

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

FORM 10-QSB

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

For the quarterly period ended September 30, 1998

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 1-12694

SOLIGEN TECHNOLOGIES, INC.

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

WYOMING
**(State or other jurisdiction of
incorporation or organization)**

95-4440838
**(I.R.S. Employer
Identification No.)**

19408 Londelius Street
Northridge, California 91324
(Address of principal executive offices, including zip code)

(818) 718-1221
(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

Number of shares of issuer's common stock outstanding as of November 3, 1998: 32,682,338

Transitional Small Business Disclosure Format: Yes No

SOLIGEN TECHNOLOGIES, INC.
FORM 10-QSB

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PART I: FINANCIAL INFORMATION

Item 1: Consolidated Financial Statements

**SOLIGEN TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS**

| | September 30, 1998 (unaudited) | March 31, 1998 |
|---|---|----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 682,000 | \$ 215,000 |
| Accounts receivable | 748,000 | 1,258,000 |
| Inventories | 119,000 | 118,000 |
| Prepaid expenses | <u>90,000</u> | <u>104,000</u> |
| Total current assets | 1,639,000 | 1,695,000 |
| Property, plant and equipment | 2,303,000 | 2,197,000 |
| Less allowance for depreciation and amortization | <u>1,553,000</u> | <u>1,350,000</u> |
| Net property, plant and equipment | 750,000 | 847,000 |
| Other assets | <u>33,000</u> | <u>37,000</u> |
| Total assets | <u>\$ 2,422,000</u> | <u>\$ 2,579,000</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Notes payable | \$ 430,000 | \$ 566,000 |
| Trade accounts payable | 207,000 | 485,000 |
| Payroll and related expenses | 162,000 | 186,000 |
| Accrued expenses | 331,000 | 184,000 |
| Deferred revenue | <u>71,000</u> | <u>97,000</u> |
| Total current liabilities | 1,201,000 | 1,518,000 |
| Notes payable, net of current portion | 35,000 | 25,000 |
| Stockholders' equity: | | |
| Preferred stock, no par value: | | |
| Authorized – 10,000,000 shares | | |
| Issued and outstanding – 2,000 shares at September 30, 1998 | 957,000 | -- |
| Common stock, no par value: | | |
| Authorized – 90,000,000 shares | | |
| Issued and outstanding – 32,682,338 shares at September 30, 1998 and at March 31, 1998 | 10,405,000 | 10,294,000 |
| Accumulated deficit | <u>(10,176,000)</u> | <u>(9,258,000)</u> |
| Total stockholders' equity | <u>1,186,000</u> | <u>1,036,000</u> |
| Total liabilities and stockholders' equity | <u>\$ 2,422,000</u> | <u>\$ 2,579,000</u> |

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

SOLIGEN TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|---------------------|-------------------------|---------------------|
| | September 30, | | September 30, | |
| | <u>1998</u> | <u>1997</u> | <u>1998</u> | <u>1997</u> |
| Revenues | \$ 1,167,000 | \$ 1,264,000 | \$ 2,807,000 | \$ 2,497,000 |
| Cost of revenues | <u>1,068,000</u> | <u>890,000</u> | <u>2,164,000</u> | <u>1,770,000</u> |
| Gross profit | <u>99,000</u> | <u>374,000</u> | <u>643,000</u> | <u>727,000</u> |
| Operating expenses: | | | | |
| Research and development | 263,000 | 256,000 | 507,000 | 519,000 |
| Selling | 192,000 | 129,000 | 372,000 | 265,000 |
| General and administrative | 270,000 | 302,000 | 506,000 | 512,000 |
| Non-cash compensation | <u>38,000</u> | <u>39,000</u> | <u>76,000</u> | <u>78,000</u> |
| Total operating expenses | <u>763,000</u> | <u>726,000</u> | <u>1,461,000</u> | <u>1,374,000</u> |
| Loss from operations | (664,000) | (352,000) | (818,000) | (647,000) |
| Other income (expense): | | | | |
| Interest income | 4,000 | 1,000 | 5,000 | 2,000 |
| Interest expense | (55,000) | (11,000) | (111,000) | (15,000) |
| Other income | <u>--</u> | <u>--</u> | <u>8,000</u> | <u>--</u> |
| Total other income (expense) | <u>(51,000)</u> | <u>(10,000)</u> | <u>(98,000)</u> | <u>(13,000)</u> |
| Loss before provision for income taxes | (715,000) | (362,000) | (916,000) | (660,000) |
| Provision for state income taxes | <u>--</u> | <u>--</u> | <u>2,000</u> | <u>1,000</u> |
| Net loss | <u>\$ (715,000)</u> | <u>\$ (362,000)</u> | <u>\$ (918,000)</u> | <u>\$ (661,000)</u> |
| Basic and diluted net loss per share | <u>\$ (0.02)</u> | <u>\$ (0.01)</u> | <u>\$ (0.03)</u> | <u>\$ (0.02)</u> |

