

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

ERESOURCE CAPITAL GROUP INC
Form 10KSB40/A
June 18, 2001

1

U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB/A
Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act
of 1934
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

ERESOURCE CAPITAL GROUP, INC.
(Formerly known as flightserv.com)
(Exact name of registrant as specified in its charter)

DELAWARE
(State of Incorporation)

1-8662
(Commission File Number)

23-2265039
(IRS Employer
Identification No.)

3343 PEACHTREE ROAD NE
SUITE 530
ATLANTA, GA 30326
(404) 869-2599

(Address of registrant's principal executive offices
including zip code and telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Securities Exchange Act
of 1934:

TITLE OF CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value \$0.04	American Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Securities
Exchange Act of 1934: NONE

Check whether the Registrant (1) has filed all reports required to be
filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the
preceding twelve months (or for such shorter period that the Registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days. Yes No

Check if disclosure of delinquent filers pursuant to Item 405 of
Regulation S-B is not contained herein, and will not be contained, to the best
of Registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of the Form 10-KSB or any amendment to
this Form 10-KSB.

The Registrant's revenues for its most recent fiscal year (12 months
ending June 30, 2000): \$1,118,478.

The aggregate market value of the voting stock held by non-affiliates
as of September 27, 2000 was \$49,392,000.

Check whether the issuer filed all reports required to be filed by
Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities
under a plan confirmed by a court. Yes No

The number of shares outstanding of the Registrant's Common Stock as of
September 27, 2000: 51,088,654

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

Transitional Small Business Disclosure Format: Yes [] No [X]

A-1

2

This Amendment No. 1 on Form 10-KSB/A amends and restates in its entirety the text of Items 7. and 12. of the Annual Report on Form 10-KSB for the year ended June 30, 2000 filed on September 28, 2000 by the registrant (the "Company"). No other changes have been made to the report on Form 10-KSB as originally filed.

Statements in this report about anticipated or expected future revenue or growth or expressions of future goals or objectives are forward-looking statements within the meaning of Section 21E of the Securities Act of 1934, as amended. All forwarding-looking statements in this release are based upon information available to the Company on the date of this release. Any forward-looking statements involve risks and uncertainties, including those risks described in the Company's filings with the Securities and Exchange Commission, that could cause actual events or results to differ materially from the events or results described in the forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on these forward-looking statements.

ITEM 7. FINANCIAL STATEMENTS

The following financial statements are contained in this Item 7:

Reports of Independent Auditors.
Consolidated Balance Sheets as of June 30, 2000 and 1999.
Consolidated Statements of Operations for the year ended June 30, 2000 and 1999.
Consolidated Statements of Changes in Shareholders' Equity for the years ended June 30, 2000 and 1999.
Consolidated Statements of Cash Flows for the years ended June 30, 2000 and 1999.
Notes to the Consolidated Financial Statements.

A-2

3

REPORT OF INDEPENDENT AUDITORS

Board of Directors
flightserv.com and Subsidiaries

We have audited the accompanying consolidated balance sheet of flightserv.com and Subsidiaries as of June 30, 2000 and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of flightserv.com and Subsidiaries for the year ended June 30, 1999 were audited by other auditors whose report dated September 24, 1999 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of flightserv.com and Subsidiaries at June 30, 2000, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Atlanta, Georgia
September 21, 2000,
except for the first paragraph of Note 5,
as to which the date is September 28, 2000

A-3

4

Report of Independent Certified Public Accountants
Board of Directors
flightserv.com and Subsidiaries

We have audited the accompanying consolidated balance sheet of flightserv.com (formerly Proactive Technologies, Inc.) and Subsidiaries as of June 30, 1999 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of flightserv.com and Subsidiaries as of June 30, 1999 and the consolidated results of their operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

/s/ JONES AND KOLB

Atlanta, Georgia
September 24, 1999

A-4

5

FLIGHTSERV.COM AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

		June 30,
		2000

Cash and cash equivalents	\$	526,657
Accounts and notes receivable		55,995
Prepaid expenses - compensation		4,615,862
Prepaid expenses - other		119,912

Total current assets		5,318,426
Deferred costs and other assets		924,743
Predevelopment costs		1,164,043
Property and equipment, net		9,561,842

Total assets	\$	16,969,054
		=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Notes payable - current portion	\$	128,683
Accounts payable and accrued expenses		839,146

Total current liabilities		967,829
Net liabilities of discontinued operations		5,852
Notes payable		7,582,707
Accrued interest payable		848,424
Commitments and contingent liabilities		
Shareholders' equity:		
Common stock, \$.04 par value, 60,000,000 shares authorized, 33,554,584 and 31,593,235 issued, respectively		1,342,183
Additional paid-in capital		78,147,672
Accumulated deficit		(71,788,106)
Treasury stock - at cost (435,930 and 1,050,000 shares, respectively)		(137,507)

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

Total shareholders' equity	7,564,242
Total liabilities and shareholders' equity	\$ 16,969,054

