SHC CORP
Form 10QSB
August 20, 2001

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

FORM 10-QSB

(Mark One)

[x] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2001

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from ____________ to ____________

Commission file number ________________________________

SHC CORP.
(Exact name of small business issuer as specified in its charter)

ILLINOIS	36-3971950
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

390 South Eight Street, 2nd Floor, West Dundee, Illinois 60118
(Address of principal executive offices)

(847) 428-8684
(Issuer's telephone number)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class	Outstanding at August 17, 2001
Common Stock, Par Value $0.001	112,355,815 Shares

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

SHC CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 30, 2001 AND DECEMBER 31, 2000
(UNAUDITED)

ASSETS	JUNE 30, 2001
CURRENT ASSETS	
Cash	$
Accounts receivable, net of allowance for doubtful accounts of $120,000 and $175,000 respectively	495,433
Notes receivable	4,196
Prepaid expenses	29,456
TOTAL CURRENT ASSETS	529,085
FIXED ASSETS	
Property and equipment	420,799
Less: accumulated depreciation	(251,159)
NET FIXED ASSETS	169,640
OTHER ASSETS	
Security deposits and other assets	46,817
TOTAL ASSETS	$ 745,542
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Checks written in excess of cash in bank	90,521
Accounts payable and accrued liabilities	$ 1,328,860
Current portion of notes payable	2,758,515
TOTAL CURRENT LIABILITIES	4,177,896
LONG-TERM PORTION OF NOTES PAYABLE	260,413
TOTAL LIABILITIES	4,438,309
STOCKHOLDERS' DEFICIT	
Preferred stock, par value $.001; 20,000,000 shares authorized; none issued	--
Common stock, par value $.001; 250,000,000 shares authorized; 111,495,815 and 97,032,287 shares issued and outstanding, respectively	111,495
Additional paid-in capital	5,100,784
Accumulated deficit	(8,905,046)
TOTAL STOCKHOLDERS' DEFICIT	(3,692,767)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 745,542

See accompanying notes to unaudited condensed consolidated financial statements.

SHC CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE ENDED
	2001	2000	2001
NET REVENUES	972,621	738,745	$ 1,496,363
COST OF STORE OPERATIONS	849,067	537,454	1,192,786
GROSS PROFIT	123,554	201,291	303,577
OPERATING EXPENSES			
Selling, general and administrative	673,387	1,049,362	1,309,794
Reserve for store closings	--	--	60,000
LOSS FROM OPERATIONS	(549,833)	(848,071)	1,066,217
OTHER EXPENSES			
Interest expense	51,609	46,744	116,346
NET LOSS	(601,442)	(894,815)	$ (1,182,563)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.01)	$ 0.01	$ (0.01)
BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	100,161,234	83,114,327	103,797,506

See accompanying notes to unaudited condensed consolidated financial statements.

SHC CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	FOR THE MONTH ENDED JUN
	2001
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	$ (1,182,563)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	45,953
Provision for store closings	60,000
Shares issued for services and compensation	4,080
Change in operating assets and liabilities:	
Accounts receivable	180,289
Prepaid expenses	8,360
Other Operating	83,106
Accounts payable and accrued liabilities	(38,451)
NET CASH FROM OPERATING ACTIVITIES	(839,226)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(1,726)
Increase in security deposits and other assets	8,956
NET CASH FROM INVESTING ACTIVITIES	7,230
CASH FLOWS FROM FINANCING ACTIVITIES	
Checks in excess of cash in bank	90,521
Proceeds from equity transactions	482,928
Proceeds from notes payable	156,000
Principal payments of notes payable	--
NET CASH FROM FINANCING ACTIVITIES	729,449
NET INCREASE (DECREASE) IN CASH	(102,547)
CASH, BEGINNING OF PERIOD	102,547
CASH, END OF PERIOD	$ --
SUPPLEMENTAL CASH FLOW INFORMATION	
Interest paid	$ 8,515
NON-CASH TRANSACTIONS	
Payments of accrued expenses made by shareholder	$ --
Liabilities exchanged for equity	$ 344,377
Write-off of property and equipment of closed stores	$ --

Shares issued under subscription agreement and unpaid	$ --

See accompanying notes to unaudited condensed consolidated financial statements.