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

SOLIGEN TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

| | Six Months Ended | |
|--|-------------------------|--------------------|
| | September 30, | |
| | <u>1998</u> | <u>1997</u> |
| Cash flows from operating activities | | |
| Net loss | \$ (918,000) | \$ (661,000) |
| Depreciation and amortization | 203,000 | 197,000 |
| Non-cash interest expense | 70,000 | -- |
| Non-cash compensation expense | 76,000 | 78,000 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable | 510,000 | 146,000 |
| (Increase) decrease in inventories | (1,000) | 42,000 |
| Increase in prepaid expenses | (21,000) | (49,000) |
| Decrease in trade accounts payable | (278,000) | (59,000) |
| Decrease in payroll and related expenses | (24,000) | (30,000) |
| Increase in accrued expenses | 147,000 | 48,000 |
| Decrease in deferred revenues | (26,000) | (29,000) |
| (Increase) decrease in other assets | <u>4,000</u> | <u>(6,000)</u> |
| Net cash used for operating activities | <u>(258,000)</u> | <u>(323,000)</u> |
| Cash flows from investing activities: | | |
| Additions in property, plant and equipment | <u>(106,000)</u> | <u>(97,000)</u> |
| Net cash used for investing activities | <u>(106,000)</u> | <u>(97,000)</u> |
| Cash flows from financing activities: | | |
| Principal payments under capital lease obligations | 10,000 | (28,000) |
| Payments on notes payable | (136,000) | 21,000 |
| Preferred stock, net of issuance costs | 957,000 | -- |
| Convertible debentures, net of issuance costs | <u>--</u> | <u>282,000</u> |
| Net cash provided by financing activities | <u>831,000</u> | <u>275,000</u> |
| Net increase (decrease) in cash | 467,000 | (145,000) |
| Cash – beginning of period | <u>215,000</u> | <u>506,000</u> |
| Cash – end of period | <u>\$ 682,000</u> | <u>\$ 361,000</u> |

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

SOLIGEN TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation

The financial information included herein for the six month period ended September 30, 1998 and 1997 is unaudited; however, such information reflects all adjustments consisting only of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The financial information as of March 31, 1998, is derived from Soligen Technologies, Inc.'s Annual Report on Form 10-KSB for the fiscal year ended March 31, 1998. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's 1998 Form 10-KSB.

The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

Accounting Policies

Reference is made to Note 1 of Notes to Financial Statements in the Company's Annual Report on Form 10-KSB for the fiscal year ended March 31, 1998 for the summary of significant accounting policies.

Inventories

Inventories are stated at the lower of cost or market on a first-in, first-out basis. Inventories consist of the following:

| | <u>September 30, 1998</u> |
|-------------------------|---------------------------|
| Raw materials and parts | \$ 73,000 |
| Work in process | 21,000 |
| Finished goods | <u>25,000</u> |
| Total inventories | <u>\$ 119,000</u> |

Deferred Revenue

Deferred revenue relates to the DSPC technology profit center. The deferred revenue related to machine revenues results mainly from the Company's issuance of licenses for the use of the machines, or to support the machines in the form of maintenance, rather than the outright sale of machines.

