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FLAMEMASTER CORP
Form 10-Q
February 08, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR QUARTER ENDED: DECEMBER 31, 2000 COMMISSION FILE NO: 0-2172

THE FLAMEMASTER CORPORATION
(Exact name of Registrant as specified in its Charter)

NEVADA

95-2018730

(State or other jurisdiction of incorporation
or organization)

(IRS Employer identification
Number)

11120 SHERMAN WAY, SUN VALLEY, CALIFORNIA 91352

(Address of Principal Executive Office)

Registrant's telephone number including area code: (818) 982-1650

Registrant's facsimile number including area code: (818) 765-5603

Indicate by check mark whether 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 issuer's classes of common stock, as of the latest practicable date:

December 31, 2000

1,585,451

Item 1 Financial Information
Item 1 Financial Statement

THE FLAMEMASTER CORPORATION
CONDENSED BALANCE SHEETS

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	DECEMBER 31 2000 (UNAUDITED)	SEPTEMBER 30 2000 (UNAUDITED)
	-----	-----
A S S E T S :		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,382,630	\$ 2,399,000
Marketable securities	2,751,747	3,954,000
Accounts receivable, less allowance of \$5,000 and \$5,000, respectively	512,751	538,000
Inventories	958,695	925,000
Prepaid expenses	23,658	30,000
Deferred income taxes	48,416	46,000
Other investments	76,912	76,000
	-----	-----
TOTAL CURRENT ASSETS:	6,754,809	7,971,000
Machinery & improvements, net of accumulated depreciation	72,529	70,000
License agreement, net of accumulated amortization	66,717	70,000
TOTAL ASSETS	\$ 6,894,055	\$ 8,112,000
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable	\$ 160,034	\$ 85,000
Accrued liabilities	8,768	8,000
Income tax payable	63,257	27,000
Deferred tax liability	49,553	624,000
Deferred credits	12,143	14,000
	-----	-----
TOTAL CURRENT LIABILITIES:	293,755	759,000
LONG-TERM LIABILITIES:		
Notes payable	406,082	400,000
	-----	-----
TOTAL LIABILITIES:	699,837	1,159,000
SHAREHOLDERS' EQUITY:		
COMMON STOCK, par value, \$.01 per share, authorized 6,000,000 shares; issued and outstanding 1,585,451 shares at 12/31/00 and 1,595,757 at 9/30/00.	15,855	15,000
Additional paid-in Capital	3,638,483	3,662,000
Retained earning	2,465,642	2,441,000
Allowance for marketable securities	74,238	833,000
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	\$ 6,194,218	\$ 6,952,000
	-----	-----
TOTAL LIABILITY AND EQUITY	\$ 6,894,055	\$ 8,112,000
	=====	=====

Note: Balance sheet as of September 30, 2000 has been derived from the audited

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balance sheet at that date. See notes to condensed financial statements.

Item 1 Financial Statements (continued)

THE FLAMEMASTER CORPORATION CONDENSED STATEMENTS OF INCOME (UNAUDITED) THREE MONTHS ENDED DECEMBER 31, -----

	2000	1999
	-----	-----
Net sales	\$ 862,946	\$ 850,000
Royalties	-	-
Interest and Other Income	88,697	166,000
	-----	-----
Total Revenues	951,643	1,017,000
	=====	=====
Costs and expenses:		
Cost of sales	445,093	454,000
Selling	84,855	68,000
General and administrative	152,596	164,000
Laboratory costs	67,090	67,000
Other expenses	20,964	21,000
	-----	-----
Total costs and expenses:	770,598	776,000
	-----	-----
Income before income taxes	181,045	241,000
Income taxes	71,191	100,000
	-----	-----
Net income	109,854	140,000
Other comprehensive income		
Net of income tax		
Unrealized Holding Gains (Losses)	(759,148)	1,029,000
	-----	-----
Comprehensive Income	\$ (649,294)	\$ 1,170,000
	=====	=====
Net income per share, basic	\$.07	\$.14
	=====	=====
Net income per share, diluted	****	*
Weighted average shares outstanding:		
Basic	1,594,291	1,621,000
	=====	=====
Diluted	1,710,678	1,737,000

 **** Diluted earnings per share are not presented, as effect of the assumed conversion of preferred stock is anti-dilutive. See notes to condensed financial statements.

Item 1 Financial Statements (continued)

THE FLAMEMASTER CORPORATION
 CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
 THREE MONTHS ENDED DECEMBER 31,

	2000	1999
	-----	-----
Net cash provided (used) by operating activities:	\$ 224,699	\$ 372,313
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment & improvements	(7,636)	(3,975)
Net purchases and sales of investment securities	(130,103)	(30,254)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES:	(137,739)	(34,229)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in notes payable	5,885	
Purchase of Company's Common Stock	(58,299)	(48,299)
Dividends paid	(51,057)	(49,066)
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	(103,471)	(97,365)
	-----	-----
NET INCREASE, (DECREASE), IN CASH	(16,511)	240,719
	-----	-----
Cash, beginning of period	2,399,141	1,913,201
	-----	-----
Cash, end of period	\$ 2,382,630	\$ 2,153,920
	=====	=====
Cash paid during period for income taxes	\$ 38,300	\$ 8,000
Cash paid during period for interest expense	\$ 6,591	\$ 6,591

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See notes to Condensed Financial Statements.

