss from operations . . . . .    | (394,065)         | (8,915)           |
| OTHER INCOME (EXPENSES)           |                   |                   |
| Other income (expenses) . . . . . | (667)             | (247)             |
| Interest expense . . . . .        | (151,390)         | -                 |
|                                   | -----             | -----             |
| TOTAL OTHER INCOME                |                   |                   |

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|  |              |            |
|--|--------------|------------|
| (EXPENSES) . . . . .                   | (152,057)    | (247)      |
|  | -----        | -----      |
| LOSS BEFORE INCOME TAXES . . . . .     | (546,122)    | (9,162)    |
|  | -----        | -----      |
| Provision of income taxes . . . . .    | -            | -          |
|  | -----        | -----      |
| NET LOSS . . . . .                     | \$ (546,122) | \$ (9,162) |
|  | =====        | =====      |
| BASIC AND DILUTED LOSS                 |              |            |
| PER SHARE . . . . .                    | \$ (0.04)    | \$ -       |
|  | =====        | =====      |
| WEIGHTED AVERAGE                       |              |            |
| NUMBER OF SHARES OUTSTANDING . . . . . | 12,709,532   | 7,382,000  |
|  | =====        | =====      |
| See notes to financial statements      |              |            |

NETWORK INSTALLATION CORP.  
CONSOLIDATED STATEMENT OF CASH FLOWS

|   | Three<br>months ended<br>March 31, 2004 |
|---|---|
|   | -----                                   |
| CASH FLOWS FROM OPERATING ACTIVITIES:   |   |
| Net loss . . . . .  | \$ (542,122)                            |
| Adjustment to reconcile net loss to net cash<br>provided by (used in) operating activities: |   |
| Issuance of stock for consulting<br>services . . . . .                                      | 195,000                                 |
| Beneficial conversion feature of debenture . . . . .  | 135,125                                 |
| Depreciation and amortization . . . . .   | 2,250                                   |
| Increase (decrease) in current assets   |   |
| Accounts receivable . . . . .   | 272,173                                 |
| Work in progress . . . . .  | 164,013                                 |
| Prepaid Expenses . . . . .  | (92,500)                                |
| Deposit and other current assets . . . . .  | (2,172)                                 |
| Decrease in current liabilities:  |   |
| Accrued expenses and accounts payable . . . . .   | (250,622)                               |
| Deferred revenue . . . . .  | (202,055)                               |
|   | -----                                   |
| NET CASH USED IN OPERATING ACTIVITIES . . . . .   | (324,910)                               |
|   | -----                                   |
| CASH FLOWS FROM FINANCING ACTIVITIES:   |   |
| Bank overdraft . . . . .  | 17,271                                  |
| Proceeds (payments) from factor . . . . .   | (3,297)                                 |
| Proceeds from borrowings . . . . .  | 426,989                                 |
| Repayment of long term debt . . . . .   | (116,720)                               |
|   | -----                                   |
| NET CASH PROVIDED BY FINANCING ACTIVITIES . . . . .   | 324,243                                 |
|   | -----                                   |

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|  |       |
|--|-------|
| NET INCREASE (DECREASE) IN CASH. . . . . | (667) |
| CASH AT BEGINNING OF PERIOD. . . . .     | 667   |
|  | ----- |
| CASH AT END OF PERIOD. . . . .           | \$ -  |
|  | ===== |

See notes to financial statements

NETWORK INSTALLATION CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2004

1. DESCRIPTION OF BUSINESS AND SEGMENTS

Network Installation Corp (NIC) was incorporated on July 18, 1997, under the laws of the State of California. NIC is a full service computer cabling, networking and telecommunications integrator contractor, providing networks from stem to stem in house. NIC participates in the worldwide network infrastructure market to end users, structured cabling market and the telephony services. NIC, Flexxtech and Del Mar Systems International, Inc. (DMSI) are together referred to as "the Company".

