

NANTUCKET INDUSTRIES INC
Form 10-Q
October 15, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended August 31, 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 003-08955

NANTUCKET INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

58-0962699
(I.R.S. Employer
Identification No.)

45 Ludlow Street, Suite 602
Yonkers, New York 10705
(Address of principal executive offices) (Zip Code)

(914) 375-7591
(Registrant's telephone number, including area code)

Not applicable (Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark 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 such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date: As of July 15, 2002 the Company had 8,011,000 shares of common stock outstanding, \$0.10 par value.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements:

NANTUCKET INDUSTRIES, INC.
FINANCIAL STATEMENTS
AS OF MAY 31, 2002
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	Nantucket Industries and Subsidiaries	
	Consolidated Balance Sheets (Unaudited)	
	August 31, 2002	February 29, 2002
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Assets		
Cash and cash equivalents	\$ 1,196	
Accounts receivable	141,277	
Inventories	5,550	
Prepaid expenses	-	
Notes receivable	64,090	
<hr/>		
Total current assets	212,113	
<hr/>		
Property, plant and equipment, net	76,808	
Other assets, net		
Covenant not to compete	270,000	
Customer list	293,558	
Prepaid expenses	-	
<hr/>		
	\$ 852,479	\$ 852,479
<hr/>		
Liabilities and Stockholders' Equity		
Line of credit	\$ 30,000	
Accounts payable	103,133	
Pre-petition taxes	3,964	
<hr/>		
Total current liabilities	137,097	
Loan payable	55,000	
Loan payable-officer	10,000	
Pre-petition taxes, net of current portion	19,821	
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Total liabilities	221,918	

For the quarterly period ended August 31, 2002 .

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Stockholders' equity		
Common stock, \$.10 par value; authorized 20,000,000 shares; issued 8,011,000	801,100	
Additional paid-in capital	13,092,261	1
Accumulated deficit	(13,262,800)	(13

Total stockholders' equity	630,561	

	\$ 852,479	\$
=====		

(1) Derived from audited financial statements

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AUDITED)**

1. Summary of Significant Accounting Policies

a. The Company

Accutone, Inc. and its wholly-owned subsidiary (the "Company") distribute hearing aids.

b. Principles of Consolidation

The consolidated financial statements include the accounts of Accutone, Inc. and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated.

c. Revenue Recognition

Revenue is recognized when the merchandise is shipped.

d. Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

e. Property and Equipment

Property and equipment are stated at cost. Depreciation is computed for financial statement purposes, using the straight-line method over the estimated useful life. For income tax purposes, depreciation is computed using statutory rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

f. Income Taxes

Company and its wholly owned subsidiaries file a consolidated federal income tax return. Deferred income taxes arise as a result of differences between financial statement and income tax reporting.

g. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions, that affect the reported amounts of the assets and liabilities at the date of the financial statements, the revenues and expenses during the period as well as the disclosure of contingent assets and liabilities. Actual results could differ

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from those estimates.

h. Long - Lived Assets

The company reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less cost to sell.

NANTUCKET INDUSTRIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS THIRTEEN WEEKS ENDED May 31, 2002 AND August 31, 2001 (unaudited)

The following notes to the consolidated financial statements should be read in light of the following: As a result of the following, all information which appears in the financial statements included in this report, is purely historical and will have no impact on future operations and results, if any. For an explanation of our historical accounting policies and data, reference is made to the notes to the Financial Statements included in our annual report on Form 10-K for the fiscal year ended February 28, 2002.

On January 25, 2002, we effected a "reverse acquisition" pursuant to which we acquired all of the issued and outstanding capital stock of Accutone, Inc., a Pennsylvania corporation. The acquisition was made on a stock-for-stock basis pursuant to the terms of our Chapter 11 Plan of Reorganization. The assets of Accutone, which were acquired by us through our acquisition of the Accutone stock, include all facilities, contracts, service agreements, accounts receivable, patent rights, customer lists, and the like.

As a result of the above-described acquisition, Accutone Inc. (together with Accutone's wholly-owned subsidiary, Interstate Hearing Aid Service Inc.) is now our wholly owned subsidiary. We have no business or assets other than those which we acquired through our acquisition of Accutone. With respect to our current business, history, and prospects, Accutone is the predecessor of Nantucket.

