

Edgar Filing: ADVANCED REFRIGERATION TECHNOLOGIES INC - Form 10QSB

ADVANCED REFRIGERATION TECHNOLOGIES INC
Form 10QSB
May 17, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-QSB

- (X) Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2004
- () Transition report pursuant of Section 13 or 15(d) of the Securities Exchange Act of 1939 for the transition period ____ to_____

COMMISSION FILE NUMBER 000-25973

ADVANCED REFRIGERATION TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

California

68-0406331

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

5 Whatney, Irvine, California 92618, telephone (949) 837-8101

(Address of Principal Executive Offices, including Registrant's zip code
and telephone number)

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 []

The number of shares of the registrant's common stock as of March 31, 2004:
21,124,277 shares.

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

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ADVANCED REFRIGERATION TECHNOLOGIES, INC. & SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND MARCH 31, 2004

ASSETS

| | DECEMBER 31, 2003 | MARCH 31, 2004 (UNAUDITED) |
|-----------------------------|----------------------|----------------------------------|
| | ----- | ----- |
| Current assets: | | |
| Cash | \$ 136,319 | \$ -- |
| Other receivables | 2,000 | 1,000 |
| Prepaid expenses | 8,042 | 3,000 |
| | ----- | ----- |
| Total current assets | 146,361 | 4,000 |
| | ----- | ----- |
| Property and equipment, net | 22,690 | 35,064 |
| | ----- | ----- |
| Total assets | \$ 169,051 | \$ 39,064 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities:

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| | | |
|---|-------------|-------------|
| Bank overdraft | \$ -- | \$ 28,320 |
| Accounts payable | 132,198 | 149,878 |
| Accrued salaries and payroll taxes | 198,474 | 240,428 |
| Accrued rent | 35,000 | 35,466 |
| Loans from shareholder | 83,795 | 500 |
| | ----- | ----- |
| Total current liabilities | 449,467 | 454,592 |
| | ----- | ----- |
| Stockholders' equity: | | |
| Preferred stock (no par value) 10,000,000 shares authorized; none issued | -- | -- |
| Common Stock, no par value, 50,000,000 shares authorized; 21,051,277 and 21,124,277 shares issued and outstanding at December 31, 2004 and March 31, 2004, respectively | 1,895,241 | 2,078,741 |
| Stock issued for deferred compensation | (894,250) | (826,000) |
| Stock subscribed not issued, 118,667 and 321,990 shares issued at December 31, 2003 and March 31, 2004, respectively | 176,800 | 462,779 |
| Deficit accumulated during development stage | (1,458,207) | (2,131,048) |
| | ----- | ----- |
| Total stockholders' (deficit) | (280,416) | (415,528) |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 169,051 | \$ 39,064 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements

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ADVANCED REFRIGERATION TECHNOLOGIES, INC. & SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003
AND FOR THE PERIOD FROM INCEPTION (MAY 23, 2001) TO MARCH 31, 2004
(UN-AUDITED)

| | FOR THE THREE MONTHS ENDED MARCH 31, 2004 | FOR THE THREE MONTHS ENDED MARCH 31, 2003 | CUMULATIVE AMOUNT FROM INCEPTION (MAY 23, 2001 THROUGH MARCH 31, 2004 |
|----------------------------|--|--|--|
| | ----- | ----- | ----- |
| Income: | | | |
| Travel agent program | \$ 31,244 | \$ 21,279 | \$ 80,677 |
| | ----- | ----- | ----- |
| Operating expenses: | | | |
| General and administrative | 363,135 | 99,982 | 1,225,903 |

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| | | | |
|--|--------------|--------------|----------------|
| Marketing and sales | 340,950 | 26,605 | 864,236 |
| Total operating expenses | 704,085 | 126,587 | 2,090,139 |
| Loss from operations before interest and taxes | (672,841) | (105,308) | (2,009,462) |
| Interest expense | -- | -- | 5,644 |
| Provision for taxes | -- | -- | -- |
| Net loss | \$ (672,841) | \$ (105,308) | \$ (2,015,106) |
| Loss per share | \$ (0.03) | \$ (0.01) | |
| Weighted average number of common shares outstanding | 21,086,332 | 13,785,667 | |

