GENERAL KINETICS INC
Form 10-Q
January 14, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For Quarter Ended November 30, 2003

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 ¨

Indicate by checkmark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The number of shares of Registrant s Common Stock outstanding as of January 9, 2003 7,118,925 Shares

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q constitute forward-looking statements . In some cases, forward-looking statements can be identified by the use of forward-looking terminology such as may, will, estimate, intend, continue, believe, expect o anticipate or the negatives thereof, variations thereon or similar terminology. The forward-looking statements contained in this Quarterly Report are generally located in the material set forth under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations, but may be found in other locations as well. These forward-looking statements generally relate to plans and objectives for future operations and are based upon management s reasonable estimates of future results or trends. Although the Company believes that the plans and objectives reflected in or suggested by such forward-looking statements are reasonable, such plans or objectives may not be achieved. Actual results may differ from projected results due, but not limited, to unforeseen developments, including developments relating to the following:

the risk that the Company may not be able to obtain and complete sufficient new orders to maintain positive cash flow;

the risk that the Company may not maintain its present financing facility or obtain additional financing, if necessary, including the risk that it will not be able to repay or refinance in full the approximately $8.8 million principal amount of its outstanding convertible debentures currently scheduled to mature in August 2004;

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 Over The Counter Bulletin Board.

You should read this Quarterly Report completely and with the understanding that actual future results may be materially different from what the Company expects. All subsequent written and oral forward-looking statements attributable to the Company or to persons acting on the Company s behalf are expressly qualified in their entirety by the foregoing factors. These forward-looking statements speak only as of the date of the document in which they are made. The Company disclaims any obligation or undertaking to provide any updates or revisions to any forward-looking statement to reflect any change in the Company s expectations or any change in events, conditions or circumstances in which the forward-looking statement is based.

PART I FINANCIAL INFORMATION

Item 1 - Financial Statements

The unaudited 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 financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of results for the periods presented. These financial statements should be read in conjunction with the audited financial statements for the fiscal years ended May 31, 2003 and 2002 set forth in the Company s annual report on Form 10-K, as amended, for the fiscal year ended May 31, 2003.

General Kinetics Incorporated

Balance Sheets

November 30, 2003 and

May 31, 2003

	Nov 30, 2003	May 31, 2003
	(Unaudited)	**(Audited)**
Assets		
Current Assets:		
Cash and cash equivalents	$ 330,100	$ 114,000
Marketable securities	42,400	36,400
Accounts receivable, net of allowance of $22,900	538,500	521,600
Inventories, net	664,000	728,900
Prepaid expenses and other	64,200	41,200
Total Current Assets	1,639,200	1,442,100
Property, plant and equipment	2,963,900	2,960,400
Less: Accumulated depreciation	(2,310,500)	(2,257,700)
	653,400	702,700
Other Assets	29,900	11,100
Total Assets	$ 2,322,500	$ 2,155,900
Liabilities and Stockholders Deficit		
Current Liabilities:		
Advances from Factor	$ 99,400	$
Current maturities of long-term debt	8,888,800	96,300
Current maturities of capital lease	21,300	20,600
Accounts payable, trade	436,300	366,300
Accrued expenses and other payables	473,600	403,400
Total Current Liabilities	9,919,400	886,600
Long-Term Liabilities:		
Long-term debt - less current maturities	213,800	9,023,600
Capital lease - less current maturities	50,000	60,800
Other long-term liabilities	248,700	249,900
Total Long-Term Liabilities	512,500	9,334,300
Total Liabilities	10,431,900	10,220,900
Stockholders Deficit:		
Common Stock, $0.25 par value, 50,000,000 shares authorized, 7,645,557 shares issued, 7,118,925 shares outstanding	1,911,500	1,911,500
Additional contributed capital	7,337,300	7,337,300
Accumulated deficit	(16,908,000)	(16,863,600)

	(7,659,200)	(7,614,800)
Less: Treasury Stock, at cost (526,632 shares)	(450,200)	(450,200)
Total Stockholders Deficit	(8,109,400)	(8,065,000)
Total Liabilities and Stockholders Deficit	$ 2,322,500	$ 2,155,900

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

General Kinetics Incorporated

Statements of Operations

(Unaudited)

