SHOPSMITH INC
Form 10-Q
February 07, 2001

TABLE OF CONTENTS

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 the quarter ended December 30, 2000	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 December 30, 2000.

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

Page 1

Table of Contents

SHOPSMITH, INC. AND SUBSIDIARIES

INDEX

Page No.

Page 2

Table of Contents

SHOPSMITH INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 30, 2000 (Unaudited)	April 1, 2000

ASSETS

Current Assets:
Cash and
equivalents$217,603$1,301,387Restricted
cash173,171104,970Accounts
receivable:Trade, less allowance
for doubtful accounts:$743,177
on December 30 and $646,756 on
April
1704,793622,887Inventories2,636,3572,523,185Deferred
income taxes (Note
2)563,000569,000Prepaid
expenses355,471426,214

Total current
assets4,650,3955,547,643

Properties:Land, building and
improvements3,161,1993,161,199Machinery,
equipment and
tooling6,617,1446,568,403

Total
cost9,778,3439,729,602Less

accumulated depreciation and amortization6,716,5446,501,718

Net properties3,061,7993,227,884

Deferred income taxes (Note 2)763,000757,000

Other assets2,30320,833

Total assets$8,477,497$9,553,360

Continued

Page 3

Table of Contents

SHOPSMITH INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 30, 2000 (Unaudited)	April 1, 2000

LIABILITIES AND SHAREHOLDERS EQUITY

Current Liabilities:Accounts payable$1,294,140$1,469,298Current portion of long-term debt and capital lease obligation78,121189,038Customer advances17,88226,863Accrued liabilities:Compensation, employee benefits and payroll taxes224,253372,235Sales taxes payable98,080193,162Accrued recourse liability439,984390,369Accrued expenses250,640298,717Other173,668260,157

Total current liabilities2,576,7683,199,839Long-term debt and capital lease obligation2,596,0652,640,445

Total liabilities5,172,8335,840,284

Shareholders Equity:Preferred shares- without par value; authorized 500,000; none issued Common shares- without par value; authorized 5,000,000; issued and outstanding 2,605,233 shares on December 30 and on April 12,806,4822,806,482Retained earnings498,182906,594

Total shareholders equity3,304,6643,713,076

Total Liabilities and Shareholders Equity$8,477,497$9,553,360

See notes to consolidated financial statements.

Table of Contents

SHOPSMITH INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	Dec 30 2000 (Unaudited)	**Jan 1 2000 (Unaudited)**	**Dec 30 2000 (Unaudited)**	**Jan 1 2000 (Unaudited)**
Net sales	$4,148,057	$4,954,240	$11,818,721	$12,718,239

Cost of products sold1,935,1952,225,4535,569,6395,757,820

Gross margin2,212,8622,728,7876,249,0826,960,419Selling expenses1,816,9252,212,4525,330,1936,077,436Administrative expenses344,421429,6321,207,6071,429,880

Total operating expenses2,161,3462,642,0846,537,8007,507,316Income (Loss) from operations51,51686,703(288,718)(546,897)Interest income11,9438,60030,62534,725Interest expense(62,125)(67,553)(157,364)(202,303)Other income, net2,2443,4927,04510,514

Income (Loss) before income taxes3,57831,242(408,412)(703,961)Income tax benefit (Expense) (18,000) 218,000

Net Income (Loss)3,57813,242(408,412)(485,961)Retained earnings:Beginning494,6041,087,080906,5941,586,283

Ending$498,182$1,100,322$498,182$1,100,322

Net Income (Loss) per common share (Note 3)
Basic$0.00$0.01(0.16)(0.19)

Diluted$0.00$0.01(0.16)(0.19)

See notes to consolidated financial statements.

Table of Contents

SHOPSMITH INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW

	Nine Months Ended	
	December 30 2000 (Unaudited)	**January 1 2000 (Unaudited)**
Cash flows from operating activities:		

Net Loss$(408,412)$(485,961)Adjustments to reconcile net loss to cash provided from operating activities:Depreciation and amortization214,826208,968Provision for doubtful accounts225,885128,572Deferred income taxes (218,000)Cash provided from (required for) changes in assets and liabilities: Restricted cash(68,201)(10,415) Accounts receivable(258,176)126,849 Inventories(113,172)(418,607) Other assets89,273(219,698) Accounts payable and customer advances(184,139)(336,028) Other current liabilities(377,630)(104,631)

Cash provided from (used in) operating activities(879,746)(1,328,951)

Cash flows from investing activities:Maturity of short-term investments 989,122Property additions(48,741)(99,871)

Cash provided from (used in) investing activities(48,741)889,251

Cash flows from financing activities:Common shares repurchased Payments on long-term debt and capital lease obligation(155,297)(52,442)

Cash provided from (used in) financing activities(155,297)(52,442)

Net decrease in cash(1,083,784)(492,142)Cash:At beginning of period1,301,3871,005,371

At end of period$217,603$513,229

See notes to consolidated financial statements.

Page 6

Table of Contents

SHOPSMITH, INC. AND SUBSIDIARIES
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 30, 2000 and January 1, 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 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 April 1, 2000.

