GENERAL KINETICS INC
Form 10-Q
April 15, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report under Section 13 or 15(d)

of the Securities Exchange Act of 1934

For Quarter Ended February 28, 2002 Commission File Number 0-1738

GENERAL KINETICS INCORPORATED

(Exact Name of Registrant as Specified in its Charter)

Virginia	54-0594435
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

10688- D Crestwood Drive Manassas, VA	20109
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, including Area Code 703-331-8033

Indicate by checkmark 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_

The number of shares of Registrant's Common Stock outstanding as of April 5, 2002 6,718,925 Shares

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CAUTIONARY STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Statements contained in this Quarterly Report on Form 10-Q, including without limitation, as set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations", as well as oral statements that may be made by the Company or by officers, directors or employees of the Company acting on the Company's behalf, that are not historical fact may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties. They are not historical facts or guarantees of future performance or events. They are based on current expectations, estimates, beliefs, assumptions, goals and objectives, and are subject to uncertainties that are difficult to predict. In particular, certain risks and uncertainties may include, but are not limited to, the risk that the Company may not be able to obtain additional financing if necessary; the risk that the Company may not be able to continue the necessary development of its operations, including maintaining or increasing sales and production levels, on a profitable basis; the risk the Company may in the future have to comply with more stringent environmental laws or regulations or more vigorous enforcement policies of regulatory agencies, and that such compliance could require substantial expenditures by the Company; the risk that U.S. defense spending may be substantially reduced; and the risk that the Company's Common Stock will not

continue to be quoted on the NASD OTC Bulletin Board services. Forward looking statements included in this quarterly report are based on information known to GKI as of the date of this quarterly report and GKI accepts no obligation (and expressly disclaims any obligations) to update these forward looking statements and does not intend to do so. Certain of these risks and uncertainties are described in the Company's reports and statements filed from time to time with the Securities and Exchange Commission, including this Report.

PART I FINANCIAL INFORMATION

Item 1 - Consolidated Financial Statements

The unaudited consolidated financial statements of General Kinetics Incorporated ("GKI" or the "Company") set forth below have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations. Revenues, expenses, assets and liabilities vary during the year and generally accepted accounting principles require the Company to make estimates and assumptions in preparing the interim

financial statements. The Company has made its best effort in establishing good faith estimates and assumptions. However, actual results may differ. The Company believes that the disclosures made are adequate to make the information presented not misleading.

In the opinion of management of the Company, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments and the recognition of manufacturing startup costs of $265,000 during the period ended February 28, 2002) that are necessary for a fair presentation of results for the periods presented. It is suggested that these consolidated financial statements be read in conjunction with the audited financial statements for the fiscal years ended May 31, 2001 and 2000 set forth in the Company's annual report on Form 10-K, as amended, for the fiscal year ended May 31, 2001.

General Kinetics Incorporated
Balance Sheets
Febrary 28, 2002 and
May 31, 2001

	28-F 200 (Unaud
Assets	
Current Assets:	

Cash and cash equivalents	$ 41
Accounts receivable, net of allowance of $57,900 and $72,700	1,03
Inventories	1,08
Prepaid expenses and other	2
Total Current Assets	2,56
Property, Plant and Equipment	2,93
Less: Accumulated Depreciation	(2,09
	83
Other Assets	12
Total Assets	$ 3,52

Liablilities and Stockholders' Deficit

Current Liabilities:	
Advances from Factor	$ 17
Current maturities of long-term debt	9
Accounts payable, trade	91
Accrued expenses and other payables	62
Total Current Liabilities	1,80
Long-Term Debt - less current maturities (including $8,840,400 and $8,793,900 of convertible debentures)	9,36
Other long-term liabilities	23
Total Long-Term Liabilities	9,59
Total Liabilities	11,40
Stockholders' Deficit:	
Common Stock, $0.25 par value, 50,000,000 shares authorized, 7,245,557 shares issued, 6,718,925 shares outstanding	1,81
Additional Contributed Capital	7,23
Accumulated Deficit	(16,48
	(7,43
Less: Treasury Stock, at cost (526,632 shares)	(45
Total Stockholders' Deficit	(7,88
Total Liabilities and Stockholders' Deficit	$ 3,52

The accompanying notes are an integral part of the above statements.

