

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1999-09-10** | Period of Report: **1999-07-31**
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FILER

PUROFLOW INC

CIK: **100591** | IRS No.: **131947195** | State of Incorpor.: **DE** | Fiscal Year End: **0131**
Type: **10QSB** | Act: **34** | File No.: **000-05622** | Film No.: **99709335**
SIC: **3569** General industrial machinery & equipment, nec

Mailing Address
*16559 SATICOY STREET
VAN NUYS CA 91406*

Business Address
*16559 SATICOY STREET
VAN NUYS CA 91406
8187561388*

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 QUARTER ENDED JULY 31, 1999

COMMISSION FILE NUMBER 0-5622

PUROFLOW INCORPORATED

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

13-1947195
(I.R.S. Employer identification No.)

16559 Saticoy Street, Van Nuys, California
(Address of executive offices)

91406-1739
(ZIP Code)

Registrant's telephone number, including area code: (818) 756-1388

Securities registered pursuant to Section 12(g) of the Act:

Common Stock
Common Stock, \$.01 Par Value

Shares outstanding
8,123,721

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 []

PUROFLOW INCORPORATED
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	JULY 31, 1999	JANUARY 31, 1999
<TABLE> <CAPTION>		
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ASSETS		
CURRENT ASSETS		
Cash	\$ -	\$ 828,809
Accounts receivable Net of allowance for doubtful accounts of \$25,000 at July 31, 1999 and \$22,000 at January 31, 1999	1,123,263	1,373,254
Accounts Receivable, other	-	375,763
Advances to Officers & Employees	-	2,907
Inventories	1,953,821	1,562,939
Deferred tax benefit	48,947	45,347
Prepaid expenses and other current assets	82,022	91,677
TOTAL CURRENT ASSETS	3,208,053	4,280,696
PROPERTY & EQUIPMENT		
Leasehold improvements	57,379	55,954
Machinery and equipment	3,536,104	3,808,188

Automobile	-	1,679
Tooling and dies	341,387	327,411
Construction in progress	-	-
	-----	-----
	3,934,870	4,193,232
Less accumulated depreciation and amortization	2,992,440	3,082,386
	-----	-----
NET PROPERTY AND EQUIPMENT	942,430	1,110,846
	-----	-----
DEFERRED TAXES	747,978	747,980
OTHER ASSETS	365,397	340,423
	-----	-----
TOTAL ASSETS	\$ 5,263,858	\$ 6,479,945
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank Overdraft	\$ 76,082	\$ -
Line of credit	35,000	-
Notes payable, current	110,000	97,200
Accounts payable	315,285	465,678
Accrued expenses	142,576	477,335
Payable for acquired company	-	447,875
	-----	-----
TOTAL CURRENT LIABILITIES	678,943	1,488,088
	-----	-----
Long-Term Debt	103,000	139,400
	-----	-----
TOTAL LIABILITIES	781,943	1,627,488
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, par value \$.10 per share authorized - 500,000 shares issued none		
Common stock, par value \$.01 per share authorized - 12,000,000 shares issued and outstanding - 8,123,721 shares	441,213	440,979
Additional paid-in capital	5,681,193	5,667,327
Accumulated deficit	(1,052,799)	(668,030)
Less:		
Notes receivable from stockholders	(554,773)	(554,900)
Treasury stock at cost	(32,919)	(32,919)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	4,481,915	4,852,457
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 5,263,858	\$ 6,479,945
	=====	=====

</TABLE>

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PUROFLOW INCORPORATED
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JULY 31,		JULY 31,	
	1999	1998	1999	1998
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Net revenue	\$ 1,729,193	\$ 2,209,044	\$ 3,799,556	\$ 4,305,328
Cost of goods sold	1,342,446	1,505,788	2,841,282	2,999,370
	-----	-----	-----	-----
Gross profit	386,747	703,256	958,274	1,305,958
Selling, general and administrative expense	688,994	604,511	1,223,156	1,074,968
	-----	-----	-----	-----
Operating income	(302,247)	98,745	(264,882)	230,990
Interest expense	(3,995)	(6,105)	(8,219)	(7,179)
Other income	7,711	2,812	18,323	6,223
Amortization goodwill/non-compete	(11,013)	-	(22,026)	-
Loss from write-off of obsolete equipment	(106,067)	-	(106,067)	-

