

Edgar Filing: ARMITEC INC - Form 10QSB

ARMITEC INC
Form 10QSB
September 17, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the Quarterly Period Ended June 30, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to

Commission file number 0-11419

Armitec, Inc.

(Exact name of registrant as specified in its charter)

Delaware

22-4935595

(State of Incorporation)

(I.R.S. Employer Identification No.)

4479 Atlanta Road
Smyrna, Georgia

30080

(Address of principal executive offices)

(Zip Code)

770-432-8140

(Telephone Number)

Not Applicable

(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 XX NO
-- --

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 41,688,629 shares of common stock, \$.00167 par value per share, issued and outstanding as of September 3,

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2002.

Transitional Small Business Disclosure Format (check one): YES X NO
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ARMITEC, INC
(A DEVELOPMENT STAGE COMPANY)
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ARMITEC, INC.
(A Development stage company)

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Consolidated Balance Sheet

	June 30, 2002 (Unaudited)
Assets -----	
Current assets:	
Cash	--
Inventories	\$ 466,916
Accounts receivable (net of allowance for doubtful accounts of \$10,000)	251,520
Other current assets	16,450

Total current assets	734,886

Non-current assets:	
Furniture, fixtures and equipment, at cost	843,759
Accumulated depreciation	(18,200)

Fixed assets, net	825,559
Goodwill	837,048
Other assets	15,500

Total non-current assets	1,678,107

Total assets	\$ 2,412,993
	=====
Liabilities and Stockholders' Deficit -----	
Current liabilities:	
Accounts payable	\$ 954,941
Bank overdraft	22,259
Notes payable	377,133
Accrued taxes and expenses	596,388

Total current liabilities	1,950,721

Non-current liabilities:	
Convertible debentures	450,000
Note payable	176,000
Related party obligations	603,350

Total noncurrent liabilities	1,229,350

Total liabilities	3,180,071

Commitments and contingencies	
Stockholders' deficit:	
Common stock, par value \$.00167; 300,000,000 shares authorized; 41,688,629 and 30,513,629 shares issued and outstanding	69,620

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Paid-in capital	365,502
Accumulated deficit during the development stage	(1,202,200)

Total stockholders' deficit	(767,078)

	\$ 2,412,993
	=====

See accompanying notes to financial statements

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ARMITEC, INC.
(A Development stage company)

Consolidated Statements of Operations for the Three
Months Ended June 30, 2002 and 2001
(Unaudited)

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
	-----	-----
Sales	\$ 282,089	--
Cost of sales	128,530	--
	-----	-----
Gross margin	153,559	--
	-----	-----
Operating expenses		
General and administrative	395,854	107,922
Interest	13,180	1,456
	-----	-----
Total expenses	409,034	109,378
	-----	-----
Net loss	\$ (255,475)	(109,378)
	=====	=====
Net loss per share	(.01)	(.01)
	=====	=====
Weighted average number of common shares outstanding	35,101,129	18,808,632
	=====	=====

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See accompanying notes to the financial statements.

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ARMITEC, INC.
(A Development stage company)

Consolidated Statements of Operations for the Six
Months Ended June 30, 2002 and 2001
and for the Period Commencing July 24, 2000
to June 30, 2002
(Unaudited)

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001	Cumu Jul (co of s Jun
Sales	\$ 284,165	--	
Cost of sales	129,653	--	
Gross margin	154,512	--	
Operating expenses			
General and administrative	670,493	168,953	
Interest	14,562	3,096	
Total expenses	685,055	172,049	
Net loss	\$ (530,543)	(172,049)	
Net loss per share	(.02)	(.01)	
Weighted average number of common shares outstanding	35,101,129	18,808,632	

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See accompanying notes to the financial statements.