	Six Months Ended		**Three Months Ended**	
	November 30, 2003	**November 30, 2002**	**November 30, 2003**	**November 30, 2002**
Net Sales	$ 3,093,800	$ 4,253,100	$ 1,471,100	$ 1,981,400
Cost of Sales	2,445,000	3,168,500	1,147,100	1,482,600
Gross Profit	648,800	1,084,600	324,000	498,800
Selling, General & Administrative	596,100	723,200	287,500	347,100
Product Research, Development & Improvement		3,500		1,800
Total Operating Expenses	596,100	726,700	287,500	348,900
Operating Income	52,700	357,900	36,500	149,900
Interest Expense	(97,100)	(103,700)	(47,300)	(52,200)
Net Income	(44,400)	254,200	(10,800)	97,700
Basic Earnings per Share:				
Basic Earnings per Share	($0.006)	$ 0.038	($0.002)	$ 0.015
Weighted Average Number of Common Shares Outstanding	7,118,925	6,718,925	7,118,925	6,718,925
Diluted Earnings per Share:				
Diluted Earnings per Share	($0.006)	$ 0.012	($0.002)	$ 0.005
Weighted Average Number of Common Shares and Dilutive Equivalents Outstanding	7,118,925	24,708,925	7,118,925	24,708,925

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

General Kinetics Incorporated

Statements of Cash Flows

(Unaudited)

	Six Months Ended	
	November 30, 2003	**November 30, 2002**
Cash Flows From Operating Activities:		
Net Income (loss)	$ (44,400)	$ 254,200
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Unrealized (gain) loss on marketable securities	(6,000)	4,700
Depreciation and amortization	52,800	63,200
Amortization of bond discount	33,100	31,000
(Increase) Decrease in Assets:		
Accounts receivable	(16,900)	(50,100)
Inventories	64,900	314,000
Prepaid expenses	(23,000)	23,300
Other assets	(18,800)	22,700
Increase (Decrease) in Liabilities:		
Accounts payable - Trade	70,000	(439,100)
Accrued expenses	70,200	(106,600)
Other long term liabilities	(1,200)	(1,300)
Net cash provided by Operating Activities	180,700	116,000
Cash Flows from Investing Activities:		
Acquisition of property, plant and equipment	(3,500)	(19,800)
Net cash used in Investing Activities	(3,500)	(19,800)
Cash Flows from Financing Activities:		
Advances from Factor	537,300	553,000
Repayments of advances from Factor	(437,900)	(553,000)
Principal payments under capital lease	(10,100)	(9,300)
Repayments on long term debt	(50,400)	(44,200)
Net cash provided by (used in) Financing Activities	38,900	(53,500)
Net increase (decrease) in cash and cash equivalents	216,100	42,700
Cash and Cash Equivalents: Beginning of Period	114,000	185,100
Cash and Cash Equivalents: End of Period	$ 330,100	$ 227,800
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 21,400	$ 112,500

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

GENERAL KINETICS INCORPORATED AND SUBSIDIARIES

Notes to Condensed Financial Statements

(Unaudited)

Note 1 - Basis of Presentation

The unaudited condensed financial statements at November 30, 2003, and for the three months and six months ended November 30, 2003 and November 30, 2002, 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 (consisting solely of normal recurring 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 six-month period ended November 30, 2003 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 net income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings. Due to the net loss in the quarter and six months ended November 30, 2003, diluted earnings per share is the same as basic earnings per share for those periods. The following table presents a reconciliation between the weighted average shares outstanding for basic and diluted earnings per share for the six months and three months ended November 30, 2002:

Six Months ended November 30, 2002

	Income	Shares	Per Share Amount
Basic earnings per share			
Net Income available to common shareholders	$ 254,200	6,718,925	$ 0.038
Effect of assumed conversion of convertible debentures, net of tax	47,368	17,990,000	0.002
Dilutive earnings per share	$ 301,568	24,708,925	$ 0.012

Three Months ended November 30, 2002

	Income	Shares	Per Share Amount
Basic earnings per share			
Net Income available to common shareholders	$ 97,700	6,718,925	$ 0.015
Effect of assumed conversion of convertible debentures, net of tax	23,684	17,990,000	0.001
Dilutive earnings per share	$ 121,384	24,708,925	$ 0.005

Note 3 - Notes Payable

At November 30, 2003 and May 31, 2003, convertible debentures initially issued to clients of Gutzwiller & Partner, AG, now known as Rabo Investment Management Ltd., are outstanding in an aggregate principal amount of approximately $8.8 million. Such debentures mature in August 2004, are convertible into common stock at a conversion price of $0.50 per share, and bear interest at 1% per annum, which is payable annually. Shares issuable upon conversion are also subject to certain registration rights under the Securities Act of 1933, as amended.