Pursuant to a purchase agreement on May 23, 2003, Flexxtech Corporation ("Flexxtech") acquired 100% of the issued and outstanding common stock of (NIC). The purchase price consisted of \$50,000 cash, 7,382,000 shares of Flexxtech's common stock and five year option to purchase an additional 618,000 shares of Flexxtech stock if NIC's total revenue exceeds \$450,000 for the period beginning on June 1, 2003 and ending August 31. The option was exercisable at a price equal to the closing bid price of the stock on August 31, 2003. NIC has forfeited the right to that option.

According to the terms of the share exchange agreement, control of the combined companies (the "Company") passed to the former shareholders of NIC. Although from a legal perspective, Flexxtech acquired NIC, the transaction is viewed as a recapitalization of NIC, accompanied by an issuance of stock by NIC to the shareholders of Flexxtech. This is because Flexxtech did not have operations immediately prior to the transaction, and following the transaction, NIC was the operating company.

On March 1, 2004, NIC acquired 100% of the outstanding shares of Del Mar Systems International, Inc. (DMSI), a Company operating in the telecommunication solutions industry. The operations of DMSI have been consolidated with the operations of the Company, since March 1, 2004.

Flexxtech Corporation ("Flexxtech") was organized on March 24, 1998, under the laws of the State of Nevada, as Color Strategies. On December 20, 1999, Flexxtech changed its name to Infinite Technology Corporation. Flexxtech changed its name to Flexxtech Corporation in April 2000.

A certificate of amendment was filed on July 10, 2003 to change the parent company's name from Flexxtech Corporation to Network Installation Corp.

The accompanying unaudited condensed interim financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for the presentation of interim financial information, but do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The audited financial statements for the two years ended December 31, 2003 and 2002 were filed on

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April 9, 2004 with the Securities and Exchange Commission and is hereby referenced. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three-month periods ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004.

The statement of cash flows for the three months ended March 31, 2003 are not presented, as they are still being completed.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Principles of Consolidation

-----

The accompanying financial statements include the accounts of Network Installation Corp., formerly Flexxtech Corporation (legal acquirer, the "Parent"), and its 100% owned subsidiaries, Network Installation Corporation and Del Mar Systems International, Inc. All significant inter-company accounts and transactions have been eliminated in consolidation. The results include the accounts of NIC and Flexxtech for the three months ended March 31, 2004, and the results of DMSI from the date of acquisition, March 1, 2004 through March 31, 2004. The historical results for the three months ended March 31, 2003 include NIC only.

#### Revenue Recognition

-----

The Company's 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 (Completed-Contract Method). The completed-contract method is used because the contracts are short-term in duration or the Company is unable to make reasonably dependable estimates of the costs of the contracts.

Under the Completed-Contract Method, revenues and expenses are recognized when services have been performed and the projects have been completed. For projects, which have been completed but not yet billed to customers, revenue is recognized based on management's estimates of the amounts to be realized. When such projects are billed, any differences between the initial estimates and the actual amounts billed are recorded as increases or decreases to revenue. Expenses are recognized in the period in which the corresponding liability is incurred. Deferred revenue represents revenue that has been received or is receivable before it is earned, i.e., before the related services are performed. Deferred revenue amounted to \$78,869 and \$280,924 at March 31, 2004 and December 31, 2003, respectively.

The Company's revenue recognition policy for sale of network products is in compliance with Staff accounting bulletin (SAB) 104. 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. Generally, the Company extends credit to its customers and does not require collateral. The Company performs ongoing credit evaluations of its customers and historic credit losses have been within management's expectations.

#### Stock-based Compensation

-----

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation" amended by SFAS No 148, "Accounting for Stock Based Compensation

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Transition and Disclosure". SFAS No. 123 prescribes accounting and reporting standards for all stock-based compensation plans, including employee stock options, restricted stock, employee stock purchase plans and stock appreciation rights. SFAS No. 123 requires compensation expense to be recorded (i) using the new fair value method or (ii) using the existing accounting rules prescribed by Accounting Principles Board Opinion No. 25, "Accounting for stock issued to employees" (APB 25) and related interpretations with proforma disclosure of what net income and earnings per share would have been had the Company adopted the new fair value method. The Company uses the intrinsic value method prescribed by APB 25 and has opted for the disclosure provisions of SFAS No.123. No options were issued during the three months ended March 31, 2004 and 2003.