NOTE 1 - INTERIM FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by SHC Corp., or the Company, and are unaudited. In the opinion of management, the accompanying unaudited financial statements contain all necessary adjustments for fair presentation, consisting of normal recurring adjustments except as disclosed herein.

The accompanying unaudited financial statements have been condensed pursuant to the rules and regulations of the Securities and Exchange Commission; therefore, certain information and disclosures generally included in financial statements have been condensed or omitted. These financial statements should be read in connection with the Company's annual financial statements included in the Company's annual report on Form 10-KSB as of December 31, 2000. The financial position and results of operations of the interim periods presented are not necessarily indicative of the results to be expected for the year ended December 31, 2001.

GOING CONCERN - The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has incurred $8.9 million of losses from operations since inception and is highly reliant on obtaining continued financing to satisfy its liquidity requirements. These factors raise substantial doubt about the ability of the Company to continue as a going concern. Management has undertaken measures to reduce its operating costs and has closed several unprofitable stores. Concurrently, management is negotiating with third party lenders and equity investors in an effort to obtain sufficient financing to meet its operating needs.

There can be no assurances that these cost reduction measures will be adequate or that the additional financing, if any, will be sufficient to enable the Company to continue as a going concern.

STORE CLOSINGS - As described in its annual Form 10-KSB report, the Company has decided to suspend its expansion program due to a shortage of capital and has elected to close certain store locations instead. Management has closed 6 stores through August 17, 2001 and has contracts to sell 3 other stores. For these closures, the Company has increased its reserve for closed stores by $60,000. The Company will continue to monitor its store program as it seeks to raise more capital.

EQUITY TRANSACTIONS - During the first six months ended June 30, 2001, the Company issued approximately 13.1 million shares of common stock. The following unaudited amounts indicate the purpose of the issuance, the approximate number of shares issued, and the approximate amount of consideration received: conversion of debt; 5.6 million shares for $175,000; payment to creditors on amounts owed, 7.5 million shares for approximately $306,000.

EARNINGS PER SHARE - The Company has a complex capital structure as defined under SFAS No. 128. Consequently, the generation of earnings results in a dual presentation of basic and diluted EPS. The Company had a loss for the first six months of 2001 and 2000 and, accordingly, potential common stock equivalents have been excluded from the weighted average share computations because their inclusion would have been anti-dilutive.

NOTE 2 - LEGAL PROCEEDINGS

Except as set forth below, the Company is not party to any material legal proceedings.

In May 1998, the Company and certain of its officers entered into a settlement agreement with a former president, CEO and director of the Company to settle all claims and issues between the parties. The terms of the agreement provided for certain payments to be made by or on behalf of the Company to the former president, CEO and director in exchange for the delivery and release to an escrow agent and voting trust of 12,632,568 shares of Company stock held by the former president, CEO and director. A third party

ultimately delivered $650,000 representing the Company's obligation to the escrow agent, and in exchange for such funds was assigned the Company's rights in and to certain of the escrowed shares. In November 1999, the former president, CEO and director filed a motion in the United States District Court for the Eastern District of Illinois, case number 98 C 1697, seeking to compel distribution of the remaining escrowed shares and alleging that he may be entitled to certain additional shares of the Company's stock based on alleged anti-dilution provisions contained in the Settlement Agreement. In the fourth quarter of 2000, the Company and the former president, CEO and director and the Company entered into a subsequent settlement agreement that provides for: (i) distribution of the shares which remained in escrow and (ii) the issuance of approximately 1,300,000 shares of the Company's common stock in exchange for a dismissal of the litigation and complete and mutual release of any and all claims between the parties. The shares were issued in February 2001 and the case has been dismissed.

