

MATRIX SERVICE CO
Form 8-K
May 09, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
Date of report (Date of earliest event reported) May 8, 2014

Matrix Service Company
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE (State or Other Jurisdiction of Incorporation)	001-15461 (Commission File Number)	73-1352174 (IRS Employer Identification No.)
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5100 E Skelly Dr., Suite 700, Tulsa, OK (Address of Principal Executive Offices)	74135 (Zip Code)
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918-838-8822
(Registrant's Telephone Number, Including Area Code)

NOT APPLICABLE
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

On May 8, 2014, Matrix Service Company (the "Company") issued a press release announcing financial results for the third quarter and nine months ended March 31, 2014. The full text of the press release is attached as Exhibit 99 to this Current Report on Form 8-K.

The information in this Item 2.02 and Exhibit 99 attached hereto is being furnished pursuant to Item 2.02 and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01 Financial Statements and Exhibits.

The following exhibit is furnished herewith:

Exhibit No.	Description
99	Press Release dated May 8, 2014, announcing financial results for the third quarter and nine months ended March 31, 2014.

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 hereunto duly authorized.

Matrix Service Company

Dated: May 8, 2014

By: /s/ Kevin S. Cavanah

Kevin S. Cavanah
Vice President and Chief Financial Officer

EXHIBIT INDEX

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99	Press Release dated May 8, 2014, announcing financial results for the third quarter and nine months ended March 31, 2014.

s under the Equity Line of Credit is conditioned upon us registering the shares of common stock with the Securities and Exchange Commission. The costs associated with this registration will be borne by us. EQUITY LINE OF CREDIT EXPLAINED. Pursuant to the Equity Line of Credit, we may periodically sell shares of common stock to Cornell Capital Partners, L.P. to raise capital to fund our working capital needs. The periodic sale of shares is known as an advance. We may request an advance every 5 trading days. A closing will be held 7 trading days after such written notice at which time we will deliver shares of common stock and Cornell Capital Partners, L.P. will pay the advance amount. We may request advances under the Equity Line of Credit once the underlying shares are registered with the Securities and Exchange Commission. Thereafter, we may continue to request advances until the Investor has advanced \$5.0 million or November 14, 2003, whichever occurs first. The amount of each advance is subject to an aggregate monthly maximum advance amount of \$208,333.33. We cannot predict the actual number of shares of common stock that will be issued pursuant to the Equity Line of Credit, in part, because the purchase price of the shares will fluctuate based on prevailing market conditions and we have not determined the total amount of advances we intend to draw. Nonetheless, we can estimate the number of shares of our common stock that will be issued using certain assumptions. Assuming we drew down the entire \$5.0 million available under the Equity Line of Credit in a single advance (which is not permitted under the terms of the Equity Line of Credit) and the purchase price was equal to \$0.40 per share, then we would issue 12,500,000 shares of our common stock to Cornell Capital Partners, L.P. These shares would represent 56.6% of our outstanding common stock upon issuance. Torque is registering 17,500,000 shares of common stock for the sale under the Equity Line of Credit and the conversion of debentures. Accordingly, Torque would need to register additional shares of common stock in order to fully utilize the \$5.0 million available under the Equity Line of Credit at the prices set forth below. You should be aware that there is an inverse relationship between our stock price and the number of shares to be issued under the Equity Line of Credit. That is, as our stock price declines, we would be required to issue a greater number of shares under the Equity Line of Credit for a given advance. This inverse relationship is demonstrated by the following table, which shows the number of shares to be issued under the Equity Line of Credit at a recent price of \$0.43 per share and discounts to the recent price. This table does not take into account any shares of our common stock that would be issued upon conversion of any options outstanding. Purchase Price: \$0.125 \$0.150 \$0.25 \$0.30 \$0.40 No. of Shares(1): 40,000,000 33,333,333 20,000,000 16,666,667 12,500,000 Total Outstanding(2): 49,597,112 42,930,445 29,597,112 26,263,779 21,252,112 Percent Outstanding(3): 80.7% 77.6% 67.6% 76.2% 58.8% ----- (1) Represents the number of shares of common stock to be issued to Cornell Capital Partners, L.P. at the prices set forth in the table. (2) Represents the total number of shares of common stock outstanding after the issuance of the shares to Cornell Capital Partners, L.P. (3) Represents the shares of common stock to be issued as a percentage of the total number shares outstanding. In addition to showing the inverse relationship, the above table also shows that the issuance of shares under the Equity Line of Credit may result in a change of control. That is, between 12,500,000 and 40,000,000 shares of stock could be issued under the Equity Line of Credit. If all or a significant block of these shares are held by one or more shareholders working together, then such shareholder or shareholders would have enough shares to assume control of Torque by electing its or their own directors. Upon a change of control, all outstanding options under our stock option plans would immediately vest. Proceeds used under the Equity Line of Credit will be used for repayment of debt, research and development, and working capital to support continued operations and marketing. We cannot predict the total amount of proceeds to be raised in this transaction, in part, because we have not determined the total amount of

