

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

SONIC JET PERFORMANCE INC
Form 10QSB
August 19, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM
_____ TO _____

COMMISSION FILE NUMBER: 0-22273

SONIC JET PERFORMANCE, INC.
(Exact name of Registrant as specified in its charter)

Colorado 84-1383888
(State or jurisdiction of incorporation I.R.S. Employer
or organization Identification No.)

2031 Avenue B, Building 44 North, Charleston, South Carolina 29405
(Address of principal executive offices) (Zip Code)

Registrant's telephone number: (843) 740-7015

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common
Stock, No Par Value

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) been subject to such filing requirements for the past 90 days.
Yes No X .

As of June 30, 2003, the Registrant had 109,187,156 shares of
common stock issued and outstanding.

Transitional Small Business Disclosure Format (check one): Yes No X .

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION	PAGE
ITEM 1. FINANCIAL STATEMENTS	
REPORT ON REVIEW BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT	3
CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2003	4

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2003 AND JUNE 30, 2002	5
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND JUNE 30, 2002	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	7
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	12
ITEM 3. CONTROLS AND PROCEDURES	17
PART II - OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	17
ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS	18
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	19
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	19
ITEM 5. OTHER INFORMATION	19
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	19
SIGNATURE	20
PART I - FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS.	

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 June 30, 2003, the related consolidated statements of operations (for the three months and six months ended June 30, 2003 and 2002), and the related statements of cash flows for the six months ended June 30, 2003 and 2002 included in the accompanying Securities and Exchange Commission Form 10-QSB for the period ended June 30, 2003. 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.

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

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, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein). In our report dated April 20, 2003, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of June 30, 2003 is fairly stated in all material respects in relation to the balance sheet from which it has been derived.

/s/ Michael Johnson & Co., LLC
Michael Johnson & Co., LLC
Denver, Colorado
August 18, 2003

SONIC JET PERFORMANCE CONSOLIDATED BALANCE SHEET JUNE 30, 2003 (Unaudited)

ASSETS:

Current Assets:

Cash	\$	100,135
Restricted Cash		
Accounts Receivable		15,537
Investment		
Inventories		2,935,157
Other Current Assets		141,978
Total Current Assets		3,192,807

Property and Equipment, net 197,650

Other Assets:

Licensing Rights		200,000
Reserve for Restructuring		(200,000)
Goodwill		1,434,873
Total Other Assets		1,434,873

Total Assets 4,825,331

LIABILITIES AND STOCKHOLDERS' EQUITY:

Current Liabilities:

Accounts Payable		1,224,940
Accrued Payroll Taxes		21,750
Accrued Interest and other expenses		446,269
Deferred Revenue		1,718,744
Short-Term Loan		830,014
Current Portion of Capitalized Lease Obligations		-
Total Current Liabilities		4,241,717

Long-Term Liabilities: Cap. Lease
(Net) and Other

306,660

Total Long-Term Liabilities

306,660

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

Total Liabilities	4,548,377
Stockholders' Equity:	
Common, No Par Value, 300,000,000 Authorized, Issued and Outstanding 109,187,156	18,592,147
Preferred, No Par Value	-
Series B Convertible Preferred (10 Shares Issued and Outstanding)	25,000
Series C Convertible Preferred (32 Shares Issued and Outstanding)	320,000
Retained Earnings	(20,139,010)
Shares Committed to be Issued	786,591
Warrants	692,226
Total Stockholders' Equity	276,954
Total Liabilities and Shareholders' Equity	4,825,331

The accompanying notes are an integral part of these financial statements

SONIC JET PERFORMANCE
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Revenues	\$ 606,785	\$ 303,837	\$ 703,134	\$ 1,000,000
Cost of Sales	604,684	181,984	836,437	1,000,000
Gross Profit	2,101	121,853	(133,304)	0
Operating Expenses:				
Selling, General & Administrative	1,343,921	684,864	2,992,448	1,000,000
Total Operating Expenses	1,343,921	684,864	2,992,448	1,000,000
Loss from Operations	(1,341,820)	(563,011)	(3,125,752)	(1,000,000)
Restructuring Expense	514,499	-	514,499	0
Profit (Loss) after Restructuring Expense	(1,856,319)	(563,011)	(3,640,250)	(1,000,000)
Other Income/Expense				
Other Income	(59,810)	29,269	(45,352)	0
Interest Expense	(56,830)	3,213	(71,025)	0
Total Other Income (Expense)	(116,640)	32,482	(116,377)	0
Net Loss	(1,972,958)	(530,529)	(3,756,628)	(1,000,000)
Basic loss per share	(0.0130)	(0.0254)	(0.0304)	(0.0000)
Diluted loss per shares	(0.0087)	(0.0254)	(0.0204)	(0.0000)
Weighted average common shares outstanding				
Basic	102,851,320	22,186,505	102,851,320	22,186,505
Diluted	153,483,542	22,186,505	153,483,542	22,186,505

