

Edgar Filing: YORK RESEARCH CORP - Form 10-Q

YORK RESEARCH CORP
Form 10-Q
July 16, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
/X/

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 31, 2001

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from ----- to -----

Commission file number 0-72

York Research Corporation

(Exact name of registrant as specified in its charter)

Delaware

06-0608633

(State or other jurisdiction of
of incorporation or organization)

(I.R.S. Employer
Identification No.)

280 Park Avenue, Suite 2700 West, New York, New York

10017

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code

(212) 557-6200

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check whether registrant (1) has filed all reports required to
be filed by Section 13 or 15 (d) of the Securities and Exchange Act of 1934
during the preceding 12 months (or for such shorter period that the registrant
was required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days. Yes X No

Indicate the number of shares outstanding of each of the issuer's
classes of common stock, as of the close of the period covered by this
report 16,262,697.

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YORK RESEARCH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	May 31, 2001	Fe
	----- (Unaudited)	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,603,983	\$
Marketable securities	251,110	
Trade accounts receivable	3,781,485	
Other receivables - related parties	5,548,319	
Cash in escrow	1,021,033	
Deferred tax asset	9,294,429	
Other current assets	359,214	
	-----	-----
Total current assets	21,859,573	
Property, plant and equipment, net	128,853,584	1
Long-term notes and other receivables - WCTP	82,685,335	
Intangible assets, net	15,164,449	
Deferred tax asset	6,019,000	
Other assets (including advances to employees of \$827,150 and \$817,757, respectively)	2,911,446	
	-----	-----
Total assets	\$ 257,493,387	\$ 2
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Project payables	\$ 6,033,577	\$
Accrued expenses and other payables	6,881,863	
Income tax payable	248,425	
Project notes payable	145,662,000	1
Net liabilities of discontinued operations	48,805,532	
	-----	-----
Total current liabilities	207,631,397	2
Other long-term liabilities	1,671,564	
Deferred revenue and other credits	2,724,750	
Minority interest in partnership	3,548,830	
Commitments and contingencies		
Stockholders' equity		
Common stock, Class A, \$.01 par value; authorized 10,000,000 shares; none issued	--	
Common stock, \$.01 par value; authorized 50,000,000 shares; issued 16,420,821 shares	164,208	
Additional paid-in capital	69,473,128	
Accumulated deficit	(24,809,147)	
Accumulated other comprehensive income (net of tax of \$76,456 and \$450,857, respectively)	148,096	
	-----	-----
	44,976,285	

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Less:		
Treasury stock, at cost (158,124 shares)		(1,564,713)
Notes receivable - sale of common stock		(342,322)
Deferred compensation		(1,152,404)

Total stockholders' equity		41,916,846

Total liabilities and stockholders' equity		\$ 257,493,387
		=====

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

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YORK RESEARCH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MAY 31,

	(Unaudited)	
	2001	2000
	-----	-----
Revenues	\$ 9,225,872	\$ 8,107,047
Costs of revenues	5,367,162	3,943,548
	-----	-----
Gross profit	3,858,710	4,163,499
	-----	-----
Selling, general and administrative:		
Power project services	550,821	663,544
General corporate expenses	1,744,268	2,101,224
	-----	-----
Total selling, general and administrative	2,295,089	2,764,768
	-----	-----
Other income (expense):		
Interest income - WCTP	989,734	1,219,454
Interest income	65,413	190,808
Interest expense	(4,432,478)	(4,435,541)
Other income	3,362,884	1,913,209
Minority interest in partnership	(124,576)	(153,490)
	-----	-----
	(139,023)	(1,265,560)
	-----	-----
Income from continuing operations before income taxes	1,424,598	133,171
Benefit for income taxes	--	(447,000)
	-----	-----
Net income	\$ 1,424,598	\$ 580,171
	=====	=====

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Comprehensive income	\$ 684,613	\$ 783,571
	=====	=====
Earnings per share - Basic	\$ 0.09	\$ 0.04
	=====	=====
Weighted average number of common shares used in computing basic earnings per share	16,060,008	15,086,345
	=====	=====
Earnings per share - Diluted	\$ 0.08	\$ 0.04
	=====	=====
Weighted average number of common shares and common share equivalents used in computing diluted earnings per share	18,035,048	15,086,345
	=====	=====