The accompanying notes are an integral part of these financial statements

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ADVANCED REFRIGERATION TECHNOLOGIES, INC. & SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)
FROM INCEPTION (MAY 23, 2001) TO MARCH 31, 2004

| COMMON STOCK | | | | |
|---|------------------|---------|--|-----------------------------|
| | Number of Shares | Amount | Stock issued for Deferred Compensation | Stock Subscribed not Issued |
| Balance at inception - May 23, 2001 | -- | \$ -- | \$ -- | \$ -- |
| Stock issued for services | 16,715,000 | 16,715 | -- | -- |
| Net loss | -- | -- | -- | -- |
| Balance at December 31, 2001 | 16,715,000 | 16,715 | -- | -- |
| Stock issued various dates for cash at \$1.50 per share | 70,667 | 105,998 | -- | -- |
| Net loss | -- | -- | -- | -- |
| Balance at December 31, 2002 | 16,785,667 | 122,713 | -- | -- |
| Shares canceled by majority shareholder | (3,000,000) | -- | -- | -- |
| Stock issued various dates for cash at \$1.50 per share | 94,932 | 142,300 | -- | -- |
| Balance June 11, 2003 date of | | | | |

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| | | | | |
|---|--------------|--------------|--------------|---------|
| acquisition of Joystar, Inc. shares in a reverse merger | 13,880,599 | 265,013 | -- | |
| Cancel Joystar shares | (13,880,599) | -- | -- | |
| Advanced Refrigeration shares outstanding at June 11, 2003 | 3,322,840 | -- | -- | |
| Issue Advanced Refrigeration Technologies, Inc. shares | 13,880,599 | -- | -- | |
| Stock issued pursuant to the stock option plan June 11, 2003 at market value of stock \$0.03 per share | 810,000 | 24,300 | -- | |
| Stock issued for services | 215,000 | 15,000 | -- | |
| Stock issued for past and future compensation | 2,400,000 | 1,008,000 | -- | |
| Future compensation deferred until earned | -- | -- | (894,250) | |
| Stock issued various dates for cash at between \$0.50 and \$1.50 per share | 394,267 | 531,500 | -- | |
| Stock issued for services | 28,571 | 51,428 | -- | |
| Stock subscribed not issued 118,667 shares | -- | -- | -- | 176,8 |
| Net loss | -- | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Balance at December 31, 2003 | 21,051,277 | 1,895,241 | (894,250) | 176,8 |
| Stock issued for services | 65,000 | 171,500 | -- | |
| Stock issued for cash | 8,000 | 12,000 | -- | |
| Deferred compensation earned | -- | -- | 68,250 | |
| Stock subscribed not issued 203,233 shares | -- | -- | -- | 285, |
| Net loss | -- | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Balance March 31, 2004 (Unaudited) | 21,124,277 | \$ 2,078,741 | \$ (826,000) | \$ 462, |
| | ===== | ===== | ===== | ===== |

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

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ADVANCED REFRIGERATION TECHNOLOGIES, INC. & SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003
AND CUMULATIVE FROM INCEPTION (MAY 23, 2001) TO MARCH 31, 2004
(UN-AUDITED)

| | FOR THE THREE MONTHS ENDED MARCH 31, 2004 | FOR THE THREE MONTHS ENDED MARCH 31, 2003 | CUMULATIVE AMOUNTS FROM INCEPTION (MAY 23, 2001) THROUGH MARCH 31, 2004 |
|---------------------------------------|--|--|---|
| | ----- | ----- | ----- |
| Cash flows from operating activities: | | | |
| Net loss | \$ (672,841) | \$ (105,308) | \$ (2,015,000) |

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Adjustments to reconcile net loss to net cash used in operating activities:

| | | | |
|--|---------|---------|------|
| Amortization and depreciation | 1,540 | 166 | 4, |
| Stock issued\subscribed for services | 239,750 | -- | 460, |
| Changes in assets and liabilities: | | | |
| Increase in bank overdraft | 28,320 | -- | 28, |
| (Increase) decrease in prepaid expenses | 5,042 | -- | (3, |
| (Increase) decrease in other receivables | 1,000 | (6,000) | (1, |
| Increase in accounts payable | 17,680 | 27,516 | 149, |
| Increase in accrued salaries and payroll taxes | 41,954 | 42,205 | 240, |
| Increase in rent accrual | 466 | -- | 35, |

| | | | |
|-----------------------------|-----------|----------|---------|
| Net cash used in operations | (337,089) | (41,421) | (1,099, |
|-----------------------------|-----------|----------|---------|