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

* Taken from the weighted average common shares outstanding as at the end of 06/30/03

** 2002 Basic and diluted shares was based on the auditor's calculations. There was no dilution factor.

The accompanying notes are an integral part of these financial statements

SONIC JET PERFORMANCE CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Cash Flows From Operating Activities:		
Net Loss	\$ (3,756,628)	\$ (831,797)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	155,834	66,396
Provision for China Inventory	-	297,547
Common Stock issued for services	1,689,904	135,266
Warranty & royalties	25,961	-
Restructuring expense	514,499	-
Changes in assets and liabilities:		
(Increase) in accounts receivable	150,705	(77,082)
(Increase) in inventories	(2,748,694)	(54,991)
(Increase) Decrease in other assets	4,896	51,387
(Decrease) Increase in accounts payable	286,397	(37,000)
(Decrease) Increase in payroll liabilities	(16,940)	(20,361)
(Decrease) Increase in accrued expenses & deferred revenue	1,596,902	(142,022)
(Decrease) Increase in reserves and other	7,502	-
Total adjustments	1,666,966	219,140
Net Cash Used in Operating Activities	(2,089,662)	(612,657)
Cash Flow From Investing Activities:		
Purchase of equipment	24,752	(27,471)
Proceeds from sale of property and equipment	-	(50,000)
Net Cash Provided By Investing Activities	24,752	(77,471)
Cash Flow From Financing Activities:		
Proceeds from issuance of common stock	1,305,849	347,016
Proceeds from issuance of Preferred Stock	(20,000)	290,000
Proceeds from convertible debt	-	57,033
Short term Debts	723,207	-
Payments from capitalized lease obligations	-	(10,970)
Long Term Liabilities	11,513	-
Notes Payable	-	-
Proceeds from loans	-	55,000
Net Cash Provided By Financing Activities	2,020,569	738,079
Effect of exchange rate on cash	-	0
Increase in Cash	(44,341)	47,951
Beginning Balance	144,476	42,760
Ending Balance	100,135	90,711

The accompanying notes are an integral part of these financial statements

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

SONIC JET PERFORMANCE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 - PRESENTATION OF INTERIM INFORMATION

In the opinion of the management of Sonic Jet Performance, Inc. and Subsidiary ("SJPI"), the accompanying un-audited consolidated financial statements include all normal adjustments considered necessary to present fairly the financial position as of June 30, 2003, and the results of operations for the three months and six months ended June 30, 2003 and 2002, and for cash flows for the six months ended June 30, 2003 and 2002. 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, 2002.

NOTE 2 - FINANCIAL STATEMENTS

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

NOTE 3 - INVENTORIES

Inventories at June 30, 2003 consisted of the following:

Raw Materials and Supplies	\$	308,693
Work in process		2,853,214
Finished Goods		86,280
Less: Provision		(313,031)
Total Inventories		2,935,157

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2003 consisted of the following:

Furniture and fixtures	\$	152,584
Machinery and equipment		415,557
Tooling - new products		218,881
Design Rights		200,000
Vehicles		500
Demo vehicles		192,530
		1,180,052
Less Depreciation and Amortization		(982,401)
Total Property and Equipment		197,650

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Leases

The Company has transferred its executive offices to 2031 Avenue B, Building 44, North Charleston 29405, the site of its principal business, Technical Solutions Group, Inc. ("TSGI"). TSGI has a long-term lease of five years (four years remaining) with five (5) years option with CMMC on the naval base.

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

On August 14, 2003, TSG verbally agreed to enter into a lease agreement with Intertech Group, Inc. to lease 86,000 square feet of manufacturing and administrative space at 9801 Hwy 78, Building No. 3, Ladson, South Carolina. The term of the lease is 5 years starting September 15, 2003, with an option to renew for another five years. The space substantially increases the company's ability to qualify for and fulfill larger contracts for its mine-protected vehicles. Annual rent is \$215,000 for the first year plus utilities, taxes and maintenance, and \$258,000 base rental for the next four years. The Company is in the process of negotiating with the current landlord to take back all or most of the current space with little or no penalty.

