

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

SONIC JET PERFORMANCE INC
Form 10QSB
May 14, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1937

Commission file number: 000-22273

SONIC JET PERFORMANCE, INC.

(Exact Name of Small Business Issuer as Specified in Its Charter)

COLORADO

(State of Incorporation)

84-1383888

(I.R.S. Employer
Identification No.)

15662 COMMERCE LANE
HUNTINGTON BEACH, CALIFORNIA 92649

(Address of Principal Executive Offices)

(714) 895-0944

(Issuer's Telephone Number, including Area Code)

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 NO

As of March 31, 2002, the Issuer had 27,891,644 shares of Common Stock, no par value, outstanding.

SONIC JET PERFORMANCE, INC.

FORM 10-QSB

FOR THE QUARTERLY PERIOD ENDED March 31, 2002

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SONIC JET PERFORMANCE, INC. AND SUBSIDIARY March 31, 2002 (Unaudited)

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Michael Johnson & Co., LLC
Certified Public Accountants
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Denver, Colorado 80237

Michael B. Johnson C.P.A.
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REPORT ON REVIEW BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

To the Board of Directors
Sonic Jet Performance, Inc and Subsidiary

We have reviewed the accompanying consolidated balance sheet of Sonic Jet Performance, Inc. and Subsidiary as of March 31, 2002 and the related consolidated statements of operations and cash flows for the three months ended March 31, 2002 and 2001 included in the accompanying Securities and Exchange Commission Form 10-QSB for the period ended March 31, 2002. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the balance sheet as of December 31, 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein). In our report dated March 4, 2002, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of March 31, 2002 is fairly stated in all material respects in relation to the balance sheet from which it has been derived.

/s/ Michael Johnson & Co., LLC

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Denver, Colorado
May 11, 2002

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SONIC JET PERFORMANCE, INC. AND SUBSIDIARY
Consolidated Balance Sheets
(Unaudited)

	March 31, 2002	December 31, 2001
	-----	-----
ASSETS:		
Current Assets:		
Cash	\$ 27,213	\$ 42,760
Restricted cash	202,495	201,004
Accounts receivable	67,566	9,500
Inventories	431,498	363,971
Other current assets	30,919	7,731
	-----	-----
Total Current Assets	759,691	624,966
	-----	-----
Property and Equipment, net	1,213,888	1,221,313
	-----	-----
Other Assets:		
Licensing rights	267,500	267,500
	-----	-----
Total Other Assets	267,500	267,500
	-----	-----
TOTAL ASSETS	\$2,241,079	\$ 2,113,779
	=====	=====

See accountant's review report and notes to the financial statements.

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SONIC JET PERFORMANCE, INC. AND SUBSIDIARY
Consolidated Balance Sheets
(Unaudited)

March 31,
2002

LIABILITIES AND STOCKHOLDERS' EQUITY:

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Current Liabilities:	
Accounts payable	\$ 475,94
Accrued payroll taxes	57,97
Accrued interest and other expenses	248,39
Current portion of capitalized lease obligations	11,76

Total Current Liabilities	794,07

Long-term Liabilities;	
Capitalized lease obligations - net of current portion	

Total Long-term Liabilities	

TOTAL LIABILITIES	794,07

Stockholders' Equity:	
Preferred stock, no par value, 10,000,000 shares authorized, none issued and outstanding	
Series A Convertible Preferred Stock: 1,600 shares issued and outstanding	
Series B Convertible Preferred Stock: 10 shares issued and outstanding	25,00
Series C Convertible Preferred Stock: 37 shares issued and outstanding	370,00
Common stock, no par value, 100,000,000 shares 27,891,644 and 19,333,936, issued and outstanding respectively	12,342,21
Shares committed-to-be-issued	20,00
Accumulated comprehensive income	6
Accumulated deficit	(11,310,27)

Total Stockholders' Equity	1,447,00

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,241,07
	=====

See accountant's review report and notes to financial statements.

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SONIC JET PERFORMANCE, INC. AND SUBSIDIARY
Consolidated Statements of Operations
(Unaudited)

	Three months ended	
	March 31,	
2002		2001
-----		-----

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REVENUES:	\$ 58,795	\$ 583,459
	-----	-----
COST OF SALES	27,630	472,187
	-----	-----
GROSS PROFIT	31,165	111,272
	-----	-----
OPERATING EXPENSES:		
Sales and Marketing	-	-
General and Administrative	334,590	341,616
	-----	-----
Total Operating Expenses	334,590	341,616
	-----	-----
Net Loss from Operations	(303,425)	(230,344)
	-----	-----
OTHER INCOME/EXPENSES		
Other income	3,749	4,000
Other expenses	-	-
Interest income	-	13
Interest expenses	(1,592)	(108,263)
	2,157	(104,250)
	-----	-----
NET (LOSS)	\$ (301,268)	\$ (334,594)
	=====	=====
Weighted average number of shares outstanding	23,591,934	13,024,767
	=====	=====
Net Loss Per Share	\$ (0.02)	\$ (0.02)
	=====	=====

See accountant's review report and notes to the financial statements.