On March 12, 2003, Manassas Partners LLC, a Delaware limited liability company of which Larry Heimendinger, Chairman of the Board of Directors of the Company, is the managing member, purchased from third parties, at a significant discount, a portion of the Company s $8.8 million outstanding convertible debentures in an aggregate principal amount of $5.8 million.

Pending confirmation of ownership status of the Company s convertible debentures, the Company has not effected payment of interest on the convertible debentures in the amount of $88,800 scheduled on August 14, 2003.

Note 4 - Income Taxes

The Company s estimated effective tax rate for fiscal 2003 is 0%. This estimated effective tax rate is lower than the statutory rate due to the existence of net operating loss carryforwards.

Note 5 - Related Party Transactions

On March 12, 2003, Manassas Partners LLC, a Delaware limited liability company of which Larry Heimendinger, Chairman of the Board of Directors of the Company, is the managing member, purchased from third parties, at a significant discount, a portion of the Company s $8.8 million outstanding convertible debentures in an aggregate principal amount of $5.8 million.

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

Three Months Ended November 30, 2003, Compared to Three Months Ended November 30, 2002

Net sales for the quarter ended November 30, 2003 were approximately $1.5 million compared to net sales of approximately $2.0 million for the quarter ended November 30, 2002. The decrease in sales was due primarily to a decrease in orders under a large blanket contract with a prime contractor to the U.S. Navy, in addition to an overall slowdown of orders from customers involved in projects related to the U.S. Navy.

The gross margin percentage decreased from 25.2% for the quarter ended November 30, 2002 to 22.0% for the quarter ended November 30, 2003. The primary reasons for the decrease in the gross profit percentage were the mix of jobs for the quarter ended November 30, 2003 as compared to the corresponding quarter of the prior fiscal year, along with the decrease in sales during the quarter as compared to the corresponding fiscal quarter of the prior year. The Company continues to address production issues through plant supervision and regular updating of scheduling and planning procedures. The Company is trying to stabilize the level of shipments at a profitable level through these changes and a focused sales effort.

Selling, general & administrative costs were approximately $287,500 for the quarter ended November 30, 2003 as compared to approximately $347,100 for the quarter ended November 30, 2002. The reduction was principally due to cost reduction measures during the first and second quarter of fiscal 2004, including temporary salary decreases that were put into place by management in response to the reduced backlog and shipping levels.

For the quarter ended November 30, 2003, the Company had operating income of $36,500 compared to operating income of $149,900 for the corresponding quarter of the prior year. The decrease in operating income was due principally to the decrease in net sales and gross margins discussed above.

Interest expense decreased from $52,200 in the second quarter of fiscal 2003 to $47,300 in the second quarter of fiscal 2004.

The Company s estimated effective tax rate for fiscal 2004 is 0%. This estimated effective tax rate is lower than the statutory rate due to the existence of net operating loss carryforwards.

Six Months Ended November 30, 2003, Compared to Six Months Ended November 30, 2002

Net sales for the six months ended November 30, 2003 were approximately $3.1 million compared to net sales of approximately $4.3 million for the six months ended November 30, 2002. The decrease in sales was due primarily to a decrease in orders under a large blanket contract with a prime contractor to the U.S. Navy, in addition to an overall slowdown of orders from customers involved in projects related to the U.S. Navy.

The gross margin percentage decreased from 25.5% for the six months ended November 30, 2002 to 21.0% for the six months ended November 30, 2003. The primary reasons for the decrease in the gross profit percentage were the mix of jobs for the six months ended November 30, 2003 as compared to the corresponding quarter of the prior fiscal year, along with the decrease in sales during the period as compared to the corresponding six months of the prior year. The Company continues to address production issues through plant supervision and regular updating of scheduling and planning procedures. The Company is trying to stabilize the level of shipments at a profitable level through these changes and a focused sales effort.