the advances we intend to draw. However, we expect to incur expenses of approximately \$85,000 consisting primarily of professional fees incurred in connection with this registration. In addition, we are obligated to allow the Investor to retain 5.0% of each advance. In addition, in connection with the Equity Line of Credit, we issued 600,000 shares of our common stock to Cornell Capital Partners, L.P. as a commitment fee and 25,000 shares of our common stock to Westport Partners, Ltd. as a placement agent fee. 16 PLAN OF DISTRIBUTION The selling stockholders have advised us that the sale or distribution of our common stock owned by the selling stockholders may be effected directly to purchasers by the selling stockholders or by pledgees, donees, transferees or other successors in interest, as principals or through one or more underwriters, brokers, dealers or agents from time to time in one or more transactions (which may involve crosses or block transactions) (i) on the over-the-counter market or in any other market on which the price of our shares of common stock are quoted or (ii) in transactions otherwise than on the over-the-counter market or in any other market on which the price of our shares of common stock are quoted. Any of such transactions may be effected at market prices prevailing at the time of sale, at prices related to such prevailing market prices, at varying prices determined at the time of sale or at negotiated or fixed prices, in each case as determined by the selling stockholders or by agreement between the selling stockholders and underwriters, brokers, dealers or agents, or purchasers. If the selling stockholders effect such transactions by selling their shares of our common stock to or through underwriters, brokers, dealers or agents, such underwriters, brokers, dealers or agents may receive compensation in the form of discounts, concessions or commissions from the selling stockholders or commissions from purchasers of common stock for whom they may act as agent (which discounts, concessions or commissions as to particular underwriters, brokers, dealers or agents may be in excess of those customary in the types of transactions involved). The selling stockholders and any brokers, dealers or agents that participate in the distribution of the common stock may be deemed to be underwriters, and any profit on the sale of common stock by them and any discounts, concessions or commissions received by any such underwriters, brokers, dealers or agents may be deemed to be underwriting discounts and commissions under the Securities Act. Cornell Capital Partners, L.P. is an "underwriter" within the meaning of the Securities Act of 1933 in connection with the sale of common stock under the Equity Line of Credit agreement. Cornell Capital Partners, L.P. will pay us 91% of the average of the 2 lowest closing bid prices on the Over-the-Counter Bulletin Board or other principal trading market on which our common stock is traded for the 5 days immediately following the notice date. The 9% discount on the purchase of the common stock to be received by Cornell Capital Partners, L.P. will be an underwriting discount. In addition, Cornell Capital Partners, L.P. will retain 5.0% of the gross proceeds raised in the Equity Line of Credit. Under the securities laws of certain states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in certain states the shares of common stock may not be sold unless the shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with. We will pay all the expenses incident to the registration, offering and sale of the shares of common stock to the public hereunder other than commissions, fees and discounts of underwriters, brokers, dealers and agents. We have agreed to indemnify the selling stockholders and their controlling persons against certain liabilities, including liabilities under the Securities Act. We estimate that the expenses of the offering to be borne by us will be approximately \$85,000 as well as the 5.0% of the gross proceeds received under the Equity Line of Credit that will be retained by Cornell Capital Partners, L.P. We will not receive any proceeds from the sale of any of the shares of common stock by the selling stockholders. We will, however, receive proceeds from the sale of common stock under the Equity Line of Credit. The selling stockholders should be aware that the anti-manipulation provisions of Regulation M under the Exchange Act will apply to purchases and sales of shares of common stock by the selling stockholders, and that there are restrictions on market-making activities by persons engaged in the distribution of the shares. Under Regulation M, the selling shareholders or their agents may not bid for, purchase, or attempt to induce any person to bid for or purchase, shares of our common stock of Torque while such selling shareholders are distributing shares covered by this prospectus. Accordingly, except as noted below, the selling shareholders are not permitted to cover short sales by purchasing shares while the distribution is taking place. Cornell Capital Partners, L.P. can cover any short positions only with shares received from us under the Equity Line of Credit. The selling stockholders are advised that if a particular offer of common stock is to be made on terms constituting a material change from the information set forth above with respect to the Plan of Distribution, then to the extent required, a post-effective amendment to the accompanying registration statement must be filed with the Securities and Exchange Commission. 17 MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION THE

FOLLOWING INFORMATION SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS OF TORQUE AND THE NOTES THERETO APPEARING ELSEWHERE IN THIS FILING. STATEMENTS IN THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION AND ELSEWHERE IN THIS PROSPECTUS THAT ARE NOT STATEMENTS OF HISTORICAL OR CURRENT FACT CONSTITUTE "FORWARD-LOOKING STATEMENTS."