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SONIC JET PERFORMANCE, INC. AND SUBSIDIARY
Statement of Changes in Stockholders' Equity
(Unaudited)

	Preferred Stock		Common Stock		Additional	Additio
	Shares	Amount	Shares	Amount	Paid-In	Paid-
	-----	-----	-----	-----	Capital	Warran
Balance - December 31, 1999	1,600	\$ 1,500,000	12,676,000	\$3,618,194	\$ 272,000	\$ 316,
Issuance of common stock	-	-	348,767	710,583	-	
Capital changes due to debt financing	-	-	-	-	826,000	708,
Cumulative translation adjustment	-	-	-	-	-	
Net loss for year	-	-	-	-	-	

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Balance - December 31, 2000	1,600	1,500,000	13,024,767	4,328,777	1,098,000	1,024,
Issuance of common stock for services	(1,594)	(1,425,000)	6,309,169	7,686,938	(1,098,000)	(1,024,
Cumulative translation adjustments	-	-	-	-	-	-
Net loss for year	-	-	-	-	-	-
Balance - December 31, 2001	6	75,000	19,333,936	12,015,715	-	-
Issuance of common stock for Shares committed	32	320,000	8,557,708	253,295	-	-
	-	-	-	73,205	-	-
Cumulative translation adjustments	-	-	-	-	-	-
Net loss for period	-	-	-	-	-	-
Balance - March 31, 2002	38	\$ 395,000	27,891,644	\$12,342,215	\$ -	-

	Accumulated Deficit	Totals
Balance - December 31, 1999	\$ (2,132,207)	\$ 4,368,525
Issuance of common stock	-	55,000
Capital changes due to debt financing	-	1,534,601
Cumulative translation adjustment	-	25,273
Net loss for year	(7,458,046)	(7,458,046)
Balance - December 31, 2000	(9,590,253)	(1,474,647)
Issuance of common stock for services	20,332	4,088,646
Cumulative translation adjustments	(1,266)	(1,266)
Net loss for year	(1,437,818)	(1,437,818)
Balance - December 31, 2001	(11,009,005)	1,174,915
Issuance of common stock for Shares committed	-	573,295
	-	-
Cumulative translation adjustments	-	60
Net loss for period	(301,268)	(301,268)
Balance - March 31, 2002	(11,310,273)	\$ 1,447,002

See accountant's review report and notes to the financial statements.

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SONIC JET PERFORMANCE, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2002	2001
Cash Flows From Operating Activities:		
Net Loss	\$ (301,268)	\$ (334,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	30,000	30,000
Interest relating to beneficial conversion and warrants	-	10,000
Common stock issued for services	27,016	
Changes in assets and liabilities:		
(Increase) in accounts receivable	(58,066)	(182,000)
(Increase) in inventories	(67,527)	194,000
Decrease in related parties	-	127,000
(Increase) in other assets	(23,128)	(9,000)
Increase in accounts payable	17,525	(2,000)
(Decrease) Increase in payroll liabilities	(12,959)	(7,000)
(Decrease) Increase in accrued expenses	(74,093)	100,000
Total adjustments	(161,232)	260,000
Net Cash Used in Operating Activities	(462,500)	(74,000)
Cash Flow From Investing Activities:		
Purchase of equipment	(22,575)	
Proceeds from sale of property and equipment	-	
Net Cash Provided By Investing Activities	(22,575)	
Cash Flow From Financing Activities:		
Proceeds from issuance of common stock	-	
Proceeds from convertible debt	470,000	50,000
Payments from capitalized lease obligations	(472)	
Proceeds from loans	-	
Net Cash Provided By Financing Activities	469,528	50,000
Effect of exchange rate on cash	-	
Increase in Cash	(15,547)	(24,000)
Cash and Cash Equivalents - Beginning of period	42,760	40,000
Cash and Cash Equivalents - End of period	\$ 27,213	\$ 16,000
Supplemental Cash Flow Information:		
Interest paid	\$ 3,082	\$ -
Taxes paid	\$ 800	

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See accountant's review report and notes to financial statements.

