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IVG CORP
Form 10QSB
November 16, 2001

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED

COMMISSION FILE NUMBER

SEPTEMBER 30, 2001

33-19196-A

IVG CORP.

(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

DELAWARE

59-2919648

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER IDENTIFICATION NO.)

13135 DAIRY ASHFORD, SUITE 525
SUGARLAND, TEXAS 77478

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

ISSUER'S TELEPHONE NUMBER: (281) 295-8400

N/A

(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF
CHANGED SINCE LAST REPORT)

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 61,620,639 shares of Common Stock as of November 12, 2001.

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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IVG CORP.
CONSOLIDATED BALANCE SHEET (UNAUDITED)
SEPTEMBER 30, 2001

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 615,867
Restricted cash	1,500,000
Accounts receivable - net	16,997
Inventory	121,009
Notes receivable	293,057

Total current assets	2,546,930
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PROPERTY AND EQUIPMENT, NET	268,435
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OTHER ASSETS, NET	242,902
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\$ 3,058,267

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 1,519,066
Notes payable	4,928,096

Total current liabilities	6,447,162
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MINORITY INTEREST	(2,411,315)
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STOCKHOLDERS' EQUITY AND ACCUMULATED DEFICIT

Common stock: par value \$.0001, 300,000,000 shares	
authorized, 61,009,559 issued and outstanding	6,101
Additional paid in capital	35,909,399
Accumulated deficit	(36,893,080)

Total stockholders' deficit	(977,580)
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\$ 3,058,267

See accompanying notes.

IVG CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

FOR THE NINE MONTHS ENDED
SEPTEMBER 30

2001	2000
(UNAUDITED)	(UNAUDITED)

REVENUES:

Sales	\$ 524,280	\$ 260,
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	Total revenues	524,280	260,
COSTS AND EXPENSES:			
Cost of goods sold		435,294	156,
General and administrative		12,856,532	1,064,
Purchased in-process technology		0	15,601,
Research and development		60,000	
Loss on investment in iTVr		500,000	
Depreciation expense		40,228	18,
Interest expense		580,142	7,
		-----	-----
	Total costs and expenses	14,472,196	16,848,
		-----	-----
OTHER INCOME:			
Interest income		94,124	
MINORITY INTEREST			
		(201,590)	
		-----	-----
NET INCOME (LOSS)		\$ (13,652,202)	\$ (16,588,
		=====	=====
Basic and fully diluted net loss per share			
		\$ (.26)	\$ (
Weighted average number of common shares			
outstanding for basic and diluted net loss per share		52,541,378	41,802,

See accompanying notes.

IVG CORP. CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30	
	2001	2000
	(UNAUDITED)	(UNAUDITED)
	-----	-----
REVENUES:		
Sales	\$ 96,685	\$ 84,
	-----	-----
	Total revenues	96,685 84,
COSTS AND EXPENSES:		
Cost of goods sold	105,287	8,
General and administrative	814,062	683,
Purchased in-process technology	0	15,601,
Loss on investment in iTVr	0	
Depreciation expense	13,200	
Interest expense	30,720	2,
	-----	-----
	Total costs and expenses	963,269 16,297,
	-----	-----

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OTHER INCOME:

Interest income	0	
MINORITY INTEREST	(49,059)	
NET INCOME (LOSS)	<u>\$ (817,525)</u>	<u>\$ (16,212,000)</u>
Basic and fully diluted net loss per share	\$ (.01)	\$ (1.00)
Weighted average number of common shares outstanding for basic and diluted net loss per share	60,952,059	41,802,000

See accompanying notes.

IVG CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED) FOR THE PERIOD FROM DECEMBER 31, 1999 TO SEPTEMBER 30, 2001

	Common Stock		Additional	Accum
	Number of	Amount	Paid in	Def
	Shares		Capital	
Balance December 31, 1999	30,537,402	\$ 3,054	\$ 1,969,035	\$ (2,000,000)
Shares issued for services	2,414,200	241	3,005,992	
Shares issued for cash	213,450	21	434,079	
Shares issued in acquisitions	20,000,000	2,000	21,185,859	
Shares exchanged for warrants	(9,091,855)	(909)	0	
Warrants issued for services	0	0	71,860	
Net loss	0	0	0	(21,000,000)
Balance December 31, 2000	44,073,197	4,407	26,666,825	(23,000,000)
Shares issued for services	2,445,500	245	3,338,796	
Shares issued in acquisitions	14,320,862	1,432	5,380,036	
Shares issued for cash	170,000	17	55,484	
Beneficial interest on convertible debt	0	0	468,258	
Net loss	0	0	0	(13,000,000)
Balance September 30, 2001	61,009,559	\$ 6,101	\$ 35,909,399	\$ (36,000,000)

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See accompanying notes.