2. The provision for income taxes is as follows:

	Three months ended		Nine months ended	
	December 30 2000	January 1 2000	December 30 2000	January 1 2000
Income (Loss) before income taxes	$3,578	$31,242	$(408,412)	$(703,961)

Provision for (recoverable) income taxes:
Current$ $ $ $ Deferred6,00018,000(122,000)(218,000) Change in valuation allowance(6,000) 122,000

Net provision for (recoverable) income taxes$ $18,000$ $(218,000)

The Company has deferred tax assets amounting to $1,326,000 at December 30, 2000 and April 1, 2000 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 the available evidence as prescribed in SFAS 109. For the current year through December 30, 2000, the Company has established a

$122,000 valuation allowance against its provision for recoverable income taxes because of the uncertainty of realizing its benefit.

3. Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect 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:

	Three months ended		**Nine months ended**	
	December 30, 2000	**January 1, 2000**	**December 30, 2000**	**January 1, 2000**
Net income (loss)	$ 3,578	$ 13,242	$ (408,412)	$ (485,961)
Weighted average shares	2,605,233	2,605,233	2,605,233	2,605,233
Additional dilutive shares				
Total dilutive shares2,605,2332,605,2332,605,2332,605,233				
Basic earnings (loss) per share$0.00$0.01(0.16)(0.19)				
Diluted earnings (loss) per share$0.00$0.01(0.16)(0.19)				

Table of Contents

There were no additional dilutive shares included in the computation at December 30, 2000 and January 1, 2000 because the stock options were anti-dilutive.

4. A revolving credit agreement expires on July 31, 2001. The agreement provides for maximum short-term borrowing of $500,000 with interest charged at one percent over the Bank s prime rate. The agreement requires compliance with certain minimum net worth, working capital and other miscellaneous covenants. Substantially

all tangible assets except for land and building are pledged as collateral.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Third quarter sales declined to $4,148,000 or 16.3% from $4,954,000 generated a year ago. On a year-to-date basis sales have declined by $900,000 or 7.1% to $11,819,000. Decreases in our demonstration sales channel have more than offset increases in other channels.

Gross margin rates declined to 53.3% from 55.1% for the same quarter last year. Gross margin rates for the year-to-date declined to 52.9% from 54.7% for the same period last year.

Through tighter control on expenditures and the deferral of some longer term programs, total operating expenses were reduced by $481,000 to $2,161,000 in the current quarter and by $970,000 to $6,538,000 for the nine month period.

Provisions for income taxes for the quarter ($0 in FY 2001 and $18,000 in FY 2000) are based on estimated annual effective rates and changes in the valuation reserve in FY2001.

With the reduction in operating expenses, a net income of $4,000 or $.00 per diluted share was experienced in the quarter ended December 30, 2000 compared to a net income of $13,000 or $.01 per diluted share for the same period of last year. Year to date a loss of $408,000 or $.16 per diluted share was incurred, compared to a loss of $486,000 or $.19 per diluted share for the year before.

Liquidity and Financial Position

Cash used in operations for the first nine months of the current fiscal year totaled $1,084,000 compared with $492,000 last year. Net losses of $408,000, together with liquidation of current liabilities, were the main reasons for the cash usage in the nine months ended December 30, 2000.

The Company s assets include $1,326,000 of deferred income tax assets at December 30, 2000. Presently, the Company believes that these assets are realizable and represent management s best estimate based on the weight of available evidence as prescribed in SFAS 109. For the current year through December 30, 2000, the Company has established a $122,000 valuation allowance against its provision for recoverable income taxes because of the uncertainty of realizing its benefit. Management will continue to evaluate these assets and the need for additional valuation allowances based on near-term operating results and longer-term projections. If the Company is unable to generate sufficient operating income in the future, the valuation allowance will have to be increased by means of a charge against operating results.

The current ratio was 1.80 to 1 at December 30, 2000 compared to 1.73 to 1 at the beginning of the current fiscal year. The debt to equity ratio is unchanged from April 1, 2000 at 1.57 to 1.

The Company has recently switched providers for its consumer finance from Household Retail Services to CitiFinance. CitiFinance does not currently offer a recourse program. A recourse program allows the company, at its option, to assume recourse liability with respect to consumers that the provider would not otherwise finance. Shopsmith is currently financing some of these customers internally, which has a negative effect on liquidity.

The Company has now experienced operating losses in the last two fiscal years as well as for the year to date through the first three quarters of the current fiscal year. Continuation of operating losses will negatively affect the Company s liquidity both (a) as a result of negative cash flow caused by the losses, and (b) by putting the Company in the position of failing to satisfy the conditions applicable to drawing under the Company s line of credit.

Forward Looking Statements

The foregoing discussion and the Company s consolidated financial statements contain certain forward-looking statements that involve risks and uncertainties, including but not limited to the following: (a) the adequacy of operating cash flows together with currently available working capital to finance the operating needs of the Company and (b) generation of future taxable income to utilize existing deferred tax assets.

Table of Contents

Item 3. Quantitative and qualitative disclosures about market risk.

Not applicable.

Table of Contents

PART II. OTHER INFORMATION

Item 6.

(a) Exhibits:

(10) Material Contracts

(10.14) Consumer Finance agreement with CitiFinancial dated November 15, 2000.

(c) Reports on Form 8-K:

None

SIGNATURES

Pursuant to the requirements 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.

SHOPSMITH, INC.

By /s/ Mark A. May

Mark A. May Vice President of Finance (Principal Financial and Accounting Officer)Date: February 7, 2001

Page 11