The company leases a facility in Stanton, California and storage facilities in Riverside, California on a month-to-month basis at a monthly rental charge of \$3,085.

The Company's wholly owned subsidiary in China, which is in the process of dissolution, leases a storage facility in Nanning, China on a month-to-month basis.

Employment Agreements

During the second quarter, the Company negotiated certain changes in employment agreements with its key executive officers. A previous agreement to issue Mr. Watts a warrant for 2 million shares of common stock at \$0.07 a share with full vesting rights as of July 1, 2002, plus a warrant for 1 million shares of common stock at \$0.07 a share vesting on the June 20, 2003, plus a warrant for 1 million shares of common stock at \$0.07 a share vesting on June 20, 2004 plus 10 shares of Series "C" preferred or the equivalent in common shares was modified to be a grant, effective July 1, 2002, of 2 million shares of common stock, plus a warrant for 1 million shares of common stock at \$0.07 a share vesting on June 20, 2003, plus a warrant for 1 million shares of common stock vesting of June 20, 2004; Garth Barrett for a salary of \$120,000 plus a grant of 10 shares of series "C" preferred stock. On April 1, 2003, the Company entered into an agreement with Frank Kavanaugh, the Company's director of business development, for an annual salary of \$120,000 and a grant of 500,000 shares of the Company's restricted common stock. Also, during June of 2003, Mr. Kavanaugh was granted 500,000 shares of restricted common stock that were committed in June of 2002, for consulting services as interim general manager during the second and third quarters of 2002.

In connection with the restructuring of Sonic Jet Performance, Inc., the Company entered into a verbal termination agreement with Mr. Mankal. The agreement stipulates that he will assist the Company as a consultant for 90 days beginning September 1, 2003 at the same salary, without benefits, and receive a grant of 600,000 shares of stock at 7 cents on September 1, 2003. On December 1, 2003 Mr. Mankal will be paid 90 days termination based on his annual rate of salary of \$64,800. On June 2003, Mr. Mankal received 200,000 shares of stock for the first and second quarters of 2003 in connection with his employment contract dated March 17, 2003. The Company is also negotiating a termination agreement with Mr. Khedesian, who is receiving an annual salary of \$72,000. In June, 2003, Mr. Khedesian received 166,666 shares of stock for the first and second quarters of 2003 in connection with his employment contract dated January 2, 2002. Executive officer compensation is subject to review on a periodic basis by the board of directors.

Royalty/Licensing Agreements

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

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 one of the Company's largest shareholders, 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 in gross revenues resulting from the sale of products using the designs, (2) 3% of gross revenue between \$3 million and \$5 million, (3) 2% of gross revenue between \$5 million and \$10 million, and (4) 1% of gross revenue in excess of \$10 million.

One of the principals of Mardikian Marine Design has informed the Company of his intention to revoke the Licensing agreement to the Company and has entered into a lawsuit against the Company (discussed in Part 2, Item 1 of this Form 10-QSB).

NOTE 6 - STOCK COMPENSATION PLAN

Securities authorized for issuance under equity compensation plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future
Equity compensation plans approved by security holders	(a) 1,987,829	(b) \$0.11	(c) 12,171
Equity compensation plans not approved by security holders			
Total:	(a) 1,987,829	(b) \$0.11	(c) 12,171

The Company's July 2000 Employee Stock Compensation Plan provides for the granting of stock options to employees and certain consultants of the Company. A total of 2,000,000 shares of common stock have been reserved for issuance upon exercise of options granted under the plan.

NOTE 7 - OTHER TRANSACTIONS

Capital Stock Transactions

During the period from December 6, 2001 to December 31, 2002, 52 restricted shares of Series C convertible preferred stock were issued to various investors for \$520,000, of which 17 preferred shares have been converted to common stock, and one share was cancelled. During the three months ended March 31, 2003, two shares were redeemed, leaving a balance of 32 Series C preferred stock outstanding at March 31, 2003. During the three months ended June 30, 2003, 12 shares of Series C convertible preferred were committed to a Garth Barrett, an employee, and a consultant advising on strategic issues.

During the three months ended March 31, 2003, the Company issued an aggregate of 375,000 unrestricted shares of its common stock to an employee and a consultant per agreements pursuant to the Company's

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

Compensation Plan.

During the period of February 14, 2003 to March 19, 2003, the Company issued a total of 4,471,197 restricted shares of common stock to 15 consultants for services to be rendered to the company. From the period April 1st through August 14, 2003, the Company issued and committed 5,173,713 shares of restricted common stock plus 2 shares Series C convertible stock to 12 consultants and lawyers for various legal and consulting services rendered to the company. These shares include 650,000 shares of restricted common as discussed in "Note 5, Employment Agreements," above.

