FLAMEMASTER CORP Form 10QSB May 24, 2005

FORM 10-QSB

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR QUARTER ENDED: MARCH 31, 2005 COMMISSION FILE NO: 0-2712

THE FLAMEMASTER CORPORATION

(Exact name of Registrant as specified in its Charter)

NEVADA

95-2018730

(IRS Employer identification Number)

(State or other jurisdiction of incorporation or organization)

11120 SHERMAN WAY, SUN VALLEY, CALIFORNIA 91352 (Address of Principal Executive Office)

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

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

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [_]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

March 31, 2005 1,253,693

THE FLAMEMASTER CORPORATION

CONDENSED FINANCIAL STATEMENTS

March 31, 2005 (Unaudited)

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ITEM 1. FINANCIAL STATEMENTS

THE FLAMEMASTER CORPORATION CONDENSED BALANCE SHEET

	MARCH 31, 2005 (UNAUDITED)
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents Marketable securities Accounts receivable net Inventories Prepaid expenses Deferred income taxes Other investment	\$ 2,111,707 81,355 761,472 1,084,291 83,650 35,005 328,713
TOTAL CURRENT ASSETS:	4,486,193

Machinery & improvements, net of Accumulated depreciation	133,449
TOTAL ASSETS	\$ 4,619,642
LIABILITIES AND SHOREHOLDERS' EQUITY:	
CURRENT LIABILITIES:	
Accounts payable Accrued expenses Accrued income taxes payable Deferred tax liability	\$ 129,414 34,837 91,921 48,595
TOTAL CURRENT LIABILITIES:	304,767
SHAREHOLDERS' EQUITY:	
COMMON STOCK, par value, \$.001 per share, authorized 60,000,000 shares; issued and outstanding 1,253,693 shares at 03/31/05 Additional paid-in Capital Retained earning Accumulated other comprehensive income	1,254 3,759,141 544,321 10,159
TOTAL STOCKHOLDERS' EQUITY	\$ 4,314,875
TOTAL LIABILITY AND EQUITY	\$ 4,619,642

The accompanying notes are an integral part of these financial statements.

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Item 1 Financial Statements (continued)

THE FLAMEMASTER CORPORATION CONDENSED STATEMENTS OF INCOME (UNAUDITED) THREE MONTHS ENDED MARCH 2005

	2005	2004
Net sales	\$ 1,258,280	\$ 1,224,709
Total Revenues	1,258,280	1,224,709
Costs and expenses:		
Cost of sales	655 , 863	647,131
Selling	79 , 971	78,116
General and administrative	147,737	212,381
Laboratory costs	103,339	101,204
Other (income) expenses, net	14,706	15,206

Total costs and expenses:	1,001,616	1,054,038
INCOME BEFORE PROVISION FOR INCOME TAXES	256,664	170,671
Interest, royalties and other income	71,098	6,431
Provision for income taxes	131,500	53,357
Net income		\$ 123,745
Other comprehensive income Net of income tax		
Unrealized holding gains (losses)	(1,965)	330
Comprehensive Income	194,297	124,075
Net income per share, basic		\$.10
Weighted average shares outstanding:		
Basic and Diluted		1,269,605

The accompanying notes are an integral part of these financial statements

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Item 1 Financial Statements (continued)

THE FLAMEMASTER CORPORATION CONDENSED STATEMENTS OF INCOME (UNAUDITED) SIX MONTHS ENDED MARCH 31,

	2005	2004
Net Sales	\$ 2,380,720	\$ 2,281,333
Total Revenues	2,380,720	2,281,333
Costs and expenses: Cost of Sales Selling General and administrative Laboratory Other (income) expenses, net Interest on convertible notes	1,299,420 170,932 367,187 206,513 25,963	157,230 383,059
Total Costs and Expenses	2,070,015	2,002,726
INCOME BEFORE PROVISION FOR INCOME TAXES	310,705	278,607

Interest, royalties and other income		81,073		24,368
Provision for income taxes		156,212		106,536
Net income	\$	235,566		
Other comprehensive income Net of income taxes Unrealized holding gains (losses)		3,370		(3,700)
Comprehensive Income	\$ ===	238,936	\$ ===	192,739
Net income per share, basic	\$ ===	.21	\$ ===	.16
Weighted average shares outstanding: Basic and diluted		1,140,393	===	1,239,379