Income/loss before taxes	(415,611)	95,452	(382,871)	230,034
Provision for income taxes	1,296	(46,650)	1,896	(97,650)
NET INCOME	\$ (416,907)	\$ 142,102	\$ (384,767)	\$ 327,684
Net income (loss) per common share:				
Basic earnings per share	\$ (0.05)	\$ 0.02	\$ (0.05)	\$ 0.05
Diluted earnings per share	\$ (0.05)	\$ 0.02	\$ (0.05)	\$ 0.05
Weighted average number of shares	8,108,123	7,215,764	8,108,123	7,215,764

</TABLE>

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PUROFLOW INCORPORATED
STATEMENT OF CASH FLOWS
(UNAUDITED)

	1999	1998
FOR THE SIX MONTHS ENDED JULY 31		
<S>	<C>	<C>
CASH AT BEGINNING OF PERIOD	\$ 828,809	\$ 361,523
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	(384,767)	327,683
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	153,942	163,458
Provision for losses on accounts receivable	3,000	2,748
Write-off of obsolete equipment	106,067	-
Changes in operating assets and liabilities:		
Advances to Officers & Employees	2,907	(2,482)
Accounts receivable	246,991	(71,208)
Other receivables	375,763	-
Inventories	(390,882)	(258,509)
Prepaid expenses and other current assets	9,656	16,070
Deferred tax benefit	(3,600)	(4,350)
Deferred taxes	-	(102,000)
Other payable	(445,650)	-
Accounts payable & accrued expenses	(534,377)	(229,543)
Net cash used in operating activities	(860,952)	(158,133)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(69,567)	(80,185)
Net cash used in investing activities	(69,567)	(80,185)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of options	14,100	-
Current portion long term debt	(23,600)	60,000
Advance on credit line	35,000	-
Principal new long term debt	128	160,700
Net cash used in financing activities	25,628	220,700
NET DECREASE IN CASH	(904,891)	(17,618)
CASH AT END OF PERIOD	\$ (76,082)	\$ 343,905

</TABLE>

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PUROFLOW INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	COMMON STOCK	ADDITIONAL PAID-IN	RETAINED EARNINGS	NOTES RECEIVABLE FROM STOCKHOLDER AND TREASURY
<TABLE>				
<CAPTION>				

	PAR VALUE	CAPITAL	EARNINGS	STOCK	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
FOR THE SIX MONTHS ENDED JULY 31, 1999					
Balance at January 31, 1999	\$ 440,979	\$ 5,667,327	\$ (668,030)	\$ (587,819)	\$ 4,852,457
Receivable Payment	-	-	-	127	127
Exercise options for 2,400 shares @ \$.25 per share	24	576	-	-	600
Exercise options for 9,000 shares @ \$.50 per share	90	4,410	-	-	4,500
Exercise options for 12,000 shares @ \$.75 per share	120	8,880	-	-	9,000
Net income	-	-	(384,767)	-	(384,767)
Balance at July 31, 1999	\$ 441,213	\$ 5,681,193	\$ 1,052,797	\$ (587,692)	\$ 4,481,917

</TABLE>

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PUROFLOW INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
JULY 31, 1999, JANUARY 31, 1999, AND JULY 31, 1998

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

The consolidated balance sheet at the end of the preceding fiscal year has been derived from the audited consolidated balance sheet contained in the Company's annual report on Form 10-KSB for the fiscal year ended January 31, 1999 (The "Form 10-KSB") and is presented for comparative purposes. All other financial statements are unaudited. In the opinion of management, all adjustments which include only normal recurring adjustments necessary to present fairly the financial position, results of operations and changes in financial positions for all periods presented have been made. The results of operations for interim periods are not necessarily indicative of the operating results for the full year.

Footnote disclosures normally included in financial statements prepared in accordance with the generally accepted accounting principles have been omitted in accordance with the published rules and regulations of the Securities and Exchange Commission.