During the three months ended March 31, 2003, and six months ended June 30, 2003, the Company issued or committed to be issued, respectively, 644,788 and 674,318 restricted shares of common stock to two companies in connection with compensation under the private placement being conducted by the Company.

During the first and second quarters ended March 31, 2003 and June 30, 2003 the Company issued to directors, as compensation in such capacity, restricted common shares totaling 650,000 (two directors) and 250,000 (one director) respectively. During the first quarter ended March 31, 2003 the company issued or committed to be issued 733,334 restricted shares to two employees, and during the second quarter ended June 30, 2003, the Company committed to be issued 3,716,666 restricted shares of common stock and ten shares of Series C Preferred stock to 6 employees in connection with employment agreements with the Company, some of which were described in "Note 5, Employment Agreements," above.

During the first quarter ended March 31, 2003, the Company issued restricted shares of common stock totaling 500,000 to two individuals in settlement of amounts owed.

During the second quarter ended June 30, 2003, the Registrant issued shares of common stock and warrants (represented by 40,000 common stock units) valued at \$210,000 to payoff a note for \$50,000 and settle all outstanding claims of Atlantis Aggressive Growth Co. and Atlantis Partners Inc. related to the purchase of Technical Solutions Group, Inc. in June of 2002. Each common stock unit consists of (a) 50 shares of common stock of the Registrant, (b) one warrant to purchase 25 shares of common stock of the Registrant at an exercise price of \$0.20 per share, and (c) one warrant to purchase 25 shares of common stock, at an exercise price of \$0.30 per share (which was subsequently reduced to \$0.01 per share) (which has been exercised). These shares and corresponding units were distributed as follows: (a) 2,025,000 shares (27,000 units) of common stock valued at an average of \$0.07 share, or \$141,750, to Atlantis Aggressive Growth Co., and 975,000 (13,000 units) shares of common stock valued at an average of \$0.07 share or \$68,250 to Atlantis Partners Inc.

During the three months ended March 31, 2003 and three months ended June 30, 2003, the Company sold a total of 16,064,300 and 6,760,000 restricted shares of common stock, respectively, to investors pursuant to its private placement memorandum, generating net proceeds of \$1,094,955 and \$502,700, respectively pursuant to the sale of common stock units. Each common stock unit consists of (a) 50 restricted shares of common stock of the Company, (b) one warrant to purchase 25 restricted shares of common stock of the Company at an exercise price of \$0.20 per share, and (c) one warrant to purchase 25 restricted shares of common stock, at an exercise price of \$0.30 per share (which was subsequently reduced to \$0.01 per share) (which has been exercised).

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the financial statements of the Registrant and notes thereto contained elsewhere in this report.

Comparison of Three Months and Six Months Ended June 30, 2003 and 2002.

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

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Revenues	\$ 606,785	\$ 303,837	\$ 703,134	\$ 366,837
Cost of sales	604,684	181,984	836,437	200,000
Gross Profit	2,101	121,853	(133,304)	15,837
Selling, General & Admin	1,343,921	684,864	2,992,448	1,010,000
Total Operating Expenses	1,343,921	684,864	2,992,448	1,010,000
Loss from operations	(1,341,820)	(563,011)	(3,125,752)	(86,163)
Restructuring Expense	514,499	-	514,499	-
Profit (loss) after Restructuring Expense	(1,856,319)	(563,011)	(3,640,250)	(86,163)
Other Income/Expense				
Other income	(59,810)	29,269	(45,352)	3,000
Interest expense	(56,830)	3,213	(71,025)	-
Total other income (expense)	(116,640)	32,482	(116,377)	3,000
Net Loss	(1,972,958)	(530,529)	(3,756,628)	(83,163)

In an effort to focus on Technical Solutions Group, Inc.'s ("TSG") mine protected vehicles and achieve profitable operations in the third quarter, and as a result of the poor performance of the boat division and the long lead times necessary to achieve success in that business, the Registrant has, effective July 1, 2003, downsized and transferred the fire and rescue operations to a new acquired subsidiary, Rockwell Power Systems, Inc. The Registrant has set up adequate financial reserves for the restructuring and expects minimal internal resources to be devoted to Rockwell. Rockwell will either finance the fire and rescue business through an independent public offering or, failing that, find a buyer that can devote the time and resources necessary to penetrate the market and build the business. In any case, the Registrant plans to assure that resources will be available if necessary to complete any warranty incurred, and is adequately reserved for such occurrence.

