

SHOPSMITH INC
Form 10-Q
February 15, 2002

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Quarterly Report Under Section 13 or 15 (d)
Of the Securities Exchange Act of 1934

For the quarter ended
December 29 2001

Commission File Number 0-9318

SHOPSMITH, INC.

(Name of Registrant)

Ohio

31-0811466

(State of Incorporation)

(IRS Employer Identification Number)

6530 Poe Avenue
Dayton, Ohio

45414

(Address of Principal
Executive Offices)

(Zip Code)

Registrant's Telephone 937-898-6070

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 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 X No

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of January 25, 2002.

Common shares, without par value: 2,605,233 shares.

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SHOPSMITH INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	December 29 2001	March 31 2001
	<u> </u>	<u> </u>
	(Unaudited)	
ASSETS		
<hr/>		
Current Assets:		
Cash and equivalents		
\$316,493		\$651,530
Restricted cash		
174,718		
Investments		
153,381		
Accounts receivable:		
Trade, less allowance for doubtful		
accounts:		
\$1,092,486 on December 29 and \$924,250		
on March 31		
1,262,516		673,689
Inventories		
2,669,289		2,168,225
Deferred income taxes (Note 2)		
584,000		498,000
Prepaid expenses		
261,892		431,912
Total current assets		
5,247,571		4,598,074
Properties:		
Land, building and improvements		
3,143,908		3,161,199
Machinery, equipment and tooling		
6,714,278		6,627,918
Total cost		
9,858,186		9,789,117
Less accumulated depreciation and		
amortization		

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6,970,239 6,782,561

Net properties

2,887,947 3,006,556

Deferred income taxes (Note 2)

696,000 782,000

Long term portion of accounts receivable

Trade, less allowance for doubtful

accounts \$99,658 on December 29 and

\$70,999 on March 31

208,755 167,954

Other assets

2,303 2,303

Total assets

\$9,042,576 \$8,556,887

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CONSOLIDATED BALANCE SHEET

	December 29 2001	March 31 2001
	(Unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$1,997,577	\$1,113,380
Note payable	400,000	
Current portion of long-term debt and capital lease obligation	2,595,529	84,910
Customer advances	145,611	169,003
Accrued liabilities:		
Compensation, employee benefits and payroll taxes	271,412	278,443
Sales taxes payable	83,506	144,606
Accrued recourse liability	163,474	235,303
Accrued expenses	288,059	182,804
Other	84,811	93,990
Total current liabilities	6,029,979	2,302,439
Long-term debt and capital lease obligation	13,580	2,568,464
Total liabilities	6,043,559	4,870,903
Shareholders' equity:		
Preferred shares- without par value; authorized 500,000; none issued		

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Common shares- without par value;
authorized 5,000,000; issued and
outstanding

2,605,233 shares on December 29
and March 31

2,806,482 2,806,482

Retained earnings

192,535 879,502

Total shareholders' equity

2,999,017 3,685,984

Total liabilities and shareholders
equity

\$9,042,576 \$8,556,887

See notes to consolidated financial statements.

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SHOPSMITH INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

	Three Months Ended		Nine Months Ended	
	December 29 2001	December 30 2000	December 29 2001	December 30 2000
	(Unaudited)	(Unaudited) (restated)	(Unaudited)	(Unaudited) (restated)
Net sales	\$4,617,061	\$4,148,057	\$10,943,202	\$11,818,721
Cost of products sold				
2,387,571 1,935,195 5,362,391 5,569,639				
Gross margin				
2,229,490 2,212,862 5,580,811 6,249,082				
Selling expenses				
1,901,997 1,825,759 4,969,104 5,465,193				
Administrative expenses				
404,047 344,421 1,324,924 1,207,607				
Total operating expenses				
2,306,044 2,170,180 6,294,028 6,672,800				
Income (loss) before other income and expense				
(76,554) 42,682 (713,217) (423,718)				
Non-recurring gain from demutualization of insurance company				
153,381 153,381				
Interest income				
20,218 11,943 53,996 30,625				
Interest expense				
65,645 62,125 189,911 157,364				
Other income, net				
2,029 2,244 8,784 7,045				