### Basic and Diluted Net Loss Per Share

-----

Net loss per share is calculated in accordance with the Statement of financial accounting standards No. 128 (SFAS No. 128), "Earnings per share". Basic net loss per share is based upon the weighted average number of common shares outstanding. Diluted net loss per share is based on the assumption that all dilutive convertible debentures and warrants were converted or exercised.

### 3. GOING CONCERN

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. However, the Company has accumulated deficit of \$6,012,962, is generating losses from operations, and has a negative working capital. The continuing losses have adversely affected the liquidity of the Company. The Company faces continuing significant business risks, including but, not limited to, its ability to maintain vendor and supplier relationships by making timely payments when due.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to raise additional capital, obtain financing and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Management has taken the following steps to revise its operating and financial requirements, which it believes are sufficient to provide the Company with the ability to continue as a going concern. Management devoted considerable effort towards obtaining additional equity financing through various private placements and evaluation of its distribution and marketing methods.

### 4 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses is comprised of the following:

|                       | March 31,<br>2004 | December 31,<br>2003 |
|-----------------------|-------------------|----------------------|
|                       | -----             | -----                |
| Accounts payable. . . | \$ 359,932        | \$ 655,334           |
| Payroll tax payable   | 155,805           | 122,749              |
| Litigation accrual.   | 409,459           | 430,000              |
| Accrued expenses. . . | 266,188           | 324,810              |
|                       | -----             | -----                |

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\$1,191,384    \$    1,532,893  
=====    =====

Payroll tax liabilities amounting to \$92,890 pertains to the calendar years from 1999 to 2001. The Company has agreed to pay the payroll tax liability in monthly installments of \$6,500 beginning March 15, 2003 until entire amount is paid in full. No payment was made during the three months ended March 31, 2004.

### 5. NOTES PAYABLE

The Company contracted a \$500,000 note payable in March 2004 in connection with the DMSI acquisition. This note bears interest at 5% and is payable in monthly installment of \$42,804, maturing in April 2005. The balance outstanding at March 31, 2004 is \$459,280.

The Company has an unsecured, non-interest bearing note for \$25,000 due November 2005. The Company also has a \$45,500 loan payable by March 31, 2005.

### 6. RELATED PARTY TRANSACTIONS

Related Party Notes Payable - Current  
-----

The Company has an unsecured, non-interest bearing notes for \$87,691 due June 15, 2004, due to an officer. An additional \$46,489 was contracted during the three month ended March 31, 2004. This additional advance is non-interest bearing and due July 30, 2004.

During the three months ended March 31, 2004, the Company repaid a \$76,000 due to the majority shareholder under a factoring agreement.

The Company also issued convertible debentures to the majority shareholder (see note 10).

### 7. INCOME TAXES

No provision was made for Federal income tax since the Company has significant net operating loss. Through December 31, 2003, the Company incurred net operating losses for tax purposes of approximately \$3,450,000. The net operating loss carry forwards may be used to reduce taxable income through the year 2022. The availability of the Company's net operating loss carryforwards are subject to limitation if there is a 50% or more positive change in the ownership of the Company's stock. A valuation allowance for 100% of the deferred taxes asset has been recorded due to the uncertainty of its realization.

### 8. COMMITMENTS & CONTINGENCIES

Litigation  
-----

In the year ended December 31, 2002, a suit was brought against the Company and its former management in the Superior Court of the State of California, County of San Francisco, by an individual alleging that the Company made false written and oral representations to induce the plaintiff to invest in the 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, an individual in the case also filed a cross-complaint in the action alleging theories of recovery against the Company and several other defendants and alleging fraud, breach of contract, misrepresentation, conversion and securities



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fraud against the Company. On November 21, 2003, the Company reached a settlement with the plaintiffs for \$160,000. The unpaid balance at March 31, 2004 was \$65,000.