Debt

Notes Payable and Capital Leases

Notes payable and capital leases consists of the following at September 30, 1998

| | |
|--|------------------|
| Notes payable to former owners of A-RPM, bearing no interest, due in November 1998 | \$ 12,000 |
| Notes to various investors and related parties, bearing interest at 12 percent, due in October 1998 | 210,000 |
| Note to insurance company, bearing interest at 5.4 percent, due in November 1998 | 13,000 |
| Note to GMAC, bearing interest at ½ percent, due in August 2001 | 24,000 |
| Revolving line of credit, secured by certain assets bearing interest at the bank's prime rate (8 ½ percent at September 30, 1998) plus 3 percent | 140,000 |
| Capital leases | <u>66,000</u> |
| | 465,000 |
| Less – current portion | <u>(430,000)</u> |
| | <u>\$ 35,000</u> |

In December 1997, the Company's Board of Directors approved a short-term debt and warrant financing. The offering was completed in a private placement transaction to accredited investors only pursuant to Regulation D and Rule 506 thereunder. A total of six investors loaned a total of \$220,000 to the Company in December 1997, and one investor loaned an additional \$40,000 to the Company in January 1998. Each investor received a promissory note in the principal amount of the amount loaned, bearing interest at the rate of 12% per annum and due six months from the date of the promissory note. In addition, for each dollar loaned to the Company the investors received a common stock purchase warrant exercisable for two shares of the Company's common stock (resulting in the issuance of warrants exercisable for a cumulative total of 520,000 shares of the Company's common stock). The warrants are exercisable for a period of five years at \$0.50 per share. A finder's fee in the amount of \$17,000 was paid to a non-employee member of the Company's Board of Directors in consideration of services provided in connection with the financing. One of the investors was a non-employee member of the Company's Board of Directors, one investor was an employee member of the Company's Board of Directors, and the remaining five investors were private investors. On June 12, 1998, the Company extended \$220,000 notes payable under the same terms and conditions for an additional 45 days. In connection with this extension, warrants exercisable for 110,000 shares of the Company's common stock were issued to the investors. On July 27, 1998, the Company extended \$210,000 notes payable under the same terms and conditions for an additional 90 days. In connection with this extension, warrants exercisable for 210,000 shares of the Company's common stock were issued to the investors. On October 25, 1998, the Company extended \$140,000 notes payable for

an additional six months under the same terms and conditions except for a change in the exercise price of issued warrants. In connection with this extension, warrants exercisable for 280,000 shares of the Company's common stock exercisable at \$0.375 per share were issued to the investors.

Preferred Stock

On April 24, 1998, the Company entered into a Series A Convertible Preferred Stock Purchase Agreement providing for the private placement of up to 3,000 shares of a newly authorized series of preferred stock. The Company received gross proceeds of \$800,000 in April 1998, \$100,000 in July 1998 and \$100,000 in September 1998 from the sale of 1,600, 200 and 200 shares, respectively, of Series A Preferred Stock to three private investors pursuant to the Series A Convertible Preferred Stock Purchase Agreement

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statement and Associated Risks

This Quarterly Report on Form 10-QSB contains certain forward-looking statements. These forward-looking statements are based largely on the Company's current expectations and are subject to a number of risks and uncertainties including, among others (i) customer acceptance of the Company's "one stop shop" Parts Now program; (ii) the possible emergence of competing technologies; and (iii) the Company's ability to obtain additional financing required to support its continuing operations and projected revenue growth. Actual results could differ materially from these forward-looking statements. In view of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this Quarterly Report on Form 10-QSB will in fact transpire.

The following discussion should be read in conjunction with the accompanying Financial Statements of Soligen Technologies, Inc. ("STI") and its wholly-owned subsidiaries Soligen, Inc. ("Soligen") and Altop, Inc. ("Altop") (collectively referred to herein as the "Company") including the notes thereto, included elsewhere in this Quarterly Report.

Overview

The Company has developed a proprietary technology known as Direct Shell Production Casting ("DSPC[®]"). This technology is embodied in the Company's DSPC 300 System (the "DSPC System"), which produces ceramic casting molds directly from Computer Aided Design ("CAD") files. These ceramic molds are used to cast metal parts, which conform to the CAD design. This unique capability distinguishes the DSPC System from rapid prototyping technologies that are characterized by the ability to produce non-functional, three-dimensional representations of parts from CAD files.