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

A-5

6

FLIGHTSERV.COM AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended June
	2000
Revenues:	
Sales - private aviation	\$ 10,040
Lease income - commercial real estate	1,108,438
	1,118,478
Cost of sales - private aviation	93,561
	1,024,917
Gross profit	
Selling, general and administrative expense - compensation related to issuance of stock options and warrants	48,996,238
Selling, general and administrative expenses - other	7,023,055
Depreciation and amortization	466,482
Interest expense, net	862,975
Loss on investments	1,011,716
	(57,335,549)
Loss before discontinued operations	
Discontinued operations:	
Loss from discontinued operations	--
Loss on disposal of discontinued operations	(600,000)
	\$ (57,935,549)
Net loss	
Basic and diluted loss per share:	
Loss per share before discontinued operations	\$ (1.81)
Discontinued operations	(0.02)

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

Net loss	\$ (1.83)	\$
	=====	=====
Weighted average shares outstanding used in calculating basic and diluted net loss per share	31,596,541	=====

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

A-6

7

FLIGHTSERV.COM AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

	Common Stock		Additional	Accumulated	Treasury
	Shares	Amount	Paid-In Capital	Deficit	Stock
	-----	-----	-----	-----	-----
Balance at June 30, 1998	17,092,657	\$ 683,706	\$12,657,420	\$ 2,320,453	\$ (1,95
Net loss June 30, 1999	--	--	--	(16,173,010)	
Issuance of Common Stock	5,000,000	200,000	1,800,000	--	
Stock issued for services	2,503,778	100,151	1,142,430	--	
Purchase of businesses	6,700,000	268,000	1,407,000	--	
Issuance of options and warrants	--	--	1,736,048	--	
Sale of real estate	--	--	--	--	(2,24
Issuance of treasury stock	--	--	1,676,200	--	1,77
Issuance of treasury stock for services	--	--	110,000	--	13
Cancellation of notes receivable	--	--	(2,427,601)	--	1,95
Reinstatement of cancelled shares	296,800	11,872	(11,872)	--	
	-----	-----	-----	-----	-----
Balance at June 30, 1999	31,593,235	1,263,729	18,089,625	(13,852,557)	(33
	-----	-----	-----	-----	-----
Net loss June 30, 2000	--	--	--	(57,935,549)	
Issuance of Common Stock	825,354	33,014	4,559,219	--	
Exercise of options and warrants	1,135,995	45,440	(45,440)	--	
Issuance of treasury stock	--	--	1,184,495	--	6
Legal settlement	--	--	67,334	--	12
Issuance of options and warrants	--	--	54,292,439	--	
	-----	-----	-----	-----	-----
Balance at June 30, 2000	33,554,584	\$ 1,342,183	\$ 78,147,672	\$ (71,788,106)	\$ (13
	=====	=====	=====	=====	=====

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

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

A-7

8

FLIGHTSERV.COM AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended
	2000
Cash flows used by operating activities:	
Loss before discontinued operations	\$ (57,335,549)
Adjustments to reconcile net loss to net cash used by operating activities:	
Compensation expense related to issuance of options and warrants	48,996,238
Depreciation and amortization	466,482
Deferred debt amortization interest	291,825
Issuance of common stock for services	--
Changes in operating assets and liabilities:	
Accounts and notes receivables	419,119
Prepaid expenses	(115,481)
Deferred costs and other assets	(85,050)
Accounts payable and accrued expenses	420,965
	(6,941,451)
Cash used by operating activities before discontinued operations	(6,941,451)

Discontinued operations, net	129,530

Net cash used by operating activities	(6,811,921)

Cash flows from investing activities:	
Predevelopment costs	(78,995)
Purchase of property and equipment	(1,160,558)
Investing activities of discontinued operations, net	1,291,166

Net cash provided (used) by investing activities	51,613

Cash flows from financing activities:	
Principal debt payments	(118,821)
Proceeds from issuance of common stock	5,844,733
Financing activities of discontinued operations, net	(1,925,168)

Net cash provided by financing activities	3,800,744

Net (decrease) increase in cash and cash equivalents	(2,959,564)

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

Cash and cash equivalents at beginning of year	3,486,221 -----
Cash and cash equivalents at end of year	\$ 526,657 =====
Supplemental disclosures of cash flow information:	
Cash paid during period for:	
Interest	\$ 571,150 =====
Income Taxes	\$ -- =====
Schedule of non-cash transactions:	
Sale of real estate in exchange for note receivable	\$ 3,267,570 =====
Issuance of compensatory stock purchase warrants in connection with strategic vendor alliance	\$ 5,389,686 =====

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

A-8

9

FLIGHTSERV.COM AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements include the operations of flightserv.com ("FSW") and its subsidiaries (collectively "Company"). In June 1999 FSW changed its name from Proactive Technologies, Inc. to reflect the new business direction of the Company. All significant intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the fiscal 2000 presentation.

Cash and Cash Equivalents

The Company classifies as cash equivalents any investments which can be readily converted to cash and have an original maturity of less than three months. At times cash and cash equivalent balances at a limited number of banks and financial institutions may exceed insurable amounts. The Company believes it mitigates its risks by depositing cash or investing in cash equivalents in major financial institutions.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line basis over the assets' estimated useful lives. Expenditures for maintenance and repairs are expensed as incurred, and expenditures for improvements which extend the useful life or add value to the asset are capitalized.

Sales and disposals of assets are recorded by removing the related cost

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

and accumulated depreciation amounts with any resulting gain or loss reflected in income.