General Kinetics Incorporated
Statements of Operations
(Unaudited)

	Nine Months Ended		Three Months En
	February 28, 2002	February 28, 2001	February 28, 2002
Net Sales	$ 6,740,900	$ 6,240,900	$ 2,051,700
Cost of Sales	5,764,400	5,004,600	1,999,000
Gross Profit	976,500	1,236,300	52,700
Selling, General & Administrative	1,120,100	1,151,600	340,200
Manufacturing Start-Up Costs	265,100	--	265,100
Product Research, Development & Improvement	--	42,800	--
Total Operating Expenses	1,385,200	1,194,400	605,300
Operating Income (Loss)	(408,700)	41,900	(552,600)
Other Income	--	175,000	--
Interest Expense	(176,700)	(165,400)	(60,000)
Net Income (Loss)	(585,400)	51,500	(612,600)
Basic Earnings per Share:			
Basic Earnings (Loss) per Share	($0.087)	$0.008	($0.091)
Weighted Average Number of Common Shares Outstanding	6,718,925	6,718,925	6,718,925
Diluted Earnings per Share:			
Diluted Earnings (Loss) per Share	($0.087)	$0.005	($0.091)
Weighted Average Number of Common Shares and Dilutive Equivalents Outstanding	6,718,925	24,708,925	6,718,925

The accompanying notes are an integral part of the above statements.

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General Kinetics Incorporated
Statements of Cash Flows
(Unaudited)

Nine Months

	February 28, 2002
Cash Flows From Operating Activities:	
Net Income/(Loss)	$ (585,400)
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	115,100
Amortization of bond discount	46,500
Bad debt provision	(14,800)
(Increase) Decrease in Assets:	
Accounts Receivable	234,700
Inventories	365,100
Prepaid Expenses	(12,700)
Other assets	(24,800)
Increase (Decrease) in Liabilities:	
Accounts Payable - Trade	(191,900)
Accrued Expenses	51,800
Other Long Term Liabilities	(28,800)
Net cash provided by/(used in) Operating Activites	(45,200)
Cash Flows from Investing Activities:	
Acquisition of property, plant and equipment	(39,600)
Collection of Notes Receivable	-
Net cash provided by/(used in) Investing Activities	(39,600)
Cash Flows from Financing Activities:	
Advances from Factor/Borrowings on Demand Notes Payable	1,148,500
Repayments of advances from Factor/ Demand Notes Payable	(974,200)
Repayments on Long Term Debt	(59,800)
Net cash provided by/(used in) Financing Activities	114,500
Net (decrease) increase in cash and cash equivalents	29,700
Cash and Cash Equivalents: Beginning of Period	388,300
Cash and Cash Equivalents: End of Period	$ 418,000
Supplemental Disclosures of Cash Flow Information:	
Cash paid during the year for:	
Interest	$ 147,800
Income Taxes	800

The accompanying notes are an integral part of the above statements.

GENERAL KINETICS INCORPORATED
Notes to Condensed Financial Statements

(Unaudited)

Note 1 - Basis of Presentation

The unaudited condensed financial statements at February 28, 2002, and for the three months and nine months ended February 28, 2002 and February 28, 2001, respectively, include the accounts of General Kinetics Incorporated ("GKI").

The financial information included herein is unaudited. In addition, the financial information does not include all disclosures required under generally accepted accounting principles in that certain note information included in the Company's Annual Report has been omitted; however, such information reflects all adjustments which are, in the opinion of management, necessary to a fair presentation of the results of the interim periods.

The results of operations for the three-month and nine-month periods ended February 28, 2002, are not necessarily indicative of the results to be expected for the full year.

Note 2 - Earnings Per Share

Earnings per share is based on the weighted average number of shares of common stock and dilutive common stock equivalents outstanding. Basic earnings per share includes no dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings of an entity. Due to losses in the quarter and nine months ending February 28, 2002, diluted earnings per share is the same as basic earnings per share for those periods. The following tables presents a reconciliation between the weighted average shares outstanding for basic and diluted earnings per share for the quarter and nine months ended February 28, 2001:

Three months ended Feb 28, 2001:	Income	Shares	Per Share Amount
Basic earnings per share			
Income available to common shareholders	$ 96,100	6,718,925	$0.014
Effect of assumed conversion of convertible debentures, net of tax	23,684	17,990,000	0.001
Dilutive earnings per share	$119,784	24,708,925	$0.005