The Company's DSPC System is based upon proprietary technology developed by the Company and certain patent and other proprietary rights licensed to Soligen, a wholly-owned subsidiary of the Company, by the Massachusetts Institute of Technology ("MIT") pursuant to a license agreement (the "License") dated October 18, 1991, as amended. Pursuant to the License, MIT granted Soligen an exclusive, world-wide license until October 1, 2006 to develop, manufacture, market and sell products utilizing certain technology and processes for the production of ceramic casting molds for casting metal parts. The license continues on a non-exclusive basis thereafter until the expiration of the last patent relating to the licensed technology. The exclusive period may be extended by mutual agreement of both parties.

The Company believes that the rapid mold production capabilities of the DSPC System provide a substantial competitive advantage over existing producers of cast metal parts. Use of the DSPC System eliminates the need to produce tooling (patterns and core boxes) for limited runs of metal parts, thereby reducing both the time and the labor otherwise required to produce ceramic casting molds for casting the metal parts. It provides for a paradigm shift by enabling engineers to postpone the design or the fabrication of production casting tooling until after the designed part has been functionally tested. This ability, in addition to expediting the design verification and testing, enables manufacturers to save time and money by designing the production casting tools, which are required for large production runs, with very little chance for error, on the first attempt.

The DSPC System can also be used to produce the production tooling (usually made of steel), required to cast the parts in larger production runs. To capitalize on this advantage, the Company plans to form a network of rapid response production facilities owned either by the Company or by licensed third parties. This network will operate under the trade name Parts Now[®] service. These facilities will include DSPC production facilities and foundries with in-house machine shops. The Company intends to establish itself as a leading manufacturer of cast metal parts by providing a seamless transition from CAD file to finished part.

The Company operates the following four major revenue-generating profit centers:

1. **Parts Now Center ("Parts Now"):** Oversees the "one stop shop" production services from receipt of the customer's CAD file through production. Parts Now is responsible for any contract which requires a combination of the DSPC production center and conventional casting and CNC machining expertise. It consists of program managers who oversee the transition from CAD to first article, to tooling, to conventional casting and later to mass production. It acquires services from the DSPC Production Center and the conventional casting center at cost.
2. **DSPC Production Center:** Revenues result from the production and sale of first article and short run quantities of cast metal parts made directly from the customer's CAD file. This center also provides DSPC parts and tool making services to the Parts Now Center. These services are charged to Parts Now at cost.
3. **Conventional Casting Center ("Production Parts"):** Revenues result from the production, and sale of production quantities of cast and machined aluminum parts for industrial customers. The Company generates revenues in this area through Altop, its aluminum foundry and

machine shop. This center is limited to conventional casting and machining of aluminum parts that do not utilize DSPC made tooling.

4. **DSPC Technology Center:** Revenues result from the sale, lease, license or maintenance of DSPC machines and from participation in research and development projects wherein Soligen provides technological expertise.

Results of Operations

Revenues for the three months ended June 30, 1998 and the three and six months ended September 30, 1998 and 1997 were as follows:

| | Three Months Ended <u>June 30,</u> <u>1998</u> | Three Months Ended <u>September 30,</u> <u>1998</u> | Three Months Ended <u>September 30,</u> <u>1997</u> | Six Months Ended <u>September 30,</u> <u>1998</u> | Six Months Ended <u>September 30,</u> <u>1997</u> |
|------------------------------|---|--|--|--|--|
| Parts Now [®] | \$ 715,000 | \$ 467,000 | \$ 126,000 | \$ 1,182,000 | \$ 624,000 |
| DSPC [®] production | 600,000 | 419,000 | 604,000 | 1,019,000 | 1,024,000 |
| Production parts | 288,000 | 231,000 | 229,000 | 519,000 | 447,000 |
| DSPC [®] technology | <u>37,000</u> | <u>50,000</u> | <u>305,000</u> | <u>87,000</u> | <u>402,000</u> |
| Total revenues | <u>\$ 1,640,000</u> | <u>\$ 1,167,000</u> | <u>\$ 1,264,000</u> | <u>\$ 2,807,000</u> | <u>\$ 2,497,000</u> |

Combined revenues for Parts Now and DSPC increased 21% to \$886,000 in the second quarter ended September 30, 1998 from \$730,000 in the similar period last year. Combined revenues for Parts Now and DSPC for the six months ended September 30, 1998 increased to \$2,201,000 from \$1,648,000 or 34% over the six months ended September 30, 1997 reflecting acceptance of the Company's core business in the market place. Parts Now and DSPC combined revenues decreased 33% to \$886,000 in the second quarter ended September 30, 1998 from \$1,315,000 in the first quarter ended June 30, 1998.