The carrying value of property and equipment and predevelopment costs is reviewed for impairment whenever events or changes in circumstances indicate that such amounts may not be recoverable. If such an event occurred, the Company would prepare projections of future results of operations for the remaining useful lives of such assets. If such projections indicated that the expected future net cash flows (undiscounted and without interest) would become less than the carrying amounts of the property and equipment and the predevelopment costs, the Company would record an impairment loss in the period such determination is made.

Revenue Recognition

Revenue related to the Company's private aviation travel services consists of ticket sales and is recognized upon completion of the related flight. Lease income is recognized monthly on the accrual basis in connection with the Company's shopping center investments.

Net Loss Per Share

The Company computes net loss per share in accordance with SFAS No. 128, "Earnings per Share" which requires dual presentations of basic earnings per share ("EPS") and diluted EPS.

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding and potentially dilutive shares outstanding during the period. Options and warrants to purchase 22,445,120 and 7,200,000 shares of Common Stock were outstanding at June 30, 2000, and 1999, respectively. Such outstanding options and warrants could potentially dilute earnings per share in the future but have not been included in the computation of diluted net loss per share in 2000 and 1999 as the impact would have been antidilutive.

A-9

10

Income Taxes

The Company accounts for income taxes in accordance with the liability method as provided under SFAS No. 109, "Accounting for Income Taxes." Accordingly, deferred income taxes are recognized for the tax consequences of differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The measurement of deferred tax assets is reduced, if necessary, by the amount of any benefits that, based on available evidence, are not expected to be realized.

Use of Estimates

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

Recent Accounting Pronouncement

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Investments and Hedging Activities," ("SFAS 133") as amended, which establishes a new model for accounting for derivatives and hedging activities and supersedes several existing standards. SFAS 133, as amended by SFAS 137, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company does not expect that the adoption of SFAS 133 will have a material impact on its financial statements.

NOTE 2. CONTINUING OPERATIONS

Private Aviation Travel Services

In fiscal 2000 and 1999, FSW developed an Internet-based, private aviation travel services business including an Internet Web site. The Company launched its Web site in March 2000 and commenced private jet charter flights for its customers on April 17, 2000. Through June 30, 2000 FSW generated \$10,040 in revenue from its private seats travel services operation. Cost of sales exceeded this revenue due to operating charter flights below breakeven capacity and cancellation fees to reserve aircraft for the startup operation.

In fiscal 2000 and 1999, FSW incurred approximately \$6,677,627 and \$850,000 respectively, of general and administrative expense in connection with development and implementation of this new business. The expense includes aviation industry, Internet operations, Web site development, marketing, and business plan consulting and other professional services. In addition FSW issued warrants to purchase its Common Stock for strategic vendor alliances and to certain investors related to the private aviation travel services business.

Also in fiscal 2000 the Company recognized a \$1,011,716 loss in connection with the write-off of capitalized costs related to certain corporate office space deposits and advances to a company which had intended to acquire aircraft for use in FSW's the private charter aviation services business.

At June 30, 2000 and 1999, FSW had capitalized \$1,043,900 and \$88,500, respectively, in Web site development costs. Web site development costs are being amortized over a three year period. Amortization for the year ended June 30, 2000 was \$115,988.

Commercial Real Estate Investments

In January 1999, the Company purchased from the current Chairman and his children an entity that owns two shopping center properties in the Atlanta, Georgia area in exchange for 3,100,000 shares of the Company's Common Stock which was valued at \$775,000 based on the then current market value of the Common Stock.

Stratos Inns Concept

In fiscal 1999, the Company purchased PDK Properties, Inc. ("PDK") from a trust of which the Company's former President is trustee in exchange for 3,600,000 shares of Common Stock, which were valued at \$900,000 based on the then current market value of

A-10

11

the Common Stock. PDK holds a 30-year ground lease at a regional airport in Dekalb County, Georgia and owns Stratos Inns, a hotel and hospitality business concept. The lease provides for a 54-month development period and a 30-year lease term after a hotel is constructed and opened.

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

September 1999, the Company reacquired certain real estate, which was part of these transactions, for approximately \$583,000.

In fiscal 1999, the Company sold certain residential real estate holdings with an aggregate book value of \$2,522,000 to a former company director and a former officer in exchange for the return of 1,000,000 shares of the Company's Common Stock with a then market value of \$313,000, or \$0.313 per share which represents the market price of the Company's Common Stock when the parties entered into their agreement. Also, the buyers assumed approximately \$760,000 of mortgage indebtedness on the properties. The Company recorded a pre-tax loss on this transaction of approximately \$1,449,000. Also in fiscal 1999, the Company sold residential real estate with a book value of \$1,674,000 to an entity in which a former Company director held a controlling interest for \$610,000, consisting of \$125,000 of cash and the assumption by the buyer of approximately \$485,000 of mortgage indebtedness. The Company recorded a pre-tax loss of \$1,064,000 on the transaction.

In July 1999, the Company sold certain undeveloped land with a book value of approximately \$1,200,000 in exchange for approximately \$768,000 of cash and the assumption by the buyer of approximately \$799,000 of mortgage indebtedness. In fiscal 1999, the Company recorded a gain of approximately \$367,000 on the transaction.

