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ARMITEC INC
Form 10QSB
May 20, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20459

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended: March 31, 2002

Commission File Number: 0-11419

Armitec, Inc.

(Exact Name of Registrant as specified in its charter)
State or other jurisdiction of incorporation Delaware

(I.R.S. Employer Identification No.) 22-493-5595

Address of Principal executive offices of corporation
4479 Atlanta Road Smyrna, Georgia 30080

Registrants telephone number, including area code
770-432-8140

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 and 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 last 90 days.

YES

NO

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as to the latest practical date.

| CLASS | No. of shares Outstanding on March 31, 2001 |
|--------------------|---|
| Common Stock | 37,638,629 |
| Par Value \$.00167 | |
| Per share | |

ARMITEC, INC.
(A DEVELOPMENT STAGE COMPANY)

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ARMITEC, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED CONDENSED BALANCE SHEETS

| | March 31, 2002 | December 31, 2001 |
|--------------------------|-------------------|----------------------|
| | ----- | ----- |
| | (unaudited) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ | \$ 7,557 |
| Finished goods inventory | 70,066 | 71,189 |
| Prepaid rent | | 7,775 |
| Deposit | 5,000 | |

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| | | |
|--|------------|------------|
| Miscellaneous receivable | 4,500 | |
| | ----- | ----- |
| Total current assets | 79,566 | 86,521 |
| | ----- | ----- |
| Fixed Assets | | |
| Furniture, fixtures and equipment, at cost | 66,120 | 66,120 |
| Leasehold improvements | 6,302 | |
| | ----- | ----- |
| Total fixed assets | 72,422 | 66,120 |
| | | |
| OTHER ASSETS | | |
| Lease deposit | 15,500 | 15,500 |
| Advance to Jack Young | 49,500 | 49,400 |
| | ----- | ----- |
| Total Other Assets | 65,000 | 65,000 |
| | ----- | ----- |
| Total assets | \$ 216,988 | \$ 168,141 |
| | ===== | ===== |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 197,747 | \$ 138,918 |
| Bank overdraft | 5,329 | |
| Related party obligations | 519,355 | 479,600 |
| Bridge loan | 50,000 | |
| | ----- | ----- |
| Total Current Liabilities | 772,431 | 618,518 |
| | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Common stock, par value \$.00167; 50,000,000 shares authorized; 37,638,629 issued and outstanding | 62,856 | 50,958 |
| Paid-in capital | 206,987 | 170,322 |
| (Deficit) accumulated during the development stage | (825,286) | (671,657) |
| | ----- | ----- |
| Total Stockholders' Equity (Deficit) | (555,443) | (450,377) |
| | ----- | ----- |
| | \$ 216,988 | \$ 168,141 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements

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CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Three Months Ended March 31, 2002 | Three Months Ended March 31, 2001 | Cumulative from July 24 2000 (commencement of development stage) to March 31, 2002 |
|---|--|--|---|
| REVENUES | \$ -- | -- | \$ -- |
| EXPENSES | | | |
| General and administrative | 152,249 | 61,031 | 783,647 |
| Interest | 1,380 | 1,640 | 6,672 |
| Total expenses | 153,629 | 62,671 | 790,319 |
| NET (LOSS) | \$ (153,629) | (62,671) | \$ (790,319) |
| NET (LOSS) PER SHARE | (*) | (*) | |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 34,076,129 | 18,808,632 | |

(*) less than \$.01 per share

The accompanying notes are an integral part of these financial statements

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ARMITEC, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| Three Months | Cumulative from July 24 2000 (commencement of development |
|--------------|---|
|--------------|---|

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| | Ended March 31, 2002 ----- | stage) to March 31, 2002 ----- |
|--|-------------------------------------|---|
| OPERATING ACTIVITIES | | |
| Net (loss) | \$ (153,629) | \$ (790,319) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Issuance of common stock for services | 11,063 | 67,135 |
| Changes in: | | |
| Accounts payable | 58,829 | 197,747 |
| Inventory | 1,123 | (70,066) |
| Prepaid rent | 7,775 | -- |
| Related Party transactions | 39,755 | 519,355 |
| | ----- | |
| Net Cash (Used) by Operating Activities | (35,084) | (76,148) |
| | ----- | |
| INVESTING ACTIVITIES | | |
| Deferred offering costs | | (21,251) |
| Increase in other receivables | (54,000) | (54,000) |
| Increase in leasehold improvements | (6,302) | (6,302) |
| Increase in deposit - auto | (5,000) | (5,000) |
| Increase in lease deposit | | (15,500) |
| Increase in furniture, fixtures and equipment | | (66,120) |
| | ----- | |
| Net Cash to financing activities | (65,302) | (168,173) |
| | ----- | |
| FINANCING ACTIVITIES | | |
| Increase in paid-in capital | 36,665 | 36,665 |
| Increase in common stock | 835 | 152,327 |
| Bridge loan | 50,000 | 50,000 |
| | ----- | |
| Net Cash to financing activities | 87,500 | 238,992 |
| | ----- | |
| NET (DECREASE) IN CASH | (12,886) | (5,329) |
| CASH AT BEGINNING OF PERIOD, | 7,557 | -- |
| | ----- | |
| BANK OVERDRAFT AT END OF PERIOD | \$ (5,329) | \$ (5,329) |
| | ===== | |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid | \$ 1,640 | \$ 6,672 |
| | ===== | |
| NON-CASH ACTIVITIES | | |
| Deferred offering costs applied to common stock subscriptions received | \$ 21,251 | \$ 21,251 |
| | ===== | |