Sales: Net sales for the three and six months ended June 30, 2003 increased by approximately \$303,000 and 340,000, respectively, compared to the three months and six months ended June 30, 2002.

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

During 2002, the Registrant acquired TSG, whose sales for the three month and six month periods ended June 30, 2003 were approximately \$605,000 and \$700,000 respectively. Therefore the entire increase in sales is attributable to TSG. Sales of boats actually declined for the six months compared to last year. The reduction in boat sales can primarily be attributed to reduction in the effort to sell recreational boats.

Cost of Sales: Cost of sales for the three months and six months ended June 30, 2003 was approximately \$422,700 and \$ 627,000 higher than the three months and six months of 2002 respectively. Cost of sales percent was 100% and 119% of sales for the three months and six months ended 2003 compared to approximately 60% and 58% for comparative periods in 2002. In the case of TSG, manufacturing period costs are high in comparison to sales due to start up of a government contract. During the three months and six months ended June 30, 2002, this expense related only to the boat division as TSG was acquired on June 30, 2002.

Selling, General and Administrative Expenses: Selling, general and administrative expenses for the three months and six months ending June 30, 2003 increased by approximately \$659,000 and \$1,973,000 respectively compared to the same periods in 2002. The increase is partially the result of TSG selling, general and administrative expenses that were not in last year. The remaining increase can be attributed to: fund raising expenses, business consultants (\$253,000 and \$107,000 higher, respectively), and grants of employee stock (\$301,000 and \$519,000 higher, respectively).

Restructuring expenses. These expenses are related to writing down assets to fair market value and direct expenses and employee termination agreements involved with the reorganization and transfer of the boat business, and the settling of liabilities related to the purchase of TSG in June 2002.

Net Loss: Net loss for three months and six months ended June 31, 2003 increased by approximately \$1,442,429 and \$ 2,924,831 respectively from corresponding periods ending June 30, 2002. The increase is attributed to fund raising, business consultants, employee stock grants and reorganization costs as discussed above.

Business segment analysis of the three months and six months ended June 30, 2003:

	Boats	TSG	Corporate	Total
A. Three months:				
Sales	\$ 2,127	\$ 604,658		\$ 606,785
Cost of sales	109,891	494,793		604,684
Gross Profit	(107,764)	109,865	-	2,101
 G.P. %				
SG&A	276,322	654,462	413,137	1,343,921
Restructuring loss	354,499	160,000		514,499

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

Other		41,854	74,785	116,639
Segment P&L	(738,585)	(586,451)	(647,922)	(1,972,958)
B. Six months:				
Sales	34,213	668,921		703,134
Cost of sales	216,094	620,343		836,437
Gross Profit	(181,881)	48,578	-	(133,303)
G.P. %				
SG&A	2,244,211	748,237	-	2,992,448
Restructuring loss	354,499		160,000	514,499
Other income & (expense)		41,602	74,775	116,377
Segment P&L	(2,780,591)	(741,261)	(234,775)	(3,756,627)

Operating Activities.

The cash used by operating activities for the three months and six months ended June 30, 2003 was \$1,099,887 and \$2,089,662 respectively, attributable primarily to funding ongoing operations.

Investing Activities.

The Registrant's capital expenditures for the three months and six months ended June 30, 2003 were \$4,460 and \$20,293, respectively, related to investments in office and manufacturing equipment. The Registrant anticipates that its capital expenditures during 2003 will increase because we intend to improve operating efficiencies, and may relocate our principle facility.

Financing Activities.

During the three months ended March 31, 2003 and three months ended June 30, 2003, the Company sold a total of 16,064,300 and 6,760,000 restricted shares of common stock, respectively, to investors pursuant to its private placement memorandum, generating net proceeds of \$1,094,955 and \$502,700, respectively pursuant to the sale of common stock units. For more details about this transaction, see Note 7 - Capital Stock Transactions. The Registrant believes the issuance of the shares and warrants was exempt from registration under the private placement exemption available under Section 4(2) of the 1933 Securities Act.

On May 22, 2003, the company settled a \$50,000 promissory note dated July 2, 2002 with interest at 10%, and entered into an agreement by and between Atlantis Aggressive Growth Co. and Atlantis Partners, Inc. and the Registrant to settle various claims against the registrant by Atlantis Aggressive Growth Co. and Atlantis Partners Inc. arising out of the purchase of TSG in June 2002. For the consideration of paying the note and settling claims, the Registrant issued restricted shares of common stock and warrants (represented by 40,000 units) valued at \$210,000. For more detail of the transaction, see Note 7 - Capital Stock Transactions.