We are directly, and indirectly through our subsidiaries, Accutone Inc. and Interstate Hearing Aid Service Inc., in the business of distributing and dispensing custom hearing aids. Our predecessor, Accutone Inc. was formed under the laws of the State of Pennsylvania in October 1996 for the purpose of engaging in the manufacture, dispensing, and distribution of hearing aids. In 1998, Accutone acquired 100% ownership of Interstate, a Pennsylvania corporation and an FDA licensed hearing aid manufacturer which has been in the hearing aid business for approximately 35 years. In the Fall of 2000, Accutone discontinued all manufacturing operations and changed the focus of its marketing to include, not only the individual, self-pay patient, but health care entities and organizations which could serve as patient referral sources for us.

SUBSEQUENT EVENTS

None.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

Net sales refer to fees earned by the provision of audiological testing in our offices as well as those provided on site in Nursing Homes, Assisted Living Facilities, Senior Care Facilities and Adult Day Care Centers as well as the sales and distribution of hearing aids generated in each of these venues. A majority of our sales represent reimbursement from Medicare, Medicaid and third party payors. Generally, reimbursement from these parties can take as long as 120 to 180 days. We have recently implemented the billing of Medicare on-line which should cut reimbursement time to approximately 60 days. Medicaid reimbursements can only be billed with various submissions which are mailed on a weekly basis. While we are attempting to find a method of expediting this paper submission process it seems unlikely that we will be able to accomplish this in our near future. As a result, Medicaid payments, which constitute approximately 60% of our reimbursement will continue to take 120 to 180 days to be realized.

Primarily as a result of our contract to acquire the audiology practice of Park Avenue, we expect both sales and related receivables to add to our growth.

THREE MONTHS ENDED AUGUST 31, 2002 COMPARED TO THREE MONTHS ENDED AUGUST 31, 2001

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Sales for the second quarter of fiscal year ended 2002 and 2001 were \$112,402 and \$0 respectively. Management attributes the growth to the acquisition of Accutone, Inc. as of January 25, 2002 and the inactive status of our company in that prior quarter. The revenue decrease from the first quarter was due for the most part to summer vacation scheduling both in our company as well as in most nursing homes and long term care facilities. In addition, management has been actively involved in pursuing potential merger and/or acquisition candidates in related fields, which diminished marketing efforts by the company to attempt to increase the number of facilities being serviced and therefore adding to our revenue base.

Cost of sales was \$86,679 and \$0 revenues, respectively. The increase is due to the acquisition of Accutone, Inc. and the inactive status of our company in that prior quarter.

General and Administrative costs were \$38,259 and \$0, respectively. The difference is attributable to the acquisition of Accutone, Inc. and our inactive status in that prior quarter.

Liquidity and Capital Resources

Cash Flows from operating activities were \$183,796 and \$0 respectively. Cash Flows from financing activities were (\$190,000) and \$0 respectively. These changes were due primarily to the cancellation of a consulting agreement, as previously reported on Form 8-K filed on June 21, 2002, and the issuance of additional shares of common stock and loans to the company.

Outlook

Considerable ongoing efforts will be devoted into key areas: increasing sales by signing contracts with additional nursing homes and assisted living facilities, increasing the sales of hearing aids at the retail level in our existing offices and facilities which we are currently contracted and to minimize the collection time related to our Medicare and third party payors.

We intend to increase the attention to developing a sales and marketing force to assist in the addition of those senior care facilities, hospitals, day care and senior care centers who can add to our referral base of patient and customers.

By increasing revenues generated by these increases in sales and services we expect to enjoy increased sales over the same previous periods in the foreseeable future. By increasing these revenues streams, we feel confident that our gross profit margins will also increase. The anticipated acceleration of collection time of our accounts receivable will enhance our cash flows materially. In combination these advances and improvements in these three areas will be the driving force in order that we can provide to all our shareholders a fair revenue.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in market prices and rates. Our short-term debt bears interest at fixed rates; therefore our results of operations would not be affected by interest rate changes.

PART II - OTHER INFORMATION

- Item 1. Legal Proceedings. None
- Item 2. Changes in Securities. None
- Item 3. Defaults Upon Senior Securities. Not Applicable
- Item 4. Submission of Matters to a Vote of Security Holders. None
- Item 5. Other Information. None
- Item 6. Exhibits and Reports of Form 8-K. None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on October 15, 2002.

NANTUCKET INDUSTRIES, INC.

By: /s/ John
H. Treglia

John H.
Treglia, CEO,
CFO and
President

**CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

I, John Treglia, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nantucket Industries, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
 - c) presented in this quarterly report our conclusions about effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

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- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: October 15, 2002

/s/ John Treglia

John Treglia
Chief Executive Officer

**CERTIFICATION OF
CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

I, John Treglia, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nantucket Industries, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
 - c) presented in this quarterly report our conclusions about effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: October 15, 2002

/s/ John Treglia

John Treglia
Chief Financial Officer