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ARMITEC, INC.
(A Development stage company)

Consolidated Statements of Cash Flows for the Six Months
Ended June 30, 2002 and 2001 and for the Period
Commencing July 24, 2000 to June 30, 2002
(Unaudited)

	Six Months Ended June 30, 2002	Six Mo End June 3
	-----	-----
Cash flows from operating activities, net of effects of acquisition:		
Net loss	\$ (530,543)	(
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	18,200	
Non-cash payment for consulting services	176,342	
Changes in:		
Accounts receivable	(43,088)	
Accounts payable and accrued expenses	89,143	
Inventories	(145,307)	
Bank overdraft	22,259	
Other assets	(8,675)	
	-----	-----
Net cash used by operating activities	(421,669)	-----
	-----	-----
Cash flows from investing activities, net of effects of acquisition:		
Net proceeds used to acquire Pocono Knits, Inc.	(102,158)	
Purchase of fixed assets	(31,639)	
	-----	-----
Net cash used by investing activities	(133,797)	

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Cash flows from financing activities, net of effects of acquisition:		
Repayment of notes payable		(63,341)
Proceeds from convertible debt issuance		450,000
Proceeds from the issuance of common stock		--

Common stock subscription, net of receivable		--
Proceeds from exercise of warrants		37,500
Change in related party obligations		123,750

Net cash provided by financing activities		547,909

Net decrease in cash		(7,557)
Cash at beginning of period		7,557

Cash at end of period		\$ --
		=====
Supplemental information:		
Interest paid		\$ 14,562
		=====

See accompanying notes to financial statements.

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ARMITEC, INC.
(A Development stage company)

Consolidated Statement of Changes in Stockholders' Deficit

	Common Stock		Paid-In Capital	Accumu Defi Duri Develo Sta
	Shares	Amount		
	-----	-----	-----	-----
Balances, at inception	15,947,542	25,516	--	(3)
Common stock issued for compensation to employees at \$.01 per share	1,027,100	1,643	8,628	
Common stock issued to settle debt at \$.01 per share	18,000	29	151	
Common stock issued for consulting Services at \$.01 per share	1,815,990	2,906	15,254	
Net (loss) for the period	--	--	--	(22)
	-----	-----	-----	-----

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Balances, December 31, 2000	18,808,632	30,094	24,033	(25)
Issuance of common stock				
Net of offering costs of \$21,251				
at \$.15 per share	849,997	1,360	105,381	
Common stock issued for				
consulting services at par	720,000	1,152	--	
Proceeds from sale of common stock				
at \$.15 per share	35,000	56	4,944	
Common stock issued for consulting				
services at par	7,350,000	11,760	--	
Common stock issued for consulting				
services at \$.01 per share	2,500,000	4,000	21,000	
Proceeds from sale of common stock				
at \$.15 per share	50,000	80	7,420	
Proceeds from exercise of				
warrants at \$.05 per share	200,000	320	9,680	
Change in par value to .000167 per share	--	2,136	(2,136)	
Net (loss) for the year	--	--	--	(41)
	-----	-----	-----	-----
Balances, December 31, 2001	30,513,629	50,958	170,322	(67)
Common stock issued for				
consulting services at \$.02 per share	2,225,000	3,715	40,785	
Proceeds from exercise of				
warrants at \$.075 per share	500,000	835	36,665	
Common stock issued for consulting				
services at \$.02 per share	4,400,000	7,348	80,652	
Common stock issued for consulting				
services at \$.023	1,750,000	2,922	37,078	
Common stock (restricted) issued for				
consulting services at par	2,300,000	3,842	--	
Net loss for period	--	--	--	(53)
	-----	-----	-----	-----
Balances, June 30, 2002	41,688,629	69,620	365,502	(1,20)
	=====	=====	=====	=====

See accompanying notes to financial statements.

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ARMITEC, INC.
(A Development stage company)

Notes to Consolidated Financial Statements
(Unaudited)

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes

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required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company's financial position as of June 30, 2002 and the results of its operations and cash flows for the three and six months ended June 30, 2002. Operating results for the three months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002.