On March 31, 2003, the Registrant began securing capital

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

commitments through the issuance of promissory notes. Under the terms of the promissory notes the loans are payable in six months with 8% interest; however, at the end of the term the loan has an option to convert into Series C Preferred Stock. As of June 30, 2003, the Registrant had obtained \$706,000 in capital from note holders for 2003.

TSG has entered into agreement with GC Financial Service, Inc. to enter in to a purchase and sale agreement/security agreement by which factor may purchase from debtor certain accounts receivable and other rights, including without limitations, all liens, security interest, warrants and guarantees to secure payments of the accounts receivables. As of June 30, 2003 TSG had drawn \$2,332,185.

Liquidity and Capital Resources.

As of June 30, 2003, cash and cash equivalents were approximately \$100,135 compared to approximately \$144,000 as of December 31, 2002. The Registrant has raised approximately \$1,094,955 and \$502,700 during the three months ended March 31, 2003 and the three months ended June 30, 2003, respectively, through a private placement. The Registrant's principal sources of capital have been cash flow from its operations, the sale of common stock, promissory notes mentioned in financing activities, and borrowings from G.C. Financial Services. Based on its current operating plan, the Registrant anticipates that additional financing will be required to finance its operations and capital expenditures.

Presently, the Registrant is generating sufficient revenue to cover expenses and hire employees commensurate with its mine protected vehicle business. However, the Registrant's future liquidity will depend on its ability to obtain necessary financing from outside sources and its ability to restructure operations to reduce operating losses.

The Registrant'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 Registrant to raise additional funds. The amount of funds required by the Registrant will depend upon many factors, including without limitation, the extent and timing of sales of the Registrant's products, future product costs, the timing and costs associated with the establishment and/or expansion, as appropriate, of the Registrant'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 Registrant generates cash flow from operations that 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 Registrant 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 Registrant's business, financial condition and results of operations. Furthermore, if the Registrant raises funds through the sale of additional equity securities, the common stock currently outstanding may be further diluted.

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

Inflation.

The Registrant does not believe that inflation has had or is likely to have any significant impact on its operations.

Forward Looking Statements.

The foregoing management's discussion and analysis of financial condition and results of operations contains "forward looking statements" within the meaning of Rule 175 of the Securities Act of 1933, as amended, and Rule 3b-6 of the Securities Act of 1934, as amended, including statements regarding, among other items, the Registrant's business strategies, continued growth in the Registrant's markets, projections, and anticipated trends in the Registrant's business and the industry in which it operates. The words "believe," "expect," "anticipate," "intends," "forecast," "project," and similar expressions identify forward-looking statements. These forward-looking statements are based largely on the Registrant's expectations and are subject to a number of risks and uncertainties, certain of which are beyond the Registrant's control. The Registrant cautions that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward looking statements, including, among others, the following: reduced or lack of increase in demand for the Registrant's products, competitive pricing pressures, changes in the market price of ingredients used in the Registrant's products and the level of expenses incurred in the Registrant's operations. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained herein will in fact transpire or prove to be accurate. The Registrant disclaims any intent or obligation to update "forward looking statements."

ITEM 3. CONTROLS AND PROCEDURES.

Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

Within the 90 days prior to the end of the period covered by this report, the Registrant carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 ("Exchange Act"). This evaluation was done under the supervision and with the participation of the Registrant's president and chief financial officer. Based upon that evaluation, they concluded that the Registrant's disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy the Registrant's disclosure obligations under the Exchange Act.

(b) Changes in internal controls.

The most significant changes in the Registrant's internal controls or in its factors that could significantly affect those controls was the addition of a chief executive officer and the issuance of an authorization procedure for commitment of resources.

Critical Accounting Policies.

The Securities and Exchange Commission has issued Financial Reporting release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), suggesting companies

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

provide additional disclosure and commentary on their most critical accounting policies. In FRR 60, the SEC defined the most critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and operating results, and require management to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, the Registrant's most critical accounting policies include: non-cash compensation valuation that affects the total expenses reported in the current period. The methods, estimates and judgments the Registrant uses in applying these most critical accounting policies have a significant impact on the results the Registrant reports in its financial statements.