NOTE 2 - INVENTORIES

Inventories consist of the following:

<TABLE>

<CAPTION>

	JULY 31, 1999	JANUARY 31, 1999
<S>	<C>	<C>
Raw materials and purchased parts	\$ 1,213,130	\$ 918,559
Work in process	367,166	307,444
Finished goods and assemblies	373,525	336,936
Totals	\$ 1,953,821	\$ 1,562,939

</TABLE>

NOTE 3 - STOCKHOLDERS EQUITY

On August 24, 1998, the Company issued an 8-K Report stating that the Board of Directors has authorized the issuance of 1,000,000 shares of common stock for sale to directors, officers and employees. The Company sold 940,000 shares of this common stock and received proceeds of \$705,000 divided between \$147,000 in cash and \$558,000 in notes receivables. During the 3-month period from August 1, 1998 through October 31, 1998, the Company purchased 48,500 shares of common stock for a total cost of \$32,919 from the open market and is presently holding them as treasury stock.

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NOTE 4 - NET INCOME PER SHARE

Reconciliation of basic and diluted earnings per share:

	INCOME	SHARES	PER-SHARE AMOUNT
<S>	<C>	<C>	<C>
6 MONTHS ENDED JULY 31, 1999			
Basic earnings per share (loss)	\$ (384,767)	8,103,123	\$ (.05)
EFFECT OF DILUTED SECURITIES			
Stock options		-0-	
Diluted earnings per share	\$ (384,767)	8,103,123	\$ (.05)
6 MONTHS ENDED JULY 31, 1998			
Basic earnings per share	\$ 327,684	7,108,621	\$.05
EFFECT OF DILUTED SECURITIES			
Stock Options		103,331	
Diluted earnings per share	\$ 327,684	7,211,952	\$.05

</TABLE>

Basic earnings per share is based on the weighted average number of shares outstanding. Diluted earnings per share include the effect of common stock equivalents when dilutive.

EARNINGS PER SHARE

In the first quarter of the year ended January 31, 1999, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" (FAS 128), which supersedes Accounting Principles Board Opinion No. 15. Under FAS 128, earnings per common share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. Prior period amounts have been restated, where appropriate to conform to the requirements of FAS 128.

NOTE 5 - LINE OF CREDIT

The Company has a \$1,000,000 revolving credit line maturing on June 5, 2000. This credit line bears interest at the rate of prime plus 0.25% per annum, and is secured primarily by the Company's accounts receivable and inventories. The terms of this loan agreement contains certain restrictive covenants, including maintenance of minimum working capital, net worth, and ratios of current assets to current liabilities and debt to net worth. There is no outstanding balance under this line on January 31, 1999 and an open balance of \$35,000 as of July 31, 1999.

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NOTE 6 - INCOME TAXES

Income tax benefits recognized represents the benefit of income tax loss carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

At July 31, 1999, the Company had cash overdraft of \$(76,082), compared to \$828,809 on January 31, 1999. It had a current ratio of 5.15 to 1 at July 31, 1999, compared to 2.87 to 1 on January 31, 1999.

OPERATING ACTIVITIES

Cash flow from Operations for the six months ended July 31, 1999 was reduced by \$1,163,907 compared to a decrease of \$158,133 for the six months ended July 31, 1998. The reduction in cash available resulted from the acquisition of QCCC, a reduction in accrued expenses and accounts payable, and write-off of \$327,929 for disposal of machinery and equipment, of which \$106,067 represents obsolete filter equipment.

INVESTING ACTIVITIES

The Company invested \$69,567 in new capital equipment in the current quarter

predominantly for equipment for a new type of airbag filter.

FINANCING ACTIVITIES

The Company has an unused revolving credit line of \$1,000,000 which bears interest at the rate of prime plus 0.25% per annum, secured by the Company's accounts receivable and inventory. The Company is in compliance with all covenants under its loan agreement with the Bank. The Company obtained a loan of \$236,000 to pay non-recurring judgment against it as well as purchase a necessary blueprint copier, now reduced to \$163,000.