IVG CORP. CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net (loss)	\$ (13,652,202)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:	
Minority interest	(201,590)
Depreciation and amortization	40,228
Stock based compensation	8,720,509
Purchased in-process technology	0
Loss on investment in iTVr	500,000
Beneficial interest on convertible debt	468,258
Changes on operating assets and liabilities:	
Accounts receivable	10,037
Inventory	(43,070)
Other assets	232,476
Accounts payable and accrued expenses	241,030
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(3,684,324)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Cash acquired through purchase of subsidiary	0
Investment in iTVr	(500,000)
Purchases of equipment	(245,362)
Notes receivable	(144,857)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(890,219)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of stock	55,500
Net change in notes payable	2,248,200
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,303,700
Increase (decrease) in cash and cash equivalents	(2,270,843)
Cash and cash equivalents at beginning of period	2,886,710
Cash and cash equivalents at end of period	\$ 615,867

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See accompanying notes.

IVG CORP. CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	FOR THE THREE SEPTEMBER 2001 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net (loss)	\$ (817,525)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:	
Minority interest	(49,059)
Depreciation and amortization	13,200
Stock based compensation	0
Purchased in-process technology	0
Changes on operating assets and liabilities:	
Accounts receivable	120,627
Inventory	(59,167)
Other assets	41,999
Accounts payable and accrued expenses	71,153
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(678,772)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Cash acquired through purchase of subsidiary	0
Purchases of equipment	(16,271)
Notes receivable	8,000
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(8,271)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of stock	13,001
Net change in notes payable	20,500
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	33,501
Increase (decrease) in cash and cash equivalents	(653,542)
Cash and cash equivalents at beginning of period	1,269,409
Cash and cash equivalents at end of period	\$ 615,867

See accompanying notes.

IVG CORP. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

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SEPTEMBER 30, 2001

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with U. S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by U. S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. These financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the annual report on Form 10K-SB for the year ended December 31, 2000.

NOTE 2 - EARNINGS PER SHARE DATA

Basic and fully diluted net earnings (loss) per share information is presented under the requirements of Statement of Financial Accounting Standards No. 128 (SFAS 128), "EARNINGS PER SHARE". Basic net earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of shares of common stock outstanding for the period, less shares subject to repurchase. Fully diluted net earnings (loss) per share reflects the potential dilution of securities by adding other common stock equivalents, including stock options, shares subject to repurchase, warrants and convertible preferred stock, in the weighted average number of shares of common stock for a period, if dilutive. All potentially dilutive securities have been excluded from the computation, as their effect is anti-dilutive.

NOTE 3 - SEGMENT INFORMATION

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", Swan is deemed to be a segment of the Company. Accordingly, the following segment disclosures are made:

=====		
	Nine Months Ended September 30	
	2001	2000
	-----	-----
Revenues		
Swan	\$ 0	\$ 0
Reconciling items		
Other corporate revenues	524,280	260,416
	-----	-----
Total consolidated revenues	\$ 524,280	\$ 260,416
	=====	=====
Depreciation and amortization expense		
Swan	\$ 0	\$ 0
Reconciling items		
Other corporate depreciation and amortization expense	40,228	35,369
	-----	-----
Total depreciation and amortization expense	\$ 40,228	\$ 35,369

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	=====	=====
Interest income and (expense)		
Swan	\$ 94,124	\$ 0
Swan	(82,500)	0
Reconciling items		
Other corporate interest income and (expense)	(497,642)	(7,156)
	-----	-----
Total interest income and (expense)	\$ (486,018)	\$ (7,156)
	=====	=====

Segment assets		
Cash	\$ 500,400	\$ 5,854,869
Restricted cash	1,500,000	0
Loan to IVG Corp.	2,625,000	1,000,000
Other assets	0	16,602
	-----	-----
Total segment assets	4,625,400	6,871,471
Reconciling items		
Corporate assets	1,059,867	688,061
Intersegment loans	(2,625,000)	(1,000,000)
	-----	-----
Total consolidated assets	\$ 3,058,267	\$ 6,559,532
	=====	=====