PART II B OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On June 26, 2003 Albert Mardikian, a majority shareholder and patent holder of certain designs and components of the Registrant's boats, filed a complaint against the Registrant in the Orange County Superior Court. The complaint alleges breach of contract of the license agreement dated December 27, 2001 between Mr. Mardikian, Mardikian Marine Design, and the Registrant. The complaint further alleges breach of an employment and agency agreement between the Registrant and Mr. Mardikian, and fraud, conversion and unfair competition. The Registrant has filed an answer denying these allegations, and on July 28, 2003 filed a cross-complaint against Mr. Mardikian and Mardikian Marine Design. While the Registrant's management believes that the matter will be resolved in its favor, this case is in the early stages of litigation and there can be no assurance as to the outcome of the lawsuit. Litigation is subject to inherent uncertainties, and unfavorable rulings could occur. Were unfavorable rulings to occur, there exists the possibility of a material adverse impact of money damages on the Registrant's financial condition, results of operations, or liquidity of the period in which the ruling occurs, or future periods.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

On May 29, 2003, the conversion date for the Series B and Series C preferred shares was extended to from June 27, 2003 to December 27, 2003.

The Registrant sold the following unregistered (restricted) securities during the quarter ended June 30, 2003:

(a) During the quarter ended June 30, 2003, the Registrant issued a total of 674,318 shares of common stock to two companies in connection with compensation under the private placement being conducted by the Registrant, valued at a total of \$47,202 (average of \$0.07 per share).

(b) During the quarter ended June 30, 2003, the Registrant issued a total of 1,000,000 shares of common stock to one individual in connection with consulting services performed for the company. These services were valued at a total of \$70,000 (\$0.07 per share).

(c) During the quarter ended June 30, 2003, the Registrant sold a total of 6,760,000 shares of common stock to investors pursuant to its private placement memorandum, generating net proceeds of \$502,700 (gross proceeds of \$644,487 less offering expenses (fees and commissions) of \$141,787), pursuant to the sale of common stock units.

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

Each common stock unit consists of (a) 50 shares of common stock of the Registrant, (b) one warrant to purchase 25 shares of common stock of the Registrant at an exercise price of \$0.20 per share, and (c) one warrant to purchase 25 shares of common stock, at an exercise price of \$0.30 per share (which was subsequently reduced to \$0.01 per share) (which has been exercised).

(d) During the quarter ended June 30, 2003, the Registrant issued to one of the directors, as compensation in such capacity, 250,000 shares of common stock, valued at \$17,500 (\$0.07 per share).

(e) During the quarter ended June 30, 2003, the Registrant issued shares of common stock and warrants (represented by 40,000 common stock units) valued at \$210,000 to payoff a note for \$50,000 and settle all outstanding claims of Atlantis Aggressive Growth Co. and Atlantis Partners Inc. related to the purchase of Technical Solutions Group, Inc. in June of 2002. Each common stock unit consists of (a) 50 shares of common stock of the Registrant, (b) one warrant to purchase 25 shares of common stock of the Registrant at an exercise price of \$0.20 per share, and (c) one warrant to purchase 25 shares of common stock, at an exercise price of \$0.30 per share (which was subsequently reduced to \$0.01 per share) (which has been exercised). These shares and corresponding units were distributed as follows: (a) 2,025,000 shares (27,000 units) of common stock valued at an average of \$0.07 share, or \$141,750, to Atlantis Aggressive Growth Co., and 975,000 (13,000 units) shares of common stock valued at an average of \$0.07 share or \$68,250 to Atlantis Partners Inc.

The sales set forth above were undertaken under Rule 506 of Regulation D under the Securities Act of 1933, as amended ("Act"), by the fact that:

- the sales were made to a sophisticated or accredited investors, as defined in Rule 502;
- the Registrant gave each purchaser the opportunity to ask questions and receive answers concerning the terms and conditions of the offering and to obtain any additional information which the Registrant possessed or could acquire without unreasonable effort or expense that is necessary to verify the accuracy of information furnished;
- at a reasonable time prior to the sale of securities, the Registrant advised each purchaser of the limitations on resale in the manner contained in Rule 502(d)2;
- neither the Registrant nor any person acting on its behalf sold the securities by any form of general solicitation or general advertising; and
- the Registrant exercised reasonable care to assure that each purchaser of the securities is not an underwriter within the meaning of Section 2(11) of the Securities Act of 1933 in compliance with Rule 502(d).

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

ITEM 5. OTHER INFORMATION.