Cash flows used by investing activities:

| | | | |
|-----------------------------|----------|-------|------|
| Acquisition of fixed assets | (13,914) | (670) | (39, |
|-----------------------------|----------|-------|------|

| | | | |
|---------------------------------------|----------|-------|------|
| Net cash used by investing activities | (13,914) | (670) | (39, |
|---------------------------------------|----------|-------|------|

Cash flows from financing activities:

| | | | |
|---|----------|--------|-------|
| Issuance of common stock | 12,000 | 29,400 | 791, |
| Reduction of shareholders loan, subscribed 60,000 shares of common stock | (83,295) | -- | |
| Increase in shareholder loans | -- | 11,900 | |
| Subscribed stock not issued | 285,979 | -- | 462, |
| Payment of debt assumed in reverse acquisition | -- | -- | (115, |

| | | | |
|------------------------------------|---------|--------|--------|
| Net cash from financing activities | 214,684 | 41,300 | 1,139, |
|------------------------------------|---------|--------|--------|

| | | | |
|----------------------|-----------|-------|--|
| Net decrease in cash | (136,319) | (791) | |
|----------------------|-----------|-------|--|

| | | | |
|---------------------------|---------|-------|--|
| Cash, beginning of period | 136,319 | 5,025 | |
|---------------------------|---------|-------|--|

| | | | |
|---------------------|-------|----------|----|
| Cash, end of period | \$ -- | \$ 4,234 | \$ |
|---------------------|-------|----------|----|

SUPPLEMENTAL DISCLOSURE OF NON-CASH

| | | | |
|---------------------------------------|------------|-------|---------|
| INVESTING AND FINANCING ACTIVITIES: | | | |
| Issuance of stock for services | \$ 239,750 | \$ -- | \$ 460, |
| Issuance of stock for future services | -- | -- | 1,008, |

The accompanying notes are an integral part of these financial statements

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(UN-AUDITED)

1. BASIS OF PRESENTATION

On June 11, 2003, Advanced Refrigeration Technologies, Inc. a California corporation (" the Company") acquired all of the issued and outstanding common stock of Joystar, Inc., a Nevada corporation ("Joystar") in exchange for the issuance by the Company of a total of 13,880,599 newly issued restricted shares of common voting stock to the Joystar shareholders pursuant the Agreement and Plan of Reorganization dated as if June 10, 2003. Prior to the issuance of the shares, the Company had 3,322,840 shares of common stock issued and outstanding. Subsequent to the exchange there were 17,203,439 shares issued and outstanding. The shareholders of Joystar own 81% of the common stock outstanding of the Company after the issuance of the 13,880,599 shares.

The acquisition of Joystar by the Company on June 11, 2003 has been accounted for as a purchase and treated as a reverse acquisition since the former owners of Joystar controlled 81% of the total shares of Common Stock of the Company outstanding immediately following the acquisition.

On this basis, the historical financial statements prior to June 11, 2003 have been restated to be those of the accounting acquirer Joystar. The historical stockholders' equity prior to the reverse acquisition has been retroactively restated (a recapitalization) for the equivalent number of shares received in the acquisition after giving effect to any difference in par value of the issuer's and acquirer's stock. The original 3,322,840 shares of common stock outstanding prior to the exchange reorganization have been reflected as an addition in the stockholders' equity account of the Company on June 11, 2003.

The Company has been in the development stage since its inception May 23, 2001.

2. INTERIM FINANCIAL INFORMATION

The financial statements of Advanced Refrigeration Technologies, Inc. (the "Company") and its wholly-owned subsidiary Joystar, Inc., as of March 31, 2004 and for the three months ended March 31, 2004 and 2003 and related footnote information are un-audited. All adjustments (consisting only of normal recurring adjustments) have been made which, in the opinion of management, are necessary for a fair presentation. Results of operations for the three months ended March 31, 2004 and 2003 are not necessarily indicative of the results that may be expected for any future period. The balance sheet at December 31, 2003 was derived from audited financial statements.