In September 1999, the Company transferred, pursuant to a contractual arrangement, the remaining discontinued operations real estate assets with an aggregate book value of approximately \$3,700,000 to an entity, in which a former chief executive officer was an affiliate. The Company received a note for \$1,000,000 and the buyer assumed mortgage indebtedness of approximately \$2,200,000. The Company recorded a loss of approximately \$500,000 on the transaction in 1999. The Company is contingently liable on indebtedness aggregating \$2,200,000 which is due to mortgageholders. In the event the entity is not able to satisfy the \$2,200,000 of mortgage notes, the Company would be obligated to satisfy such obligations and would have the right to foreclose on the land. In June 2000, the Company determined that it was unlikely that the buyer would be able to complete the terms of the contract. As a result, the Company recorded a \$900,000 loss on disposal of discontinued operations to reflect the estimated net realizable value of this property.

The \$600,000 loss on disposal of discontinued operations in 2000 consists of a write down in the valuation of real estate inventory (\$900,000) partially offset by a reduction (\$300,000) in the estimated expenses to dispose of discontinued operation assets.

Following is a summary of the Net Liabilities of Discontinued Operations at June 30:

	2000	1999
	-----	-----
Real estate inventories	\$ 2,863,817	\$ 4,095,
Investments in real estate equity securities	--	676,
Notes payable	(2,602,000)	(4,449,
Reserve for estimated expenses and other liabilities	(267,669)	(426,
	-----	-----
	\$ (5,852)	\$ (104,
	=====	=====

The Company expects to disburse or resolve the estimated expenses and liabilities when the real estate and other assets and liabilities of the

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

discontinued operations are liquidated over the next twelve months, except for estimated income taxes which may not be resolved during the same time period due to an ongoing Internal Revenue Service examination.

A-11

12

NOTE 4. PROPERTY AND EQUIPMENT

At June 30, 2000 and 1999 property and equipment consists of the following:

	2000	1999
	-----	-----
Land	\$ 739,650	\$ 739,650
Buildings and improvements - shopping centers	8,120,259	8,100,329
Leasehold improvements	25,069	4,995
Web site development costs	1,043,901	88,500
Furniture, fixtures and equipment	179,946	21,825
	-----	-----
	10,108,825	8,955,301
Accumulated depreciation	(546,983)	(101,874)
	-----	-----
Total net	\$ 9,561,842	\$ 8,853,427
	=====	=====

NOTE 5. NOTES PAYABLE

Notes payable as of June 30, 2000 and 1999 consisted of mortgage notes payable to an insurance company with interest rates of 8%. Interest and principal on the mortgage notes are due monthly based on a 25 year amortization with balloon principal payments due on October 1, 2000. In September 2000, the Company received notice from the creditor that the balloon principal payments are extended to October 1, 2001. Accordingly, the debt is presented as noncurrent in the June 30, 2000 balance sheet. The notes are collateralized by shopping center properties.

The mortgage financing on the shopping center properties includes additional interest agreements which provides that the lender receive 50% of the net cash flows on a quarterly basis and the excess of appraised value over the mortgage loan balance at the time of any sale of the property or maturity of the mortgage. The Company has recorded deferred discount and accrued interest payable to reflect the lenders allocation of the excess appraisal value over the loan. At June 30, 2000 and 1999 the deferred debt discount cost, net of amortization, is \$205,815 and \$430,431, respectively. In fiscal 2000 and 1999, the Company recognized \$912,118 and \$334,226, respectively, of interest expense on the mortgage notes including \$291,825 and \$134,023 in fiscal 2000 and 1999, respectively, to reflect the lenders allocation of additional interest. At June 30, 2000 and 1999, the accrued additional interest liability was \$738,348 and \$731,216 respectively.

Based on the relatively short maturities of fixed rate debt, and the market rates of interest such debt bears, management believes the aggregate carrying amount of its fixed rate debt approximates such debt's fair value. Interest rates on variable rate debt fluctuate with market conditions.

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

NOTE 6. INCOME TAXES

Deferred income tax assets and (liabilities) consisted of the following:

	June
	----- 2000 -----
Deferred income tax assets:	
Reserve for discontinued operations	\$ 442,856
Warrants and stock options	19,609,571
Deferred compensation	36,460
Net operating loss carryforwards	8,951,701

Total deferred income tax assets	29,040,588
Deferred income tax liabilities - property and equipment	(407,121)

Net deferred income tax assets	28,633,467
Deferred income tax asset valuation allowance	(28,633,467)

Net deferred income tax assets	\$ --
	=====

As of June 30, 2000 the Company had approximately \$22,953,080 of net operating loss carry forwards (NOL's) for federal income tax purposes, which expire between 2019 through 2020. A deferred income tax asset valuation allowance has been established against

A-12

13

all deferred income tax assets as management is not certain that the deferred income tax assets will be realized. In addition, due to substantial limitations placed on the utilization of net operating losses following a change in control, utilization of such NOL's could be limited.

The Company's 1996 and one of its subsidiary's 1994 and 1995 tax returns are currently under examination by the Internal Revenue Service, but no reports have yet been issued.