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 the Company and its former management in favor of a vendor of the Company's former subsidiary, North Texas Circuit Board, or NTCB. On August 20, 2002 the Company sold NTCB to BC Electronics Inc. Pursuant to terms of the share purchase agreement, BC Electronics assumed all liabilities of NTCB. In December 2003 the Company filed a motion to vacate the judgment for lack of personal service. In February 2004, the Court ruled in favor of the Company and the judgment was vacated. Although the Company was the guarantor on the loan, NTCB is the principal debtor and (i) the Company 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 the Company believes may absolve it of liability. In February 2004, the plaintiff refiled the complaint. Although the Company will continue to oppose the action the Company and its current management have begun settlement discussions with the plaintiff.

On April 29, 2003 a suit was brought against the Company by an investor, alleging breach of contract pursuant to a settlement agreement executed between the Company and investor dated November 20, 2002. The suit alleges that the Company is delinquent in its repayment of a \$20,000 promissory note, of which \$5,000 has been repaid to date. Although management of the Company intends to oppose the claims, the Company's current management plans to begin settlement discussion with the plaintiff.

The Company may be involved in litigation, negotiation and settlement matters that may occur in the day-to-day operations of the Company and its subsidiary. Management does not believe implication of these litigations will, including those discussed above, have any other material impact on the Company's financial statements.

### 9. DUE TO FACTOR

On February 27, 2003, NIC entered into a factoring and security agreement to sell, transfer and assign certain accounts receivable to Orange Commercial Credit (OCC). OCC may on its sole discretion purchase any specific account. All accounts sold are with recourse on seller. All of the Company's property of NIC including accounts receivable, inventories, equipment and promissory notes are collateral under this agreement. 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. Due to factor amounted to \$10,759 and \$14,056 as of March 31, 2004 and December 31, 2003, respectively.

The balance of factored accounts receivable amounted to \$0 and \$205,929 as of March 31, 2004 and December 31, 2003, respectively

### 10. STOCKHOLDERS' EQUITY

#### Stock Split

-----

On January 23, 2003, the Company announced a 1 for 200 reverse stock split of its common stock. All fractional shares are rounded up and the authorized shares remain the same. The financial statements have been retroactively restated for the effects of stock splits.

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### Equity

-----

During the three months ended March 31, 2004, the Company issued common stock as follows:

130,549 shares of common stock valued at \$500,000 were issued for the acquisition of its subsidiary, Del Mar Systems International, Inc.

The Company issued 8,000 shares of common stock to a shareholder for conversion of a Promissory Note amounting to \$40,000.

The Company issued 138,106 shares of common stock for conversion of debentures and related accrued interest in the amount of to \$529,822. The Company issued 11,462 share of common stock for assumption of liabilities in the amount of \$32,552 by a related party, a major shareholder of the Company.

The Company issued 50,000 shares of common stock to a consultant for service rendered valued at \$195,000.

The Company issued 6,410 shares of common stock for a consideration of \$24,358.

### Convertible Debentures - Related Parties

-----

During the period ended March 31, 2004, the Company issued \$415,500 debentures to a major shareholder of the Company. These debentures carry an interest rate of 6% per annum, due in December 2008 and February and March of 2009. Holder is entitled to convert the face amount of this Debenture, plus accrued interest, anytime following the Closing Date, at the lesser of (i) 75% of the lowest closing bid price during the fifteen (15) trading days prior to the Conversion Date or (ii) 100% of the closing bid prices for the twenty (20) trading days immediately preceding the Closing Date ("Fixed Conversion Price"), each being referred to as the "Conversion Price". No fractional shares or scrip representing fractions of shares will be issued on conversion, but the number of shares issuable shall be rounded up or down, as the case may be, to the nearest whole share. In accordance with EITF 00-27 98-5, the beneficial conversion feature on the issuance of the convertible debenture for the quarter ended March 31, 2004 has been recorded in the amount of \$96,375. On March 31, 2004, the Company contracted an additional \$155,000 convertible debentures with a major shareholder of the Company, which debentures were not funded until April 1, 2004. The beneficial conversation feature has been recorded in the amount of \$38,750 during the three months ended March 31, 2004.