OVERVIEW The following discussion of the financial condition and results of Torque should be read together with the interim financial statements included in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those expressed or implied in those forward-looking statements. Torque is a company that continues to devote its efforts toward establishing itself as a manufacturer of a lightweight, high-powered marine engine built on a production line basis for the luxury performance pleasure craft industry. For the three and nine months ended September 30, 2001, Torque had a net loss of \$794,420 and \$2,130,989, respectively. Torque had negative cash flows from operating activities of \$681,584 and an accumulated deficit of \$6,219,924 for the nine months ended September 30, 2001. These conditions raise substantial doubt about Torque's ability to continue as a going concern. Torque's financial statements do not include any adjustments that might result from the outcome of this uncertainty. Torque's ability to continue as a going concern is dependent upon management's ability to increase sales of the Torque V-12 engines and to obtain adequate levels of additional financing. Management believes that its current efforts will provide for Torque to continue as a going concern. We cannot assure you, however, that we will be successful.

RESULTS OF OPERATIONS THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2000 SALES. For the three months ended September 30, 2001, we had sales of \$14,054 as compared to \$229,840 for the same period in 2000, a decrease of \$215,786, or 938.9%. This decrease is primarily attributable to no shipment of engines in the three-month period ended September 30, 2001.

COST OF SALES. For the three months ended September 30, 2001, we had cost of sales of \$278,086, as compared to \$295,828 for the same period in 2000, a decrease of \$17,742, or 6.0%. Cost of sales as a percentage of sales increased from 128.7% in the three months ended September 30, 2000 to 1,978.7% in the three months ended September 30, 2001. This increase is primarily attributable to a provision for inventory obsolescence of \$176,724 taken during the three-month period ended September 30, 2001.

OPERATING EXPENSES. For the three months ended September 30, 2001, operating expenses were \$483,712, as compared to \$479,198 for the same period in 2000, an increase of \$4,514, or 0.9%. This increase is primarily attributable to increased expenses in connection with the development of the Torque V-12 engine and an increase in marketing and related travel expenses in connection with the establishment and execution of Torque's business plan.

NET LOSS. For the three months ended September 30, 2001, net loss was \$794,420, as compared to \$579,579 for the same period in 2000, an increase of \$214,841, or 37.1%. This increase is primarily attributable to a decrease in sales, an increase in cost of sales and an increase in financing costs associated with our accounts receivable factoring agreement.

NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2000 SALES. For the nine months ended September 30, 2001, we had sales of \$360,485, as compared to \$238,774 for the same period in 2000, an increase of \$121,711, or 51.0%. This increase is primarily attributable to the sale of one (1) additional engine in the nine-month period ended September 30, 2001 compared to the same period in 2000.

COST OF SALES. For the nine months ended September 30, 2001, we had cost of sales of \$859,752, as compared to \$559,894 for the same period in 2000, an increase of \$299,858, or 53.6%. Cost of sales as a percentage of sales increased from 234.5% in the nine months ended September 30, 2000 to 238.3% in the nine months ended September 30, 2001. This increase is primarily the result 18 of a provision for inventory obsolescence of \$176,724 taken during the nine months ended September 30, 2001 and an increase in marketing and related travel expense in connection with the establishment and execution of our business plan.

OPERATING EXPENSES. For the nine months ended September 30, 2001, operating expenses were \$1,505,645, as compared to 1,540,024 for the same period in 2000, an increase of \$1,621, or 0.1%.

NET LOSS. For the nine months ended September 30, 2001, net loss was \$2,130,989, as compared to \$1,821,837 for the same period in 2000, an increase of \$309,152, or 17.0%. This increase is primarily attributable to decreased expenses in connection with the development of the Torque V-12 engine and an increase in marketing and related travel expenses in connection with the establishment and execution of our business plan.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999 SALES. For the year ended December 31, 2000, we had sales of \$718,801, as compared to \$91,300 for the same period in 1999, an increase of \$627,501 or 687.3%. The increase was attributable to the sale of six Torque V-12 engines in the year ended December 31, 2000, as compared to