NOTE 7. COMMON STOCK AND PAID IN CAPITAL

On January 18, 2000, the Company entered into Common Stock purchase agreements (the "Purchase Agreements") with Acqua-Wellington Value Fund, Ltd., ("AWVF") and Four Corners Capital, LLC, ("Four Corners") which provided for a private placement of restricted Common Stock and warrants to purchase Common Stock. On January 18, 2000, Four Corners purchased 165,070 shares of restricted Common Stock for an aggregate purchase price of \$1,000,000. In addition, the Company issued to Four Corners warrants to purchase up to 1,238,030 and 1,485,228 shares of Common Stock at initial exercise prices of \$9.77 and \$6.06 per share, respectively, subject to adjustments.

Under the terms of the AWVF Purchase Agreement, AWVF agreed to purchase

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

from the Company for aggregate consideration of \$10,000,000 (i) 1,650,709 shares of restricted Common Stock and (ii) warrants to purchase up to 3,260,151 shares of restricted Common Stock at a future date. The AWVF Purchase Agreement required AWVF to complete the acquisition of the Common Stock and warrants in two equal tranches. The first tranche for \$5,000,000 closed simultaneously with the execution of the AWVF Purchase Agreement. The second tranche was to have closed no later than February 29, 2000. AWVF has failed to close the second tranche as required by the AWVF Purchase Agreement. At the closing of the first tranche, AWVF purchased from the Company, for an aggregate purchase price equal to \$5,000,000, 825,354 shares of restricted Common Stock and warrants to purchase up to 1,052,327 and 577,748 shares of Common Stock at initial exercise prices of \$9.77 and \$6.06 per share, respectively, subject to adjustment. The Company is evaluating the options available to it in connection with AWVF's breach of provisions of the Purchase Agreement.

In connection with the Purchase Agreements, the Company entered into Registration Rights Agreements. As a result, of AWVF's breach of the AWVF Purchase Agreement by failing to close the second tranche, no registration statement has been filed.

In December 1999, the Company issued 188,976 shares of restricted Common Stock in connection with the exercise of nonqualified stock options previously issued for director services.

In December 1999, the Company issued 400,000 shares of restricted Common Stock from treasury stock to certain parties including a former director and former officer of the Company. The shares were issued pursuant to an agreement resolving outstanding issues related to certain prior transactions involving the Company's discontinued real estate operations, which reduced the related asset valuations by \$193,000. In connection therewith, the Company entered into a Registration Rights Agreement providing the holders of such shares with certain registration rights.

In March 2000, the Company sold 50,000 shares of restricted Common Stock from treasury for \$312,500 cash in a private placement transaction to a third party. In March 2000, FSW issued 947,019 shares of Common Stock in connection with the exercise of warrants.

On or about January 1999, the Wendell M. Starke Trust (the "Starke Trust") purchased 2,500,000 shares of restricted Common Stock for \$1,000,000 and on June 29, 1999 the Starke Trust purchased another 2,300,000 shares for \$1,725,000. In connection with the sale of the shares, the Company entered into a Registration Rights Agreement with the Starke Trust.

On or about March 18, 1999, the Godley Morris Group, LLC (the "GMG") purchased 2,500,000 shares of restricted Common Stock for \$1,000,000 and on June 29, 1999 GMG purchased another 2,300,000 shares for \$1,725,000. In connection with the sale of the shares, the Company entered into a Registration Rights Agreement with the GMG.

During fiscal 1999, the Company issued 2,853,778 shares of Common Stock for services rendered and recognized \$1,487,582 of compensation expense in connection with these transactions.

A-13

14

NOTE 8. STOCK OPTIONS AND WARRANTS

In fiscal 1999, the Company issued nonqualified stock options to purchase 2,000,000 shares of its Common Stock at an exercise price of \$0.44 per

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

share to directors and certain officers. These options were granted at an exercise price equal to the fair value on the date of the grant. During fiscal 2000, options to purchase 200,000 shares were exercised. In July 2000, 1,400,000 of these options were cancelled. The 400,000 options outstanding are fully vested and exercisable. As a result, the Company did not recognize any compensation expense in connection with these options.

In fiscal 2000 and 1999, the Company granted nonqualified stock options to purchase 12,025,000 shares of its Common Stock. These options are not exercisable without shareholder approval, which was not submitted for a shareholder vote at the Annual Meeting held on July 11, 2000. Of these options - 8,850,000 have been cancelled. The remaining 3,175,000 options are not exercisable, unless approved by the shareholders at a later date and are not considered outstanding at June 30, 2000.

At the July 11, 2000 meeting, the shareholders approved the Company's 2000 Stock Option Plan (the "Option Plan"). The Option Plan provides for the granting of incentive stock options and nonqualified stock options aggregating 10,000,000 shares.

In connection with its new private aviation services business FSW issued warrants to purchase its Common Stock in exchange for consulting and legal services and for strategic vendor alliances provided by outside third parties. In addition, the Company issued warrants in connection with Common Stock private placement transactions. Certain of the warrants issued contain registration rights provisions.

