

Edgar Filing: TORQUE ENGINEERING CORP - Form 10-Q

TORQUE ENGINEERING CORP
Form 10-Q
November 19, 2001

U.S. 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 September 30, 2001 or
 Transition report under section 13 or 15(d) of the Exchange Act for the
transition period from _____ to _____

Commission file number: 000-21811

Torque Engineering Corporation
(Exact Name of Small Business Issuer as Specified In Its Charter)

Delaware 83-0317306
(State of Incorporation) (I.R.S. Employer Identification No.)

2932 Thorne Drive, Elkhart, Indiana 46514
(Address of Principal Executive Offices)
(219) 264-2628
(Issuer's Telephone Number, Including Area Code)

(Former Name, Former Address and Former fiscal Year,
if Changed Since Last Report)

As of November 19, 2001, the Issuer had 8,571,842 shares of Common Stock, par value \$0.00001, outstanding.

Transitional Small Business Disclosure Format (check one): Yes No

Torque Engineering Corporation
FORM 10-QSB
For the Quarterly Period Ended September 30, 2001

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements	3
Consolidated Balance Sheets at September 30, 2001 (unaudited) and December 31, 2000 (audited)	3
Consolidated Statements of Operations for the three months ended September 30, 2001 & 2000 (unaudited) and the nine months ended September 30, 2001 & 2000 (unaudited).	4

Edgar Filing: TORQUE ENGINEERING CORP - Form 10-Q

Consolidated Statements of Cash Flows for the nine months ended
September 30, 2001 and 2000 (unaudited).

Notes to Consolidated Financial Statements.	5
Item 2. Management's Discussion and Analysis or Plan of Operations	6
PART II. OTHER INFORMATION	9
Item 1. Legal Proceedings	11
Item 2. Change in Securities	11
Item 3. Defaults upon Senior Securities	11
Item 4. Submission of Matters to a Vote of Security Holders	11
Item 5. Other Information	11
Item 6. Exhibits and Reports on Form 8-K	11
Signature	12

Torque Engineering Corporation

CONSOLIDATED BALANCE SHEETS

ASSETS

	Sep 30, 2001 (unaudited)

CURRENT ASSETS	
Cash	\$ -0-
Accounts receivable, net	233,407
Marketable securities	1,213
Prepaid expenses	37,124
Advances to suppliers	84,756
Due from factor	76,855
Inventory, net	682,094

Total current assets	1,115,449
Property & Equipment, net	8,618,281

TOTAL ASSETS	\$ 9,773,730
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Cash - Overdraft	\$ 36,163
------------------	-----------

Edgar Filing: TORQUE ENGINEERING CORP - Form 10-Q

Accounts payable & other liabilities	571,812
Obligations under capital leases - current portion	194,102
Due to factor	219,586
Accrued factor fees	16,810
Loan payable - officer	6,000
Notes payable - officer	233,156

Total current liabilities	1,277,629
LONG-TERM LIABILITIES	
Obligations under capital leases, net of current portion	359,094

TOTAL LIABILITIES	1,636,723

STOCKHOLDERS' EQUITY	
Common Stock, \$0.00001 par value, 50,000,000 shares authorized, 8,571,842 and 8,099,607 shares issued and outstanding respectively.	86
Additional paid in capital	14,589,966
Accumulated deficit	(6,219,924)
Accumulated other comprehensive loss	(211,063)

	8,159,065
Less treasury stock at cost (6,750 Shares)	(56,970)
Less deferred compensation expense	(5,088)

Total stockholders' equity	8,097,007

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,733,730
	=====

See accompanying notes to consolidated financial statements

3

Torque Engineering Corporation

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended Sep 30 2001 ----	Three Months Ended Sep 30 2000 ----
SALES	\$ 14,054	\$ 229,840
COST OF SALES	278,086	(295,828)
	-----	-----
GROSS LOSS	(264,032)	(65,988)
	-----	-----

