

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**

	<b><u>Page No.</u></b>
<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 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
<b>Basic Earnings per Share:</b>				
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
<b>Diluted Earnings per Share:</b>				
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
<b>Cash Flows From Operating Activities:</b>		
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)
	116,000	(262,200)
<b>Cash Flows from Investing Activities:</b>		
Acquisition of property, plant and equipment	(19,800)	(14,800)
	(19,800)	(14,800)
<b>Cash Flows from Financing Activities:</b>		
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)
	(53,500)	167,200
Net increase (decrease) in cash and cash equivalents	42,700	(109,800)
Cash and Cash Equivalents: Beginning of Period	185,100	388,300