In a related matter, during the second quarter of 2000, the Company negotiated a settlement agreement with its prior counsel (and escrow agent under the aforementioned settlement agreement) pursuant to which such prior counsel resigned as escrow agent and returned 1,000,000 shares of the Company's stock to the Company which had been previously issued to such counsel in exchange for a execution of a mutual general release of claims and payment of $20,000 for fees incurred in acting as escrow agent in the above matter.

The Company owns 80% of the outstanding capital stock of Payday. Prior to January 1999, the remaining 20% was held by Argent Enterprises, Inc., an Illinois corporation ("Argent"). Sonoma and Argent are parties to an agreement restricting transfer of the Payday stock. Such agreement grants each party the right of first refusal to purchase any stock of Payday before any such stock may be transferred by a shareholder to any third party. In January 1999, Sonoma and Payday received notice from a third party that such third party was a 20% shareholder of Payday based on a transaction with Argent whereby it acquired such interest. The Company and Payday are currently in the process of investigating such purported transaction in order to determine whether such third party is a shareholder of Payday and whether such purported transaction violated the terms of the shareholders' agreement.

In May 1998, Payday entered into an agreement with a third party which allegedly owned 20% of 1825 Corp., a former Payday subsidiary which owned and operated several Payday stores. Pursuant to the agreement, such third party was to sell and assign all of its 20% interest to Payday in consideration of certain payments by Payday consisting of cash and stock of the Company. Part of the consideration was delivered to and accepted by such third party and part of the consideration was rejected. The parties were in dispute as to whether the contract was breached and by whom. The third party commenced litigation in the Circuit Court of Will County, Illinois, case number 99 L 596. On September 20, 2000, the third party and the Company entered into a settlement agreement pursuant to which the third party released its claims in exchange for the issuance of 450,000 shares of the Company's stock and the payment of an aggregate of $125,000 on an installment basis plus its attorney fees of $6,000. The agreement further provides that a default in payments will accelerate all amounts due. In the second quarter of 2001, the Company received a letter from the shareholder indicating that the Company had defaulted on the payments and that

112,000, constituting all amounts then remaining under the settlement agreement, were immediately due and payable. Subsequent to receipt of that letter, the Company has made efforts to make payments to such shareholder and is in the process of attempting to negotiate a resolution to this matter.

On November 4, 1998, an investor in the Company filed a lawsuit in the Circuit Court of Kane County, Illinois, case number LKA 98 580, seeking $250,000 in damages. The plaintiff asserted that he exercised a "put" option with respect to 1,000,000 shares owned by plaintiff, which would allegedly entitled him to "put" such shares to the Company in exchange for $250,000. The plaintiff claimed that the Company breached an agreement between the parties by failing to honor the put and pay $250,000 to plaintiff and received a judgment to such effect in May 2000. The parties entered into a settlement agreement pursuant to which the Company agreed to deliver to such party, in exchange for a release of all claims, $100,000 and 1,500,000 shares of the Company's common stock. The Company performed its obligations under the settlement agreement and the case has been dismissed.

Payday was a defendant in a number of federal class action cases asserting various violations of the Truth in Lending Act, 15 U.S.C. Section 1601, ET SEQ. ("TILA"), Fair Debt Collection Practices Act ("FDCPA"), state consumer fraud claims and unconscionability claims, Sandra Brown et al. v. Payday Check Advance, Incorporated, et al., United States District Court Case No. 99 C 2074, 7th Circuit Case No. 99-3110; Marguerite Mitchem v. Payday Check Advance, Inc. et al., United States District Court Case No. 99 C 1869, 7th Circuit Case No. 99-3110; Earl Terry v. Payday Check Advance, Inc., et al., Case No. 99 C 2486; Lizabeth Maccagno, et al. v. Payday Check Advance, LLC, et al., Case No. 99 C 2579; Latanda Allen, et al. v. Payday Check Advance, Inc. Case No. 99 C 7656. The cases have all been dismissed or settled during the year 2000 for an aggregate of $21,600.