These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Form 10-KSB for the year ended December 31, 2001.

(2) Acquisition of Pocono Knits, Inc.

On May 2, 2002, the Company acquired Pocono Knits, Inc. (Pocono) through its wholly-owned subsidiary Jack Young Associates, Inc. The acquired company manufactures uniforms and knitwear products. Pocono has been in business for over forty years and has the same customer base the Company plans on serving. The Company acquired the assets and liabilities of Pocono in exchange for \$102,158. As a result of the transaction, the Company recorded goodwill totaling \$837,048, which was primarily the result of the Pocono's stockholders' deficit after consideration of adjustments to net assets to reflect their fair values at the acquisition date.

The consolidated results of the Company include the results of the operations of Pocono since the acquisition date. The following table details the significant assets and liabilities acquired as a result of the acquisition:

Assets:		
Inventories	\$	250,402
Accounts receivable		208,432
Fixed assets		746,000
Liabilities:		
Accounts payable	\$	836,805
Accrued taxes payable and accrued expense		486,463
Notes payable		623,141

(3) Issuance of Convertible Notes

The Company entered into convertible debt financing agreements with Stonestreet Limited Partnership and Filter International, Ltd. for an aggregate of \$450,000. The stated interest rate on the notes is 7% per annum and the unpaid principal and interest balance is due in full by April 23, 2004 and June 5, 2004, respectively. As defined by the note, the conversion price is the lesser of (a) \$.07 or (b) an amount equal to 70% of the average per share market price as quoted on the OTC Bulletin Board, The Nasdaq Small-Cap Market, or the Nasdaq National Market for the three days having the lowest per share market value during the thirty trading days prior to the conversion date. In concert with the issuance of the convertible notes, the Company issued 4,500,000 warrants to purchase the common stock of the Company with an exercise price equal to 105% of the market price at the date of closing.

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ARMITEC, INC.
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Notes to Consolidated Financial Statements, continued

(4) Consulting Agreements

The Company entered into a Consulting Agreement with the former President of Pocono Knits, Inc. which requires the payment of \$127,200 per year for consulting services and 2,000,000 shares of the Company's common stock. The 2,000,000 shares of the Company's stock is subject to a put agreement whereby upon the five year anniversary of the put agreement, the consultant may put the shares back to the Company for the sum of \$550,000. If the consultant rejects a call from the Company, the consultant's put option will terminate. The Company also entered into an Employment Agreement with the former Vice President of Pocono Knits, Inc. with compensation in the amount of \$96,180 per year.

(5) Related Party

The Company has paid Galt, Inc. \$20,000 per month for a total of \$120,000 as of June 30, 2002 for consulting services provided by the Chief Executive Officer (CEO). Galt, Inc. is owned by the spouse of the CEO.

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ARMITEC, INC.
(A Development stage company)

Notes to Consolidated Financial Statements, continued

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

Plan of Operation

For the near term, the Company continues to pursue its business plan, and the Company is currently seeking additional acquisitions or in the alternative, raising additional funds necessary to expand its retail and manufacturing operations. During the second quarter of 2002, the Company raised \$450,000 from the sale of convertible notes; however, additional capital will be needed to continue the Company's operations. The Company expects obtain additional capital through the private sale of the Company's securities or from borrowings from private lenders and/or financial institutions. There can be no assurance that the Company will be successful in obtaining any additional capital which may be

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needed.

On May 2, 2002, Jack Young Associates, Inc., a wholly-owned subsidiary of the Company, purchased the assets of Pocono Knits, Inc., a New Jersey Corporation. Pocono Knits, Inc. is a manufacturer of sweaters for the military, police, postal, fire and security companies. The Company has been in business for over 40 years and services the same customer base as the Company intends to service. This transaction is further discussed in Footnote 2 of the financial statements. The Company will file the required pro forma financial information as soon as is practical.