### 11. BASIC AND DILUTED NET LOSS PER SHARE

Basic and diluted net loss per share for the three-month period ended March 31, 2004 were determined by dividing net loss for the periods by the weighted average number of basic and diluted shares of common stock outstanding. Weighted average number of shares used to compute basic and diluted loss per share is the same since the effect of dilutive securities is anti-dilutive.

### 12. SUPPLEMENTAL DISCLOSURES OF CASH FLOWS

The Company paid interest of \$2,084 and \$0 during the three months ended March 31, 2004 and 2003, respectively. The Company paid income taxes of \$0 and \$0 during the three months ended March 31, 2004 and 2003, respectively.

### 13. ACQUISITION OF DEL MAR SYSTEMS INTERNATIONAL, INC.

Pursuant to an acquisition agreement, the Company acquired 100% of the

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outstanding shares of San Diego area-based telecommunication solutions firm Del Mar Systems International, Inc. on March 1, 2004 for \$1 million structured as a (i) \$500,000 12 month 5% Note consisting of 12 equal monthly installments of \$42,804 and (ii) \$500,000 in shares of the Company's restricted common stock. The pro forma information including the operations of DMSI is not available for the three months ended March 31, 2004, and for the year ended December 31, 2003, as they are in the process of being compiled.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

#### CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Report on Form 10-QSB contains forward-looking statements, including, without limitation, statements concerning our possible or assumed future results of operations. These statements are preceded by, followed by or include the words "believes," "could," "expects," "intends" "anticipates," or similar expressions. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons including: our ability to continue as a going concern, adverse economic changes affecting markets we serve; competition in our markets and industry segments; our timing and the profitability of entering new markets; greater than expected costs, customer acceptance of wireless networks or difficulties related to our integration of the businesses we may acquire and other risks and uncertainties as may be detailed from time to time in our public announcements and SEC filings. 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.

The discussion and financial statements contained herein are for the three months ended March 31, 2004 and March 31, 2003. The following discussion should be read in conjunction with our financial statements and the notes thereto included herewith.

THREE MONTHS PERIOD ENDED MARCH 31, 2004 AS COMPARED TO THREE MONTHS ENDED MARCH 31, 2003

#### RESULTS OF OPERATIONS

-----

We generated consolidated revenues of \$510,522 for the three month period ended March 31, 2004, as compared to \$442,463 for the three month period ended March 31, 2003. The increase in revenues for this quarter when compared to the same quarter last year is due to the increase in marketing expenditures, increase in our sales force and the acquisition of Del Mar Systems which contributed only nominally to our revenue for the quarter.

#### NET REVENUES

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We generated net revenues of \$190,302 for the three month period ended March 31, 2004, as compared to \$256,104 for the three month period ended March 31, 2003. The decrease in net revenues for this quarter when compared to the same quarter last year is due to an increase in our Cost Of Revenue and the acquisition of NIC.

#### COST OF REVENUE

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We incurred Cost of Revenue of \$320,220 for the three month period ended March 31, 2004, as compared to \$186,359 for the three month period ended March 31, 2003. Our Cost of Revenue increase is due to an increase in the expansion of

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locations from the prior quarter which were expensed in the period ending March 31, 2004.

### GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

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We incurred costs of \$584,367 for the three month period ended March 31, 2004 as compared to \$265,019 for the three month period ended March 31, 2003, respectively. General, Administrative and Selling Expenses in the current period increased is due to the increase in professional and consulting fees and headcount including branch sales managers, VP Marketing & Sales and direct sales force.

