

Edgar Filing: DIVERSIFIED SECURITY SOLUTIONS INC - Form 10QSB

DIVERSIFIED SECURITY SOLUTIONS INC
Form 10QSB
May 15, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES AND EXCHANGE
ACT OF 1934

For the quarterly period ended March 31, 2002

OR

TRANSITION REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES AND
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 005-62411

Diversified Security Solutions, Inc.
(Name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-3690168
(I.R.S. Employer
Identification No.)

280 Midland Avenue
Saddle Brook, New Jersey 07663
(address of principal executive offices) (Zip Code)

Issuer's Telephone number, including area code: (201) 794-6500

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

Yes X

No

Number of shares outstanding of the issuer's Common Stock:

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Class	Outstanding at March 31, 2002
Common stock, \$.01 par value	4,725,000

Diversified Security Solutions, Inc. and Subsidiaries

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Consolidated Balance sheets as of March 31, 2002 (Unaudited)

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Consolidated Statement of Cash Flows for the three months ended March 31, 2002 (Unaudited) and March 31, 2001 (Unaudited)

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Assets	March 31, 2002 (Unaudited)	As of December 31, 2001 (Audited)
Current assets		
Cash and cash equivalent	\$8,619,560	\$8,914
Accounts receivable - net	4,536,058	4,142
Securities held to maturity		802
Inventory	1,321,537	1,239
Costs in excess of billings	156,880	298
Deferred tax assets	88,000	88
Other assets	297,967	102
Total current assets	15,020,002	15,587
Property and equipment	1,402,311	1,355
Accumulated depreciation	(953,722)	(882)
Computer software products cost	613,812	613
Accumulated amortization	(439,374)	(429)
Other assets	277,633	56
	\$15,920,662	\$16,301
Current liabilities		
Accounts payable	\$294,894	\$1,192
Accrued taxes & expenses	398,094	456
Income tax payable	26,000	16
Billings in excess of cost	136,790	191
Long-term debt current	38,605	38
Capitalized leases current	7,753	10
Customer Deposits	871,917	293
Total current liabilities	1,774,053	2,199
Long- term debt, less current	2,883,914	2,897
Deferred tax liability	103,000	103
	4,760,967	5,199
Stockholders' equity:		
Preferred stock - par value \$.01		
Common stock	47,250	47
Additional paid in capital	10,209,814	10,209
Deferred compensation	(15,626)	(20)
Retained earnings	918,257	866
Total shareholders' equity	11,159,695	11,102
	\$15,920,662	\$16,301

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	Three months ended March 31, 2,002 2,001 (UNAUDITED)	
Sales	\$3,179,384	\$3,715,
Cost of sales	1,891,344	2,303,
Gross profit	1,288,040	1,411,
Operating expenses	1,212,966	1,082,
Operating Income	75,074	329,
Interest :		
Income	(28,996)	
Expense	38,847	40,
Income before income taxes	65,223	288,
Provision for income taxes	26,000	115,
Net income	\$39,223	\$173,
Basic and diluted earnings per share:		
Basic earnings per common share	\$0.01	\$0
Weighted average common share	4,725,000	3,000,
Diluted earnings per common share	\$0.01	\$0
Weighted average diluted shares outstanding	4,800,000	3,075,

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Cash Flows from Operating Activities:		
Net income for the quarter		\$39,22
Adjustments to reconcile net income to net cash used in operating activities;		
Amortization of stock based compensation		5,20
Depreciation and amortization		81,50
Changes in operating assets and liabilities;		
Accounts receivable		(393,72)
Inventory		(82,17)
Cost & Profit in excess of billing		141,99
Other assets		(416,76)
Accounts payable		(897,98)
Accrued taxes and expenses		(48,28)
Billing in excess of cost		(54,46)
Other liabilities		(2,88)
Customer deposits held		578,62
Net cash used in operating activities		(1,049,72)
Cash Flows from Investing Activities;		
Security held to maturity, matured		802,23
Computer software development costs		
Purchase of property and equipment and leasehold improv.		(47,12)
Cash provided by (used in) investing activities		755,10
Cash Flows from Financing activities		
Proceeds of bank credit lines		
Discontinued operation		12,79
Capitalized lease obligation payments		(13,09)
Cash provided by (used in) Financing activities		(29
Net cash decrease		(294,91)
Cash and cash equivalents -beginning		8,914,47
Cash and cash equivalents -ending		\$8,619,56

Notes to Financial Statements

Note 1. Basis of Presentation

The financial information provided herein was prepared from the books and

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records of the Company without audit. The information furnished reflects all normal recurring adjustments, which, in the opinion of the Company, are necessary for a fair statement of the balance sheets, statement of operations, and statement of cash flows, as of the dates and for the Diversified Security Solutions, Inc. periods presented. The Notes to Financial Statements included in the Company's 2001 Annual Reports on Form 10-KSB should read in conjunction with these financial statements.