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

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YORK RESEARCH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MAY 31,

	(Unaudited)	
	2001	2000
	-----	-----
OPERATING ACTIVITIES:		
Net income	\$ 1,424,598	\$ 580,171
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,180,058	1,183,229
Amortization of goodwill	9,843	9,843
Amortization of deferred charges	578,978	521,124
Amortization of deferred credits	(43,250)	(43,250)
Deferred taxes	--	(447,000)
Minority interest in partnership	124,576	153,490
ESOP contribution	--	169,783
Gain on sale of marketable securities	(1,092,281)	--
Changes in operating assets and liabilities:		
Net decrease in receivables	3,539,976	695,376
Net increase in notes receivable, other current assets and other assets	(1,217,447)	(492,685)
Net decrease in accounts payable, accrued expenses and long-term liabilities	(4,322,639)	(5,652,945)
Decrease in accrued taxes	(40,583)	(90,755)
	-----	-----
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		

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OF CONTINUING OPERATIONS	141,829	(3,413,619)
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES OF DISCONTINUED OPERATIONS	(1,192,105)	(1,250,787)
	-----	-----
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(33,323)	(2,128,112)
Deposits into cash in escrow	(7,155,536)	(3,399,767)
Receipts from cash in escrow	7,419,061	5,794,178
Proceeds from sale of marketable securities	1,185,193	--
	-----	-----
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,415,395	266,299
	-----	-----
FINANCING ACTIVITIES:		
Payment of project notes	(1,650,000)	(1,350,000)
Amounts received from ESOP	450,000	--
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	(1,200,000)	(1,350,000)
	-----	-----
DECREASE IN CASH AND CASH EQUIVALENTS	(834,881)	(5,748,107)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,438,864	7,490,106
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,603,983	\$ 1,741,999
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid	\$ 8,945,618	\$ 9,000,959
Income taxes paid	\$ 40,583	\$ 90,755

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

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YORK RESEARCH CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) General

In the opinion of management, the accompanying consolidated, unaudited financial statements contain all adjustments necessary to present fairly York Research Corporation and Subsidiaries' ("York" or the "Company") consolidated financial position at May 31, 2001, and the results of operations and cash flows for the three months ended May 31, 2001 and 2000.

Certain financial information which is normally included in financial

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statements prepared in accordance with generally accepted accounting principles, but which is not required for interim reporting purposes, has been condensed or omitted. The accompanying financial statements need to be read in conjunction with the financial statements and notes thereto included in the Registrant's Form 10-K.

Certain amounts in the Fiscal 2001 consolidated financial statements were reclassified to conform to the Fiscal 2002 presentation. Any adjustments that have been made to the financial statements are of a normal recurring nature.

2. Liquidity

North American Energy Conservation, Inc. ("NAEC"), an 85% owned subsidiary of York, estimates that the total third party obligations that would be subject of its Chapter 11 proceedings approximates \$66 million, all of which have been accrued as of February 28, 2000. York has guaranteed approximately \$46 million of the total pre-petition debt of NAEC. York and NAEC have conducted extensive discussions with both the guaranteed and non-guaranteed creditor groups and had arrived at a settlement agreement, which was approved by the bankruptcy court on January 8, 2001. Pursuant to the settlement agreement, among other requirements, the Company was required to fund \$13 million into a trust for the benefit of the creditors by May 1, 2001. To date, both NAEC and the Company have been unable to fund the initial cash payment into the trust. The time for the Company to perform has been extended while it continues negotiations with the creditors and preparation of the required agreements. The trust is expected to be funded with a minimum of \$13 million, six million shares of common stock which would be sold over time under controlled conditions to liquidate the obligations, a warrant for one million shares at an exercise price to be determined and a carried interest in the Company's net available cash flow, as defined, which will be used to the extent the sale of the common stock is insufficient to liquidate all obligations. To the extent the trust has not previously been liquidated, the total amount to be liquidated via the trust is expected to increase by \$2 million on the third anniversary and additional amounts up to a cap of \$4 million on each anniversary thereafter. Included in the total settlement amount is an expected debt obligation of \$1 million, collateralized by certain assets, due December 31, 2009 or earlier under certain circumstances as defined.