Financial Condition

The Company continues to operate as a development stage entity. For the six months ended June 30, 2002, the Company has funded its operations from the issuance of debt and borrowings from related parties. To date the Company has not generated positive cashflow from operations. During the second quarter, the Company commenced operations with the acquisition of Pocono Knits, Inc.; however, the bulk of the Company's resources continue to be devoted to developmental activities. The ability of the Company to go on as a going concern is contingent upon the generation of positive cash flow or additional borrowings. At June 30, 2002, the Company reported total assets of \$2,412,993, total liabilities of \$3,180,071 and a shareholders' deficit of \$767,078. Additionally, the Company reported negative working capital of \$1,215,835.

Results of Operations

Although the Company continues to focus significant resources on developmental issues, the Company commenced operations in the second quarter as a result of the purchase of Pocono Knits, Inc. Sales for the three months totaled \$282,089 and the related cost of goods sold were \$128,530 generating a gross margin of \$153,559. For the six month period, the gross margin reported was \$154,512 on total sales of \$284,165. General and administrative expenses for the three month and six month period were \$395,854 and \$670,493, respectively, principally due to consulting and legal expenses of approximately \$173,000 and \$292,000, respectively, primarily related to the issuance of the convertible notes and the acquisition of Pocono Knits, Inc. Net loss reported for the six and three months ended June 30, 2002 was \$530,543 and \$255,475. The accumulated deficit for the period from inception, being July 24, 2000, through June 30, 2002, was \$1,202,200.

Liquidity and Capital

At June 30, 2002, the Company reported a bank overdraft of \$22,259 with overall negative net working capital of \$1,215,835. To date, liquidity needs have been met with borrowings from the issuance of convertible notes and borrowings from related parties. As noted above, the convertible notes mature on April 23, 2004. There is no stated maturity with regard to amounts owed to related parties. Management believes the Company will be able to satisfy its cash requirements for the next 12 months. Fully executing the business plan beyond the present stage however, will require the increase of the Company's cash needs and is contingent on raising additional resources or the generation of cash flow through greater sales.

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ARMITEC, INC.
(A Development stage company)

Notes to Consolidated Financial Statements, continued

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

of Operations, continued

Liquidity and Capital, continued

During the second quarter of 2002, the Registrant entered into convertible note agreements with the Stonestreet Limited Partnership and Filter International, Ltd. for the issuance of a \$350,000 and \$100,000, respectively, 7% note maturing April 23, 2004 and June 5, 2002, respectively. As defined by the note, the conversion price is the lesser of (a) \$.07 or (b) an amount equal to 70% of the average per share market price as quoted on the OTC Bulletin Board, The Nasdaq Small-Cap Market, or the Nasdaq National Market for the three days having the lowest per share market value during the thirty trading days prior to the conversion date. Under the Convertible Note Purchase Agreement the Registrant covenanted that it would not declare or pay any dividends so long as the Convertible Note remained outstanding. In concert with the issuance of the convertible notes, the Company issued 4,500,000 warrants to purchase the common stock of the Company with an exercise price equal to 105% of the market price at the date of closing.

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ARMITEC, INC.
(A Development stage company)

Notes to Consolidated Financial Statements, continued

Part II

Item 1. Legal Proceedings

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In June, 2002, the Registrant received a Notice of Default from Mr. Julius Waltzer under a Promissory Note between Mr. Waltzer and Pocono Knits, Inc. In connection with the Asset Purchase Agreement by and between Jack Young Associates, Inc. (a wholly owned subsidiary of the Registrant) and Pocono Knits, Inc., Jack Young Associates, Inc. agreed to continue to make payments on behalf of Pocono Knits, Inc. in connection with this promissory note. The Registrant is currently in settlement discussions with Mr. Waltzer concerning the repayment terms of the Note.