Production parts (Altop) revenues increased to \$231,000 or 1% from \$229,000 for the three months ended September 30, 1998 and 1997, respectively, and increased to \$519,000 or 16% from \$447,000 for the six months ended September 30, 1998 and 1997, respectively. Production parts decreased to \$231,000 or 20% in the second quarter ended September 30, 1998 from \$288,000 in the first quarter ended June 30, 1998. Revenues for production parts are in response to the requirements of a repeatable base of customers and fluctuations of this magnitude are considered normal.

DSPC Technology revenues decreased to \$50,000 from \$305,000 for the quarters ended September 30, 1998 and 1997, respectively, and decreased to \$87,000 from \$402,000 for the six months ended September 30, 1998 and 1997, respectively. The quarter ended September 30, 1997 included a \$250,000 machine sale. The sale of a DSPC machine is an unusual event and is a part of the Company's support of MIT's licensees. Future sales of machines to other MIT licensees will depend on the development of their business. DSPC Technology's revenues

increased to \$50,000 for the quarter ended September 30, 1998 from \$37,000 for the quarter ended June 30, 1998.

Total revenues for the quarter ended September 30, 1998 decreased 8% to \$1,167,000 from \$1,264,000 for the similar quarter last year. Total revenues for the six months ended September 30, 1998 increased 12% to \$2,807,000 from \$2,497,000 for the six months ended September 30, 1997. The Company's revenues decreased to \$1,167,000 or 29% for the second quarter ended September 30, 1998 from \$1,640,000 for the first quarter ended June 30, 1998.

Gross profit decreased to \$99,000 for the quarter ended September 30, 1998 from \$374,000 in the similar quarter last year. For the six months ended September 30, 1998, gross profit decreased to \$643,000 from \$727,000 for the quarter ended September 30, 1997. During fiscal 1998, the Company assembled a manufacturing capacity to produce at revenue levels in excess of \$7 million per annum. The manufacturing capability was in place during the second quarter of fiscal 1999 during which time a slowdown for prototype parts occurred. This created idle capacity with redundant costs in place. The Company reviewed its cost structure and during the third quarter of fiscal 1999 has taken action to bring costs more in line with production.

Research and development expenses were \$263,000 and \$256,000 for the quarters ended September 30, 1998 and 1997, respectively. For the six months ended September 30, 1998 and 1997, research and development expenses were \$507,000 and \$519,000, respectively. The Company intends to continue development of the DSPC technology and its applications as a key to its business strategy.

Selling expenses increased to \$192,000 for the quarter ended September 30, 1998 from \$129,000 in the similar quarter last year. For the six months ended September 30, 1998 and 1997, selling expenses increased to \$372,000 from \$265,000, respectively. The increase in selling expenses was the result of costs associated with expansion of the mid-west sales force.

General and administrative expenses decreased to \$270,000 for the quarter ended September 30, 1998 from \$302,000 for the quarter ended September 30, 1997. General and administrative expenses decreased to \$506,000 for the six months ended September 30, 1998 from \$512,000 for the six months ended September 30, 1997.

The Company issued stock options to non-employees in fiscal 1996 and, according to SFAS No. 123 (Accounting for Stock-Based Compensation), non-cash compensation expense is to be recognized over the expected period of benefit. As a result, the Company recognized \$38,000 and \$76,000 non-cash compensation expense, in the quarter and six months ended September 30, 1998 and \$39,000 and \$78,000 in the quarter and six months ended for similar periods last year. The Company expects to recognize approximately \$156,000 non-cash compensation expense during fiscal 1999.