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Nine months ended Feb 28, 2001:	Income	Shares	Per Share Amount
Basic earnings per share			
Income available to common shareholders	$ 51,500	6,718,925	$0.008
Effect of assumed conversion of convertible debentures, net of tax	71,052	17,990,000	0.004
Dilutive earnings per share	$122,552	24,708,925	$0.005

Note 3 - Notes Payable

At February 28, 2002 and May 31, 2001 convertible debentures initially issued to clients of Gutzwiller & Partner, AG ("Gutzwiller"), now known as Rabo Investmet Management Ltd. (the "Manager") are outstanding in an aggregate principal amount of approximately $9.0 million, mature in August 2004, are convertible into common stock at a conversion price of 50 cents per share, and bear interest at 1% per annum, which is payable annually. Shares issuable upon conversion are also subject to certain rights to registration under the Securities Act of 1933, as amended.

In a filing with the SEC dated October 30, 2001, the Manager indicated that it may be deemed to be the beneficial owner of debentures having an aggregate principal amount of $7,885,000, including $7,300,000 held in client accounts managed by the Manager on behalf of various clients who hold beneficial economic ownership thereof. That SEC filing also indicated that the Manager may be deemed to be the beneficial owner of an aggregate of 1,715,000 outstanding shares of the Company's common stock, including 1,472,300 shares held in client accounts.

Note 4 - Related Party Transactions

In August 2001, the Company entered into a factoring agreement with Link2It Corporation, a company formed by Larry Heimendinger and Richard McConnell, both members of the Company's Board of Directors. The agreement is intended to replace the Company's prior agreement with Reservoir Capital Corporation ("Reservoir"). The agreement, which was negotiated at arms length and approved by unanimous vote of the Company's Board of Directors, is on terms substantially identical to those of the Reservoir facility, but more favorable to the Company in certain respects, including provision for advances at a rate of up to 85% of specified accounts receivable. At February 28, 2002 outstanding advances due to Link2It Corporation totaled approximately $174,300. Interest expense on these advances was approximately $24,000 for the nine months ended February 28, 2002. A new factoring agreement with Link2It Corporation, on similar terms, was entered into in April 2002.

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Link2It Notes

At May 31, 2000 the Company had a membership interest in and certain notes receivable due from Link2It, LLC. The financial statements at May 31, 2000 included a valuation reserve of $175,000, which represented the total due under the notes receivable. During January 2001, Link2It LLC merged into Link2It Corporation and completed a round of equity financing. The $175,000 principal amount of the notes was repaid in full and recognized as "other income" on the accompanying statement of operations for the three months and nine months ended February 28, 2001. GKI also retained approximately 5.7% of Link2It Corporation's currently outstanding common stock, which it accounts for on the cost method.

Note 5 - Income Taxes

The Company's estimated effective tax rate for fiscal 2002 is 0%. This estimated effective tax rate is lower than the statutory rate due to the existence of net operating loss carryforwards.

Note 6 - Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") approved

Statement on Financial Accounting Standards No. 144. "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived assets and for Long-Lived assets to be disposed Of" and the accounting and reporting provisions of the Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 establishes a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale and resolved significant implementation issues related to SFAS No. 121. SFAS No. 144 retains the requirements of SFAS No. 121 to recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and measure an impairment loss as the difference between the carrying amount and fair value of the asset. SFAS No. 144 excludes goodwill from its scope, describes a probability-weighted cash flow estimation approach, and establishes a "primary-asset" approach to determine the cash flow estimation for groups of assets and liabilities. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early adoption encouraged. The Company believes the adoption of SFAS No. 144 will not have a material impact of its financial position or results of operations.

GENERAL KINETICS INCORPORATED

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

Three Months Ended February 28, 2002 Compared to Three Months Ended February 28, 2001

Net sales for the three months ended February 28, 2002 were approximately $2.05 million compared to net sales of approximately $1.53 million for the quarter ended February 28, 2001. The increase in sales was due primarily to what are believed to be normal fluctuations in demand for the Company's products and services.