	Three Months Ended September 30	
	2001	2000
	-----	-----
Revenues		
Swan	\$ 0	\$ 0
Reconciling items		
Other corporate revenues	96,685	84,364
	-----	-----
Total consolidated revenues	\$ 96,685	\$ 84,364
	=====	=====

Depreciation and amortization expense		
Swan	\$ 0	\$ 0
Reconciling items		
Other corporate depreciation and amortization expense	13,200	12,898
	-----	-----
Total depreciation and amortization expense	\$ 13,200	\$ 12,898
	=====	=====

Interest income and (expense)		
Swan	\$ 0	\$ 0
Swan	(27,500)	0
Reconciling items		
Other corporate interest income and (expense)	(3,220)	(2,746)
	-----	-----
Total interest income and (expense)	\$ (30,720)	\$ (2,746)
	=====	=====

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NOTE 4 - ACQUISITIONS

SES-CORP, INC./CHEYENNE MANAGEMENT COMPANY, INC. On April 1, 2001, the Company acquired SES-Corp., Inc., a Delaware corporation, pursuant to an Amended and Restated Asset Purchase Agreement and Agreement and Plan of Merger (the "Merger Agreement"), dated as of March 30, 2001, by and among the Company, SES, Cheyenne Management Company, Inc., a Michigan corporation, SES Acquisition 2001, Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("Sub"), and Dennis Lambka and Ronald Bray, shareholders of SES (the "Shareholders"). Under the terms of the Merger Agreement, Sub merged with and into SES and SES became a wholly owned subsidiary of the Company (the "Merger"). The shares of SES common stock outstanding immediately prior to the effective time of the merger were converted into the right to receive 11,819,262 shares of the Company's common stock. Ten million shares of the Company's common stock were to be placed in an escrow account (the "Escrow Shares") to secure certain indemnification obligations set forth in the Merger Agreement.

On August 8, 2001, the Company entered into a share exchange agreement with the Shareholders (the "Share Exchange Agreement"), in which the Company disposed of SES by exchanging all of the issued and outstanding shares of SES for the Escrow Shares. As a result, the Company received 100% of the Escrow Shares and the Shareholders received 100% of SES. The Shareholders also released the Company from any obligations to issue additional shares of the Company to the Shareholders under the Merger Agreement. Pursuant to the terms of the Share Exchange Agreement, the Shareholders each retained 909,631 shares of the Company's common stock issued to them under the Merger Agreement.

The cost of the acquisition and subsequent disposition of SES was approximately \$522,000. Additionally, the Company recorded stock based compensation expense of approximately \$2,300,000 related to the approximately 1,800,000 shares of common stock currently held by the Shareholders.

NOTE 5 - SUBSEQUENT EVENTS

GROUP MANAGEMENT SERVICES, INC. On October 24, 2001, the Company entered into a definite asset and stock purchase agreement to acquire 90% of Group Management Services, Inc. ("GMS"), an Ohio-based professional employer organization. Upon the closing of the asset and stock purchase agreement, GMS will become one of the Company's portfolio companies. The acquisition will be completed in a number of steps. First, GMS Acquisition LLC, a wholly owned subsidiary of the Company, will purchase certain of GMS's assets (the "Asset Purchase"). Upon completion of the Asset Purchase, GMS will distribute certain proceeds from the sales of such assets to GMS's two shareholders (the "GMS Shareholders"). Next, the GMS Shareholders will transfer 90% of the outstanding GMS common stock to the Company (the "Stock Purchase"). Lastly, GMS Acquisition LLC will contribute 100% of the assets received in the Asset Purchase back to GMS. In consideration for the purchase of 90% of GMS, the Company will issue to the GMS Shareholders three promissory notes in the amounts of (i) \$250,000, (ii) \$1,963,000, and (iii) \$2,039,023.63, for total consideration of \$4,252,023.63, as well as 10,000,000 shares of the Company's common stock and an option to purchase up to an additional 1,250,000 shares of the Company's common stock. The Company's agreement with GMS also provides that if, on the first anniversary of the closing of the acquisition, the value of the 10,000,000 shares is less than \$1,370,000, the Company will issue an additional number of shares to the GMS Shareholders so that the value of the shares received is at least \$1,370,000.

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The closing of this acquisition, which the Company anticipates will occur in November 2001, is conditioned upon, among other things, the receipt of consents to the transaction by third parties, and GMS continuing to maintain a credit facility of at least \$750,000.