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YORK RESEARCH CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management's plan in regard to this matter is to reach agreement with the NAEC creditors as discussed above. In addition York, with the help of Credit Suisse First Boston ("CSFB") and other consultants is pursuing several alternative means, including the potential sale of all or part of York's interest in various projects, of raising the funds necessary to fund the trust and meet its other ongoing obligations.

There can be no assurance that an agreement will be reached with the creditor group or that the Company will be able to raise sufficient funds.

General corporate, pre-financing project development and negative working capital needs have historically been met by the cash flow derived from

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the Company's power projects. The Company believes that such cash flow sources and potential development fees received on future projects, will provide sufficient cash flow for continuing operations for at least twelve months.

The Company has met all required principal and interest payments on the project notes payable to date. The project notes payable are non-recourse to York. However, as a result of the Bond trustee's inability to set up certain foreign escrow accounts pursuant to provisions included in the bond indenture, the project notes payable have been classified as a current liability as of May 31, 2001.

(3) Per Share Data

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average common shares outstanding for the period. Diluted earnings per share reflects the weighted average common shares outstanding plus the potential dilutive effect of securities or contracts which are in the money and convertible to common shares, such as options and warrants, unless antidilutive based upon income from continuing operations. The following is a reconciliation of the number of shares used in the basic and diluted computation of earnings per share for the three months ended May 31, 2001 and 2000.

	Three Months Ended May 31,	
	2001	2000
Weighted average number of common shares outstanding	16,262,697	15,112,057
Average of unreleased ESOP shares	(202,689)	(25,712)
Weighted average number of common shares outstanding - basic	16,060,008	15,086,345
Dilution (warrants and options)	1,975,040	--
Weighted average number of common shares and common share equivalents outstanding - diluted	18,035,048	15,086,345

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YORK RESEARCH CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amounts shown as average of unreleased ESOP shares and dilution (warrants and options) reflect the averages for the periods presented.

The following chart summarizes the number of options and warrants not

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included in the computation of diluted earnings per share for the three months ended May 31, 2001 and 2000, as the results would have been antidilutive. The options and warrants expire between April, 2002 and January 2011.

	Three Months Ended May 31,	
	----- 2001 -----	----- 2000 -----
Options and Warrants	2,832,217	3,852,219
Price Range	\$3.13 to \$7.31	\$1.50 to \$8.00

(4) Discontinued Operations

A. Natural Gas Marketing

As of February 28, 2000, North American Energy Conservation, Inc. ("NAEC") discontinued its natural gas marketing business. On March 2, 2000, NAEC filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the Southern District of New York. NAEC ceased the wholesale natural gas business as of February 28, 2000, but continued its retail natural gas business until it sold the retail business to Amerada Hess Corporation on April 20, 2000 for \$250,000 payable between July 1, 2000 and December 31, 2000 which has been paid in full, net of certain offsets. Amerada Hess assumed all obligations in connection with the Syracuse office and equipment leases and hired all of the NAEC Syracuse personnel. The filing of Chapter 11 was necessitated by an extreme credit crunch which rendered NAEC unable to purchase natural gas to meet its commitments and unable to pay its creditors for natural gas previously delivered.

As of February 28, 2000, the Company accounted for the NAEC wholesale and retail natural gas marketing business as a discontinued operation, as well as the electric marketing business, which was discontinued previously.

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YORK RESEARCH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The operating results of the discontinued natural gas operations (which had been accrued as of February 28, 2000), are summarized as follows:

	For the Three Months Ended May 31,	
	----- 2001 -----	----- 2000 -----
Revenues	\$ -0-	\$ 2,734,250
Loss from operations	\$ (1,394,547)	\$ (2,004,650)

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B. Net liabilities of discontinued operations

As of May 31, 2001, net liabilities of discontinued operations consisted mainly of trade accounts receivable, trade accounts payable and an accrual of alleged liquidated damages due certain gas suppliers. NAEC also maintained a line of credit that is collateralized by all of the assets of NAEC and is guaranteed by the Company. The line of credit bears interest at 1/2% per annum over the prime rate. The amount outstanding as of May 31, 2001 was approximately \$1,213,000 which is included in the net liabilities from discontinued operations.