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

(a) Overview

We are a single source/turn-key provider of technology-based integrated security solutions for commercial enterprises and governmental agencies. Our two operating divisions are integration and manufacturing which focus on the electronic security of the security industry. We provide services, which include:

- o consulting and planning;
- o engineering and design;
- o systems integration and
- o maintenance and technical support.

As a security integrator, we design, customize, install, connect and maintain Closed Circuit TV and access control systems for customers in the private and public sectors under the trade names, HBE and Henry Bros. Electronics. As part of an access control system, we may also install, maintain and monitor intrusion alarms and monitor alarms for building maintenance systems and fire alarm systems.

We also manufacture, develop and assemble various related products, which we use in our own installations and for sales to other integrators under the trade name Viscom Products.

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(b) Results of Operations

Comparison of the three months ended March 31, 2002 to the three months ended March 31, 2001.

Revenues. Revenues for the quarter ended March 31, 2002 totaled \$3,179,384 representing a decrease of 14.4% or \$535,992 from \$3,715,376 reported for the same quarter a year ago. Revenues decreased primarily due to customer delays in releasing orders from existing backlog.

Cost of Goods Sold. Cost of Goods Sold decreased to \$1,891,344 or 59.5% of

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revenues for the quarter ended March 31, 2002, from \$2,303,440 or 62.0% of revenues for the quarter ended March 31, 2001. This reduction was attributed to a combination of a reduction in sales, as well as our more efficiently purchasing material and our using our labor in a more efficient manner.

Selling, General and Administrative Expenses. Selling, General and Administrative Expenses increased to \$1,212,966 for the quarter ended March 31, 2002 from \$1,082,614 for the same quarter a year ago a 12.0% increase or \$130,352. The increase in expenses was due to the hiring of additional employees in anticipation of an expected increase in the demand for our services.

Operating Income. Operating Income for the quarter ended March 31, 2002 totaled \$75,074 representing a decrease of 77.2% or \$254,248 from \$329,322 for the same quarter a year ago.

Interest Expense - net. Interest Expenses net of Interest Income for the three months ended March 31, 2002 was \$9,851 or .3% as a percentage of revenue compared to \$40,653 or 1.1% for the comparable period a year ago. The savings were caused by less bank borrowing and \$28,996 in interest income from short term investment of the balance of the proceeds of the initial public offering on November 15, 2001.

Net Income. For the Quarter ended March 31, 2002 our net income totaled \$39,223 or 1.2% of revenues, as compared to net income of \$173,669, or 4.7% of revenues, for the Quarter ended March 31, 2001. This resulted in basic earnings per share of \$0.01 on 4,725,000 basic weighted average common share outstanding for the quarter ended March 31, 2002 compared with \$0.06 per share on 3,000,000 basic weighted average common shares outstanding for the quarter ended March 31, 2001.

(c) Liquidity and Capital Resources

Since our inception, we have financed our operations through bank debt, loans and equity from our principals, loans from third parties and funds generated by our business. On November 15, 2001, the Securities and Exchange Commission declared effective our registration statement pertaining to our initial public offering of 1,500,000 shares of our common stock. The public offering price of this offering was \$7.00 per share, and we received net proceeds of approximately \$8,613,014, after deducting the underwriter's discount of \$1,050,000 and offering expenses of \$836,986. In December, 2001, GunnAllen Financial, Inc., the managing underwriter of our initial public offering, exercised its over-allotment option to purchase an additional 225,000 shares of common stock and we received net proceeds of \$1,370,250. As of March 31, 2002, we had \$8,619,560 in cash and cash equivalents.

Net cash Used in Operating Activities. Net cash used in operating activities amounted to \$1,049,727 for the three months ended March 31, 2002 as compared to \$832,518 during the same period a year ago.

Net cash provided by investing activities. Net cash provided by investing activities increased to \$755,108 for the first Quarter of 2002 as compared to a decrease of \$92,567 for the same period a year ago.

Net cash used by financing activities amounted to \$294 for the first quarter of 2002 as compared to net cash provided by financing activities amounted to \$412,229 for the same period a year ago.

Our capital requirements have grown substantially since our inception with the growth of our operations and staffing. We expect our capital requirements to continue to increase in the future as we seek to expand our operations. We believe that our current cash and available lines of credit should be sufficient to meet our capital requirements.

(d) Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 141 Business Combinations and Statement No. 142 Goodwill and other Intangible Assets. These statements are effective July 1, 2001 for business combinations completed on or after that date. These statements became effective for us on January 1, 2002 with respect to business combinations completed on or before June 30, 2001.

(e) Forward Looking Statements

The foregoing contains certain forward-looking statements. Due to the fact that we face intense competition in a business characterized by changing technology and high capital requirements, actual results and outcomes may differ materially from any such forward looking statements and, in general, are difficult to forecast.

Part II Other Information - 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.

Date: May 14, 2002

DIVERSIFIED SECURITY SOLUTIONS, INC.

By: /s/ James E. Henry

James E. Henry
Chairman and Chief Executive Officer

By: /s/ Irvin F. Witcosky

Irvin F. Witcosky
President and Chief Operating Officer