BUSINESS ACQUISITION

On January 31, 1999, the Company acquired Quality Controlled Cleaning Corporation ("QCCC") for \$550,630 including all costs of the acquisition. QCCC is a precision cleaning and repair company located in Commerce, California. The Company's acquisition resulted in goodwill of approximately \$274,000 and a non-compete agreement of \$50,000. The goodwill will amortize over 10 years and the non-compete agreement over its term of 3 years.

In addition to the purchase price, the agreement includes a contingent payment of 50% of net sales in the year ending January 31, 2000, in excess of \$500,000 up to a maximum of \$800,000. If the full amount of the contingency is realized, the liability would total \$150,000 and would be recorded as additional goodwill.

RESULTS OF OPERATIONS FOR QUARTER ENDED JULY 31, 1999

REVENUES

Sales were \$1,729,193 for the six months ended July 31, 1999 compared to \$2,209,044 in 1998, a 22% decrease of \$479,851. Sales of airbag filters decreased \$152,535 for the comparable period due to the slow ramp-up of the new model non-azide airbag, a decrease in shipments for technical aftermarket filters of \$595,587 offset by our new QCCC operation, revenue of \$185,263 and shipments of \$83,008 for International Sales.

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GROSS PROFIT

Gross profit as a percentage of sales was 22.4% in July 1999, compared to 31.8% in July 1998, representing a decrease of 9.4% representing lower margins on airbag filters and aerospace filters with a reduction in government sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The increase in selling, general and administrative expenses for the three months ended July 31, 1999 and for the six months ended July 31, 1999 of \$84,483, and \$148,188, respectively, is attributed to the legal costs incurred to legal proceedings set forth in detail in Part II, Item 1 (2).

OPERATING INCOME

Operating loss was \$302,247 in July 1999 compared to operating income of \$98,745 in July 1998, a decrease of \$400,992 due to the lower margins on airbag filters as a result of the slow ramp-up of the new model non-azide airbag filter for the driver and passenger-side impact filter and substantial decrease in sales volume and product mix.

INTEREST CHARGES

Interest on the bank loan was \$3,995 as of July 31, 1999, and \$6,105 at July 31, 1998.

INCOME TAXES

A tax benefit of \$51,000 was recognized as a result of income tax loss carryforwards.

PART II - OTHER INFORMATION

ITEM 1. PENDING LEGAL PROCEEDINGS

1. The Company reported the conclusion of litigation with Memtec America Corporation in February 1999 and the award of damages reported in its Form 10 KSB filing for the fiscal year ended January 31, 1999.
2. The Company reports the commencing of a lawsuit by Steel Partners II L.P. against the Company and its four directors on May 3, 1999 in the U.S. District Court for the District of Delaware seeking to rescind or enjoin the Private Placement of 940,000 shares of common stock purchased by the

directors, officers and employees of the Company. The purpose of the lawsuit is calculated to obtain control of the Board of Directors and to sell the assets of Puroflow. Steel Partners II L.P. owns 16.6% of the issued and outstanding shares of the Registrant.

The Company has retained counsel in Delaware to vigorously contest the action, for the lawsuit is without merit and seeks to intimidate the Board of Directors.

The Company has retained counsel in the State of California to commence an action in the Supreme Court of the State of California, County of Los Angeles, to seek compensatory and punitive damages and injunctive relief for interference with prospective economic advantage of the Company's business.

The Company is not party, nor are its properties subject to, any material pending proceedings other than ordinary routine litigation incidental to the Company's business and the matters described above.

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- ITEM 2. CHANGES IN SECURITIES
None.
- ITEM 3. DEFAULT UPON SENIOR SECURITIES
None.
- ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
None.
- ITEM 5. OTHER INFORMATION
None.
- ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K
On January 31, 1999, the Registrant acquired Quality Controlled Cleaning Corporation representing 100% of the issued and outstanding shares (see Business Acquisition above).

SIGNATURE

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed and on its behalf by the undersigned thereto, duly authorized.

PUROFLOW INCORPORATED

September 10, 1999

/s/ Michael H. Figoff

Michael H. Figoff
President/Chief Executive Officer

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