(a) Clarification of disclosure of Part II, Item 2 of Form 10-QSB for the quarter ended March 31, 2003:

The total sales of 16,064,300 in connection with the private placement were the restricted shares issued as a result of the sale of common stock units (shares and exercised warrants). The net proceeds in connection with these sales were \$1,094,955 (gross proceeds of \$1,403,788 less offering expenses (fees and commissions) of \$308,833).

(b) Correction of disclosure on front cover of March 31, 2003 Form 10-QSB, and balance sheet therein, with regard to common stock: should read "no par value".

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

Exhibits.

Exhibits included or incorporated by reference herein are set forth in the attached Exhibit Index.

Reports on Form 8-K.

No reports on Form 8-K were filed during the second quarter of the fiscal year covered by this Form 10-QSB.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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.

Sonic Jet Performance, Inc.

Dated: August 18, 2003

By: /s/ Madhava Rao Mankal
Madhava Rao Mankal,
President/Secretary/Chief
Financial Officer

EXHIBIT INDEX

Number	Description
2.1	Share Exchange Agreement between the Registrant and Sonic Jet Performance, LLC, dated June 15, 1998 (incorporated by reference to Exhibit 7.1 to the Form 8-K filed on July 6, 1998).
2.2	Stock Purchase Agreement between the Registrant, Garth Barrett, and T S Group, LLC., dated June 13, 2002 (incorporated by reference to Exhibit 2.1 to the Form 8-K filed on June 28, 2002).
3.1	Articles of Incorporation, dated November 27, 1996 (incorporated by reference to Exhibit 3.1 of the Form 10-SB filed on March 24, 1997).
3.2	Articles of Amendment to the Articles of

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

- Incorporation, dated December 24, 1996 (incorporated by reference to Exhibit 3 of the Form 10-KSB filed on April 15, 1998).
- 3.3 Articles of Amendment to the Articles of Incorporation, dated December 16, 1998 (incorporated by reference to Exhibit 3 of the Form 8-K filed on December 16, 1998).
- 3.4 Bylaws, dated November 27, 1996 (incorporated by reference to Exhibit 3.2 of the Form 10-SB filed on March 24, 1997).
- 4.1 Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock, dated June 12, 1998 (incorporated by reference to Exhibit 7.4 of the Form 8-K filed on July 6, 1998).
- 4.2 2000 Stock Plan of the Registrant, dated May 1, 2000 (incorporated by reference to Appendix A of the Schedule 14C filed on June 30, 2000).
- 4.3 Certificate of Designation for Series B Convertible Preferred Stock, dated December 27, 2001 (incorporated by reference to Exhibit 3.1 of the Form 8-K filed on January 7, 2002).
- 4.4 Certificate of Designation for Series C Convertible Preferred Stock, dated December 27, 2001 (incorporated by reference to Exhibit 3.2 of the Form 8-K filed on January 7, 2002).
- 4.5 Series B Convertible Preferred Stock Purchase Agreement between the Registrant and Ashford Capital, LLC, dated December 27, 2001 (incorporated by reference to Exhibit 10.1 of the Form 8-K filed on January 7, 2002).
- 4.6 Series C Convertible Preferred Stock Purchase Agreement between the Registrant and eFund Capital Partners, LLC, dated December 27, 2001 (incorporated by reference to Exhibit 10.2 of the Form 8-K filed on January 7, 2002).
- 4.7 Amendment to Certificate of Designation of Series C Convertible Preferred Stock, dated November 14, 2002 (incorporated by reference to Exhibit 10.6 of the Form 10-QSB filed on November 18, 2002).
- 4.8 Amendment to Certificate of Designation of Series B Convertible Preferred Stock, dated December 20, 2002 (incorporated by reference to Exhibit 10.7 of the Form 10-KSB filed on April 16, 2003).
- 10.1 Consulting Agreement between the Registrant and Kevin Ryan, dated January 17, 2002 (incorporated by reference to Exhibit 10.2 of the Form 10-KSB filed on April 16, 2003).
- 10.2 Consulting Agreement between the Registrant and eFund Capital Partners, LLC, dated January 17, 2002 (incorporated by reference to Exhibit 10.3 of the Form 10-KSB filed on April 16, 2003).
- 10.3 Agreement between the Registrant and Mission Capital Investment Group, dated October 30, 2002 (incorporated by reference to Exhibit 10.3 of the Form 10-QSB filed on November 18, 2002).

Edgar Filing: SONIC JET PERFORMANCE INC - Form 10QSB

- 21 Subsidiaries of the Registrant (see below).
- 31 Rule 13a-14(a)/15d-14(a) Certification (see below).
- 32 Section 1350 Certification (see below).