Selling, general & administrative costs were approximately $596,100 for the six months ended November 30, 2003 as compared to approximately $723,200 for the six months ended November 30, 2002. The reduction was principally due to cost reduction measures during the first and second quarter of fiscal 2004, including temporary salary decreases that were put into place by management in response to the reduced backlog and shipping levels.

For the six months ended November 30, 2003, the Company had operating income of $52,700 compared to operating income of $357,900 for the corresponding six months of the prior year. The decrease in operating income was due principally to the decrease in net sales and gross margins discussed above.

Interest expense decreased from $103,700 in the first six months of fiscal 2003 to $97,100 in the corresponding period of fiscal 2004.

The Company s estimated effective tax rate for fiscal 2004 is 0%. This estimated effective tax rate is lower than the statutory rate due to the existence of net operating loss carryforwards.

Liquidity and Capital Resources

The Company relies upon internally generated funds and accounts receivable factoring to finance its operations. In addition to a net loss of $44,400 for the first six months of fiscal 2004, during fiscal years 2003 and 2002 the Company incurred net losses of approximately $131,400 and $835,400, respectively. In order to generate the working capital required for operations, the Company must continue to generate orders, increase its gross margins, and effectively manage operating expenses during fiscal 2004.

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 operating costs in order to recover from its liquidity problems and seek to operate profitably for fiscal 2004.

The decrease in sales in the first six months of fiscal 2004 as compared to the first six months of fiscal 2003 is primarily due to an overall slowdown of orders from customers involved in projects related to the U.S. Navy. The Company must increase its level of sales to maintain a sales level that will provide positive cash flow for the remainder of the fiscal year. However, there is no assurance the Company will be successful in its efforts to obtain an adequate level of new contracts to maintain positive cash flow or profitable operations.

In recent months, the Company and its customers have experienced significant delays in the release of orders under awarded programs, and there can be no assurance that such delays will not continue or become more severe. In the absence of orders released against these awards or other new business, the Company could experience a material decrease in its level of business, revenues and cash flows.

As of November 30, 2003, the Company had cash and marketable securities totaling $372,500. The Company has faced production issues that have contributed to losses from operations in the prior three fiscal years. The Company has taken and is continuing to take steps to address these production issues through changes and additions to plant supervision, 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. However, during the past fiscal year and current fiscal quarter, management implemented cost reductions, including salary reductions, in response to reduced sales and order backlog.

Management believes that, unless there is an increase in the shippable order backlog, the Company may not be able to meet its cash requirements through the current fiscal year with cash on hand and borrowings from the factoring of accounts receivable. Meeting the Company s cash requirements through the next twelve months will also require an increase in the current order backlog, as well as profitable production and shipment of those orders. 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 increase its current 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 has sustained operating losses in the first six months of the current fiscal year and in fiscal years 2003, 2002 and 2001, 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, if available. These losses and commitments, in addition to an overall slowdown of orders from customers involved in projects related to the U.S. Navy, 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.

The Company was formerly party to a factoring agreement with Reservoir Capital Corporation (Reservoir) that provided 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 of whom are directors of the Company, entered into a factoring agreement with the Company on terms substantially similar 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 factoring agreement with Link2It Corporation, on similar terms, was entered into in April 2002. During the quarter ended August 31, 2003, the Company entered into a new factoring agreement with Key Capital Factoring (Key) that also provides for advances of up to 85% of specified accounts receivable. The Company expects to draw on the Key facility during fiscal 2004 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 November 30, 2003, there was $99,400 of outstanding advances due to Key.

The Company had significant amounts payable to trade creditors at November 30, 2003.

The Company has outstanding debentures originally issued to clients of Gutzwiller & Partner, AG, now known as Rabo Investment Management Ltd.

(the Manager), totaling approximately $8.8 million. The debentures mature in August 2004, are convertible into common stock at a conversion price of $0.50 per share, and bear interest at 1% per annum payable annually. In a filing with the SEC dated November 9, 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 debentures in the principal amount of $585,000 which were purchased by the Manager as to which the Manager was the economic beneficial owner and held sole voting and dispositive power, and debentures in a principal amount of $7,300,000 held in client accounts managed by the Manager on behalf of various clients who held beneficial economic ownership thereof for which the Manager held voting and dispositive power. On March 12, 2003, Manassas Partners LLC, a Delaware limited liability company of which Larry Heimendinger, Chairman of the Board of Directors of the Company is the managing member, purchased from third parties, at a significant discount, a portion of the Company s $8.8 million outstanding convertible debentures in an aggregate principal amount of $5.8 million.