Edgar Filing: TORQUE ENGINEERING CORP - Form 10-Q

OPERATING EXPENSES		
Payroll	53,061	55,253
Depreciation	280,900	279,588
Rent	30,000	30,000
Stock based compensation	1,199	-0-
Stock based consulting	-0-	-0-
Other selling, general & administrative	118,542	114,357
	-----	-----
Total Operation Expenses	483,712	479,198
	-----	-----
NET (LOSS) FROM OPERATIONS	(\$747,744)	(\$545,186)
	-----	-----
OTHER INCOME (EXPENSE)		
Interest Income	-0-	1,210
Interest Expense	(10,218)	(35,603)
Factoring fees	(26,442)	-0-
Other	(10,016)	-0-
	-----	-----
Total Other Income (Expenses)	(46,676)	(34,393)
	-----	-----
NET (LOSS) BEFORE EXTRAORDINARY ITEMS	(\$794,420)	(\$579,579)
EXTRAORDINARY ITEMS		
Gain on extinguishment of debt	-0-	-0-
	-----	-----
NET (LOSS)	(\$794,420)	(\$579,579)
OTHER COMPREHENSIVE (LOSS), NET OF TAX		
Unrealized gain (loss) on marketable securities - net	(2,426)	(9,492)
	-----	-----
COMPREHENSIVE LOSS	(\$796,846)	(\$589,071)
	=====	=====
Loss before Extraordinary Gain	(\$ 0.093)	(\$ 0.072)
Extraordinary gain	\$ -	\$ -
	-----	-----
Net loss per share - basic & diluted	(\$ 0.093)	(\$ 0.072)
	=====	=====
Weighted average number shares outstanding during the period - basic & diluted	8,573,799	8,099,607
	=====	=====

See accompanying notes to consolidated financial statements.

Edgar Filing: TORQUE ENGINEERING CORP - Form 10-Q

	Nine Months Ended Sep 30, 2001 -----
CASH FLOWS FROM OPERATIONS ACTIVITIES:	
Net Loss	\$ (2,130,989)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	843,732
Recognized deferred compensation	-0-
Stock based compensation	44,826
Common stock issued for future services	55,028
Provision for inventory obsolescence	184,273
Gain on extinguishment of debt	-0-
Changes in operating assets & liabilities:	
(Increase) Decrease in:	
Cash Overdraft	36,163
Accounts receivable	77,752
Prepaid expenses	12,884
Advances to suppliers	24,426
Inventory	(77,232)
Increase (Decrease) in:	
Accounts payable & other liabilities	230,743
Accrued factor fees	16,810

Net cash used in operating activities	(681,584)

CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property & equipment	(10,315)

Net cash used in investing activities	(10,315)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayments on capital lease obligations	(28,445)
Due to factor, net	142,731
Proceeds from notes payable - related parties	161,500
Loan payable - officer	6,000
Proceeds from issuance of common stock	250,000

Net cash provided by financing activities	531,786

NET INCREASE (DECREASE) IN CASH	(160,113)
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	160,113

CASH & CASH EQUIVALENTS AT END OF PERIOD	\$ -0-

See accompanying notes to consolidated financial statements

Torque Engineering Corporation

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and have been condensed pursuant to the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position and results of operations.

It is management's opinion, however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year.

For further information, refer to the consolidated financial statements and footnotes included in the Company's Form 10-KSB for the year ended December 31, 2000.

2. ACCOUNTS RECEIVABLE CONCENTRATIONS

The Company has a concentration of its accounts receivable with one customer totaling 96%. As of September 30, 2001 accounts receivable are deemed fully collectible.

3. ACCOUNTS RECEIVABLE AND FACTOR AGREEMENTS

On May 2, 2001, the Company entered into an accounts receivable financing agreement with a factor. The receivables were transferred with recourse and due to a provision that could require the Company to repurchase the receivables, the transaction is accounted for as a financing arrangement. Under the terms of the agreement, the factor advances 65% of the face value of the receivables sold by the Company. The Company is charged a variable percentage fee based upon the length of the collection period. After 180 days, if the customer's accounts receivable is not paid, the factor is entitled to keep and assess the remaining 35% holdback reserve as a fee for service. All of the Company's accounts receivable, equipment, furniture and fixtures are pledged as collateral under this agreement.

For the three months ended September 30, 2001 the Company has financed \$219,586 in accounts receivable. At September 30, 2001, the Company has \$76,855 due from the factor, which represents net advances made to the Company by the factor, less cash rebates received from the holdback reserve. The Company has \$219,586 due to the factor, which represents the gross receivables financed that have yet to be paid by the Company's customer. For the three months ended September 30, 2001, the Company incurred \$26,442 in factoring fees.

4. INVENTORIES

Inventory at September 30, 2001 (unaudited) and December 31, 2000 (Audited) consisted of the following:

Edgar Filing: TORQUE ENGINEERING CORP - Form 10-Q

	2001	2000
	----	----
Purchased Parts, net	\$314,931	\$376,532
Engines in Process	135,339	184,405
Completed Engines	231,824	228,198
	-----	-----
	\$682,094	\$789,135
	=====	=====

6

During the nine months ended September 30, 2001, the company recorded a provision for inventory obsolescence of \$184,273.

5. LOAN PAYABLE OFFICER

During the three months ended Sept 30, 2001, the Company received \$6,000 in operating funds from an officer. The note is non-interest bearing, however, upon the maturity date of the loan if the principal is not paid in full and the note is in default, a 10% interest payment in addition to principal will become due and payable immediately.