### NET LOSS BEFORE INCOME TAXES

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We had a loss before taxes of (\$546,122) for the three month period ended March 31, 2004 as compared to a loss of (\$9,162) for the three month period ended March 31, 2003. The increase is due to and increase in our expenses including marketing expenses, travel and headcount including branch sales managers, VP Marketing & Sales and direct sales force.

### NET LOSS

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We had a loss of (\$546,122) for the three month period ended March 31, 2004 as compared to a loss of (\$9,162) for the three month period ended March 31, 2003. The increase in net loss is due to the factors described above.

### BASIC AND DILUTED LOSS PER SHARE

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Our basic and diluted loss per share for the three month period ended March 31, 2004 was (\$0.04) as compared to (\$0.00) for the period ended March 31, 2003.

### LIQUIDITY AND CAPITAL RESOURCES

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As of March 31, 2004, our Current Assets were \$283,894 and Current Liabilities were \$1,959,024. Cash and cash equivalents were \$0. Our Stockholder's Deficit at March 31, 2004 was (\$1,613,982).

We had a net usage of cash due to operating activities for the three month period ended March 31, 2004 of \$(324,910). We had net cash provided by financing activities of 324,243 for the three month period ended March 31, 2004. We had \$426,989 from borrowings in the period ended March 31, 2004.

### FINANCING ACTIVITIES

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On February 27, 2004, we issued convertible debentures of \$260,000 to Dutchess Private Equities Fund, LP. The holders of the debentures are entitled to convert the face amount of these 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 (certificate of designation says at the holder's option, and defined holder as Dutchess)option, at the time of each conversion. The debentures are payable on February 27, 2009 The convertible debentures are convertible into shares of our common stock.

On March 1, 2004, we issued convertible debentures of \$155,500 to Dutchess Private Equities Fund, LP. The holders of the debentures are entitled to convert the face amount of these 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

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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 March 1, 2008. The convertible debentures are convertible into shares of our common stock.

On March 1, 2004, we entered into a Promissory Note Agreement for \$500,000 with Stephen Pearson, for the acquisition of Del Mar Systems, Inc. The note bears 5% interest per annum and we make payments of \$41,667 per month toward the balance.

On March 31, 2004, we issued convertible debentures of \$155,000 to Dutchess Private Equities Fund, LP. The holders of the debentures are entitled to convert the face amount of these 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 March 1, 2008. The convertible debentures are convertible into shares of our common stock.

On February 23, 2004, we issued a note in the amount of \$46,489. The note bears no interest rate and is payable on July 30, 2004

### Subsidiaries

As of March 31, 2004, we had two wholly-owned subsidiaries, Network Installation Corp. and Del Mar Systems International, Inc.

### ITEM 3. CONTROLS AND PROCEDURES

We have established disclosure controls and procedures to ensure that material information relating to us, including our subsidiaries, is made known to the officers who certify our financial reports and to other members of senior management and the Board of Directors.

Evaluation of disclosure controls and procedures. Our management, with the participation of our chief executive officer and interim chief financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-QSB. Based on this evaluation, our chief executive officer and interim chief financial officer concluded that these disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the requisite time periods.

Changes in internal controls. There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II-OTHER INFORMATION

### ITEM 1. 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

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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 2. CHANGES IN SECURITIES

#### (c) Recent Sales of Unregistered Securities

On January 5, 2004 we issued 11,462 share of common stock for assumption of liabilities in the amount of \$32,552 by Dutchess Private Equities Fund, LP, one of our major shareholders.

On February 25, 2004, we issued 50,000 shares of common stock to a consultant for service rendered valued at \$195,000.

On February 27, 2004, we issued convertible debentures of \$260,000 to Dutchess Private Equities Fund, LP. The holders of the debentures are entitled to convert the face amount of these 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 (certificate of designation says at the holder's option, and defined holder as Dutchess) option, at the time of each conversion. The debentures are payable on February 27, 2009. The convertible debentures are convertible into shares of our common stock.