the one Torque V-12 engine in the same period in 1999. **COST OF SALES.** For the year ended December 31, 2000, we had cost of sales of \$1,607,494, as compared to \$72,726 for the same period in 1999, an increase of \$1,534,768 or 2,100.3%. Cost of sales as a percentage of sales increased from 79.7% in the year ended December 31, 1999 to 223.6% in the year ended December 31, 2000. This increase is primarily attributable to a noncash charge incurred for depreciation. In addition, a large part of the increase in cost of sales is comprised of salary for labor in the production of the Torque V-12 engines, building rent and other manufacturing overhead. **OPERATING EXPENSES.** For the year ended December 31, 2000, we had operating expenses of \$2,752,127, as compared to \$1,409,108 for the same period in 1999, an increase of \$1,343,019 or 95.3%. Payroll and other compensation decreased to \$240,538 for the year ended December 31, 2000 from \$392,795 for the year ended December 31, 1999. This decrease is primarily attributable to the reclassification of certain salary expense of employees directly involved in the production of Torque V-12 engines to cost of goods sold. Depreciation increased to \$1,118,079 for the year ended December 31, 2000, from \$643,703 for the year ended December 31, 1999. This increase is primarily attributable to the fact that Torque took depreciation for the entire year ended December 31, 2000. Torque began taking depreciation during the year ended December 31, 1999 only after the acquisition of IPSL, Inc. in May 1999. The increase in rental expense from \$70,168 for the year ended December 31, 1999 to \$120,000 for the year ended December 31, 2000 is also attributable to the payment of rent on Torque's manufacturing facility for the entire year ended December 31, 2000. General and administrative expenses increased to \$384,817 for the year ended December 31, 2000 from \$321,016 for the year ended December 31, 1999. The increase was primarily attributable to marketing and related travel expenses in connection with the establishment and execution of Torque's business plan. **NET LOSS.** For the year ended December 31, 2000, net loss was \$2,752,608, as compared to \$1,325,744 for the year ended December 31, 1999, an increase of \$1,426,864 or 107.8%. This increase is primarily attributable to the increase in general and administrative expense discussed above, and \$1,118,079 of depreciation of property and equipment acquired through the IPSL acquisition in order to establish and executed our business plan. **LIQUIDITY AND CAPITAL RESOURCES** As discussed in Note 3 to our financial statements, on May 2, 2001, we entered into an accounts receivable financing agreement. Amounts received were utilized for inventory and working capital. In October 2001, we sold \$300,000 of 6% Convertible Subordinated Debentures, due October 24, 2006 to Cornell Capital Partners, L.P. After expenses, we received approximately \$270,000 from such offering. We intend to use the proceeds of the offering for working capital purposes and to pay certain operational expenses. We anticipate that we will require additional capital to implement our business plan. We plan to obtain such capital through the sale of additional securities, obtaining financing from third parties, and from funds generated by the sale of the Torque V-12 engine. As discussed in Note 11 to our financial statements, on November 14, 2001, we entered into an Equity Line of Credit Agreement under which we may sell shares of our common stock to Cornell Capital Partners, L.P. for a purchase price of up to \$5,000,000. As of November 30, 2001, we had not received any funds under such agreement. If we do receive funds under such agreement, we expect that such amounts will also be used for working capital and to implement our business plan. If the Equity Line of Credit Agreement does not provide sufficient capital resources, or if our funds from our ongoing operations do not increase, it is unlikely we will continue as a going concern. **19 Cash Flows** A total of \$681,584 and \$1,101,163 was used for operating activities for the nine months ended September 30, 2001 and 2000, respectively. The cash used in operating activities was primarily expended on costs and expenses related to the production-line manufacture of the Torque V-12 engines. **20 DESCRIPTION OF BUSINESS COMPANY OVERVIEW** Torque Engineering Corporation was formerly known as Quintessence Oil Company. Quintessence Oil was formed under Wyoming law on June 26, 1996 to purchase, develop and operate oil and gas leases. On December 3, 1996, Quintessence Oil voluntarily filed a registration statement on Form 10 with the SEC to become a publicly reporting company. Prior to May 28, 1999, Quintessence Oil was essentially inactive and had no operations. Quintessence Oil had previously acquired one undeveloped oil and gas lease, but had not initiated drilling or other production operations. In May 1999, Quintessence Oil's new management began the first phase of a transition from an inactive oil and gas company to a manufacturer of high-performance production engines for the boating and transportation industry. On May 28, 1999, Quintessence Oil issued 1,500,000 shares of its common stock to acquire IPSL, Inc. Prior to that, on May 1, 1999, IPSL acquired from Glaval Corporation the proprietary rights to continue to research and develop the Torque V-12, an aluminum, gasoline-powered engine for the luxury off-shore marine industry. By acquiring IPSL and other assets, Quintessence Oil obtained those same proprietary rights. On November 17, 1999, Quintessence Oil re-incorporated under Delaware law and changed its name to Torque Engineering Corporation.