6. SHAREHOLDER LOANS

During the three months ended September 30, 2000 shareholders of the Company made advances of \$30,000 for operating funds.

7. STOCKHOLDERS' EQUITY

Effective July 1, 2001, the company rescinded a consulting contract initially entered into on May 2, 2000. As a result, 180,000 shares of Common Stock were cancelled and returned to the company.

On June 5, 2000 a total of 266,667 shares of common stock were issued at a price of \$1.50 per share or a total amount of \$400,000. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

Subsequent to September 30, 2000, the Company issued 4,000 shares of its common stock in exchange for \$13,000.

8. COST OF SALES

For the three months ended September 30, 2001 and 2000 (unaudited) the Company charged to cost of goods sold \$278,086 and \$295,828 respectively.

9. GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has a working capital deficiency of \$162,180, a net loss from operations of \$2,130,989, negative cash flows from operating activities of \$681,584 and had an accumulated deficit of \$6,219,924 at September 30, 2001.

In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the

Edgar Filing: TORQUE ENGINEERING CORP - Form 10-Q

Company, which in turn is dependent upon the Company's ability to meet its working capital requirements, and the success of its future operations. Management believes that action presently being taken to revise the Company's operating and financial requirements provide the opportunity for the Company to continue as a going concern.

10. SUBSEQUENT EVENTS

(A) DEBENTURE OFFERING

In order to provide working capital and financing for the Company's expansion, the Company entered into an agreement with Cornell Capital Partnership L.P. ("the Purchaser") whereby the Purchaser acquired \$300,000 of the Company's 6% Convertible Subordinated Debentures, due November 3, 2006

7

The Holder is entitled, at its option, to convert, and sell all or any part of the principal amount of the Debenture, plus accrued interest, into shares (the "Conversion Shares") of the Company's common stock, par value \$.00001 per share ("Common Stock"), at the price per share (the "Conversion Price") equal to either (a) an amount equal to 120% of the closing bid price of the Common Stock as listed on a Principal Market, as quoted by Bloomberg L.P. (the "Closing Bid Price") as of the date hereof, or (b) an amount equal to 80% of the average of the four lowest Closing Bid Prices of the Common Stock for the five trading days immediately preceding the Conversion Date.

Interest will be paid at the time of maturity or conversion. The Company may elect to pay interest in cash or in the form of Common Stock.

The Company shall reserve and keep available out of its authorized but unissued shares of Common Stock such number of shares of Common Stock sufficient to effect such conversion, based upon the Conversion Price.

This Debenture may be converted at any time following the date of closing, into shares of Common Stock at a price equal to the Conversion Price.

(B) EQUITY LINE

On November 9, 2001, the Company entered into an equity line of credit pursuant to which the Company may, at its discretion, periodically sell to the investor shares of common stock for a total purchase price of up to \$5 million. For each share of common stock purchased under the Equity Line of Credit, the Investor will pay 91% of the average of the 2 lowest closing bid prices on which the common stock Common Stock is traded for the during five days immediately following the notice date. Unless waived by the investor, the amount of each advance is subject to a maximum advance amount based on an average daily volume of the Company's common stock. A consulting fee of 10% of each advance will be paid upon closing each of the sales under this agreement.

8

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

Edgar Filing: TORQUE ENGINEERING CORP - Form 10-Q

The following discussion of the financial condition and results of the Company should be read together with the interim financial statements included in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those expressed or implied in those forward-looking statements.

Torque Engineering is a company that continues to devote its efforts toward establishing itself as a manufacturer of a lightweight, high-powered marine engine built on a production line basis for the luxury performance pleasure craft industry. For the three and nine months ended September 30, 2001 Torque Engineering had a net loss of \$794,420 and \$2,130,989 respectively. The Company had negative cash flows from operating activities of \$681,584 and an accumulated deficit of \$6,219,924 for the nine months ended September 30, 2001. These conditions raise substantial doubt about Torque Engineering's ability to continue as a going concern. Torque Engineering's financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Torque Engineering's ability to continue as a going concern is dependent upon management's ability to increase sales of the Torque V-12 engines and to obtain adequate levels of additional financing. Management believes that its current efforts will provide for Torque Engineering to continue as a going concern. We cannot assure you, however, that we will be successful.

Sales

For the three and nine months ended September 30, 2001, the Company had sales of \$14,054 and \$360,485 respectively, attributable to the sale of various marine engine parts and three Torque V-12 engines in the first quarter. For the three and nine months ended September 30, 2000, the Company had sales of \$229,840 and \$238,774 respectively, attributable to the sale of various marine engine parts and two Torque V-12 engines in the third quarter.