Income (loss) before taxes
33,429 (5,256) (686,967) (543,412)
Income tax benefit

Net income (loss)
33,429 (5,256) (686,967) (543,412)
Retained earnings:

Beginning
159,106 457,438 879,502 995,594

Ending
\$192,535 \$452,182 \$192,535 \$452,182

Net loss per common share (Note 3) Basic
\$0.01 \$(0.00) \$(0.26) \$(0.21)

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Diluted
\$0.01 \$(0.00) \$(0.26) \$(0.21)

See notes to consolidated financial statements

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SHOPSMITH INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW

	Nine Months Ended	
	December 29 2001	December 30 2000
	(Unaudited)	(Unaudited) (restated)
Cash flows from operating activities:		
Net loss		
\$ (686,967) \$ (543,412)		
Adjustments to reconcile net loss to cash provided from operating activities:		
Depreciation and amortization		
187,678 214,826		
Provision for doubtful accounts		
195,027 225,885		
Stock from Insurance		
Demutualization		
(153,381)		
Cash provided from (required for) changes in assets and liabilities:		
Restricted cash		
174,718 (68,201)		
Accounts receivable		
(824,655) (258,176)		
Inventories		
(501,064) (113,172)		
Other assets		
170,020 224,273		
Accounts payable and customer advances		
860,805 (184,139)		
Other current liabilities		
(43,884) (377,630)		
Cash used in operating activities		
(468,322) (879,746)		
Cash flows from investing activities:		
Property additions		
(69,069) (48,741)		

Cash used in investing activities
(222,450) (48,741)

Cash flows from financing activities:

Increase note payable

400,000

Payments on long-term debt and
capital lease obligation

(44,265) (155,297)

Cash provided from (used in)
financing activities

355,735 (155,297)

Net decrease in cash
(335,037) (1,083,784)

Cash:

At beginning of period

651,530 1,301,387

At end of period

\$316,493 \$217,603

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of management, all adjustments (consisting of only normal and recurring adjustments) have been made as of December 29, 2001 and December 30, 2000 to present the financial statements fairly. However, the results of operations for the nine months then ended are not necessarily indicative of results for the fiscal year. The financial statements and notes are presented as permitted by Form 10-Q, and do not contain certain information included in the annual financial statements. The financial statements for the prior year have been restated for a change in accounting policy. The financial statements accompanying this report should be read in conjunction with the financial statements and notes thereto included in the Annual Report to Shareholders for the year ended March 31, 2001.
2. The provision for income taxes is as follows:

	Three Months Ended		Nine Months Ended	
	December 29 2001	December 30 2000	December 29 2001	December 30 2000
Income (loss) before income taxes	\$33,429	\$ (5,256)	\$ (686,967)	\$ (543,412)
Provision for (recoverable) income taxes:				
Current				
Deferred				
18,000 3,000 (217,000) (168,000)				
Change in valuation allowance				
(18,000) (3,000) 217,000 168,000				
Net provision for (recoverable) income taxes				
\$ \$ \$ \$				

The Company has deferred tax assets amounting to \$1,280,000 at December 29, 2001 and March 31, 2001 which reflect the impact of temporary differences between the amount of assets and liabilities recorded for financial reporting purposes and such amounts as measured by tax laws and regulations. The Company believes that it is more likely than not that these assets are realizable and represent its best estimate based on management assumptions and resulting projections of future operating results including projected increases in the number of Lowes events. For the current year through December 29, 2001 the Company has established a \$217,000 valuation allowance against its provision for recoverable income taxes because of the uncertainty of realizing its benefit.

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3. Basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share reflects per share amounts that would have resulted if stock options had been converted into common stock. The following reconciles amounts reported in the financial statements:

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	Three Months Ended		Nine Months Ended	
	December 29 2001	December 30 2000	December 29 2001	December 30 2000
Net income (loss)	\$ 33,429	\$ (5,256)	\$ (686,967)	\$ (543,412)
Weighted average shares	2,605,233	2,605,233	2,605,233	2,605,233
Additional dilutive shares 8,400				
Total dilutive shares	2,613,633	2,605,233	2,605,233	2,605,233
Basic income (loss) per share	\$0.01	\$(0.00)		