Torque's current management has over 40 years experience in the design and production of high-performance, marine race and pleasure engines. Beginning in 1986, under the name Lightning Performance Products, Inc., Torque's current president, Raymond B. Wedel, Jr. continued the design and production of high-performance marine race and pleasure engines, as well as, developed and sold after-market performance-enhanced parts and equipment for such engines. The high-performance marine race and pleasure engines Lightning Performance originally produced were custom-made. As a result, the market for these products was extremely limited. In early 1992, Mr. Wedel sold Lightning Performance to Richard Streffling and Lightning Performance continued operations as an Indiana corporation under the name Torque. Mr. Wedel joined that business after the sale and began to transition it from the production of race engines to the development of a light-weight, high-power marine engine which could be built on a production-line basis for the luxury performance pleasure craft industry. In 1997, Mr. Wedel left the prior Torque to pursue other opportunities in the marine industry. However, that company, utilizing many of the same employees who worked for Mr. Wedel, continued to develop the Torque V-12. In 1999 IPSL purchased the assets and proprietary rights to continue to research and develop the Torque V-12 from the prior Torque entity. On May 21, 1999, Quintessence Oil and IPSL entered into a Plan and Agreement of Reorganization under which Quintessence Oil agreed to acquire all of the issued and outstanding shares of common stock of IPSL. Under the plan, IPSL's sole shareholder, Michel Attias, irrevocably granted Quintessence Oil the right to exchange 1,500,000 shares of its common stock for all of the outstanding shares of common stock of IPSL at any time prior to June 15, 1999. On May 28, 1999 Quintessence Oil exercised its right to close the transaction and to acquire IPSL and the assets and proprietary rights to research and develop the Torque V-12. As described above, Quintessence Oil then reincorporated and changed its name to Torque Engineering Corporation. Since acquiring IPSL and the rights to develop and manufacture the Torque V-12, Torque has formulated a plan of operation based on management's belief that even as boat manufacturers increase the size of pleasure craft, marine industry consumers are unwilling to settle for less performance than what is available in smaller marine craft. We believe that in order to provide the same level of performance, the standard automotive-based gasoline V-8 engine is being asked to perform beyond its engineered limits. Owners of luxury offshore pleasure craft are therefore forced to resort to installing three or four high performance V-8 engines or installing heavier and noisier diesel engines. As a result, Torque has developed and is now manufacturing and marketing the Torque V-12, a high-powered, 12-cylinder, 14 liter/860 cubic inch V-12 aluminum marine engine. RECENT DEVELOPMENTS As of September 30, 2001, we had no cash on hand and working capital of approximately \$(162,180). Our operations are financed primarily from the sale of debt and equity securities. For the foreseeable future, we believe we will continue to rely on external capital to fund our operations. 21 We are continuing to seek additional sources of capital in order to repay our obligations and to provide for our working capital requirements for the long-term. There can be no assurance that we will be able to obtain any such required additional funds on a timely basis, or on favorable terms, or at all. The following discussion of our business and, in particular, our sales and marketing plans, assumes that we will receive sufficient capital to continue as a going concern. Depending upon the amount of proceeds, if any, received by us, and the timing of those proceeds, our ability to continue as a going concern could be adversely affected. OUR PRODUCTS The Torque V-12 is an all-aluminum, electronically fuel-injected engine designed to run on premium gasoline. The engine has a broad torque band, which allows the Torque V-12 to generate significant power at low throttle settings, thus providing for greater fuel economy. Presently, Torque is unaware of any other marine engine manufacturer that produces an all-aluminum, naturally aspirated, gasoline-powered V-12 engine that provides the same performance characteristics of the Torque V-12 engines. In September 1999, the Torque V-12 became an available power plant in the Carlson Model 2000, 33 foot sport cruiser boat line. Currently, Magnum, Cigarette, NorTech, Predator, Advantage and Skater boats also list the Torque V-12 as a power plant selection for some of their current models. The Torque V-12 is designed for installation in luxury marine pleasure craft. If significant production of the Torque V-12 begins, Torque anticipates that it will analyze whether the Torque V-12 may be commercially adapted to other uses, including potential military, industrial, agricultural or mining uses. There is no assurance that we will adapt our Torque V-12 to additional marine or other uses, or that the Torque V-12 will be appropriate for uses other than in the luxury marine pleasure craft market. Torque presently offers the Torque V-12 in the following three models: o The TORQ 1000 - 900 horsepower engine with 1050 ft.-lbs. of torque; o The TORQ 1100 - 1,050 horsepower engine with 1100 ft.-lbs. of torque; and o The TORQ 1200 - 1,150 horsepower engine with 1150 ft.-lbs. of torque. Retail prices for the Torque V-12 range from \$91,159 to \$112,838. Torque offers a one-year limited warranty on all three Torque V-12 models. Each warranty limits the total number of hours a purchaser may use the Torque

V-12 during the one-year warranty period and still remain eligible for warranty protection. The warranty period for the TORQ 1000 covers 75 hours of total use and for the TORQ 1100 and TORQ 1200 covers 50 hours of total use. Torque's products are designed for the marine pleasure craft industry. That industry is divided primarily into the high-end stern drive segment and the outboard segment. The Torque V-12 is targeted toward the stern drive segment. More specifically, Torque's Torque V-12 engines are currently targeted toward a limited niche market for purchasers and owners of high-powered, luxury performance pleasure craft sold in the U.S. Torque believes this niche market is generally characterized as having consumers who are concerned primarily with: o the performance of the high-powered engines they purchase; o the dependability of those engines; and o the overall useful life of those high-powered engines. Prices for the marine craft for which the Torque V-12 engines are designed generally range from \$250,000 to \$1,000,000.