Two of these cases, consolidated for appeal purposes, were dismissed by the respective federal district court judges before whom they were pending. The Court of Appeals for the Seventh Circuit affirmed the dismissals. The Plaintiffs filed an appeal with the United States Supreme Court, which appeal was denied.

In April 1999, the Company entered into a settlement agreement with a judgment creditor of the Company, Circuit Court of Cook County, Illinois, Case No. 99 CH 00625, pursuant to which the Company was obligated to make installment payments in the aggregate amount of $100,000 to the creditor, with all remaining sums due on or before October 15, 1999. In addition, the Company issued 10,000 shares of common stock to the creditor as part of the settlement. On May 12, 2000 the parties entered into a second settlement agreement pursuant to which the Company issued 990,000 shares of the Company's common stock in exchange for a full release of claims (including the judgment) and the return of the 10,000 shares previously delivered to the judgment creditor. These 10,000 shares were subsequently cancelled by the Company.

The Company filed, and subsequently withdrew, a lien suit against a former director seeking the return of 3 million shares of the Company's common stock which the Company alleged was issued in error to such former director as part of a comprehensive buyout of such director's shares. The former director claims the shares were not issued in error. The parties have commenced a dialogue to determine whether any such shares should be returned to the Company. To date, the Company agrees that 500,000 shares were properly issued, leaving 2.5 million shares in dispute. In the event that the parties cannot reach resolution of this matter, the Company may reinstitute the lawsuit.

During 2000 and 2001, the Company received funds totaling $350,000 from a shareholder. The Company and the shareholder never reached an agreement as to the nature, terms and documentation of the funding. On April 10, 2001, the shareholder made demands on the Company in connection with the funding based on alleged defaults. In May, 2001, the shareholder brought suit against the Company seeking repayment of the funds advanced plus accrued interest, as well as repayment of funds loaned under a separate promissory note for $50,000 which is due in 2003 and approximately $46,000 advanced pursuant to a personal guaranty issued by the shareholder on the Company's behalf (Circuit Court of Cook County, Illinois, County Department-Law Division Case No. 01 L 5533). The Company is

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currently in the process of preparing an answer to the complaint. Management cannot predict with any certainty what the outcome of any such litigation would be.

In the first quarter of 2001, a creditor of the Company, on behalf of itself and a group of related creditors, made a demand for payment of certain promissory notes issued by the Company aggregating approximately $250,000, plus accrued interest. The Company is attempting to negotiate a repayment plan or an extension of the maturity of the notes. Management cannot say whether they will successfully negotiate an acceptable repayment plan or an extension of the maturity of the notes.

In April, 2000, the Company issued a promissory note in the original principal amount of $56,000 to a private lender, which note became due on August 12, 2001. A portion of the interest due was paid, but certain interest and the principal remain unpaid.

In connection with store closings, the Company has been named as a defendant in numerous lawsuits brought by landlords for alleged damages for unpaid rent.

ITEM 2. Management Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and the notes thereto contained elsewhere in this report. The discussion of these results should not be construed to imply any conclusion that any condition or circumstance discussed herein will necessarily continue in the future. When used in this report, the words "believes," "anticipates," "expects," and similar expressions are intended to identify forward-looking statements. Those statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those that are modified by such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this report, or to reflect the occurrence of unanticipated events.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2001 TO THE THREE MONTHS ENDED JUNE 30, 2000

NET REVENUES. SHC Corp. and its subsidiaries ("Company") generated revenues of $1,496,363 for the six months ended June 30, 2001. This represented a 0.4% increase from $1,490,346 in revenues generated in the six months ended June 30, 2000. The principal reason that the revenues are flat from last year is better production from existing stores but the company has fewer stores than during the same period last year.