The accompanying notes are an integral part of these financial statements

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ARMITEC, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

| | Common Stock | | Paid-In Capital | Accumulated (Deficit) During Development Stage | |
|---|--------------|-----------|--------------------|--|----|
| | Shares | Amount | | | |
| Balances, at Inception | 15,947,542 | \$ 25,516 | \$ | \$ (34,967) | \$ |
| Shares issued for compensation to employees @ \$.01 per share, June 10, 2000 | 1,027,100 | 1,643 | 8,628 | | |
| Shares issued to settle debt at \$.01 per share, June 10, 2000 | 18,000 | 29 | 151 | | |
| Shares issued for consulting services @ \$.01 per share | 1,815,990 | 2,906 | 15,254 | | |
| Net (loss) for the period | | | | (222,746) | |
| Balances, December 31, 2000 | 18,808,632 | 30,094 | 24,033 | (251,713) | |
| Issuance of common stock February 12, 2001, net of offering costs of \$21,251 at \$.15 per share | 849,997 | 1,360 | 105,381 | | |
| Issuance of common stock for consulting services on April 10, 2001 at par | 720,000 | 1,152 | | | |
| Proceeds from sale of common stock, July 15, 2001 at \$.15 per share | 35,000 | 56 | 4,944 | | |
| Common stock issued for consulting services July 1, 2001, at par | 7,350,000 | 11,760 | | | |
| Common stock issued for consulting services November 8, 2001, at \$.01 per share | 2,500,000 | 4,000 | 21,000 | | |
| Proceeds from sale of common stock November 8, 2001, at \$.15 per share | 50,000 | 80 | 7,420 | | |
| Proceeds from exercise of stock purchase warrants on December 27, 2001, 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 | | | | (413,944) | |
| Balances, December 31, 2001 | 513,629 | \$ 50,985 | \$ 170,322 | \$ (671,657) | \$ |
| Common stock issued for | | | | | |

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| | | | | | |
|--|-------------------|------------------|-------------------|---------------------|-----------|
| consulting services February 4, 2002, at \$.01 per share | 2,225,000 | 3,715 | | | |
| Proceeds from exercise of stock purchase warrants on February 14, 2002, at \$.075 per share | 500,000 | 835 | 36,665 | | |
| Common stock issued for consulting services March 4, 2002, at \$.01 per share | 4,400,000 | 7,348 | | | |
| Net (loss) for period | | | | (153,629) | |
| Balances, March 31, 2002 | <u>37,638,629</u> | <u>\$ 60,720</u> | <u>\$ 209,123</u> | <u>\$ (825,286)</u> | <u>\$</u> |

The accompanying notes are an integral part of these financial statements

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ARMITEC, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
Three Months Ended March 31, 2002

NOTE 1. BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited consolidated condensed 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 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 March 31, 2002 and the results of its operations and cash flows for the three months ended March 31, 2002. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002.

These condensed 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.

ITEM 2. PLAN OF OPERATION

For the near term, the Company continues to pursue its business plan, and the Company is currently seeking another acquisition or in the alternative, raising additional funds necessary to commence retail and manufacturing operations. The Company has had no significant revenues or operations since inception. Although the Company recently raised approximately \$300,000 in net proceeds from the sale of a convertible note, additional capital will be needed to continue the Company's operations. The Company expects to 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

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may be needed.

Part II

Item 1. Legal Proceedings

NONE

Item 2. Changes in Securities and Use of Proceeds

The Company entered into a Convertible Note Purchase Agreement dated as of April 23, 2002, in which the Registrant covenanted that it would not declare or pay any dividends so long as the Convertible Note remained outstanding. The Convertible Note matures on April 23, 2004.

In April, 2002, the Registrant entered into a securities purchase agreement with the 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 \$.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 \$.042. Net proceeds amounted to \$315,000.

Item 3. Defaults Upon Senior Securities

NONE

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

NONE

Item 5. Other Information

During April 2002, the Company entered into a convertible debt financing agreement with Stonestreet Limited Partnership for an aggregate of \$350,000. The stated interest rate is 7% per annum and the unpaid principal and interest balance is due in full by April 23, 2004. Net proceeds to the Company amounted to approximately \$315,000, which is net of debt issue costs. The Company issued 3,500,000 warrants to acquire 3,500,000 shares of the Company's common stock at an exercise price of \$.042.

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. The sale was consummated pursuant to the terms and conditions of an Asset Purchase Agreement dated as of March 15, 2002, as amended by a First Amendment to Asset Purchase Agreement dated May 2, 2002 (The "Asset Purchase Agreement").

Pursuant to the terms of the Asset Purchase Agreement, Jack Young Associates, Inc. assumed all of the obligations of Pocono Knits, Inc in the aggregate amount of approximately \$1,900,000. In connection with the Asset Purchase Agreement, the Company entered into a Stock Pledge Agreement whereby

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the Company pledged all of the issued and outstanding shares of Jack Young Associates, Inc. to Jack Young as security for the performance of certain obligations of the Company, including the payment of all amounts now due or coming due at any time thereafter in connection with such obligations.

The purchase price paid in connection with the sale was determined through arms-length negotiations among the parties to the Asset Purchase Agreement. The foregoing description is qualified in its entirety by reference to the Asset Purchase Agreement as amended, and the Stock Pledge Agreement.

The Company will file the required pro forma financial information as soon as is practical, but not later than 60n days after the date that this report is required to be filed.

In addition, the Company entered into a Consulting Agreement with the former president of Pocono Knits, Inc, which pays the consultant \$127,200 per year 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. At any time after the two year anniversary of the Put Agreement, the Company may call the 2,000,000 shares 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.

SIGNATURES

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

ARMITEC, INC.

July 3, 2001

/s/ Bruce R. Davis

President, Chief Executive Officer, Chief
Financial and Accounting Officer