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 omitted. These financial statements should be read in conjunction with the financial statements and notes for the year ended December 31, 2003

3. COMMON STOCK TRANSACTIONS

During the quarter ended March 31, 2004, the Company sold in its private placement a total of 8,000 shares of its common stock at a purchase price of \$1.50 per share, for the total purchase price of \$12,000 and received subscriptions to purchase 203,233 shares at an average purchase price of \$1.41.

On February 9, 2004 the Company issued 20,000 shares of common stock for services valued at the market price of the Company's stock on that date \$2.50,

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\$50,000 and on February 18, 2004 issued 45,000 shares of common stock for services valued at the market price of the Company's stock on that date \$2.70, \$121,500.

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

PRELIMINARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

ALL FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE DEEMED BY THE COMPANY TO BE COVERED BY AND TO QUALIFY FOR THE SAFE HARBOR PROTECTION PROVIDED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. PROSPECTIVE SHAREHOLDERS SHOULD UNDERSTAND THAT SEVERAL FACTORS GOVERN WHETHER ANY FORWARD - LOOKING STATEMENT CONTAINED HEREIN WILL BE OR CAN BE ACHIEVED. ANY ONE OF THOSE FACTORS COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED HEREIN. THESE FORWARD - LOOKING STATEMENTS INCLUDE PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS, INCLUDING PLANS AND OBJECTIVES RELATING TO THE PRODUCTS AND THE FUTURE ECONOMIC PERFORMANCE OF THE COMPANY. ASSUMPTIONS RELATING TO THE FOREGOING INVOLVE JUDGMENTS WITH RESPECT TO, AMONG OTHER THINGS, FUTURE ECONOMIC, COMPETITIVE AND MARKET CONDITIONS, FUTURE BUSINESS DECISIONS, AND THE TIME AND MONEY REQUIRED TO SUCCESSFULLY COMPLETE DEVELOPMENT PROJECTS, ALL OF WHICH ARE DIFFICULT OR IMPOSSIBLE TO PREDICT ACCURATELY AND MANY OF WHICH ARE BEYOND THE CONTROL OF THE COMPANY. ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN ARE REASONABLE, ANY OF THOSE ASSUMPTIONS COULD PROVE INACCURATE AND, THEREFORE, THERE CAN BE NO ASSURANCE THAT THE RESULTS CONTEMPLATED IN ANY OF THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN WILL BE REALIZED. BASED ON ACTUAL EXPERIENCE AND BUSINESS DEVELOPMENT, THE COMPANY MAY ALTER ITS MARKETING, CAPITAL EXPENDITURE PLANS OR OTHER BUDGETS, WHICH MAY IN TURN AFFECT THE COMPANY'S RESULTS OF OPERATIONS. IN LIGHT OF THE SIGNIFICANT UNCERTAINTIES INHERENT IN THE FORWARD - LOOKING STATEMENTS INCLUDED THEREIN, THE INCLUSION OF ANY SUCH STATEMENT SHOULD NOT BE REGARDED AS A REPRESENTATION BY THE COMPANY OR ANY OTHER PERSON THAT THE OBJECTIVES OR PLANS OF THE COMPANY WILL BE ACHIEVED.

General

Advanced Refrigeration Technologies, Inc. (the "Company") was incorporated in the state of California on February 5, 1998. It designed, manufactured and marketed an energy efficiency evaporator fan motor controller for walk-in refrigerators and freezers until June 11, 2003 when it acquired all of the issued and outstanding common stock of Joystar, Inc., a Nevada corporation ("Joystar") in exchange for the issuance by the Company of a total of 13,880,599 newly issued restricted shares of common voting stock to the Joystar shareholders pursuant the Agreement an Plan of Reorganization dated as if June 10, 2003. Prior to the issuance of the shares, the Company had 3,322,840 shares of common stock issued and outstanding. Subsequent to the exchange there were 17,203,439 shares issued and outstanding. The shareholders of Joystar own 81% of the common stock outstanding of the Company after the issuance of the 13,880,598 shares. Concurrent with the acquisition of Joystar the Company disposed of the fan control business extinguishing approximately \$125,000 of debt for \$105,000 of fan control assets.

Joystar was incorporated on May 23, 2001. Joystar is a provider of online and offline travel services for the leisure and small business traveler. Joystar has been in the development stage since its inception, May 23, 2001.