On March 1, 2004, we issued convertible debentures of \$155,500 to Dutchess Private Equities Fund, LP. The holders of the debentures are entitled to convert the face amount of these 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

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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 March 1, 2008. The convertible debentures are convertible into shares of our common stock.

On March 3, 2004, we issued the following shares of common stock to those individuals listed below for conversion of debentures and related accrued interest in the amount of to \$529,822.

|                                       |        |
|---------------------------------------|--------|
| Andrew Smith                          | 3,606  |
| Global Coast Insurance Premium, Inc.  | 3,606  |
| Wexford Clearing FBO Charles Mangione | 27,404 |
| Wexford Clearing FBO Craig Wexler     | 5,769  |
| David Wykoff                          | 51,923 |
| Wexford Clearing FBO Laurence Wexler  | 8,654  |
| Carl Hoehner                          | 2,884  |
| Richard Blue                          | 2,884  |
| Seymour Niesen                        | 1,378  |
| Jon Cummings                          | 1,859  |
| Mike Dahlquist                        | 2,884  |
| Richard Kim Dredge                    | 1,859  |
| John Bolliger                         | 2,884  |
| Kenneth Rogers                        | 5,769  |
| Denise & Vernon Koto                  | 5,769  |
| Ralph Glaseal                         | 5,769  |
| Massis Davidian                       | 3,205  |

On March 9, 2004, we issued 6,410 shares of common stock for a consideration of \$24,358 to Daniel Grillo.

On March 19, 2004, we issued 130,549 shares of common stock valued at \$500,000 as part of the acquisition of Del Mar Systems International, Inc.

On March 25, 2004 we issued 8,000 shares of common stock to John Wykoff for conversion of a Promissory Note amounting to \$40,000.

On March 31, 2004, we contracted the issuance for convertible debentures of \$155,000 to Dutchess Private Equities Fund, LP. The holders of the debentures are entitled to convert the face amount of these 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 March 1, 2008. The convertible debentures are convertible into shares of our common stock. The debentures were funded on April 1, 2004.

The securities issued in the foregoing transactions were offered and sold in reliance upon exemptions from the Securities Act of 1933 ("Securities Act") registration requirements set forth in Sections 3(b) and 4(2) of the Securities Act, and any regulations promulgated thereunder, relating to sales by an issuer not involving any public offering. No underwriters were involved in the foregoing sales of securities.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NOT APPLICABLE.

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

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NOT APPLICABLE.

### ITEM 5. OTHER INFORMATION.

In addition to our acquisition of Del Mar Systems, during the period ending March 31, 2004, we opened additional sales and service locations in Los Angeles, CA and Las Vegas, NV. The leases for both locations are renewable monthly at approximately \$1,500 per month. During this period we also hired a VP of Marketing & Sales responsible for increasing and managing our direct sales force.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) Exhibits

| Number | Description |
|--------|-------------|
|--------|-------------|

|     |  |
|-----|--|
| 3.1 | Articles of Incorporation filed as Exhibit 3.1 to the Company's Registration Statement on Form 10SB filed on March 5th, 1999 and incorporated herein by reference. |
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|     |  |
|-----|--|
| 3.2 | Certificate of Amendment to Article of Incorporation filed as Exhibit 3.3 to the Company's Form 10-KSB on April 15, 2003 and incorporated herein by reference. |
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|     |  |
|-----|--|
| 3.3 | By-laws filed as Exhibit 3.2 to the Company's Registration Statement on Form 10SB on March 5th, 1999 and incorporated herein by reference. |
|-----|--|

|     |   |
|-----|---|
| 3.4 | Certificate of Amendment to the Certificate of Incorporation of Flexxtech Corporation filed as Exhibit 4.1 to the Company's Form 10-QSB dated November 13, 2003 and incorporated herein by reference. |
|-----|---|

|     |  |
|-----|--|
| 4.1 | Convertible Debenture Exchange Agreement/Conversion of Notes between the Company and Dutchess Private Equities Fund dated February 27, 2004; Debenture Exchange Agreement/Note Conversion between the Company and the Holder; Certificate of Designation between the Company and Dutchess Private Equities Fund; Notice of Conversion. (previously filed as Exhibit 4.1 to the Registrant's Form 10-QSB filed on May 24, 2004 and incorporated herein by reference). |
|-----|--|