Cost of Sales

Cost of sales for the three and nine months ended September 30, 2001 was \$278,086 and \$859,752 respectively. Cost of sales for the three and nine months ended September 30, 2000 was \$295,828 and \$559,894, respectively. Cost of sales income is primarily attributable to a provision for inventory obsolescence of \$176,724 taken during the three months ended September 30, 2001.

9

Operating Expenses

Operating expenses for the three and nine months ended September 30, 2001 and 2000 increased to \$483,712 and \$1,505,645 from \$479,198 and \$1,504,024, respectively. This is primarily attributable to decreased expenses in connection with the development of the Torque V-12 engine. Also an increase in marketing and related travel expense in connection with the establishment and execution of the Company's business plan.

Net Loss

Net loss from operations and before extraordinary items for the three months ended September 30, 2001 and 2000 increased to \$794,420 and \$2,130,989 from \$579,579, \$1,850,545 respectively. This is primarily attributable to an increase in cost of sales and financing costs associated with our accounts receivable factoring agreement for the nine months ended September 30, 2001.

Edgar Filing: TORQUE ENGINEERING CORP - Form 10-Q

For the three and nine months ended September 30, 2001 and 2000 depreciation expense increased to \$280,910 from \$279,588 and to \$843,732 from 818,960, respectively, for property acquired as part of Torque Engineering's acquisition of IPSL and being used in connection with the Company's production-line manufacture of the Torque V-12 engines.

Marketable Securities

Net unrealized loss on marketable securities for the three and nine months ended September 30, 2001 was \$2,426 and \$-0-, respectively. Net unrealized loss on marketable securities for the three and nine months ended September 30, 2000 was \$9,492 and \$22,684, respectively.

Liquidity and Capital Resources

As discussed in Note 3 to our financial statements, on May 2, 2001, we entered into an accounts receivable financing agreement. Amounts received were utilized for inventory and working capital. In November 2001, we sold \$300,000 of 6% Convertible Subordinated Debentures, due November 3, 2006 to Cornell Capital Partnership, L.P. After expenses, we received approximately \$220,000 from such offering. We intend to use the proceeds of the offering for working capital purposes and to pay certain operational expenses.

We anticipate that we will require additional capital to implement our business plan. We plan to obtain such capital through the sale of additional securities, obtaining financing from third parties, and from funds generated by the sale of the Torque V-12 engine. As discussed in Note 11 to our financial statements, on November 9, 2001, we entered into an equity line of credit agreement under which we may sell shares of our common stock to an investor for a purchase price of up to \$5,000,000. As of November 16, 2001, we had not received any funds under such agreement. If we do receive funds under such agreement, we expect that such amounts will also be used for working capital and to implement our business plan. If the equity line of credit agreement does not provide sufficient capital resources, or if our funds from our ongoing operations do not increase, it is unlikely we will continue as a going concern.

Cash Flows

A total of \$681,584 and \$1,101,163 was used for operating activities for the nine months ended September 30, 2001 and 2000, respectively. The cash used in operating activities was primarily expended on costs and expenses related to the production-line manufacture of the Torque V-12 engines.

10

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

On May 2, 2001, a total of 180,000 shares of common stock were issued to Numark Capital Corporation for a consulting fee for investor relations services at a price of \$1.07 per share for a total amount of \$192,600. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. Effective as of July 1, 2001, the Company

Edgar Filing: TORQUE ENGINEERING CORP - Form 10-Q

rescinded this agreement. As a result, 180,000 shares of Common Stock were cancelled and returned to the Company.

In November 2001, the Company issued \$300,000 of 6% Convertible Subordinated Debentures, due November 13, 2006, to Cornell Capital Partnership L.P. After certain costs of issuance, the net proceeds from such offering were approximately \$220,000. The holder of the Debentures is entitled, at its option, to convert, and sell all or any part of the principal amount of the Debenture, plus accrued interest, into shares of the Company's common stock at a price per share equal to either (i) an amount equal to 120% of the closing bid price of the company's common stock as listed on a principal market, as quoted by Bloomberg L.P., as of November 9, 2001, or (ii) an amount equal to 80% of the average of the four lowest closing bid prices for the Company's common stock for the five trading days immediately preceding the date of conversion. These securities were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

Item 3. Defaults Upon Senior Securities.

None.

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

None

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

None

(b) Reports on Form 8-K.

None

11

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Torque Engineering Corporation

Date: November 19, 2001

By: /s/ Raymond B. Wedel, Jr.

Raymond B. Wedel, Jr.
President

Date: November 19, 2001

By: /s/ I. Paul Arcuri

I. Paul Arcuri
Vice President and
Chief Financial Officer