22 INDUSTRY OVERVIEW According to the National Marine Manufacturers' Association, the recreational boating industry generated approximately \$22.2 billion in overall sales in 1999 and \$25.6 billion in 2000. There were 99,000 new sales of inboard and stern drive boats in 2000. Of these, approximately 20,000 were 25' or more in length. Approximately 90% of these boats would have two or more engines. Torque's management hopes to capture 2-1/2% to 4% of this market over the next three to five years. However, there can be no assurance Torque will be able to do so. Torque believes recreational marine industry sales are impacted by factors such as: o the general state of the economy; o interest rates; o consumer spending; o technology; o dealer effectiveness; o demographics; o weather conditions; o fuel availability and price; and o government regulations. During the period from 1983 to 1992, the recreational marine industry experienced both its largest growth (from 1983 to 1988) and its largest decline (from 1988 to 1992) in over 30 years. The growth was stimulated not only by increasing real disposable income, but also by readily obtainable marine loans that required no down payment and could be financed over a term of over ten years. The contraction in sales from 1988 to 1992 was due to the recession during the early 1990s and to the increased level of sales in the late 1980s. Many boat owners had loan balances in the early 1990s that exceeded the value of their boats, which made trade-up sales more difficult to obtain. In addition, in 1990 the U.S. government imposed a luxury tax on boats sold at prices in excess of \$100,000. However, the luxury tax was repealed in 1993 and boats over 24 feet continue to be one of the largest growth sectors in the market. Torque also believes there are three primary factors affecting the recreational marine industry today. o There are an increasing number of consumers over the age of 50. These older consumers typically have larger discretionary income per capita and increased leisure time. Torque believes that these consumers are purchasing larger and more luxurious boats. o Torque believes there is increasing interest in upgrading existing boats through equipment-based accessories and repowerment. Torque's research indicates that approximately 1% of the existing boat engines in use are replaced on an annual basis. o Women are increasingly influencing or making purchasing decisions. Torque estimates there are currently approximately 500,000 women powerboat owners in the U.S. and that the number is expected to grow.

MANUFACTURING Torque V-12 engines were developed and are produced in Torque's Elkhart, Indiana manufacturing facility using computer-controlled machining centers. ²³ In November 1999, Torque completed installation of additional computer-controlled machining centers it uses to manufacture Torque V-12 engine components. Haas Automation manufactured these additional computer-controlled machining centers and Torque leased the machining centers from CNC Associates, Inc. The Torque V-12 engine is machined and also hand-assembled by Torque's employees at the Elkhart, Indiana production facility. Each engine is tested on a dynamometer and research is conducted using a 41 foot test boat. Torque believes that this manufacturing arrangement will be sufficient as production begins to meet consumer demand for the Torque V-12.

RAW MATERIALS Torque plans to produce internally as many of the necessary components for the Torque V-12 as possible. Torque expects that the computer-controlled manufacturing machines acquired in November 1999 will facilitate the internal component production process. Additionally, Torque utilizes components acquired in May 1999 as part of the acquisition of IPSL, Inc. However, subcontractors and supplies will still be needed for some components, such as crankshafts, electronic controls, and raw aluminum block castings. Torque solicits competitive quotes for these components whenever possible. Whenever the price of a component can be substantially reduced by volume buying Torque plans to do so. Torque believes that adequate sources of supply exist and will continue to exist, at competitive prices, for all of Torque's raw material requirements.

MAJOR CUSTOMERS For the nine months ended September 30, 2001, approximately 66% of our sales were generated from sales to one customer, Douglas Marine Corporation, and, for the year ended December 31, 2000, approximately 97.5% of Torque's revenues were generated from sales to one customer, Cigarette Racing Team, Inc. We cannot assure you that Douglas Marine