COST OF STORE OPERATIONS. The Company incurred expenses of $1,192,786 for operating its stores during the six months ended June 30, 2001, which represented an increase of 3% from the expenses that were incurred during the six months ended June 30, 2001. This increase was the result of normal cost of living increases.

GROSS PROFIT. For the six months ended June 30, 2001, the Company reported gross profit of $303,577. This was a decrease of 9.5% from the prior year's amount of $334,990. This was due to increases in certain operating expenses as stores were closed, while Company's loan base and associated revenues declined at a slower rate.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Expenses related to these activities were $1,172,255 during the six months ended June 30, 2001 which is a 24% reduction to the $1,727,782 for the similar period ended June 30, 2000. The decrease was due primarily to the company's store reductions and general cost containment measures.

RESERVE FOR STORE CLOSINGS. The Company increased its provision for stores closed during calendar year 2001. These additional closures became necessary as the Company continued to review its operations, in light of its available cash, and determined that it needed to concentrate its limited resources into those stores that present the best opportunity to generate the most profit.

NOTES PAYABLE. The Company executed two new notes payable during the six months ended June 30, 2001. The first note payable was executed on April 12, 2001 and carries an interest rate of 12% per month. This note was due on August 12, 2001 with no extensions allowed. This note is now in default. The balance due on the note was $79,068 at the maturity date. The Company has had no negotiations with the note holder to extend this loan. The second note payable was executed on May 14, 2001 and is due on August 22, 2001 with the principal and accrued interest due of $122,500. There is no stated rate of interest on this note; however, interest accrues at $7,500 per month. The principal amount is $100,000.

INTEREST EXPENSE. This expense increased by 28% from $93,404 in 2000 to $116,346 in 2001. This was due to increased bank borrowings and other notes payable.

NET LOSS. The Company reported a lower net loss in 2001 from a year earlier for those reasons cited previously.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

The information required by Part II, Item 1 of Form 10-QSB is hereby incorporated by reference to Note 2 to SHC Corp.'s Consolidated Balance Sheets for the three months ended June 30, 2001, included in Item 1 of Part 1 of this Form 10-QSB.

ITEM 5. Other Information

As of June 30, 2001 and December 31, 2000, the Company had a negative working capital position of $3,648,807 and $2,876,135. The Company was able to fund its operations during the first six months through the issuance of various notes and a partial liquidation of its loan portfolio.

The Company realizes it needs to strengthen its working capital position and over all financial condition. Through August 17, 2001, it has closed 6 stores to reduce the losses and to improve its cash position and has contracts to sell 3 other stores. The Company started a franchising program in the first quarter it has sold 3 franchises to date totalling $100,000 to date. In addition, the Company has letters of intent to sell an additional 13 franchise stores totalling $378,000. It is in talks with several groups regarding additional cash infusions via equity or debt capital. If such talks are successful, the Company will receive funds for operating capital. If the discussions are not successful, the Company will need to examine various options, such as, closing additional stores and/or financial restructuring.

In an effort to reduce debt, the Company has negotiated with four noteholders to exchange their notes for common stock in fiscal 2001 and any unpaid interest. The outstanding amount of these notes was $175,000, of which, all was converted by March 31, 2001.

It is management's intention to offer a conversion of debt-for-stock to other noteholders or creditors since the Company's common stock has been re-listed again on the OTC Bulletin Board. Management does not know how many noteholders or creditors, if any, will agree to convert the amount owed them, but believes there will be some conversions.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SHC CORP.

By: /s/ Terrence L. Donati

Terrence L. Donati, President, Principal
Financial Officer and Principal Accounting Officer

Date: August 20, 2001

By: /s/ Terrence L. Donati

Terrence L. Donati, Director

Date: August 20, 2001

By: /s/ John Annerino

John Annerino, Director

Date: August 20, 2001