

GENERAL KINETICS INC
Form 10-Q
January 14, 2003
Table of Contents

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

**Quarterly Report under Section 13 or 15(d)
of the Securities Exchange Act of 1934**

For Quarter Ended November 30, 2002

Commission File Number 0-1738

GENERAL KINETICS INCORPORATED

(Exact Name of Registrant as Specified in its Charter)

Virginia
(State or Other Jurisdiction of
Incorporation or Organization)

54-0594435
(I.R.S. Employer
Identification No.)

10688- D Crestwood Drive,
Manassas, VA
(Address of Principal Executive Offices)

20109
(Zip Code)

Registrant's Telephone Number, including Area Code 703-331-8803

Indicate by checkmark 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 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 No

The number of shares of Registrant's Common Stock outstanding as of January 10, 2003

6,718,925 Shares

Table of Contents

INDEX

| | <u>Page No.</u> |
|---|------------------------|
| <u>Cautionary Statement Under the Private Securities Litigation Reform Act of 1995</u> | 3 |
| Part I - Financial Information | |
| Item 1 - Financial Statements | |
| <u>Condensed Balance Sheets - November 30, 2002 and May 31, 2002</u> | 5 |
| <u>Condensed Statements of Operations - Three Months and Six Months Ended November 30, 2002 and November 30, 2001, respectively</u> | 6 |
| <u>Condensed Statements of Cash Flows - Six Months Ended November 30, 2002 and November 30, 2001, respectively</u> | 7 |
| <u>Notes to Condensed Financial Statements</u> | 8 |
| Item 2 - <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 11 |
| Item 3- <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 17 |
| Item 4 - <u>Controls and Procedures</u> | 17 |
| Part II - Other Information | |
| Item 6 - <u>Exhibits and Reports on Form 8-K</u> | 18 |

Table of Contents

CAUTIONARY STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Statements contained in this Quarterly Report on Form 10-Q, including, without limitation, as set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations", as well as oral statements that may be made by the Company or by officers, directors or employees of the Company acting on the Company's behalf, that are not historical fact may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties. They are not historical facts or guarantees of future performance or events. They are based on current expectations, estimates, beliefs, assumptions, goals and objectives, and are subject to uncertainties that are difficult to predict. In particular, certain risks and uncertainties may include, but are not limited to, the risk that the Company may not be able to obtain and complete sufficient new orders to maintain positive cash flow; the risk that the Company may not maintain its present financing facility or obtain additional financing, if necessary; the risk that the Company may not be able to continue the necessary development of its operations, including maintaining or increasing sales and production levels, on a profitable basis; the risk the Company may in the future have to comply with more stringent environmental laws or regulations or more vigorous enforcement policies of regulatory agencies, and that such compliance could require substantial expenditures by the Company; the risk that U.S. defense spending may be substantially reduced; and the risk that the Company's Common Stock will not continue to be quoted on the NASD OTC Bulletin Board services. Forward-looking statements included in this report are based on information known to GKI as of the date of this report and GKI accepts no obligation (and expressly disclaims any obligations) to update these forward-looking statements and does not intend to do so. Certain of these risks and uncertainties are described in the Company's reports and statements filed from time to time with the Securities and Exchange Commission, including this report.

PART I FINANCIAL INFORMATION

Item 1 - Financial Statements

The unaudited financial statements of General Kinetics Incorporated ("GKI" or the "Company") set forth below have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations. Revenues, expenses, assets and liabilities vary during the year and generally accepted accounting principles require the Company to make estimates and assumptions in preparing the interim financial

Table of Contents

statements. The Company has made its best effort in establishing good faith estimates and assumptions. However, actual results may differ. The Company believes that the disclosures made are adequate to make the information presented not misleading.

In the opinion of management of the Company, the accompanying financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of results for the periods presented. These financial statements should be read in conjunction with the audited financial statements for the fiscal years ended May 31, 2002 and 2001 set forth in the Company's annual report on Form 10-K, as amended, for the fiscal year ended May 31, 2002.