|     |   |
|-----|---|
| 4.2 | Form of Debenture between the Company and Dutchess Private Equities Fund dated March 1, 2004; Notice of Conversion. (previously filed as Exhibit 4.2 to the Registrant's Form 10-QSB filed on May 24, 2004 and incorporated herein by reference). |
|-----|---|

|     |  |
|-----|--|
| 4.3 | Form of Debenture between the Company and Dutchess Private Equities Fund dated March 31, 2004; Notice of Conversion. (previously filed as Exhibit 4.3 to the Registrant's Form 10-QSB filed on May 24, 2004 and incorporated herein by reference). |
|-----|--|

|      |   |
|------|---|
| 10.1 | Consulting Agreement between the Company and Dutchess Advisors, LLC dated April 1, 2003 filed as Exhibit 10.3 to the Company's Form 8-K on April 23, 2003 and incorporated herein by reference. |
|------|---|

|      |  |
|------|--|
| 10.2 | Reseller Agreement between Vivato, Inc. and the Company dated August 14, 2002 filed as Exhibit 10.1 to the Company's Form 10-QSB dated November 13, 2003 and incorporated herein by reference. |
|------|--|

|      |   |
|------|---|
| 10.3 | Motorola Reseller Agreement between Motorola, Inc. and the Company dated August 18, 2003 filed as Exhibit 10.2 to the Company's Form 10-QSB dated November 13, 2003 and incorporated herein by reference. |
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|      |  |
|------|--|
| 10.4 | Short Term Rental Agreement between Vidcon Solutions Group, Inc. and the |
|------|--|



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Company dated February 5, 2003 filed as Exhibit 10.3 to the Company's Form 10-QSB dated November 13, 2003 and incorporated herein by reference.

10.5 Restructuring and Release Agreement Dutchess Advisors LLC, Dutchess Capital Management LLC, Michael Novielli, Western Cottonwood Corporation, Atlantis Partners, Inc., John Freeland, Greg Mardock, VLK Capital Corp. and the Company dated April 9, 2003 filed as Exhibit 10.2 to the Company's Form 8-K filed on April 23, 2003 and incorporated herein by reference.

10.6 Stock Purchase Agreement between Michael Cummings and the Company dated May 16, 2003 filed as Exhibit 2.1 to the Company's Form 8-K filed on June 13, 2003 and incorporated herein by reference.

10.10 Agreement between the Company and Aruba Wireless Networks, Inc. dated January 29, 2004 filed as Exhibit 10.10 to the Company's Form SB-2 on February 9, 2004 and incorporated herein by reference.

31.1 Section 302 Certification of the Chief Executive Officer.

31.2 Section 302 Certification of the Interim Chief Financial Officer.

32.1 Section 906 Certification of the Chief Executive Officer.

32.2 Section 906 Certification of the Interim Chief Financial Officer.

(b) Reports Filed on Form 8-K

On March 19, 2004, the registrant filed an 8-K/A pursuant to the acquisition of Network Installation Corporation that contained financial statements and pro forma financial information.

On April 2, 2004, the registrant filed an 8-K pursuant to the issuance of a press release to report its financial results for the quarter ended December 31, 2003.

On May 4, 2004, the registrant filed an 8-K pursuant to a change in the certifying accountant from Kabani & Company to Rose, Synder & Jacobs.

On May 4, 2004, the registrant filed an 8-K pursuant to the acquisition of Del Mar Systems International.

SIGNATURE

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

NETWORK INSTALLATION CORPORATION  
(Registrant)

Date: July 12, 2004

By: /s/ Michael Cummings  
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Michael Cummings  
President & Chief Executive Officer

By: /s/ Michael Novielli  
-----  
Michael Novielli  
Interim Chief Financial Officer