The accompanying notes are an integral part of these financial statements

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THE FLAMEMASTER CORPORATION STATEMENTS OF CASH FLOWS SIX MONTHS ENDED MARCH 31,

		2005
	 (U	Jnaudited)
Cash Flows From Operating Activities:		
Net Comprehensive Income	\$	238,937
Adjustments to reconcile net income to net		
cash provided by operating activities:		
Depreciation and amortization		13,567
Allowance for doubtful accounts		5,000
Unrealized gain on marketable securities		(3,370)
Changes in current assets and liabilities:		
Accounts receivable		(75,077)
Inventory		(50,004)
Prepaid expenses		(30,350)
Accounts payable		(74,041)
Accrued expenses		(10,509)
Accrued income taxes payable		68,184
Deferred income tax		5,125
Deferred tax liability		1,117
Net Cash Provided by (Used in) Operating Activities		88 , 579
Cash Flows from Investing Activities:		
Purchase of equipment and improvements		
Investments in marketible securities		(3,976)
		(0, 5, 0)

Principal payments on notes receivable Other investments	7,853
Net Cash Provided by (Used in) Investing Activities	3,877
Cash Flows from Financing Activities: Issuance of common stock Repurchase of common stock Dividends Notes payable Minority interest Issuance of preferred restricted stock	(3,704) (83,837)
Net cash provided by Financing Activities	(87,541)
Net Decrease in Cash and Cash Equivalents	4,915
Cash and Cash Equivalents - Beginning of Period	\$ 2,106,792
Cash and Cash Equivalents - End of Period	\$ 2,111,707

The accompanying notes are an integral part of these financial statements

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THE FLAMEMASTER CORPORATION STATEMENTS OF CASH FLOWS SIX MONTHS ENDED MARCH 31,

	2004
Net cash provided (used) by operating activities:	\$ 179,478
CASH FLOWS FROM INVESTING ACTIVITIES: Purchase of equipment & improvements Net purchases and sales of investment securities Other Investments	21,342 (4,893) (303,713)
NET CASH USED IN INVESTING ACTIVITIES:	(287,264)
CASH FLOWS FROM FINANCING ACTIVITIES: Issuance of Company's Common Stock Dividends paid Notes Payable Minority interest Issuance of Preferred Restricted Stock	1,574,821 (118,387) (913,500) (1,900) (742,000)
NET CASH USED IN FINANCING ACTIVITIES	(200,966)

NET INCREASE, (DECREASE), IN CASH		(308,752)
Cash, beginning of period		2,221,905
Cash, end of period	\$ ===	1,913,153
Cash paid during period for income taxes	\$	130,000
Cash paid during period for interest expense	\$	7,314

The accompanying notes are an integral part of these financial statements

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THE FLAMEMASTER CORPORATION NOTES TO THE CONDENSED FINANCIAL STATEMENTS March 31, 2005

(Unaudited)

NOTE A - DESCRIPTION OF THE BUSINESS

Business Activity

The Flamemaster Corporation (Registrant or the Company) develops, manufactures, and sells coatings and sealants. In addition, Registrant receives royalties from other manufacturers who produce certain of the Registrant's products under license.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Statements

The interim financial statements presented herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The interim financial statements should be read in conjunction with the Company's annual financial statements, notes and accounting policies included in the Company's annual report on Form 10-KSB for the year ended September 30, 2004 as filed with the SEC. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) which are necessary to provide a fair presentation of financial position as of March 31, 2005 and the related operating results and cash flows for the interim period presented have been made. The results of operations, for the period presented are not necessarily indicative of the results to be expected for the year.

Use of Estimates

Use of estimates and assumptions by management is required in the preparation of financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates and assumptions.

Inventory

Inventories are summarized as follows:

March 31, 2005

Raw materials	\$ 503 , 501
Shipping materials	154 , 378
Finished goods	426,412
	\$ 1,084,291

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding for the period as required by the Financial Accounting Standards Board (FASB) under Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Shares". Diluted EPS reflects the potential dilution of securities that could share in the earnings.

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THE FLAMEMASTER CORPORATION NOTES TO THE CONDENSED FINANCIAL STATEMENTS

March 31, 2005 (Unaudited)

NOTE C - STOCKHOLDERS' EQUITY

In December 2004, the Company amended articles 3 of the Articles of Incorporation to read 60,000,000 authorized common shares @ \$.001 par value. The corporation had previously been authorized 6,000,000 common shares @ \$.01 par value. The number of preferred shares remains 500,000 preferred shares authorized @ \$.01 par value.

