

Edgar Filing: TORQUE ENGINEERING CORP - Form 10QSB

TORQUE ENGINEERING CORP  
Form 10QSB  
May 21, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-QSB

X \_\_\_\_\_ Quarterly report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 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)

Check whether the issuer: (1) has 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 X NO \_\_\_\_\_  
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As of May 17, 2001 the Issuer had 8,536,299 shares of Common Stock, par value \$0.00001, outstanding.

Transitional Small Business Disclosure Format (check one): Yes \_\_\_\_\_ No X  
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Torque Engineering Corporation  
FORM 10-QSB  
For the Quarterly Period Ended March 31, 2001

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## Torque Engineering Corporation

### CONSOLIDATED BALANCE SHEETS

#### ASSETS

March 31,  
2001  
----  
(Unaudited)  
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#### CURRENT ASSETS

Cash	\$2,573
Accounts Receivable, net	628,838
Marketable securities	3,791
Prepaid expenses	40,737

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Advances to Suppliers	100,553
Inventory	728,968
-----	-----
Total Current Assets	1,505,460
	-----
PROPERTY & EQUIPMENT, NET	9,178,711
	-----
TOTAL ASSETS	\$10,684,171
-----	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable & accrued expenses	\$ 406,282
Obligation under Capital lease - current portion	158,376
Due to related parties	101,656
	-----
Total Current Liabilities	666,314
	-----
LONG-TERM LIABILITIES	
Obligation under Capital lease	423,265
	-----
TOTAL LIABILITIES	1,089,579
	-----
STOCKHOLDERS EQUITY	
Common Stock, \$0.00001 par value, 50,000,000 shares authorized, 8,536,299 and 8,411,299 shares issued and outstanding	85
Additional paid in capital	14,493,707
Accumulated Deficit	(4,626,260)
Accumulated other comprehensive loss	(208,485)
	-----
	9,659,047
Less Treasury Stock at cost (6,750 Shares)	(56,970)
Less Deferred compensation expense	(7,485)
	-----
Total Stockholders' Equity	9,594,592
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$10,684,171
-----	=====

See accompanying notes to consolidated financial statements

Torque Engineering Corporation

CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

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	Three Months Ended March 31 2001 ----
SALES	\$322,369
COST OF SALES	(350,729) -----
GROSS LOSS	(28,360) -----
OPERATING EXPENSES	
Payroll & other compensation	50,979
Depreciation	280,652
Rent	30,000
Other selling, general & administrative	134,199 -----
Total Operation Expenses	495,830 -----
NET (LOSS) FROM OPERATIONS	\$ (524,190)
OTHER INCOME (EXPENSE)	
Interest income	378
Interest (expense)	(13,512)
Other	-0- -----
Total Other Income (Expense)	(13,134) -----
NET (LOSS)	\$ (537,324) -----
OTHER COMPREHENSIVE GAIN, NET OF TAX	
Unrealized gain (loss) on marketable securities - net	-0-
COMPREHENSIVE LOSS	\$ (537,324) -----
Net loss per share - basic & diluted	\$ (.06)
Weighted average number shares outstanding	8,482,132 =====
during the period - basic & diluted	

See accompanying notes to consolidated  
financial statements.

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Torque Engineering Corporation

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Three Months  
Ended  
March 31, 2001

### CASH FLOWS FROM OPERATING ACTIVITIES:

Net Loss	\$ (537,324)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	280,652
Recognized Deferred Compensation	1,198
Provision for Inventory Obsolescence	6,000
Changes in operating assets & liabilities:	
(Increase) Decrease in:	
Accounts Receivable	(317,679)
Employee Advance	-0-
Inventory	54,167
Advances to Suppliers	8,627
Prepaid Expenses	9,271
Increase (Decrease) in:	
Accounts Payable & Accrued Expenses	65,213
Net cash used in operating activities	(429,875)

### CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property & equipment	(7,665)
Organizational costs	-0-
Net cash used in Investment Activities	(7,665)

### CASH FLOWS FROM FINANCING ACTIVITIES:

Issuance of common stock	250,000
Proceeds from Shareholder loans	30,000
Net cash provided by financing activities	280,000

NET DECREASE IN CASH (157,540)

CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD 160,113

CASH & CASH EQUIVALENTS AT END OF PERIOD \$ 2,573

See accompanying notes to consolidated financial statements

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## 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 or omitted 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.

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

During the three months ended March 31, 2001, the company has sold three engines totaling \$320,916 to two customers. The company has a concentration of its accounts receivable with these two customers totaling 65% and 35% respectively. As of March 31, 2001 accounts receivable are deemed fully collectible.

#### 3. STOCKHOLDER LOANS

During the three months ended March 31, 2001, the company received \$30,000 from a shareholder as a non-interest-bearing loan to be used as operating funds. The loan was converted to a note and is payable on demand on or before June 30, 2001.

#### 4. STOCKHOLDERS' EQUITY

In February 2001, a total of 125,000 shares of common stock were issued to Messrs. Richard D. Wedel, Raymond B. Wedel, Jr. and Michel Attias at a price of \$2.00 per share or a total amount of \$250,000. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

#### 5. INVENTORIES

Inventory at March 31, 2001 consisted of the following:

Purchased parts	\$453,679
Engines in Process	106,038
Completed Engines	169,251
	-----
	\$728,968

#### 6. GOING CONCERN

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The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company incurred a net loss of \$537,324 and negative cash flows from operating activities of \$429,875 during the three months ended March 31, 2001, and had an accumulated deficit of \$4,626,260 at March 31, 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 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.

### 7. SUBSEQUENT EVENTS

On April 4, 2001, the company received \$16,500 from a shareholder as a non-interest-bearing loan to be used as operating funds. The loan was converted to a note and is payable on demand on or before June 30, 2000.