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Note 1. Presentation of Interim Information

In the opinion of the management of Sonic Jet Performance, Inc. and Subsidiary (SJPI), the accompanying unaudited consolidated financial statements include all normal adjustments considered necessary to present fairly the financial position as of March 31, 2002, and the results of operations and cash flows for the three months ended March 31, 2002 and 2001. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements and notes are presented as permitted by Form 10-QSB, and do not contain certain information included in the SJPI's audited consolidated financial statements and notes for the fiscal year ended December 31, 2001.

Note 2. Financial Statements

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany balances, transactions, and stockholdings have been eliminated.

NOTE 3 - INVENTORIES

Inventories at March 31, 2002 consisted of the following:

Raw materials and supplies	\$ 71,839
Work in process	286,364
Finished goods	73,295

Total	\$ 431,498
	=====

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2001 consisted of the following:

Building and improvements	\$ 32,933
Furniture and fixtures	13,613
Machinery and equipment	288,767
Tooling and molds	23,217
Tooling - new products	1,210,290
Vehicles	20,899

	1,589,719
Less accumulated depreciation and amortization	(375,831)

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Total \$1,213,888
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NOTE 5 - COMMITMENTS AND CONTINGENCIES

Lease

The Company leases its principal executive offices and facility from its majority stockholder under an operating lease agreement. This lease agreement expired on February 28, 2002. The Company currently leases these premises on a month-to-month basis at a monthly rental charge of \$7,400.

The Company's wholly owned subsidiary leases a 50,000 square foot facility in Nanning, China on a month-to-month basis.

Employment Agreement

On January 2, 2002, the Company entered into an at-will employment agreement with Mr. Mankal. The agreement provides for an annual base salary of \$64,800, and an annual bonus of up to 25% of Mr. Mankal's annual base salary based on the Company's achievement of certain earnings and positive cash flow targets, to be established by the board. The Company also granted him options to purchase 250,000 shares of common stock that vest in two equal yearly installments.

Royalty/Licensing Agreements

On December 27, 2001, the Company entered into a new license agreement covering the design and other rights, with Mardikian Marine Design, LLC, an entity owned by other Company's largest shareholder, and by a principal of the holder of the Company's series B preferred Stock. Under the new licensing agreement, the Company is obligated to pay the licensor, as royalties (1) 4% of the first \$3 Million Dollars in gross revenues resulting from the sale of products using the designs, (2) 3% of gross revenue between \$3 Million Dollars and \$5 Million Dollars (3) 2% of gross revenue between \$5 Million Dollars and \$10 Million Dollars (4) 1% of gross revenue in excess of \$10 Million Dollars.

NOTE 6 - STOCK COMPENSATION PLAN

The Company's 1998 Employee Consultant Stock Compensation Plan provides for the granting of stock options to employees and certain consultants of the Company and was amended in July 2000. A total of 2,000,000 shares of common stock have been reserved for issuance upon exercise of options granted under the plan, as amended. During the quarter ended March 31, 2002, the Company issued the following option shares.

1. Walter Wright	100,000	Consultant
2. Danny Medina	56,695	Settlement of Outstanding amounts
3. Barrett Evans	500,000	Consultants agreement
4. George Moseman	250,000	Finders Fees
5. Astor & Philips	118,014	Settlement of Legal fees
6. Tim Spooner	37,500	Payment of sales Commission
7. Hratch Khedesian	50,620	Settlement of outstanding dues

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NOTE 7 Other Transactions

Capital Stock Transactions

In January 2002, Ashford Capital, KK purchased 7 shares of our Series C Convertible Preferred Stock for an aggregate purchase price of \$70,000. It converted two of the preferred shares into 564,706 shares of our common stock. Ashford Capital, LLC, the holder of our Series B Preferred Stock, owns a minority interest in Ashford Capital, KK.

Series C Convertible Preferred Stock

1. During the period from December 6, 2001 to March 31, 2002, Fifty Two shares of Series C Convertible Preferred Stock were issued to various investors for \$520,000 of which fifteen preferred shares have been converted to common stock.