NOTE D - SUBSEQUENT EVENTS

Acquisition of Best Candy & Tobacco Co.

Subsequent to quarter ended March 31, 2005, Flamemaster issued a non-voting convertible preferred (Preferred A) for 100% of the equity in Best Candy & Tobacco Co.

The preferred shares do not participate in the earnings or dividend distribution of the Company's chemical operation. The shares can be converted into common stock only after the spin-off via a property dividend of the chemical operation and all cash and marketable securities associated with the operations of the Company prior to the acquisition of Best.

Furthermore, the series A Preferred Stock is not convertible until receipt of stockholder and Nasdaq approval and does not enable its holders to exercise control on any manner over the over the business or activities of the Company.

Flamemaster's common stock shareholders, prior to conversion of the convertible preferred A shares, will not be diluted as to earnings, dividend, or assets.

As a result of the transactions with Best, the Company received a Nasdaq Staff Determination letter dated May 5, 2005 indicating that the Company fails to comply with marketplace rules 4310(C)(17) regarding notification of the issuance of additional shares, rule 4350(i)(1)(C) regarding shareholder approval, rule 4330(B) regarding reverse mergers. The staff also noted that non-compliance with these rules raises public interest concerns pursuant to rules 4399 and 4330(a)(3).

In response to Nasdaq Staff concerns, the Company and The Best Group have agreed

to rescind the closing of the transactions outlined above. Such rescission to be effective by close of business May 17, 2005.

In connection with such rescission, it is the intention of the Company and Best to enter into a revised agreement containing substantially the same terms and conditions; provided, that the closing of the transaction will be subject to compliance with all Nasdaq Marketplace rules. If these conditions to closing are not satisfied by the close of business June 30, 2005, then either party may terminate the proposed transaction.

It is the intent of Flamemaster Corporation to file a Form 15 and de-register to become a non-SEC reporting company, if the transaction is terminated.

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THE FLAMEMASTER CORPORATION

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

March 31, 2005 compared to March 31, 2004.

FINANCIAL CONDITION AND LIQUIDITY:

The Company's financial condition is strong with current assets of \$4,486,193 compared to current liabilities of \$304,767 at March 31, 2005 for a current ratio of better than 14.7 to 1. Working capital stood at \$4,181,426 on March 31, 2005 compared to \$3,800,535 the year earlier and \$4,016,463 at year end September 30, 2004. The increase is due to the Company's strong performance in the current period. Accounts receivable increased moderately to \$761,472 from \$704,795 in the prior year's quarter ended March 31, 2004 due to increase in sales. Inventories were slightly lower at \$1,084,291 from the \$1,100,523 on March 31, 2004, but up moderately from \$1,034,287 at year end September 30, 2004.

Revenues for March 31, 2005 quarter increased moderately to \$1,258,280 from the \$1,224,709 in the year earlier period, a 2.7% increase. For the six months period ended March 31, 2005, revenues were \$2,380,720 as compared to \$2,281,333, a 4.2% increase. Sales of aircraft sealants expanded modestly, coatings remained steady.

RESULTS OF OPERATIONS:

For the three months ended March 31, 2005, net income expanded to \$196,262 compared to \$123,745 in the year earlier period. For the six month period, net income increased to \$235,566 from \$196,439. Per share results for the quarter ended March 31, 2005 were \$.17 vs \$.10 in the prior year's period. For the six months, per share income expanded to \$.21 from \$.16 in the prior year. The increase in earnings was due to a higher sales level, a better product mix (sale of higher margin products) and a higher level of interest income. Laboratory costs including Research and Development for the quarter were up slightly to \$103,339 from \$101,204 in the year earlier quarter. For the six months, Laboratory expense declined moderately to \$206,513 from \$222,758 the year before. General and Administrative expenses declined to \$147,737 in the quarter from \$212,381 of the prior year, due to cost savings efforts instituted and a reduction of expenses relating to information technology programs, while the six months G & A expense were modestly lower at \$367,187 from \$383,059 in the 2004

period.

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

Flamemaster paid a \$.034 quarterly cash dividend in March of 2005 on the Company's common stock. The Company also declared a \$.034 quarterly cash dividend on it's common shares payable on June 17, 2005 to shareholders of record May 24, 2005.