EMPLOYMENT AGREEMENTS. On October 8, 2001, the Company entered into employment agreements with Elorian Landers, its Chief Executive Officer, and Clay Border, its Chief Development Officer. Mr. Lander's employment agreement provides for an annual base salary of \$250,000 and Mr. Border's employment agreement provides for an annual base salary of \$150,000. Each of the agreements also grants each of the employees a stock option giving them each the right to purchase up to 3 million shares of the Company's common stock at an exercise price of \$.028 per share. The option exercise price was 70% of the closing price of the common stock on the grant date, and was determined by the Board to be fair market value because the common stock underlying the option is subject to transfer restrictions under applicable securities laws. The stock options expire on October 8, 2006. One half of the stock options vested on the grant date and the remaining 1,500,000 shares will vest quarterly over one year at a rate of 375,000 shares per quarter. The employment agreements also provide for reimbursement of certain expenses of each of the employees, including a car allowance of \$800 per month, payment of cellular phone service and a health club membership.

CONSULTING AGREEMENT. On October 8, 2001, the Company entered into a consulting agreement with Thomas McCrimmon, in which he agreed to provide consulting services in connection with the identification, analysis and evaluation of possible merger and acquisition opportunities. In consideration of his services, the Company granted him the option to purchase up to 3,000,000 shares of the Company's common stock at an exercise price of \$.028 per share over a five year period. The option exercise price was 70% of the closing price of the common stock on the grant date, and was determined by the Board to be fair market value because the common stock underlying the option is subject to transfer restrictions under applicable securities laws. One half of the stock options vested on the grant date and the remaining 1,500,000 shares will vest quarterly over one year at a rate of 375,000 shares per quarter.

LITIGATION. On October 4, 2001, Infinet Holdings, Inc. and Human Dynamics Corporation ("HDC") filed an amended complaint in a matter pending in the United States District Court for the District of Arizona. The amended complaint alleges a variety of claims against Internet Venture Group, Inc. (the name by which the Company was previously known.), Hartford Casualty Company, Twin City Fire Insurance Company, and Financial Network Services, Inc. (collectively, the "defendants"). The Company was not a defendant in the original complaint. The amended complaint alleges that all defendants: (i) breached contractual obligations to provide workers compensation insurance to HDC and its clients; (ii) made intentional misrepresentations that induced HDC to forego other insurance coverage in favor of insurance through Hartford, and (iii) intentionally interfered with HDC's business relations by making disparaging statements about HDC to HDC clients. The complaint alleges additional claims against the other defendants. The transactions described in the amended complaint appear to involve an alleged client services agreement between HDC and subsidiaries of SES-Corp., Inc. ("SES"), which was formerly a subsidiary of the Company. Neither SES nor its subsidiaries are named as parties in the amended complaint. The plaintiffs seek injunctive relief against Hartford and Twin City, compensatory damages in excess of \$10 million, and punitive damages against all defendants. The company does not believe there is a basis for the claims made in this lawsuit, and intends to vigorously defend itself against these claims.

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

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OVERVIEW

We were incorporated in Florida in 1987 under the name Sci Tech Ventures, Inc., and changed our name to Strategic Ventures, Inc. in May 1991 and Internet Venture Group, Inc. in October 1999. Effective December 31, 1999, control of Internet Venture Group, Inc. was acquired by shareholders of GeeWhiz.com, Inc., a Texas corporation. Because this acquisition was treated as a reverse acquisition (a recapitalization of GeeWhiz.com) for accounting purposes, our financial statements for periods prior to December 31, 1999 are those of GeeWhiz.com. The former business of GeeWhiz.com has been continued by our GeeWhizUSA.com division, which manufactures and distributes proprietary novelty, gift and branded products, including fiber optic illuminated drinking containers. In March 2001, we completed a reincorporation merger and became a Delaware corporation named IVG Corp.

We have expanded our business into other areas during 2000 and 2001 through a series of acquisitions. In September 2000, we acquired 88.5% of the common stock of Swan Magnetics, Inc., developer of a proprietary ultra-high capacity floppy disk drive technology. During 2001, Swan Magenetics acquired 46% of the common stock of iTVr, Inc., which is developing next generation digital video recording technology. In January 2001, we acquired 35% of the common stock of CyberCoupons, Inc., a development stage company that intends to be a source for consumers to obtain coupons for grocery, health and beauty products over the Internet.