(5) Income Taxes

For the three months ended May 31, 2001 the tax provision was offset by a tax benefit of \$460,000 related to federal wind tax credits generated by the Big Spring facility. For the three months ended May 31, 2000 a tax benefit of \$447,000 was recognized related to these federal wind tax credits.

(6) Other Income

Included in other income for the three months ended May 31, 2001 is a gain on sale of marketable securities of approximately \$1,092,000.

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YORK RESEARCH CORPORATION AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The Company's business is Greenpower, which includes developing, constructing and operating Greenenergy production facilities, including those that utilize natural gas as fuel to produce thermal and electric power ("cogeneration") or renewable energy projects primarily converting wind energy into transmittable electric power.

Within our Greenpower business, we have five currently operating facilities: in New York City, a 38MW Warbasse cogeneration facility (the "Warbasse facility") and a 286MW Brooklyn Navy Yard cogeneration facility (the "BNY facility"); in Big Spring, Texas, a 34MW wind energy facility (the "Big Spring facility"), and a 6.6MW wind energy facility (the "West Texas project"); and a 225 MW natural gas fueled power project in the Republic of Trinidad and Tobago (the "Trinidad project"). Other power projects are in earlier stages of development.

On March 2, 2000, North American Energy Conservation, Inc. ("NAEC"), an 85% owned subsidiary of the Company, filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the Southern District of New York. As of February 28, 2000, the Company accounted for NAEC's wholesale and retail natural gas marketing business as a discontinued operation, as well as the electric marketing business, which was discontinued previously. On April 20, 2000, NAEC sold its retail natural gas marketing business to Amerada Hess Corporation (see Note 4).

Liquidity and Capital Resources

Overview

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The Company finances initial development of a projects' cash needs from its own funds. When a project is determined to be feasible, the Company will generally seek to finance construction through some form of non-recourse project financing. Once a project is operational, any additional capital requirements are expected to be met by the operations of the facility. In addition, the Company may finance future projects through the sale of partial interests (or in some cases significant interests) or other financing techniques. For example, construction of the West Texas project was financed by a capital contribution of the limited partner in this project.

General corporate, pre-financing project development and negative working capital needs have historically been met by the cash flow derived from the power projects. The Company believes that from these cash flow sources and from potential development fees received on future projects, there will be sufficient cash flow for continuing operations for at least twelve months. However, unless the Company is successful in raising new funds as described below, there can be no assurance that it will have sufficient working capital to meet its obligations.

York has guaranteed approximately \$46 million of the total pre-petition debt of NAEC. York and NAEC have conducted extensive discussions with both the guaranteed and non-guaranteed creditor groups and had arrived at a settlement agreement, which was approved by the bankruptcy court on January 8, 2001. Pursuant to the settlement agreement, among other requirements, the Company was required to fund \$13 million into a trust for the benefit of the

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YORK RESEARCH CORPORATION AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

creditors by May 1, 2001. To date, both NAEC and the Company have been unable to fund the initial cash payment into the trust. The time for the Company to perform has been extended while it continues negotiations with the creditors and preparation of the required agreements. The trust is expected to be funded with a minimum of \$13 million, six million shares of common stock which would be sold over time under controlled conditions to liquidate the obligations, a warrant for one million shares at an exercise price to be determined and a carried interest in the Company's net available cash flow, as defined, which will be used to the extent the sale of the common stock is insufficient to liquidate all obligations. To the extent the trust has not previously been liquidated, the total amount to be liquidated via the trust is expected to increase by \$2 million on the third anniversary and additional amounts up to a cap of \$4 million on each anniversary thereafter. Included in the total settlement amount is an expected debt obligation of \$1 million, collateralized by certain assets, due December 31, 2009 or earlier under certain circumstances as defined.