Interest expense increased to \$55,000 in the quarter ended September 30, 1998 from \$11,000 in the similar quarter ended last year. For the six months ended September 30, 1998 and 1997, interest expense increased to \$111,000 from \$15,000. The Company issued warrants to the short-term debt investors and, according to SFAS No. 123, non-cash interest expense related to

the warrants is to be recognized over the expected period of the loan. As a result, the Company recognized \$35,000 and \$70,000 non-cash interest expense, respectively, in the quarter and six months ended September 30, 1998. The Company expects to recognize approximately \$134,000 non-cash interest expense during fiscal 1999. The additional interest expense in the amount of \$20,000 and \$41,000 for the quarter and six months ended September 30, 1998 was the result of payments made for capital leases, other notes payable, short-term debt investors and the commercial lender associated with the revolving line of credit.

Cash and Sources of Liquidity

At September 30, 1998, working capital decreased to \$438,000 compared to working capital of \$838,000 at June 30, 1997 and increased from \$177,000 at March 31, 1998. The increase in working capital from March 31, 1998 to September 30, 1998 was due primarily to the preferred stock offerings that provided \$957,000, net of issuance costs. At September 30, 1998, the Company had \$1,430,000 in cash and accounts receivable, compared to cash and accounts receivable of \$1,758,000 at June 30, 1998 and \$1,473,000 at March 31, 1998.

In April 1998, the Company received net proceeds of \$775,000 from the sale of 1,600 shares of Series A Preferred Stock to two private investors. The Series A Convertible Preferred Stock Purchase Agreement, as amended, between the Company and these investors, permitted additional sales of Series A Preferred Stock to be completed prior to September 8, 1998. In July 1998, the Company received additional net proceeds of \$88,000 from the sale of 200 shares of Series A Preferred Stock to the same two private investors pursuant to the Series A Convertible Preferred Stock Purchase Agreement. In addition, in September 1998, the Company received additional net proceeds of \$94,000 from the sale of 200 shares of Series A Preferred Stock to a third investor pursuant to the Series A Convertible Preferred Stock Purchase Agreement.

In August 1997, the Company entered into an agreement with a commercial lender for an up to \$1 million revolving line of credit, collateralized by accounts receivable, inventory and fixed assets. The credit facility provides for an advance rate of 75% of eligible accounts receivable. In July 1998, the agreement was extended for an additional year to provide the \$1 million revolving line of credit at an advance rate of 80% of eligible accounts receivable. At September 30, 1998, the Company had \$582,000 accounts receivables, net of Altop's accounts receivables; historically 35% to 45% accounts receivable have been eligible for borrowing from the commercial lender.

The Company requires significant funds to expand and continue operations. The Company believes the current cash on hand and its revolving line of credit will be sufficient to meet its working capital and capital expenditures requirements through March 31, 1999. The Company is actively seeking to raise additional funds; however, there can be no assurance to the success of these efforts.

Impact of Year 2000

The Company reviewed its hardware and related software used for operations and financial management and made necessary changes to become Year 2000 compliant. The incremental costs to become compliant did not have a material effect on the Company's consolidated financial

statements. The Company is attempting to contact major vendors and other third parties that do business with the Company to check on the status of their efforts to resolve any Year 2000 issues. The Company is presently unable to assess the likelihood that it will experience significant operational problems due to unresolved third party issues; there can be no assurance that these entities will achieve timely Year 2000 compliance and therefore could have a material impact on the Company's operations.

PART II: OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

On April 24, 1998, the Company entered into a Series A Convertible Preferred Stock Purchase Agreement providing for the private placement of up to 3,000 shares of a newly authorized series of preferred stock. The Company received gross proceeds of \$800,000 in April 1998, \$100,000 in July 1998 and \$100,000 in September 1998 from the sale of 1,600, 200 and 200 shares, respectively, of Series A Preferred Stock to three private investors pursuant to the Series A Convertible Preferred Stock Purchase Agreement.