In April 2001, we acquired SES-Corp., Inc., a professional employer organization pursuant to an Amended and Restated Asset Purchase Agreement and Agreement and Plan of Merger (the "Merger Agreement"). In the merger SES became a wholly-owned subsidiary of ours. The shares of SES common stock outstanding immediately prior to the effective time of the merger were converted into the right to receive 11,819,262 shares of our common stock. Ten million shares of our common stock were to be placed in an escrow account (the "Escrow Shares") to secure certain indemnification obligations set forth in the Merger Agreement.

Subsequent to our acquisition of SES, we became aware that SES was the subject of an investigation by the Internal Revenue Service relating to its actions prior to our acquisition of the company. SES also had some of its bank accounts frozen by a bank that claimed the accounts were overdrawn by over \$30 million, and subsequently filed for bankruptcy protection. In light of these developments, we entered into an agreement with the two former shareholders of SES in August 2001 in which we disposed of SES by exchanging all of the issued and outstanding shares of SES for the Escrow Shares. Pursuant to the terms of the Agreement, these shareholders each retained 909,631 shares of our common stock issued to them under the Merger Agreement.

The cost of our acquisition and subsequent disposition of SES was approximately \$522,000. Additionally, we recorded stock based compensation expense of approximately \$2,300,000, related to the approximately 1,800,000 shares of stock currently held by the former shareholders of SES.

Our financial condition and results of operations for 2000 and 2001 are based upon the business activities of our GeeWhiz division and our Swan Magnetics, Inc. subsidiary. During these periods, we also incurred expenses relating to our corporate overhead, our investment in CyberCoupons, and Swan Magnetics' investment in iTVr. All of our revenues to date have been derived from product sales by our GeeWhiz division.

At September 30, 2001, we had current assets of approximately \$2,547,000 and total assets of approximately \$3,058,000. Current liabilities at September 30, 2001 were approximately \$6,447,000. Our stockholders' deficit at September 30,

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2001 was approximately \$978,000.

RESULTS OF OPERATIONS

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000

Revenues increased to approximately \$524,000 for the first nine months of 2001, compared to approximately \$260,000 for the comparable period in 2000. The increase was attributable principally to increased product sales and interest income. Cost of goods sold increased to approximately \$435,000 from \$157,000 for the same periods. This increase was primarily the result of increased product sales.

General and administrative expenses increased to approximately \$12,857,000 from approximately \$1,064,000. This increase was due primarily to expenses for shares issued in acquisitions, increased stock-based compensation, expenses of Swan Magnetics, Inc., and increased costs due to acquisitions and expansion of our operations. We also recorded interest expense of approximately \$580,000 and a \$500,000 loss on our investment in iTVr during the first nine months of 2001.

Our net loss for the nine months ended September 30, 2001 was approximately \$13,652,000, compared to a net loss of approximately \$16,589,000 for the nine months ended September 30, 2000. The loss in 2001 is related primarily to expenses for shares issued in acquisitions, increased consulting, legal and accounting fees incurred in connection with acquisition activity, expenses of Swan Magnetics, Inc., and increased costs due to expansion of Company operations. The larger loss in 2000 was primarily related to the \$15.6 million expense associated with the shares issued in our acquisition of Swan Magnetics, which was recorded as an expense for purchased in-process technology on our statement of operations.

The in-process technology consisted of a proprietary floppy disk drive technology that had reached prototype form. Our initial intent was to take this technology to market via strategic alliances with other companies providing parallel products and services to customers. It was determined post-acquisition that we would be better served to pursue other revenue-producing activities. As a result, the technology has not yet been taken to market and there are no plans to do so in the near term. No additional expense or revenue is expected in connection with this technology in the near term. Should we decide to market this technology in the future, we believe the cost of doing so would be minimal.

COMPARISON OF THE QUARTERS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000

Revenues increased to approximately \$97,000 for the third quarter of 2001, compared to approximately \$84,000 for the third quarter of 2000. The increase was attributable to increased product sales. Cost of goods sold increased to approximately \$105,000 from \$8,900 for the same periods. This increase was primarily the result of higher prices for materials and higher direct costs associated with manufacturing by our GeeWhiz division.

General and administrative expenses increased to approximately \$814,000 from approximately \$684,000. This increase was due primarily to increased costs associated with acquisition activity. We also recorded a \$15.6 million expense in the third quarter of 2000 for purchased in-process technology relating to the value of the shares issued in our acquisition of Swan Magnetics.