Item 1 Financial Statements (continued)

THE FLAMEMASTER CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
DECEMBER 31, 2000

Note 1: FORWARD-LOOKING AND CAUTIONARY STATEMENTS

The Company and its representatives may from time to time make written or oral forward-looking statements, including statements contained in the Company's filings with Securities and Exchange Commission and its reports to stockholders. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is hereby identifying information that is forward-looking, including, without limitations, statements regarding the Company's future financial performance, the effect of government regulations, national and local economic conditions, the competitive environment in which the Company operates, results or success of discussions with other entities on mergers, acquisitions, or alliance possibilities and expansion of product offerings. Actual results may differ materially from those described in the forward-looking statement. The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company.

Note 2: BASIS OF PRESENTATION:

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by 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 have been included. Operating results for the three months ended December 31, 2000 are not indicative of the results that may be expected for the year ending September 30, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended September 30, 2000.

Item 1 Financial Statements (continued)

THE FLAMEMASTER CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
DECEMBER 31, 2000

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Note 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:
 INVESTMENT IN DEBT AND EQUITY SECURITIES:
 The Company adopted Statement of Financial Accounting Standards No: 115 ("SFAS No: 115"), Accounting for Certain Investments in Debt and Equity Securities, effective January 1,1995. Management determines the appropriate classification of its Investments in debt and equity securities at the time of purchase and reevaluates such determination at each balance sheet date. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available for sale, along with the Company's investment in equity securities. Securities available for sale are carried at fair value, with the unrealized gains and losses reported in a separate component of shareholders' equity net of income taxes, until realized. At December 31, 2000 the Company had no investments that qualified as trading or held to maturity. The amortized cost of zero-coupon debt securities classified as available for sale is adjusted for accretion of discounts to maturity. Such amortization and interest are included in interest income. Realized gains and losses are included in other income or expense. The cost of securities sold is based on specific identification method.

RECLASSIFICATION OF FINANCIAL STATEMENTS:
 Beginning in the first quarter of fiscal 2000, various items of portfolio income, which were previously classified as "other (income), expenses, net" are classified as "interest and other income" in the condensed Statements of Income. Amounts reported for the prior quarters have been reclassified to conform to the quarter 2000 presentation.

Item 1 Financial Statements (continued)

THE FLAMEMASTER CORPORATION NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) DECEMBER 31, 2000

Note 4: Inventories are summarized as follows:

	December 31 2000 -----	Sep ---
Raw materials	\$ 484,817	\$
Shipping materials	97,234	
Finished goods	376,644	
	-----	---
	\$ 958,695	\$
	-----	---

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Note 5: During the three months ended December 31, 2000, the Company purchased 10,307 shares of its outstanding common stock at a cost of \$58,299.

Note 6: MARKETABLE SECURITIES:
Marketable securities classified as current assets at December 31, 2000 include the following:

	FAIR VALUE

U.S. Treasury obligations	\$ 499,374
Other Government Bonds	42,371
Corporate debt securities	5,723
Mortgage backed securities	887
Marketable equity securities	2,203,392

	\$2,751,747
	=====

The contractual maturities of debt securities available for sale at December 31, 2000 is as follows:

	FAIR VALUE

Due within one year	-
Due after one year thru 5 years	\$ 396,427
Due after 5 years thru 10 years	124,895
Due after 10 years	26,147
Not due at single maturity date	887

	\$ 548,356
	=====

Gross unrealized holding gains and losses at December 31, 2000 were \$462,615 and \$375,339, respectively. Realized gains and losses from the sale of securities for the three months ended December 31, 2000 were \$12,219 and \$411 respectively.

THE FLAMEMASTER CORPORATION

Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

DECEMBER 31, 2000 COMPARED TO SEPTEMBER 30, 2000 AND

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DECEMBER 31, 2000 COMPARED TO DECEMBER 31, 1999.

FINANCIAL CONDITION AND LIQUIDITY:

The Company's financial condition is strong with current assets of \$ 6,754,809 compared to current liabilities of \$ 293,755 at December 31, 2000 for a current ratio of 23 to 1. Working capital decreased to \$6,461,054 on December 31, 2000 compared to \$7,211,653 at September 30, 2000. Cash and cash equivalents, and marketable securities stood at \$5,134,377. Accounts receivable expanded to \$512,751 from \$364,043 in the prior year's quarter ended December 31, 1999. Inventories grew to \$958,695 on December 31, 2000 from \$925,771 at year-end due to an increase in order volume. Revenues for the December 31, 2000 quarter were \$ 951,643 compared to \$1,017,547 in the prior year.

Management believes that future working capital requirements will be provided primarily from operations and that the Company's liquidity and working capital requirements are adequate for the next 12 months of operation. Management believes that the Company's creditworthiness is substantial relative to its size.

The Company paid a \$.032 dividend on its common stock in December 2000 and its Board of Directors declared a \$.032 dividend to be paid in March 2001.

RESULTS OF OPERATIONS:

For the three month ended December 31, 2000 net income was \$ 109,853 compared to \$140,774 or \$.07 per share vs. \$.09 per share in the year earlier period. The decrease in earnings was due to lower level of investment gains. The Company continues to expand its customer base. Laboratory costs including research and development for this quarter remained steady at \$67,090 from \$67,077. General and administrative expenses decreased to \$152,596 from \$164,317.

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 hereunto duly authorized.

THE FLAMEMASTER CORPORATION

(Registrant)

DATE:

FEBRUARY 7, 2001

/s/ JOSEPH MAZIN

(Signature)

Joseph Mazin, President and Chairman
and Chief Executive Officer

DATE:

FEBRUARY 7, 2001

/s/ MARY KAY EASON

(Signature)

Mary Kay Eason, Assistant Treasurer and
Secretary

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DATE:
FEBRUARY 7, 2001

/s/ DONNA MAZIN

(Signature)

Donna Mazin, Director