The gross margin percentage decreased from 18.9% for the quarter ended February 28, 2001 to 2.6% for the quarter ended February 28, 2002. The primary reason for the decrease in gross profit margins was changes in the mix of jobs produced in the quarter ended February 28, 2002 as compared to the job mix in the quarter ended February 28, 2001. The mix of jobs produced in the quarter ended February 28, 2002 required more machine shop hours than were used in the prior year, and a larger amount of the machine shop work was outsourced to subcontractors during the current period. In order to increase machine shop capacity and reduce the amount of outsourcing for machined parts, the Company has entered into a lease purchase agreement for a new vertical machining center that was put into service in December 2001.

Sales, General & Administrative costs were approximately $340,200 in the third quarter of fiscal 2002 as compared to approximately $306,900 in the corresponding quarter of the prior fiscal year. The change was principally due to interest income of approximately $46,000 related to the Link2It notes recorded in the third quarter of the prior fiscal year.

The Company recognized $265,100 in manufacturing start-up costs related to a large blanket contract with a U.S. Navy prime contractor in the accompanying financial statements. The contract is an "IDIQ" (indefinite delivery, indefinite quantity) contract with an estimated total value of $6.8 million. The enclosures being delivered under this contract were designed by the customer, and required the Company to implement a significantly different production process than is used for its traditional line of enclosures. Specifically, most of the components must be machined on CNC machining centers, and there is less use of extrusions, welding, and fabricated parts. The Company incurred significant costs in planning and implementing this new production process. In accordance with generally accepted accounting principles, the Company has expensed these startup costs rather than amortizing them over the life of the contract.

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During the quarter ended February 28, 2001, the Company incurred $5,000 in Product Research, Development & Improvement costs related to the initial development work on a new enclosure product; there were no comparable costs in the quarter ended February 28, 2002.

For the three months ended February 28, 2002, the Company had an operating loss of $552,600 compared to an operating loss of $23,700 for the comparable quarter of the prior fiscal year. The decrease was due primarily to the manufacturing start-up costs and the decrease in gross profit margins described above.

During the quarter ended February 28, 2001, the Company recorded $175,000 in "other income" related to the payment of Notes receivable due from Link2It that had been fully reserved in the prior fiscal year (see Note 4 above).

Interest expense was $60,000 in the third quarter of fiscal 2002 compared to $55,200 in the third quarter of fiscal 2001. The increase was due to increased factoring of accounts receivable in the quarter ended February 28, 2002 as compared to the quarter ended February 28, 2001.

The Company's estimated effective tax rate for fiscal 2002 is 0%. This estimated effective tax rate is lower than the statutory rate due to the existence of net operating loss carryforwards.

Nine months Ended February 28, 2002, Compared to Nine months Ended February 28, 2001

Net sales for the nine months ended February 28, 2002 were approximately $6.7 million, as compared to net sales of approximately $6.2 million for the nine months ended February 28, 2001.

The gross margin percentage decreased from 19.8% for the nine months ended February 28, 2001 to 14.5% for the nine months ended February 28, 2002. The primary reasons for the decrease in gross profit margins was changes in the mix of jobs produced in the nine-months ended February 28, 2002 as compared to the job mix in the nine-months ended February 28, 2001. The mix of jobs produced in the nine-months ended February 28, 2002 required more machine shop hours than were used in the same period of the prior year, and a larger amount of the machine shop work was outsourced to subcontractors during the current period. In order to increase machine shop capacity and reduce the amount of outsourcing for machined parts, the Company has entered into a lease purchase agreement for a new vertical machining center that was put into service in December 2001.

Sales, General & Administrative costs were approximately $1,120,100 in the first nine months of fiscal 2002 as compared to approximately $1,151,600 in the first nine months of the prior fiscal year. The change was principally due to a reduction in corporate facility costs due to the Company moving its corporate headquarters to Manassas, Virginia in March 2001. During the nine months ended February 28, 2001, the Company incurred $42,800 in Product Research, Development & Improvement costs related to the initial development work on a new enclosure product; there were no comparable costs in the nine months ended February 28, 2002.

The Company recognized $265,100 in manufacturing start-up costs related to a large blanket contract with a U.S. Navy prime contractor in the accompanying financial statements. The contract is an "IDIQ" (indefinite delivery, indefinite quantity) contract with an estimated total value of $6.8 million. The enclosures being delivered under this contract were designed by the customer, and required the Company to implement a significantly different production process than is used for its traditional line of enclosures. Specifically, most of the components must be machined on CNC machining centers, and there is less use of extrusions, welding, and fabricated parts. The Company incurred significant costs in planning and implementing this new production process. In accordance with generally accepted accounting principles, the Company has expensed these startup costs rather than amortizing them over the life of the contract.