In December 1997, the Company's Board of Directors approved a short-term debt and warrant financing. The offering was completed in a private placement transaction to accredited investors only pursuant to Regulation D and Rule 506 thereunder. A total of six investors loaned a total of \$220,000 to the Company in December 1997, and one investor loaned an additional \$40,000 to the Company in January 1998. Each investor received a promissory note in the principal amount of the amount loaned, bearing interest at the rate of 12% per annum and due six months from the date of the promissory note. In addition, for each dollar loaned to the Company the investors received a common stock purchase warrant exercisable for two shares of the Company's common stock (resulting in the issuance of warrants exercisable for a cumulative total of 520,000 shares of the Company's common stock). The warrants are exercisable for a period of five years at \$0.50 per share. A finder's fee in the amount of \$17,000 was paid to a non-employee member of the Company's Board of Directors in consideration of services provided in connection with the financing. One of the investors was a non-employee member of the Company's Board of Directors, one investor was an employee member of the Company's Board of Directors, and the remaining five investors were private investors. On June 12, 1998, the Company extended \$220,000 notes payable under the same terms and conditions for an additional 45 days. In connection with this extension, warrants exercisable for 110,000 shares of the Company's common stock were issued to the investors. On July 27, 1998, the Company extended \$210,000 notes payable under the same terms and conditions for an additional 90 days. In connection with this extension, warrants exercisable for 210,000 shares of the Company's common stock were issued to the investors. On October 25, 1998, the Company extended \$140,000 notes payable for an additional six months under the same terms and conditions except for a change in the exercise price of issued warrants. In connection with this extension, warrants exercisable for 280,000 shares of the Company's common stock exercisable at \$0.375 per share were issued to the investors.

Item 4. Submission of Matters to a Vote of Securities Holders

On August 17, 1998, the Company held its 1998 Annual Meeting of Shareholders, at which the following actions were taken:

1. The Shareholders elected the five nominees for Director to the Board of Directors of the Company. The five Directors elected were Yehoram Uziel, Mark W. Dowley, Kenneth T. Friedman, Patrick J. Lavelle and Darryl J. Yea (23,418,207, 23,418,507, 23,418,507, 23,418,607 and 23,418,507 shares were voted affirmatively and 35,240, 34,940, 34,940, 34,840 and 34,940, shares abstained from voting for each of the nominees named, respectively).
2. The Shareholders ratified the selection of Arthur Andersen LLP as independent public accountants of the Company for the fiscal year ended March 31, 1999 (23,411,307 shares were voted affirmatively, 22,940 shares voted negatively and 19,200 shares abstained from voting on this proposal).

Item 5. Other Information

See Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations – Cash and Sources of Liquidity above for description of sale of additional shares of Series A Preferred Stock that occurred in April, 1998, July 1998 and September 1998.

Item 6. Exhibits and Reports on Form 8-K

(a) **Exhibits:** The following exhibits are filed as part of this report:

| <u>Exhibit Number</u> | <u>Description</u> |
|----------------------------------|--|
| 11.1 | Computation of Net Loss Per Share |
| 27 | Financial Data Schedule for the Quarter Ended September 30, 1998 |

(b) Reports on Form 8-K.

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed by the undersigned thereunto duly authorized.

SOLIGEN TECHNOLOGIES, INC.

Date: November 11, 1998

By: /s/ Yehoram Uziel
Yehoram Uziel
President, CEO and Chairman of the Board
(Principal executive officer)

Date: November 11, 1998

By: /s/ Robert Kassel
Robert Kassel
Chief Financial Officer
(Principal financial officer)

SOLIGEN TECHNOLOGIES, INC.**Computation of Net Loss Per Share**

| | Three Months Ended | | Six Months Ended | |
|---|-----------------------------|--------------------|-----------------------------|--------------------|
| | <u>September 30,</u> | | <u>September 30,</u> | |
| | <u>1998</u> | <u>1997</u> | <u>1998</u> | <u>1997</u> |
| Weighted average number of shares outstanding | 32,682,000 | 32,601,000 | 32,682,000 | 32,021,000 |
| Net loss | \$ (715,000) | \$ (362,000) | \$ (918,000) | \$ (661,000) |
| Net loss per share – basic and diluted | \$ (0.02) | \$ (0.01) | \$ (0.03) | \$ (0.02) |