Table of Contents

General Kinetics Incorporated
Balance Sheets
November 30, 2002 and
May 31, 2002

| | November 30, 2002 (Unaudited) | May 31, 2002 (Audited) |
|---|-------------------------------------|------------------------------|
| <u>Assets</u> | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 227,800 | \$ 185,100 |
| Marketable securities | 32,700 | 37,400 |
| Accounts receivable, net of allowance of \$71,500 and \$70,900 | 922,200 | 872,100 |
| Inventories | 592,300 | 906,300 |
| Prepaid expenses and other | 33,500 | 56,800 |
| | <u>1,808,500</u> | <u>2,057,700</u> |
| Total Current Assets | 1,808,500 | 2,057,700 |
| Property, Plant and Equipment | 2,944,900 | 2,925,100 |
| Less: Accumulated Depreciation | (2,187,900) | (2,124,700) |
| | <u>757,000</u> | <u>800,400</u> |
| Other Assets | 36,700 | 59,400 |
| | <u>757,000</u> | <u>800,400</u> |
| Total Assets | <u>\$ 2,602,200</u> | <u>\$ 2,917,500</u> |
| <u>Liabilities and Stockholders' Deficit</u> | | |
| Current Liabilities: | | |
| Current maturities of long-term debt | 90,000 | 90,000 |
| Current maturities of capital lease | 18,500 | 18,500 |
| Accounts payable, trade | 326,800 | 765,900 |
| Accrued expenses and other payables | 470,800 | 577,500 |
| | <u>906,100</u> | <u>1,451,900</u> |
| Total Current Liabilities | 906,100 | 1,451,900 |
| Long-Term Debt - less current maturities (including \$8,886,800 and \$8,855,800 of convertible debentures) | 9,243,500 | 9,256,700 |
| Capital lease - less current maturities | 72,700 | 82,000 |
| Other long-term liabilities | 257,200 | 258,400 |
| | <u>9,573,400</u> | <u>9,597,100</u> |
| Total Long-Term Liabilities | 9,573,400 | 9,597,100 |
| Total Liabilities | <u>10,479,500</u> | <u>11,049,000</u> |
| Stockholders' Deficit: | | |
| Common Stock, \$0.25 par value, 50,000,000 shares authorized, 7,245,557 shares issued, 6,718,925 shares outstanding | 1,811,500 | 1,811,500 |
| Additional Contributed Capital | 7,239,400 | 7,239,400 |
| Accumulated Deficit | (16,478,000) | (16,732,200) |
| | <u>(7,427,100)</u> | <u>(7,681,300)</u> |
| Less: Treasury Stock, at cost (526,632 shares) | (450,200) | (450,200) |
| | <u>(450,200)</u> | <u>(450,200)</u> |

Edgar Filing: GENERAL KINETICS INC - Form 10-Q

| | | |
|--|--------------|--------------|
| Total Stockholders Deficit | (7,877,300) | (8,131,500) |
| Total Liabilities and Stockholders Deficit | \$ 2,602,200 | \$ 2,917,500 |

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

Table of Contents

General Kinetics Incorporated
Statements of Operations
(Unaudited)

| | Six Months Ended | | Three Months Ended | |
|--|----------------------|----------------------|----------------------|----------------------|
| | November 30, 2002 | November 30, 2001 | November 30, 2002 | November 30, 2001 |
| Net Sales | \$ 4,253,100 | \$ 4,689,200 | \$ 1,981,400 | \$ 2,620,700 |
| Cost of Sales | 3,168,500 | 3,765,400 | 1,482,600 | 2,161,100 |
| Gross Profit | 1,084,600 | 923,800 | 498,800 | 459,600 |
| Selling, General & Administrative | 723,200 | 779,900 | 347,100 | 384,700 |
| Product Research, Development & Improvement | 3,500 | | 1,800 | |
| Total Operating Expenses | 726,700 | 779,900 | 348,900 | 384,700 |
| Operating Income | 357,900 | 143,900 | 149,900 | 74,900 |
| Interest Expense | (103,700) | (116,700) | (52,200) | (61,100) |
| Net Income | 254,200 | 27,200 | 97,700 | 13,800 |
| Basic Earnings per Share: | | | | |
| Basic Earnings per Share | \$ 0.038 | \$ 0.004 | \$ 0.015 | \$ 0.002 |
| Weighted Average Number of Common Shares Outstanding | 6,718,925 | 6,718,925 | 6,718,925 | 6,718,925 |
| Diluted Earnings per Share: | | | | |
| Diluted Earnings per Share | \$ 0.012 | \$ 0.003 | \$ 0.005 | \$ 0.002 |
| Weighted Average Number of Common Shares and Dilutive Equivalents Outstanding | 24,708,925 | 24,708,925 | 24,708,925 | 24,708,925 |

The accompanying notes are an integral part of the above statements.

Table of Contents

General Kinetics Incorporated
Statements of Cash Flows
(Unaudited)

| | Six Months Ended | |
|---|----------------------|----------------------|
| | November 30, 2002 | November 30, 2001 |
| Cash Flows From Operating Activities: | | |
| Net Income | \$ 254,200 | \$ 27,200 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Unrealized loss on marketable securities | 4,700 | |
| Depreciation and amortization | 63,200 | 72,600 |
| Amortization of bond discount | 31,000 | 31,000 |
| (Increase) Decrease in Assets: | | |
| Accounts Receivable | (50,100) | (173,900) |
| Inventories | 314,000 | (223,300) |
| Prepaid Expenses | 23,300 | (22,200) |
| Other assets | 22,700 | (14,700) |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable - Trade | (439,100) | 112,000 |
| Accrued Expenses | (106,600) | (51,700) |
| Other Long Term Liabilities | (1,300) | (19,200) |
| | <u>116,000</u> | <u>(262,200)</u> |
| Net cash provided by (used in) Operating Activities | | |
| Cash Flows from Investing Activities: | | |
| Acquisition of property, plant and equipment | (19,800) | (14,800) |
| | <u>(19,800)</u> | <u>(14,800)</u> |
| Net cash used in Investing Activities | | |
| Cash Flows from Financing Activities: | | |
| Advances from Factor/Borrowings on Demand Notes Payable | 553,000 | 604,700 |
| Repayments of advances from Factor/ Demand Notes Payable | (553,000) | (401,200) |
| Principal payments under capital lease | (9,300) | |
| Repayments on Long Term Debt | (44,200) | (36,300) |
| | <u>(53,500)</u> | <u>167,200</u> |
| Net cash provided (used in) by Financing Activities | | |
| Net increase (decrease) in cash and cash equivalents | 42,700 | (109,800) |
| Cash and Cash Equivalents: Beginning of Period | 185,100 | 388,300 |