During the nine months ended February 28, 2001, the Company incurred $42,800 in Product Research, Development & Improvement costs related to the initial development work on a new enclosure product; there were no comparable costs in the nine months ended February 28, 2002.

For the nine months ended February 28, 2002, the Company had an operating loss of $408,700 compared to operating income of $41,900 for the comparable nine months of the prior fiscal year. The decrease was due primarily to the manufacturing start-up costs and the decrease in gross profit margins described above.

During the nine months ended February 28, 2001, the Company recorded $175,000 in "other income" related to the payment of Notes receivable due from Link2It that had been fully reserved in the prior fiscal year (see Note 4 above).

Interest expense was $176,700 in the first nine months of fiscal 2002 compared to $165,400 in the first nine months of fiscal 2001. The increase was due to increased factoring of accounts receivable in the nine months ended February 28, 2002 as compared to the nine months ended February 28, 2001.

Liquidity and Capital Resources

The Company relies upon internally generated funds and accounts receivable financing to finance its operations. During the first nine months of fiscal 2002, the Company showed a net loss of approximately $585,400. During fiscal 2001, the net loss totaled $129,800. In order to generate the working capital required for operations, the Company must continue to generate orders, increase its level of shipments, and begin to operate profitably during the remainder of fiscal 2002.

The Company must continue to market electronic enclosure products to government and commercial markets, enter into contracts which the Company can complete with favorable profit margins, ship the orders in a timely manner, and control its costs in order to recover from its liquidity problems and seek to operate profitably in fiscal 2003.

As of February 28, 2002, the Company had cash of $418,000. The Company has faced production issues that have contributed to losses from operations in the prior fiscal year and in the first three quarters of the current fiscal year. The Company has taken and is continuing to take steps to address these production issues through changes and additions to plant supervision and by regularly updating scheduling and planning procedures, and adding new production machinery. The Company is trying to stabilize the level of shipments at a profitable level through these changes.

Management believes that cash on hand, borrowings from the factoring of accounts receivable, and careful management of operating costs and cash disbursements can enable the Company to meet its cash requirements through the next twelve months. The Company may also seek additional funding sources to provide a cushion to handle variances in cash requirements if sales, gross profits and shipment levels fluctuate throughout the fiscal year, or if the Company purchases capital equipment to increase production capacity due to any possible increased sales opportunities. However, there is no assurance the Company will be successful in pursuing its plans or in obtaining additional financing to meet those cash requirements. The Company must continue to maintain or increase its level of sales, consistently make timely shipments and produce its products at adequate profit margins, or the Company will continue to face liquidity problems, and may be left without sufficient cash to meet its ongoing requirements.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company sustained operating losses in the first nine months of fiscal 2002, and in fiscal 2001 and 2000, and in addition, the Company has significant short-term cash commitments, the funding of which is limited to cash flow from operations and the factoring of certain accounts receivable. These factors raise significant doubt about the Company's ability to continue as a going

concern. The financial statements do not contain any adjustment that might result from the outcome of these uncertainties.

In recent years, the Company had been party to a factoring agreement with Reservoir Capital Corporation ("Reservoir") that provides for advances (or loans) of up to 80% of specified accounts receivable. In August 2001, Link2It Corporation, a company formed by Larry Heimendinger and Richard McConnell, both directors of the Company, entered into a new factoring agreement with the Company on terms substantially identical to those of the Reservoir facility, but more favorable to the Company in certain respects, including provision for advances at a rate of up to 85% of specified accounts receivable. A new factoring agreement with Link2It Corporation, on similar terms, was entered into in April 2002. The Company expects to draw on this facility, or a similar facility, throughout fiscal 2002 as necessary to help alleviate liquidity problems, although, as discussed above, the Company will also need to control expenses, maintain the sales backlog at appropriate levels, and keep shipment levels in line with booked orders in order to meet these requirements. At February 28, 2002 outstanding advances due to Link2It Corporation totaled approximately $174,300.