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

The Company and its representatives may from time to time make written or oral forward-looking statements, including statements contained in the Company's filings with Securities and Exchange Commission and its reports to stockholders. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is hereby identifying information that is forward-looking, including, without limitations, statements regarding the Company's future financial performance, the effect of government regulations, national and local economic

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conditions, the competitive environment in which the Company operates, results or success of discussions with other entities on mergers, acquisitions, or alliance possibilities and expansion of product offerings. Actual results may differ materially from those described in the forward-looking statement. The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company.

SUBSEQUENT EVENTS:

Acquisition of Best Candy & Tobacco Co.

Subsequent to quarter ended March 31, 2005, Flamemaster issued a non-voting convertible preferred (Preferred A) for 100% of the equity in Best Candy & Tobacco Co.

The preferred shares do not participate in the earnings or dividend distribution of the Company's chemical operation. The shares can be converted into common stock only after the spin-off via a property dividend of the chemical operation and all cash and marketable securities associated with the operations of the Company prior to the acquisition of Best.

Furthermore, the series A Preferred Stock is not convertible until receipt of stockholder and Nasdaq approval and does not enable it's holders to exercise control in any manner over the business or activities of the Company.

Flamemaster's common stock shareholders, prior to conversion of the convertible preferred A shares, will not be diluted as to earnings, dividend, or assets.

As a result of the transactions with Best, the Company received a Nasdaq Staff Determination letter dated May 5, 2005 indicating that the Company fails to comply with marketplace rules 4310(C)(17) regarding notification of the issuance of additional shares, rule 4350(i)(1)(C) regarding shareholder approval, rule

4330 (B) regarding reverse mergers. The staff also noted that non-compliance with these rules raises public interest concerns pursuant to rules 4300 and 4330 (a) (3).

In response to Nasdaq Staff concerns, the Company and The Best Group have agreed to rescind the closing of the transactions outlined above. Such rescission to be effective by close of business May 17, 2005.

In connection with such rescission, it is the intention of the Company and Best to enter into a revised agreement containing substantially the same terms and conditions; provided, that the closing of the transaction will be subject to compliance with all Nasdaq Marketplace rules. If these conditions to closing are not satisfied by the close of business June 30, 2005, then either party may terminate the proposed transaction.

It is the intent of Flamemaster Corporation to file a Form 15 and de-register to become a non-SEC reporting company, if the transaction with Best is terminated.

Change in Certifying Accountants

On May 10, 2005, the Company's auditor Sarna & Company resigned as the Company's independent auditors. The resignation of Sarna & Company was accepted by the Company's Audit Committee and Board of Directors on May 12, 2005.

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On May 13, 2005, the Company engaged Jewett Schwartz & Associates, based in Hollywood, Florida to serve as its new auditors.

For further information, please see the Company's Form 8-KA filed with the SEC May 24, 2005.

Notice of Delisting

On May 16, 2005, the Company received a notice from the Nasdaq listing Qualifications Panel advising that Flamemaster's Common Stock would de delisted from The Nasdaq Small Cap Market effective with the opening of trading on May 18, 2005. The Company's common stock would thereafter be eligible for quotations on the Pink Sheets.

For further information, please see our Form 8-K filed with the SEC May 18, 2005.

On May 18, 2005, the Company's Common Stock was being quoted on the Pink Sheets.

ITEM 3. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

At the end of the period reported on in this report, the Company carried out an evaluation, under the supervision and participation of the Company's Chief Executive and Financial Officer (the "Officer") of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-14. Based upon that evaluation, the Officer concluded that the Company's disclosure controls and procedures are effective in all material respects, with respect to the recording, processing, summarizing and reporting, within the time periods specified in the SEC's rules

and forms, of information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act.

Internal Controls

There were no significant changes made in the Company's internal controls during the quarter ended March 31, 2005, or in other factors that could significantly affect these controls subsequent to the date of the evaluation described above.

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Signatures:

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

THE FLAMEMASTER CORPORATION (Registrant)

DATE: May 23, 2005

/s/ JOSEPH MAZIN

Joseph Mazin, President and Chairman And Chief Executive Officer And Chief Financial Officer

DATE: May 23, 2005

/s/ MARY KAY EASON
_____Mary Kay Eason, Treasurer and Secretary

DATE: May 23, 2005

/s/ DONNA MAZIN ------Donna Mazin, Director