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The restructuring and re-capitalization has been treated as a reverse acquisition with Joystar becoming the accounting acquirer.

The following discussion should be read in conjunction with selected financial data and the financial statements and notes to financial statements.

RESULTS OF OPERATIONS

The Company had sales of \$31,244 for the three months ended March 31, 2004 as compared to \$21,279 for the three months ended March 31, 2003. Income was generated by sales of travel services on which the Company earned commissions. Sales from inception total \$80,677 and the Company is accounted for as a development stage company.

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General and administrative expenses for the three months ended March 31, 2004 were \$363,000 as compared to \$100,000 for the three months ended March 31, 2003, an increase of \$263,000 due primarily to the increases in salaries of \$168,000, professional fees of \$31,000, rent \$13,000, dues and subscriptions of \$14,000 and a general increase in other expenses due to increased activity.

Marketing and sales expenses for the three months ended March 31, 2004 were \$341,000 as compared to \$27,000 for the three months ended March 31, 2003, an increase of \$314,000. This was due to increases in independent contractor marketing expenses \$262,000, sales and marketing expense \$42,000 and travel expenses 15,000.

LIQUIDITY AND SOURCES OF CAPITAL

At March 31, 2004 our cash position required that we actively seek additional sources of capital. At March 31, 2004 the Company had an overdraft of \$28,320 as compared to a cash balance of \$136,319 at December 31, 2003.

Loans payable at December 31, 2003, \$83,295 were converted to 60,000 shares of subscribed stock during the quarter ended March 31, 2004.

The Company had negative working capital at March 31, 2004. To date the Company has financed operations by issuance of shares of common stock in private placements.

During the quarter ended March 31, 2004, the Company sold in a private placement a total of 8,000 shares of its common stock at a purchase price of \$1.50 per share, for the total purchase price of \$12,000 and received additional subscriptions to purchase 143,233 shares at an average purchase price of \$1.42 (\$202,684).

ITEM 3. Controls and Procedures

Our President and Treasurer/Chief Financial Officer (the "Certifying Officer") is responsible for establishing and maintaining disclosure controls and procedures and internal controls and procedures for financial reporting for the Company. The Certifying Officer has designed such disclosure controls and procedures and internal controls and procedures for financial reporting to ensure that material information is made known to him, particularly during the period in which this report was prepared. The Certifying Officer has evaluated

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the effectiveness of the Company's disclosure controls and procedures and internal controls and procedures for financial reporting as of March 31, 2004 and believes that the Company's disclosure controls and procedures and internal controls and procedures for financial reporting are effective based on the required evaluation. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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PART II. OTHER INFORMATION

Item 1. Legal proceedings

In March, 2004 a former employee of the Company who was terminated prior to the acquisition of Joystar, filed a lawsuit in Orange County Superior Court for breach of contract and specific performance relating to the exercise of options, among other causes of action. The Company considers the basis of the lawsuit without merit and intends to vigorously defend itself.

Item 2. Changes in securities and use of proceeds

During the quarter ended March 31, 2004, the Company sold in its private placement a total of 8,000 shares of its common stock at a purchase price of \$1.50 per share, for the total purchase price of \$12,000 and received subscriptions to purchase 203,233 shares at an average purchase price of \$1.41 (\$285,979). The shares of the Company's common stock were issued and sold in reliance upon the exemption provided by Section 4(2) and Section 506 of Regulation D of the Securities Act of 1933. The offers and sales in the Company's private placement were made to accredited investors only.

On February 9, 2004 the Company issued 20,000 shares of common stock for services valued at the market price of the Company's stock on that date \$2.50, \$50,000 and on February 18, 2004 issued 45,000 shares of common stock for services valued at the market price of the Company's stock on that date \$2.70, \$121,500.

Item 3. Defaults on senior securities NONE

Item 4. Submission of items to a vote NONE

Item 5. Other information NONE

Item 6.

(a) Exhibits

| Exhibit No. ----- | Description ----- |
|----------------------|--|
| Exhibit 31 | CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT |
| Exhibit 32 | CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT |

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b) Reports on 8K during the quarter: There were no 8K filings in the quarter ended March 31, 2004

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 17, 2004

ADVANCED REFRIGERATION TECHNOLOGIES, INC.

By /s/ William M. Alverson

President, Chief Executive Officer
and Chief Financial Officer

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