The Company had significant amounts payable to trade creditors at February 28,

2002. Current maturities of long-term debt amount to $93,600 in fiscal 2002.

The Company has outstanding debentures originally issued to clients of Gutzwiller, now known as Rabo Investment Management Ltd. (the "Manager") totaling approximately $9.0 million. The debentures mature in August 2004, are convertible into common stock at a conversion price of 50 cents per share, and bear interest at 1% per annum payable annually. In a filing with the SEC dated October 30, 2001, the Manager indicated that it may be deemed to be the beneficial owner of debentures having an aggregate principal amount of $7,885,000, including $7,300,000 held in client accounts managed by the Manager on behalf of various clients who hold beneficial economic ownership thereof.

Analysis of Cash Flows

Operating activities used $45,200 in cash in the first nine months of fiscal 2002. This reflects a net loss of $585,400 offset by $146,800 in non-cash expenses, and $393,400 in cash to fund changes in working capital items. The cash used to fund changes in working capital items includes a decrease in inventories of $365,100 and a decrease in accounts receivable of $234,700, partially offset by an decrease in accounts payable of $191,900. The decrease in inventories was primarily due to the reevaluation

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of interim inventory estimates and the resulting charge of $265,100 to manufacturing start-up costs discussed above.

Investing activities used $39,600 in the first three quarters of fiscal 2002. These activities consisted of acquired property, plant and equipment.

Financing activities provided $114,500 in the first three quarters of fiscal 2002. These activities consisted of factoring accounts receivable netting to $174,300, partially offset by the repayment of certain long-term debt.

Management believes that inflation did not have a material effect on the operations of the Company during the first quarter of fiscal 2002.

Contractual Obligations and Commercial Commitments

The Company's commitments through February 28, 2006 are comprised of the following at February 28, 2002 (in thousands):

	Through February 28,				
	2003	2004	2005	2006	Total
Convertible debentures	$115	$ 90	$9,125	$ -	$9,330
Real estate mortgage	115	115	115	115	460
Capitalized leases	26	26	26	26	104
Operating leases	31	10	8	8	57
Total	$287	$241	$9,274	$149	$9,951

Critical Accounting Policies

The Company's significant accounting policies are more fully described in the

audited financial statements for the fiscal years ended May 31, 2001 and 2000 set forth in the Company's annual report on Form 10-K, as amended, for the fiscal year ended May 31, 2001. The preparation of financial statements in conformity with accounting principles generally accepted within the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying financial statements and related notes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below; however, application of these accounting policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

Work in process inventory represents actual production costs, including manufacturing overhead incurred to dated, reduced by amounts identified with revenue recognized on units delivered. The costs attributable to units delivered are based on the estimated average costs of all units expected to be produced under multiunit orders. Work in process is reduced by charging any amounts in excess of estimated net realizable value to cost of sales as soon as they become known. Interim inventories are determined by application of estimated gross profit margins to sales.

The Company provides an allowance for uncollectible receivables based on experience and individual review of any past due accounts. Although it is reasonably possible that that management's estimate could change in the near future, management is not aware of any events that would result in a change to its estimate which would be material to the Company's financial position or the result of operations. At February 28, 2002, the Company had an allowance for doubtful accounts of $57,900.

Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") approved Statement on Financial Accounting Standards No. 144. "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived assets and for Long-Lived assets to be disposed Of" and the accounting and reporting provisions of the Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 establishes a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale and resolved significant implementation issues related to SFAS No. 121. SFAS No. 144 retains the requirements of SFAS No. 121 to recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and measure an impairment loss as the difference between the carrying amount and fair value of the asset. SFAS No. 144 excludes goodwill from its scope, describes a probability-weighted cash flow estimation approach, and establishes a "primary-asset" approach to determine the cash flow estimation for groups of assets and liabilities. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early adoption encouraged. The Company believes the adoption of SFAS No. 144 will not have a material impact of its financial position or results of operations.

Item 3- Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, operations of the Company may be exposed to fluctuations in currency values and interest rates. These fluctuations can vary the cost of financing, investing, and operating transactions. Because the Company has only fixed rate long-term convertible debentures and no foreign currency transactions, there is no material impact on earnings from fluctuations in interest and currency exchange rates.

PART II OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

(b) Reports of 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.

GENERAL KINETICS INCORPORATED

Date: April 15, 2002 /s/ Larry M. Heimendinger
Chairman of the Board
(Principal Executive Officer)

Date: April 15, 2002 /s/ Sandy B. Sewitch
Chief Financial Officer
(Principal Accounting Officer and
Principal Financial Officer)