The following table summarizes the outstanding warrants and related exercise prices at June 30:

2000			1999		
Shares	Exercise Price	Term	Shares	Exercise Price	Term
5,556,377	\$ 0.04	54 months	--	\$ --	--
200,000	0.42	120	200,000	0.42	120 months
200,000	0.44	120	200,000	0.44	120
450,000	0.50	120	1,450,000	0.50	120
400,000	0.75	120	400,000	0.75	120
2,985,000	1.75	120	100,000	1.75	120
1,000,000	2.00	120	--	--	--
400,000	2.50	120	--	--	--
5,100,000	4.00	120	--	--	--
2,063,386	6.06	18	--	--	--
742,817	9.77	18	--	--	--
1,547,540	9.77	60	--	--	--
20,645,120			2,350,000		
=====			=====		

In the preceding table, the 5,556,377 warrants with an exercise price of \$.04 were issued to a vendor in connection with a two-year marketing and technology services agreement. The Company recorded the value of these warrants as Prepaid expense -- compensation on the balance sheet at June 30, 2000 which is being amortized over the vesting period of the warrants. The vesting period coincides with the time period over which the vendor is required to provide services to the Company pursuant to the services agreement.

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

The above warrants with an exercise price of \$9.77 per share, which were issued in connection with private placements of restricted Common Stock, contain a variable pricing clause that permits the price to be reduced at the time of exercise based on the market price of the stock.

All of the warrants issued by FSW are exercisable, except for 25,000 with an exercise price of \$0.50 that vest over one year and 5,556,377 with an exercise price of \$0.04 that vest in stages over periods ranging from 6 to 30 months.

A-14

15

Following is a summary of certain information regarding the Company's options and warrants:

	Number	Weighted Average Exercise Price	Weighted Average Grant-date Fair Value	We Av Rem Cont
	-----	-----	-----	-----
Grants during the year:				
Exercise price greater than market	400,000	\$0.50	\$0.33	
Exercise price equal to market	3,700,000	\$0.52	\$0.40	
Exercise price below market	250,000	\$0.43	\$0.45	
Outstanding at June 30, 1999	4,350,000	\$0.52	\$0.40	

Grants during the year:				
Exercise price greater than market	2,290,357	\$9.77	\$6.00	
Exercise price equal to market	400,000	\$2.50	\$1.82	
Exercise price below market	16,604,763	\$2.42	\$4.07	

Total granted	19,295,120	\$3.29	\$4.25	

Exercised during the year	1,200,000	\$0.49	\$0.38	

Outstanding at June 30, 2000				
Exercisable at \$.04	5,556,377	\$0.04	--	4.5
Exercisable at \$.42 to \$1.00	3,050,000	\$0.49	--	8.7
Exercisable at \$1.44 to \$2.50	4,385,000	\$1.88	--	9.2
Exercisable at \$4.00 to \$6.06	7,163,386	\$4.59	--	7.1
Exercisable at \$9.77	2,290,357	\$9.77	--	2.2

Total outstanding	22,445,120	\$2.91	--	

Exercisable at June 30, 2000				
Exercisable at \$.42 to \$1.00	3,025,000	\$0.49	--	
Exercisable to \$1.75 to \$2.50	4,385,000	\$1.88	--	
Exercisable at \$4.00 to \$6.06	7,163,386	\$4.59	--	
Exercisable at \$9.77	2,290,357	\$9.77	--	

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

Trust. Of these warrants, 400,000 have an exercise price of \$.50 per share, 600,000 a \$1.75 per share price and 1,000,000 a \$4.00 per share price. Subsequent to June 30, 2000, the Bert Lance Grantor Trust assigned, with the Company's consent, 250,000 of these warrants to third parties. In addition, the Company paid consulting fees of \$183,000 to Mr. Bert Lance in fiscal 2000.

In fiscal 1999, the Company paid \$100,000 to the wife of the Company's former President and Chief Executive Officer for services in connection with the Company's Stratos Inns business concept.

In December 1999, the Company settled certain matters regarding residential real estate transactions in prior fiscal years with a former officer, a former director, and the former director's father. In connection with this settlement the Company issued 400,000 shares of restricted Common Stock to these parties and recorded a charge to the estimated reserve for estimated expenses and other liabilities of discontinued operations of \$197,000.

NOTE 10. CONTINGENCIES

Legal Proceedings

During the normal course of business, the Company is subject to various lawsuits which may or may not have merit. Management intends to defend such suits vigorously and believes that they will not result in any material loss to the Company.

Operating Leases

During fiscal 1999 the Company leased office space in Tallahassee, Florida and Atlanta, Georgia to conduct its business. The Tallahassee lease terminated on September 30, 1999 in connection with the discontinuation of the Company's residential real estate business. Currently the Company leases space in Atlanta, Georgia. The future minimum payments under the non cancelable leases having an initial or remaining term of more than one year are \$111,912, and \$52,491 for fiscal 2001 and 2002, respectively.

NOTE 11. SUBSEQUENT EVENTS

In August 2000, the Company's Board approved a series of strategic transactions that provided new capital, new management and two related businesses to strengthen FSW's operations and permit the continued development of FSW's existing business.

On August 25, 2000, the Company acquired the common stock of Internet Aviation Services, Ltd. ("IASL") for 1,750,000 shares of Common Stock (with a then market value of \$1,203,125). IASL is a new, leisure and business travel services company which has products and services that compliment those of FSW. IASL has one contract for \$9,000,000 to provide air charter services beginning in December 2000. In the IASL acquisition, the Company also received \$50,000 cash and experienced executive management. The acquisition will be accounted for using the purchase method of accounting.