The Company does not expect that its cash flow, capital resources, and overall financial condition will be sufficient to repay or refinance in full the approximately $8.8 million principal amount of outstanding convertible debentures currently scheduled to mature in August 2004. At present, the Company has decided on no specific plans with respect to the repayment or refinancing of the debentures, but it expects to continue to review the situation and consider its potential alternatives during the coming fiscal year.

Analysis of Cash Flows

Operating activities provided $180,700 in cash in the first six months of fiscal 2004. This reflects the net loss of $44,400 offset by $79,900 in non-cash expenses and unrealized gain on marketable securities and by $145,200 in cash generated from changes in working capital items. The cash generated from changes in working capital items in the first half of fiscal 2004 includes a decrease in inventories of $64,900 and an increase in accounts payable of $70,000.

The Company used $3,500 to acquire property, plant and equipment during the first half of fiscal 2004.

Financing activities provided $38,900 in the first half of fiscal 2004. These activities consisted primarily of factoring accounts receivable netting to $99,400, offset by the repayment of certain long-term debt.

Inflation

Management believes that inflation did not have a material effect on the operations, financial position or cash flows of the Company during the first six months of fiscal 2004.

Contractual Obligations and Commercial Commitments

The Company s commitments through November 30, 2008 are comprised of the following at November 30, 2003 (in thousands):

	Through November 30,					
	2004	**2005**	**2006**	**2007**	**2008**	**Total**
Convertible debentures	$ 8,800	$ 0	$ 0	$ 0	$ 0	$ 8,800
Other notes payable	40	0	0	0	0	40
Real estate mortgage	99	104	110	0	0	313
Capital leases	21	23	25	2	0	71
Operating leases	27	11	3	3	0	44
Total	$ 8,987	$ 138	$ 138	$ 5	$ 0	$ 9,268

Critical Accounting Policies

The Company s significant accounting policies are more fully described in Note 2 to the financial statements in our 2003 Annual Report on Form 10-K, as amended. The preparation of financial statements in conformity with accounting principles generally accepted in 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, the Company 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 date, reduced by amounts identified with revenue recognized on units delivered as well as reserves for amounts in excess of estimated net realizable value. The costs attributable to units delivered are based on the estimated average costs of all units expected to be produced under multi-unit orders. Estimated costs to complete are based on historical experience and knowledge of building similar products. On an on-going basis, the Company evaluates the estimates of total costs to complete a multi-unit order. 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 with customers and individual review of any past due accounts. Although it is reasonably possible 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 its results of operations. At November 30, 2003, the Company had an allowance for doubtful accounts of $22,900.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

Market Risk The Company is exposed to market risk from adverse changes in interest rates.

Interest Rate Risks The Company is exposed to risk from changes in interest rates as a result of its borrowing activities. At November 30, 2003, the Company had total debt of $9.27 million, of which $0.31 million represents borrowing for its real estate mortgage, which is at a variable interest rate. Interest on that portion of the Company s debt is directly affected by changes in the prime interest rate, and therefore fluctuations may have an impact on the Company s financial results.

Item 4 - Controls and Procedures

The Company maintains disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), that are designed to ensure that information required to be disclosed in the Company s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and that such information is accumulated and communicated to the Company s management, including the Company s Chief Executive Officer and Chief Financial

Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this quarterly report, the Company conducted an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures, as required by Rule 13a-15 under the Exchange Act. This evaluation was carried out under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective. There has been no change in the Company s internal control over financial reporting that has occurred during the Company s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 6 Exhibits and Reports on Form 8-K

(a) Exhibits

31.1 Certification of the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on 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: January 14, 2004	/s/ Larry M. Heimendinger
	Chairman of the Board
	(Principal Executive Officer)
Date: January 14, 2004	/s/ Sandy B. Sewitch
	Chief Financial Officer
	(Principal Accounting Officer and
	Principal Financial Officer)