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

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2002 and 2001

The following table sets forth the Company's consolidated statements of operations:

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Sales	\$ 58,795	\$583,459
Cost of Sales	27,630	472,187
	-----	-----
Gross profit (loss)	31,165	111,272
Selling, General and Administrative	334,590	341,616
	-----	-----
Income/(Loss) from operations	(303,425)	(230,344)
	-----	-----
Interest expenses	(1,592)	(108,250)
Other Income	3,749	4,000
	-----	-----
Total other income (expense)	2,157	(104,250)
	-----	-----
Net Income/(Loss)	\$ (301,268)	\$ (334,594)
	=====	=====
Basic & Diluted loss per share	\$ (0.02)	\$ (0.02)
	=====	=====

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Weighted-average common shares
outstanding Basic and Diluted 23,591,934 13,024,767

NET SALES: Net sales for the first quarter 2002 decreased by \$524,664 or 89.92% to \$58,795 compared to \$583,459 for the first quarter of 2001. Management attributes the decrease of sale for 3 months ended March 31, 2002 to the restructuring of Company. We sold one Fire Rescue Jet to Stone Harbor during the quarter ended March 31, 2002.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES: Selling, general and administrative expenses for the first quarter of 2002, decreased by \$7,026 or 2% to \$334,590 compared to \$341,616 for the first quarter of 2001. Decrease is mainly attributed to expenses incurred on business consultants, legal expenses for preparing the annual report, and proxy statement, printing of brochures, demo expenses and settlement of legal cases.

NET INCOME (LOSS): Net Income (Loss) for the 3 months ended March 31, 2002 was (\$301,268) as compared to (\$334,594) for the 3 months ended March 31, 2001. This decrease in loss is mainly attributable to the fact that interest expense on debts reduced compared for the same period ending March 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of capital have been cash flow from its operations, the sale of Series B and Series C Convertible Preferred Stock.

Based on its current operating plan, the Company anticipates that additional financing will be required to finance its operations and capital expenditures.

The Company's currently anticipated levels of revenues and cash flow are subject to many uncertainties and cannot be assured. Further, unforeseen events may occur causing the Company to raise additional funds. The amount of funds required by the Company will depend upon many factors, including without limitation, the extent and timing of sales of the Company's products, future product costs, the timing and costs associated with the establishment and/or expansion, as appropriate, of the Company's manufacturing, development, engineering and customer support capabilities, the timing and cost of the Company's product development and enhancement activities and the Company's operating results. Until the Company generates cash flow from operations which will be sufficient to satisfy its cash requirements, the Company will need to seek alternative means for financing its operations and capital expenditures and/or postpone or eliminate certain investments or expenditures. Potential alternative means for financing may include leasing capital equipment, obtaining a line of credit, or obtaining additional debt or equity financing. There can be no assurance that, if and when needed, additional financing will be available, or available on acceptable terms. The inability to obtain additional financing or generate sufficient cash from operations could require the Company to reduce or eliminate expenditures for capital equipment, research and development, production or marketing of its products, or otherwise curtail or discontinue its operations, which could have a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, if the Company raises funds through the sale of additional equity securities, the Common Stock currently outstanding may be further diluted.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings. None

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Item 2. Changes in Securities.

The Following Shares were issued out of the stock option plan.

1. Walter Wright	100,000	Consultant
2. Danny Medina	56,695	Settlement of outstanding amounts
3. Barrett Evans	500,000	Consultants agreement
4. George Moseman	250,000	Finders Fees
5. Astor & Philips	118,014	Settlement of Legal fees
6. Tim Spooner	37,500	Payment of sales Commission
7. Hratch Khedesian	50,620	Settlement of outstanding dues

The Following Shares were issued with restriction.

1. Scott Ervin	15,000	Settle outstanding amounts
2. Danny Medina	100,000	Non Competence Agreement
3. Astor & Phillips	118,014	Payment of Legal fees
4. Alan Weaver	14,700	Settlement of Legal case
5. Harry Yamada	34,300	Settlement of legal case
6. William Crosby	21,000	Settlement of Legal Case
7. JNC Opportunity Fund, Ltd.	1,044,775	Anti Dilution Agreement
8. JNC Strategic Fund, Ltd.	731,858	Anti Dilution Agreement
9. Mohammed Al Rashid	1,021,677	Anti Dilution Agreement
10. Federal and Commercial Contracts	50,000	Sales agreement
11. Mgs Grand Sports	58,261	settle outstanding rent

The Following Common shares were issued by converting Preferred stock certificates:

1. Denis Hickey	564,706
2. Hratch Khedesian	282,353
3. Michel Watts	564,706
4. Noriaki Sasaki	1,129,412
5. Krishna Mankal	282,353
6. Jeffrey Marks	282,353
7. Efund Capital partners	1,129,411

Item 3. Defaults Upon Senior Securities.

Item 4. Submission of Matter to

a : Refer to Proxy Statement filed separately Vote of Security Holders.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K. (a) Exhibits:

None

(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.

Date: May 13, 2002

SONIC JET PERFORMANCE, INC.

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By: /s/ Madhava Rao Mankal

Name: Madhava Rao Mankal

Title: Secretary/CFO