In August, 2002, the Registrant received a demand from Mr. Jack Young for amounts allegedly owed under his Consulting Agreement, which was terminated by the Registrant for cause on August 16, 2002, and other amounts allegedly advanced to the Registrant. The Registrant believes that it has meritorious defenses to the allegations listed above, including set-offs against Mr. Young. However, in light of the nature of the litigation process, there can be no assurance that we will not be motivated to consider reasonable settlement opportunities or that we will not suffer an adverse result should the demand proceed to litigation, either of which could have a material adverse impact on us.

Item 2. Changes in Securities and Use of Proceeds

On April 23, 2002, the Registrant entered into a securities purchase agreement with Stonestreet Limited Partnership for the issuance of a \$350,000 7% convertible note and 3,500,000 common stock purchase warrants in reliance on Section 4(2) of the Act and Rule 506. Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$0.042. The commission for the transaction was 10% (\$35,000) and a common stock purchase warrant for 3,500,000 shares of our stock at an exercise price per share of \$0.042. Net proceeds amounted to \$315,000.

On May 2, 2002, the Registrant issued 2,000,000 shares of its common stock to Jack Young for services to be provided pursuant to a Consulting Agreement of the same date. The services were valued at \$3,340 or \$0.00167 per share. These shares were sold pursuant to Section 4(2) of the Securities Act and have been marked "restricted."

On May 22, 2002, the Registrant issued 50,000 shares of its common stock to Phil Dubois for services to be provided. The services were valued at \$83.50 or \$0.00167 per share. These shares were sold pursuant to Section 4(2) of the Securities Act and have been marked "restricted."

On June 24, 2002, the Registrant issued 250,000 shares of its common stock to Tony Anzovino for services to be provided. The services were valued at \$417.50 or \$0.00167 per share. These shares were sold pursuant to Section 4(2) of the Securities Act and have been marked "restricted."

On June 5, 2002, the Registrant entered into a securities purchase agreement with Filter International, Ltd. for the issuance of a \$100,000 7% convertible note and 1,000,000 common stock purchase warrants in reliance on Section 4(2) of the Act and Rule 506. Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$0.02625. The commission for the transaction was 10% (\$10,000) and a common stock purchase warrant for 1,000,000 shares of our stock at an exercise price per share of \$0.02625. Net proceeds amounted to \$90,000.

Item 3. Defaults Upon Senior Securities

NONE

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

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On April 23, 2002, a majority of the Registrant's shareholders approved the adoption of an amended and restated Certificate of Incorporation of the Registrant by written consent to, among other things, increase the number of shares of common stock of the Registrant from 50,000,000 to 300,000,000 shares, and to create a class of blank check preferred stock, par value \$0.001, with 10,000,000 authorized shares. On June 27, 2002, the Registrant filed a definitive information statement with the Commission, which was mailed to the Registrants shareholders in late July. On August 15, 2002, the Registrant filed its Amended and Restated Certificate with the Delaware Secretary of State.

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Item 5. Other Information

NONE

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 3.1 Amended and Restated Certificate of Incorporation (1)
- 10.1 Convertible Note Purchase Agreement between Armitec, Inc. and Filter International, Ltd.
- 10.2 Convertible Promissory Note with Filter International, Ltd.
- 10.3 Warrant Agreement with Filter International, Ltd.
- 10.4 Registration Rights Agreement with Filter International, Ltd.
- 99.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 executed by Bruce R. Davis, Chief Executive Officer, President and Chief Financial Officer of Armitec, Inc.

(1) Incorporated by reference to the Definitive Information Statement on Schedule 14C filed by the registrant on June 27, 2002.

(b) Reports on Form 8-K

On May 28, 2002, the Registrant filed a Current Report on Form 8-K reporting the resignation of its independent public accountant.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934,

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the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARMITEC, INC.

/s/ Bruce R. Davis

Date: September 13, 2002

Bruce R. Davis
President, Chief Executive Officer,
Chief Financial and Accounting Officer