York, with the help of Credit Suisse First Boston ("CSFB") and other consultants, is pursuing several alternative means, including the potential sale of all or part of York's interest in various projects, of raising the funds necessary to fund the trust and meet its other ongoing obligations.

There can be no assurance that the trust referred to above being negotiated with the creditor groups will ultimately resolve NAEC's liabilities or York's obligations with respect thereto. There also can be no assurance that the efforts of the Company to raise sufficient funds will be successful.

The Company has met all required principal and interest payments on the

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project notes payable to date. The project notes payable are non-recourse to York. However, as a result of the Bond trustee's inability to set up certain foreign escrow accounts pursuant to provisions included in the bond indenture, the project notes payable have been classified as a current liability as of May 31, 2001.

General

During the quarter ended May 31, 2001, cash and cash equivalents decreased approximately \$.8 million. Cash provided by operating activities from continuing operations was approximately \$.1 million.

During the quarter ended May 31, 2001, investing activities provided approximately \$1.4 million primarily from proceeds on the sale of marketable securities.

During the quarter ended May 31, 2001, financing activities used \$1.2 million for a \$1.65 million principal payment on the project notes, offset by \$.45 million received from the ESOP.

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YORK RESEARCH CORPORATION AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

2001 Compared to 2000

Revenues include the sale of electric energy to utility customers by the Big Spring and Trinidad projects. Revenues also include power project services such as engineering services, fuel procurement and other services. Cost of revenues include fuel, payroll, depreciation and other operations and maintenance costs. Revenues increased approximately \$1,119,000 and cost of power project services increased approximately \$1,423,000, when comparing the three months ended May 31, 2001 to the three months ended May 31, 2000, primarily as a result of increased revenues and related costs of fuel of approximately \$1,222,000 for the Warbasse facility.

The Big Spring project revenues decreased approximately \$134,000 and cost of revenues increased approximately \$63,000 when comparing the quarter ended May 31, 2001 to the quarter ended May 31, 2000. Revenues decreased due to lower average winds.

The Trinidad project revenues increased approximately \$48,000 and cost of revenues increased approximately \$206,000 when comparing the quarter ended May 31, 2001 to the quarter ended May 31, 2000. The increase in cost of revenues is primarily due to higher planned maintenance and payroll costs. The Trinidad project has no fuel risk because the government provides all the fuel utilized by the project.

Selling, general and administrative expenses decreased approximately \$470,000 when comparing May 31, 2001 and 2000. This decrease is comprised of the following: (a) expenses incurred in developing power projects decreased approximately \$113,000 and (b) general corporate expenses decreased approximately \$357,000 as part of an overall effort to reduce costs. There was a decrease of approximately \$147,000 in payroll costs due to a reduction in

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personnel, and a decrease of \$89,000 in accretion expenses on the Class B warrant redemption. The balance of the decrease relates to various other costs.

Interest income-WCTP decreased approximately \$230,000 when comparing the quarters ended May 31, 2001 and 2000 due to decreases in the variable interest rate charged.

Interest income decreased approximately \$125,000 when comparing the three months ended May 31, 2001 to the three months ended May 31, 2000 due to decreased levels of cash available for investment resulting principally from payments on construction of the Trinidad and Big Spring projects.

Interest expense was comparable for the quarters ended May 31, 2001 and 2000.

Other income increased approximately \$1,450,000 when comparing the three months ended May 31, 2001 to the same period in the prior year. This change was primarily due to a gain on the sale of marketable securities of approximately \$1,092,000 and an increase in royalty fees from BNYLP of approximately \$343,000.

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YORK RESEARCH CORPORATION AND SUBSIDIARIES

PART II

ITEM 1. Legal Proceedings

None

ITEM 6. Exhibits and reports on Form 8-K

(a) Exhibits

None

(b) There were no reports on Form 8-K filed during the three months ended May 31, 2001.

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YORK RESEARCH CORPORATION AND SUBSIDIARIES

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.

Dated: July 16, 2001

/s/ Robert M. Beningson

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Robert M. Beningson
Chairman of the Board and
President

Dated: July 16, 2001

/s/ Michael Trachtenberg

Michael Trachtenberg
Executive Vice President
and Chief Financial and
Accounting Officer