A-16

17

On September 7, 2000, the Company acquired DM Marketing, Inc. ("DMM") for 8,450,000 shares of restricted Common Stock pursuant to a definitive purchase agreement executed as of August 16, 2000. The aggregate purchase price of DMM was \$6,210,897 consisting of the fair value on August 16, 2000 of the Company's stock issued (\$5,281,250) and direct acquisition costs (\$929,647). DMM operates a telecommunications call center providing telemarketing, help desk and other services for Internet related companies. DMM's call center operations can

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

provide back office support for FSW's private jet travel services business. In the DMM acquisition the Company also received \$350,000 in cash. The acquisition will be accounted for using the purchase method of accounting.

In connection with the IASL and DMM acquisitions, the Company issued 5,000,000 options to purchase its Common Stock to certain executives of IASL and two consultants who provided services in connection with the acquisitions. Of the options issued 3,000,000 have an exercise price of \$0.25 per share and 2,000,000 an exercise price of \$0.04 per share. These options contain certain registration rights.

In connection with the acquisition of IASL and DMM, the Company in August 2000, issued 7,070,000 common shares at \$0.375 in a private placement transaction. The proceeds of \$2,400,000 were net of a 7.5% placement fee and legal expenses.

A-17

18

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During 1998, Mr. Preiss, the Company's former Chief Executive Officer, terminated his employment with the Company and entered into a termination agreement pursuant to which the Company paid the remaining \$387,000 due under a deferred compensation arrangement and transferred to him cash and additional property with a total book value of \$183,055.

From time to time during his terms as President, the Company made advances and repayments of loans to and from Mr. Mark Conner which were repaid either through cash payments or increases in compensation expense. During the fiscal year ended June 30, 1998, the Company borrowed approximately \$172,000 from Mr. Conner from funds acquired through his sale of Common Stock owned by him. All advances and loans have been repaid.

In November 1998, the Company sold (i) approximately 100 acres to an entity in which Mr. Langdon Flowers, a former director, held a controlling interest for \$610,000, which purchase price was the highest bona fide price offered for such property and (ii) sold approximately 230 acres in Albany, Georgia to Mr. Flowers and a Company stockholder in exchange for the return of 1,000,000 shares of Common Stock.

In January 1999, the Company acquired 100 percent (100%) of the issued and outstanding shares of West Side Investors, Inc., a Georgia corporation which owns P & W Stonebridge, LLC and P & W Headland, LLC, which own respectively, the Stonebridge Village Shopping Center located in Dekalb County, Georgia and the Headland-DeLowe Shopping Center located in Atlanta, Georgia. Arthur G. Weiss was the President of West Side Investors, Inc. and, together with his adult children, owned one hundred percent (100%) of the issued and outstanding Common stock of West Side Investors, Inc. (the "West Side Stock") prior to the transaction. The purchase price for the West Side Stock was the issuance of 3,100,000 shares of the Company's Common Stock as follows: Arthur G. Weiss, 1,550,000 shares; Charles G. Weiss, 775,000 shares and Caroline Weiss Kyriopolous, 775,000 shares. The two shopping centers have an appraised value of \$9,130,000 and are subject to a \$7,886,000 non-recourse participating mortgage entitling the lender to 50% of the profits realized from shopping centers. The consideration paid was determined as a result of arms-length negotiations prior to Mr. Weiss becoming a stockholder, director or officer of the Company.

In connection with consulting services related to the Company's Internet-based, private aviation travel service business provided by Mr. Bert Lance, the father of the Company's President and Chief Executive Officer, the Company in fiscal 2000 and 1999 granted warrants to purchase 1,600,000 and

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

400,000 shares, respectively, of its Common Stock to the Bert Lance Grantor Trust. In addition, the Company paid consulting fees of \$183,000 to Mr. Bert Lance in fiscal 2000. In August 2000, the Bert Lance Grantor Trust assigned 250,000 of such warrants to an unrelated third party, with the Company's consent, and such warrants were exercised for cash proceeds of \$125,000 to the Company.

In fiscal 1999, the Company paid \$100,000 to the wife of the Company's former President and Chief Executive Officer for services in connection with the Company's Stratos Inns business concept.

In January 1999, the Company acquired 100 percent (100%) of the total issued and outstanding common stock of PDK Properties, Inc., a Georgia corporation (the "PDK Stock") which owns 100 percent (100%) of Stratos Inns, LLC, a Georgia limited liability company, located in Atlanta, Georgia. The purchase price for the PDK Stock was the issuance of 3,600,000 shares of the Company's Common Stock to the Lance Children's Trust, of which Mr. C. Beverly Lance is trustee. The consideration paid was determined as a result of arms-length negotiations prior to Mr. C. Beverly Lance becoming a stockholder, officer or director of the Company.

In January 1999, the Company closed the sale of its wholly-owned subsidiary, Henry Holdings, Inc., a Florida corporation (the "Subsidiary") to Mr. Conner, in exchange for 5,000,000 shares of Common Stock that were held by Mr. Conner. In accordance with the terms of the acquisition agreement, Mr. Conner received cash and property with value of \$1,928,292.