### Torque Engineering Corporation

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

### Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Overview

The following discussion of the financial condition and results of Torque Engineering 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 was a development stage company through September 30, 2000, which has devoted most of its efforts toward establishing its planned transition from an inoperative oil and gas company to a manufacturer of a lightweight, high-powered marine engine built on a production line basis for the luxury performance pleasure boat industry. During the year ended December 31, 2000, we became an operating company. Torque Engineering had a net loss of \$537,324 and negative cash flows from operating activities of \$429,875 for the three months ended March 31, 2001, and an accumulated deficit of \$4,626,260 as of March 31, 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 can not assure you, however, that we will be successful.

#### Results of Operations

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### Revenues and Cost of Sales

For the three months ended March 31, 2001, Torque Engineering had revenues of \$322,369 attributable to the sale of three engines and various engine parts. Cost of sales for the three months ended March 31, 2001 was \$350,729. Costs of sales were primarily attributable to Torque Engineering's continued manufacture of the Torque V-12 engines. For the three months ended March 31, 2000, Torque Engineering had revenues of \$5,185 attributable to the sale of various engine parts. Cost of sales for the three months ended March 31, 2000 was \$181,802. Costs of sales were primarily attributable to Torque Engineering's continued manufacture of the Torque V-12 engines.

During the three months ended March 31, 2000, Torque Engineering was in the development stage and had limited operations. During the current period we were in the process of implementing our business plan including accelerated sales and marketing efforts.

### Operating Expenses

Payroll and other compensation decreased to \$50,979 for the three months ended March 31, 2001 from \$70,844 for the three months ended March 31, 2000. This decrease is primarily attributable to the reclassification of certain salary expense of employees directly involved in the production of Torque V-12 engines to cost of goods sold. General and administrative expenses increased to \$134,199 for the three months ended March 31, 2001 from \$97,445 for the three months ended March 31, 2000. The increase was primarily attributable to marketing and related travel expenses in connection with the establishment and execution of Torque Engineering's business plan.

### Net Loss

Net loss for the three months ended March 31, 2001 decreased to \$537,324 from \$629,956 for the three months ended March 31, 2000. This is primarily attributable to decreases in general and administrative expenses and payroll expense incurred in connection with the implementation of Torque Engineering's business plan. In addition, Torque Engineering had \$280,652 of depreciation of property acquired as part of Torque Engineering's acquisition of IPSL and being used in connection with Torque Engineering's production-line manufacture of the Torque V-12 engines. Net unrealized gain on marketable securities for the three months ended March 31, 2001 and 2000 was \$ 0 and \$9,552, respectively.

### Liquidity and Capital Resources

#### Future Capital Requirements

Management anticipates that the capital requirements to conduct Torque Engineering's business plan may be significant and we cannot assure you that we will be able to obtain those funds or obtain the required capital on terms favorable to us. We plan to satisfy our capital requirements for the next twelve months by selling our securities, obtaining financing from third parties and from funds from the ongoing manufacture and sale of Torque V-12 engines. Management further anticipates that any funds obtained will be used for working capital, administrative expenses, and towards the research and development of the Torque V-12 for other potential uses in the marine and other industries. If we are unable to obtain financing from third parties, the sale of our securities or some other source, or if our funds from ongoing operations are insufficient,



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it is unlikely that we will continue as a going concern.

### Cash Flows

A total of \$429,875 was used for operating activities for the three months ended March 31, 2001. The cash used in operating activities was primarily expended on general and administrative expenses related to the production-line manufacture of the Torque V-12 engines.

In February 2001, a total of 125,000 shares of common stock were issued to Messrs. Richard D. Wedel, Raymond B. Wedel, Jr. and Michel Attias at a price of \$2.00 per share or a total amount of \$250,000. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. During the three months ended March 31, 2001 shareholders of the company made advances of \$30,000 for operating funds.

Torque Engineering believes it does not have sufficient cash to continue operations and to manufacture the Torque V-12 on a production-line basis to generate revenues for the next twelve months. However, Torque Engineering intends to identify other sources of capital and to aggressively seek out additional capital if available on favorable terms and as necessary to continue operations and to increase sales and revenues. Management is continuing to evaluate the company's projected capital needs for the future development and manufacture of Torque V-12 engines. Although management believes the current cash, revenues to be generated from sales and any future financings will be sufficient for the next twelve months, we cannot assure you that Torque Engineering will not need additional funds to implement management's business plan.

### PART II.

### OTHER INFORMATION

Item 1. Legal Proceedings.

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None.

Item 2. Changes in Securities.

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None.

Item 3. Defaults Upon Senior Securities.

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None.

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

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None

Item 5. Other Information.

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As reported in our annual report on Form 10-KSB, management began negotiation for the terms of Michael Bennett's employment agreement these

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negotiations were concluded during the month of April. The employment agreement included a 6-month period whereby Mr. Bennett could resign with impunity in order for Mr. Bennett to determine whether he and his family would relocate to Indiana. At the end said 6-months Mr. Bennett reported to us that he would not relocate. Mr. Bennett has resigned his position as Chief Executive Officer.

Item 6.

### Exhibits and Reports on Form 8-K.

#### (a) Exhibits:

- 10.1 Employment Agreement dated as of January 1, 2001, and executed April 2001, between Registrant and Michael Bennett (filed as exhibit 4.4 to the Form S-8 filed with the Securities and Exchange Commission on April 27, 2001 (file no. 33-59640) and incorporated herein by reference)

#### (b) Reports on Form 8-K.

None

### 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

/s/ Raymond B. Wedel, Jr.

Raymond B. Wedel, Jr.  
President

/s/ I Paul Arcuri

I. Paul Arcuri  
Chief Financial Officer

Date: May 18, 2001