Our net loss for the quarter ended September 30, 2001 was approximately \$818,000, compared to a net loss of approximately \$16,200,000 for the quarter ended September 30, 2000. The loss in 2001 is related primarily to general and administrative costs. The loss in 2000 was principally due to the

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above-referenced \$15.6 million charge relating to the Swan Magnetics, Inc. acquisition.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was approximately \$3,684,000 for the nine months ended September 30, 2001 and \$366,000 for the comparable period of 2000. We had approximately \$616,000 in cash at September 30, 2001, excluding \$1,500,000 of cash restricted for payment of a promissory note to a vendor.

Operations for the nine months ended September 30, 2001 were financed principally through loans from institutional investors, SES-Corp., Inc., which was our subsidiary until August 8, 2001, and our Swan Magnetics, Inc. subsidiary. The loan proceeds totaled approximately \$2.3 million. In addition, we obtained services or paid expenses through the issuance of common stock.

Our loan from SES-Corp., Inc. in the principal amount of \$1 million was due in September 2001. Our \$1.1 million convertible notes are due on January 1, 2003, and our note from Swan Magnetics in the principal amount of approximately \$2.8 million is due on August 1, 2003. We need to raise additional capital in order to satisfy these obligations.

Management has taken steps to revise our operating and financial requirements to accommodate our available cash flow, including substantial reductions in management salaries. As a result of these efforts, management believes funds on hand and cash flow from operations will enable us to meet our liquidity needs for at least the next two months. We need to raise additional cash, however, in order to satisfy our proposed business plan and expand our operations. Management is presently investigating potential financing transactions and acquisitions that management believes can provide additional cash for our operations and be profitable in both the short and long-term. Management also intends to attempt to raise funds through private sales of our common stock. Although management believes that these efforts will enable us to meet our liquidity needs in the future, there can be no assurance that these efforts will be successful.

GOING CONCERN CONSIDERATION

We have continued losses from operations, negative cash flow and liquidity problems. These conditions raise substantial doubt about our ability to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability of reported assets or liabilities should we be unable to continue as a going concern.

We have been able to continue based upon loans from institutional investors and our subsidiaries, and the financial support of certain of our stockholders. Management believes that actions presently being taken to revise our operating and financial requirements provide the opportunity for us to continue as a going concern. Management is presently investigating potential financing transactions and acquisitions that management believes can provide additional cash for the our operations and be profitable in both the short and long-term. Management also intends to attempt to raise funds through private sales of our common stock. Although management believes that these efforts will enable us to meet our liquidity needs in the future, there can be no assurance that these efforts will be successful.

PART II - OTHER INFORMATION

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

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The Company is currently in default on a \$1 million promissory note issued by SES Corp., Inc. to the Company on March 30, 2001. The note, which bears interest at 8% per year, was due and payable on September 30, 2001.

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

(a) EXHIBITS

- 2.1 Agreement, dated August 8, 2001, by and among IVG Corp., Dennis Lambka and Ronald Bray (1)
 - 10.1 Secured Promissory Note issued by the company to Swan Magnetics, Inc. on August 1, 2001 (2)
 - 10.2 Voting Agreement, dated August 1, 2001, between the company and Swan Magnetics, Inc. (2)
 - 10.3 Settlement Agreement and General Release, dated August 1, 2001, between the company and Swan Magnetics, Inc. (2)
 - 10.4 Security Agreement, dated September 10, 2001, among Alpha Capital Aktiengesellschaft, AMRO International, S.A., Markham Holdings, Ltd., Stonestreet Limited Partnership, the Collateral Agent (as defined in therein), the Shareholders (as defined therein) and the company (2)
 - 10.5 Common Stock Issuance Agreement, dated September 10, 2001, among the company and the Shareholders (as defined therein) (2)
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- (1) Incorporated by reference from the company's Report on Form 8-K dated August 8, 2001.
- (2) Incorporated by reference from the company's Form 10-KSB/A as filed with the SEC on October 10, 2001.

(b) REPORTS ON FORM 8-K.

Form 8-K dated August 8, 2001, was filed pursuant to Item 2 (Acquisition or Disposition of Assets).

SIGNATURES

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.

IVG CORP.

November 15, 2001

/s/ ELORIAN LANDERS

Elorian Landers
Chief Executive Officer and Director
(Principal Executive Office and Principal
Financial and Accounting Officer)