Corporation or Cigarette Racing Team, Inc. will continue to be a major customer. **MARKETING** Torque currently markets its Torque V-12 engines on a direct sale basis through leads derived from trade shows, magazine articles and personal contacts of our employees in the power boating industry. Torque markets its products not only to boat manufacturers, but also to pleasure boat users in an effort to increase demand through consumer requests to boat manufacturers for the Torque V-12 as an available power plant in luxury pleasure craft. **DISTRIBUTION** Torque does not currently have a distribution network set up for the Torque V-12. If Torque's sales increase substantially, Torque may in the future establish service representatives in various areas to service its products. Torque believes that it will be able to adequately ship the Torque V-12 to manufacturers who purchase the Torque V-12 through normal shipping avenues. **COMPETITION** Torque anticipates that it will face intense competition in the market in which it will produce and sell its Torque V-12 engines. The marine engine production market generally has high barriers to entry due to the significant capital investment and technological expertise required in manufacturing marine engines. As a result, the marine engine market is concentrated among large U.S., Japanese and European manufacturers. Industry estimates are that U.S.-based Brunswick Corporation maintains approximately 70 to 80 percent of the stern drive market segment with Volvo Penta Corporation enjoying a large portion of the remaining market share. In the outboard engine market, management believes Brunswick and Outboard Motor Corporation control roughly 80 percent of the market. In the niche market for high-powered marine engines in which Torque will participate, there are several manufacturers who build gasoline engines with 700 or more horsepower, including Volvo Penta and Brunswick. Management's experience is that generally these engines are either modified V-8's with enhanced aspiration such as turbo-chargers, or diesel fueled engines. As a result, Torque does not believe that these engines are competing with the Torque V-12 on an identical product line basis. 24 Nonetheless, Torque's competitors, including Brunswick and Volvo Penta are large, vertically integrated companies that have greater resources, including financial resources, than Torque. Economies of scale give these companies distinct advantages in the market. For example, Brunswick and its subsidiaries have established dealer networks that offer sales as well as service and warranty repair and production schedules afford them larger margins than other competitors in the market. The vertical integration of Torque's competitors allow them to offer consumers different combinations of boat, engine and stern drive packages at various pricing levels. There is no assurance that Torque will be able to successfully compete against these companies in the stern drive segment of the marine engine market. **INTELLECTUAL PROPERTY** In developing its business strategy for the Torque V-12, Torque expects to rely on patented and other proprietary technology. In addition, Torque expects to rely on confidentiality agreements and other contractual covenants to establish and protect its technology and other intellectual property rights. Wherever legally permissible and appropriate, Torque plans to file patent applications and to register its trademarks. Torque has registered the trademark Torque for its products and also holds a U.S. patent for its Torque V-12 engines' lubrication system which patented system has a substantial impact on the useful life of the Torque V-12. This patent was granted on August 18, 1998 to Torque as the assignee of Raymond B. Wedel and Richard Moser. **RESEARCH AND DEVELOPMENT** Torque maintains an ongoing research & development program for the continued development of the Torque V-12 engine. Management believes that Glaval Corporation spent significant funds on research and development prior to IPSL's acquisition of the assets and proprietary rights to develop and manufacture the Torque V-12. These expenditures were included as part of the acquisition price and will not be passed on to customers. The portion of funds spent after May 1, 1999 to convert to a production line is considered overhead which will be prorated over the manufacturing cost of the V-12 engines in accordance with generally accepted accounting principles. 25 **MANAGEMENT** Our present directors and executive officers are as follows: **NAME AGE POSITION** -----
 Richard D. Wedel 53 Chief Executive Officer and Chairman of the Board
 Raymond B. Wedel, Jr. 59 President and Director
 I. Paul Arcuri 46 Chief Financial Officer and Director
 Donald A. Christenson 70 Secretary
 The following is a brief description of the background of our directors and executive officers. **RICHARD D. WEDEL** Richard D. Wedel has been the Chief Executive Officer and Chairman of the Board of Directors of Torque since 1999. He is a financial consultant and since 1998, has been President of Wedel Consultants, a firm involved in mergers and acquisitions. Since 1999 he has been the Chairman of the Board of Integrated Homes, Inc., a publicly traded company. Integrated Homes is a provider of bundled voice & data communication systems and services for planned development communities. From 1997 through 1998, he was Chief Operating Officer and a Director of Horizontal Ventures, Inc. From 1982 through 1997 Mr. Wedel was President and a Director of Petro Union Inc., an energy resource exploration and production company which merged with Horizontal Ventures, Inc. He is a past Chairman of the American

Petroleum Institute Eastern U.S. Advisory Board. He has a degree in Business Administration from the University of Evansville. RAYMOND B. WEDEL, JR. Raymond B. Wedel, Jr., has been the President and Chief Operating Officer of Torque since 1999. From 1992 until 1997 he was the President of Torque, a business of Glaval Corporation, which is the predecessor to the current Torque. At the time of acquisition, Quintessence obtained the right to continue business under the old name. From 1986 until 1992, Mr. Wedel was Vice-President of Lightning Performance Products, also a predecessor to Torque. Mr. Wedel has an extensive background in the marine industry going back to the 1970's. During 1997-1998 Mr. Wedel served as the Chief Operational Officer of Sonic Jet Performance, Inc. a manufacturer of personal water-craft, recreational, and fire-rescue boats, with factories in California, Florida and China. He has a B.S. degree in Business Administration from the University of Evansville in Indiana. I. PAUL ARCURI I. Paul Arcuri has been the Chief Financial Officer and a Director of Torque since December 1999. Mr. Arcuri also currently serves as President and financial principal of the Carney Group, Inc., an investment banking firm, member of N.A.S.D. Mr. Arcuri has served in this position since 1985. Mr. Arcuri still maintains his positions with the Carney Group, Inc. He has been a registered broker since 1978 and was an investment advisor registered with the Securities and Exchange Commission. He has extensive background in financial management involving cash flow, cost and budgeting analysis with emphasis on operations management. He was a Director and Chairman of Gibraltar Savings and Loan Association from 1987 through 1992. He has a B.A. in Accounting from St. Thomas University/Biscayne College in Miami, Florida. DONALD A. CHRISTENSEN Donald A. Christensen has been the Secretary of Torque since March 1999. He is a business, financial and international trade consultant with an engineering degree and extensive large corporate management experience. He currently serves as President of European Whitestone Company and has served in that capacity since 1992. From August 1997 to July 1998, Mr. Christensen was a Director of Horizontal Ventures, Inc., a public company specializing in horizontal drilling sources for the oil and gas industry which is now known as GREKA Energy Corporation. He has a degree in Engineering from the University of Missouri. Mr. Christensen served as a Director of Torque from March 1999 to October 2001.