On or about January 29, 1999, the Wendell M. Starke Trust (the "Starke Trust") purchased 2,500,000 shares of restricted Common Stock for \$1,000,000 and on June 29, 1999 another 2,300,000 shares for \$1,725,000. In connection with the sale of the shares, the Company entered into a Registration Rights Agreement with the trust.

On or about March 18, 1999, the Godley Morris Group, LLC (the "GMG") purchased 2,500,000 shares of restricted Common Stock for \$1,000,000 and on June 29, 1999 another 2,300,000 shares for \$1,725,000. In connection with the sale of the shares, the Company entered into a Registration Rights Agreement with the GMG.

In January 2000, the Company entered into a common stock purchase agreement (the "Four Corners Purchase Agreement") with Four Corners which provides for an equity financing package consisting of the sale of restricted Common Stock and warrants. Under the terms of the Four Corners Purchase Agreement, Four Corners purchased from the Company, for an aggregate purchase price of \$1 million, 165,070 shares of restricted Common Stock, and warrants to purchase up to 2,723,668 shares of Common Stock. In connection with the Four Corners Purchase Agreement, the Company entered into a Registration Rights Agreement with respect to the Common Stock purchased by Four Corners and the Common Stock underlying all options or warrants held by Four Corners. The terms of the Purchase Agreement were the result of arms' length negotiations between the parties. Mr. Goldberg, a former director of the Company, owns a 25% interest in Four Corners.

In connection with the equity financing provided by the Four Corners Purchase Agreement and the Company's \$5,000,000 private placement of Common Stock in January 2000, the Company agreed to pay Four Corners a fee or services provided to the Company equal to 6% of the proceeds actually received by the Company and to reimburse Four Corners for expenses relating to the financing. In fiscal 2000, the Company paid fees to Four Corners in the amount of \$360,000 and has reimbursed Four Corners for approximately \$58,000 in expenses.

In a series of transactions consummated during the 1999 fiscal year,

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

Mark Conner (a former chief executive officer of the Company) and a former officer of the Company purchased real property assets used in connection with certain discontinued operations of the Company with an aggregate book value of \$16 million and assumed all related mortgage indebtedness. The Company received cash, notes receivable or Common Stock in these transactions. As of June 30, 1999, the Company held notes receivable for \$465,000 with respect to these transactions, and received payment in full subsequent thereto. In fiscal 2000, the Company sold additional assets of discontinued operations with a carrying value of \$400,000 for cash and other assets of discontinued operations for \$1 million in notes receivable plus assumption of approximately \$2.2 million in mortgage indebtedness. At June 30, 2000, the aggregate note balance was \$900,000 which amount was fully reserved as uncollectible by the Company due to Mr. Conner's inability to obtain financing to complete the plan development of property. These transactions were entered into with entities in which the former chief executive officer and former officer are investors. All such transactions were the result of arms' length negotiations.

In December 1999 the Company issued 400,000 shares of restricted Common Stock from treasury to certain parties including Langdon Flowers, Jr. (a former director of the Company), Mr. Flower's father and a former officer of the Company. The shares were issued pursuant to an agreement that resolved outstanding issues related to certain transactions involving the Company's discontinued real estate operations, which reduced the related asset valuations, by \$193,000. The transaction was the result of arms' length negotiations. In connection therewith, the Company entered into a Registration Rights Agreement providing the holders of such shares with certain registration rights.

During fiscal year 1999, the Company wrote off the \$619,395 balance remaining on a note owned by a corporation, and officer of which is Mr. Conner's father. The note was given in connection with the sale during the 1998 fiscal year of certain real property owned by the Company, the terms of which were at prevailing market prices.

In fiscal 2000, the Company advanced \$275,100 in anticipation of an equity investment in a newly formed entity that would acquire private jets for use in connection with flights arranged thru the Company's Private Seats(TM) program. The entity was formed and managed by Four Corners. Due to the Company's inability to raise adequate capital to complete the planned acquisition of aircraft, these advances were written off as of June 30, 2000.

A-18

19

SIGNATURES

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

eResource Capital Group, Inc.
(formerly known as flightserv.com)

Date: June 12, 2001

By: /s/ Arthur G. Weiss

Arthur G. Weiss
Chairman of the Board

In accordance with the requirements of the Exchange Act, this report has been signed by the following persons on behalf of the Registrant and in the

Edgar Filing: ERESOURCE CAPITAL GROUP INC - Form 10KSB40/A

capacities and on the dates indicated.

Date: June 12, 2001 By: /s/ Arthur G. Weiss

Arthur G. Weiss
Chairman of the Board

Date: June 12, 2001 By: /s/ Michael D. Pruitt

Michael D. Pruitt
President/CEO and Director
(principal executive officer)

Date: June 12, 2001 By: /s/ William L. Wortman

William L. Wortman
Vice President, Treasurer, and
Chief Financial Officer
(principal financial and
accounting officer)

Date: June 13, 2001 By: /s/ Sylvia A. de Leon

Sylvia A. de Leon
Director

Date: June 13, 2001 By: /s/ Dr. James A. Verbrugge

Dr. James A. Verbrugge
Director

Date: June 12, 2001 By: /s/ Melinda Morris Zanoni

Melinda Morris Zanoni
Executive Vice President
and Director