FAMILY RELATIONSHIP Raymond B. Wedel, Jr., and Richard D. Wedel are brothers. MEETINGS During our fiscal year ending December 31, 2000, our Board of Directors met on 6 occasions. Each incumbent director attended at least 75% of the total number of meetings of the Board on which he served. COMPENSATION OF DIRECTORS In 2000, our non-employee directors received options to purchase 10,000 shares of our common stock at an exercise price of \$3.25 per share. In 1999, our non-employee directors received options to purchase 10,000 shares of our common stock at an exercise price of \$3.25. EXECUTIVE COMPENSATION SUMMARY COMPENSATION TABLE. The following table sets forth the annual and long-term compensation for services in all capacities for the fiscal years ended December 31, 2000, 1999, and 1998 paid to Richard D. Wedel, our Chairman of the Board and Chief Executive Officer ("Named Executive Officer"). No other executive officer received compensation exceeding \$100,000 during the fiscal year ended December 31, 2000. SUMMARY COMPENSATION TABLE

----- ANNUAL COMPENSATION LONG TERM COMPENSATION
 ----- AWARDS ----- RESTRICTED SECURITIES
 STOCK UNDERLYING ALL OTHER NAME AND PRINCIPAL POSITION YEAR SALARY BONUS
 AWARD(S) OPTIONS COMPENSATION -----

NAME	YEAR	ANNUAL COMPENSATION	LONG TERM COMPENSATION	AWARDS	RESTRICTED SECURITIES
Richard D. Wedel	2000	\$50,000(1)	10,000(2)	Chairman of the Board and	1999 \$50,000(2) -- 10,000(2) -- Chief Executive Officer

(1) Mr. Wedel's annual salary for 2001 is \$50,000. (2) In 1999 and 2000, Mr. Wedel received options to purchase 10,000 shares of Torque common stock in connection with his service as a member of the Board of Directors. All of these options were immediately vested when granted and are exercisable for a period of five years from the date of grant. The following table sets forth certain information concerning the number and value of securities underlying exercisable and unexercisable stock options as of the fiscal year ended December 31, 2000 by the Named Executive Officer. AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES NUMBER OF SECURITIES NUMBER OF UNDERLYING UNEXERCISED VALUE OF UNEXERCISED SHARES OPTIONS AT IN-THE-MONEY OPTIONS AT ACQUIRED ON VALUE DECEMBER 31, 2000 DECEMBER 31, 2000 NAME EXERCISE REALIZED EXERCISABLE UNEXERCISABLE EXERCISABLE UNEXERCISABLE -----

----- Richard D. Wedel -- -- 20,000 -0- -0- -0- 27 EMPLOYMENT AGREEMENT MICHAEL BENNETT. Mr. Bennett was employed as Torque's Chief Operating Officer from November 6, 2000 until April 18, 2001. Pursuant to his employment agreement, the term of Mr. Bennett's

employment was three years and Mr. Bennett was to receive an annual base salary of \$100,000. The employment agreement provided that Mr. Bennett was to receive options to purchase 75,000 shares of common stock in accordance with Torque's 1999 Stock Option Plan. Twenty-five thousand options were to vest on October 31, 2001, 25,000 options were to vest on October 31, 2002, and 25,000 options were to vest on October 31, 2003, so long as Mr. Bennett continued to be employed by Torque. Mr. Bennett resigned from Torque prior to the vesting of any of these options. Mr. Bennett resigned as Torque's Chief Operating Officer on April 18, 2001.

1999 STOCK OPTION PLAN On October 7, 1999, the Board of Directors and stockholders adopted our 1999 Stock Option Plan (the "1999 PLAN"). The 1999 Plan provides for the grant of options to purchase up to 500,000 shares of common stock to our employees, officers and directors. Options granted under the 1999 Plan may be either "incentive stock options" within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended (the "Code"), or non-qualified options. The 1999 Plan is administered by our Board of Directors, which serves as the stock option committee and which determines, among other things, those individuals who receive options, the time period during which the options may be partially or fully exercised, the number of shares of common stock issuable upon the exercise of each option, and the option exercise price. The exercise price per share of common stock subject to an incentive stock option may not be less than the fair market value per share of common stock on the date the option is granted. The per share exercise price of the common stock subject to a non-qualified option may be established by our Board of Directors, but may not be less than 85% of the fair market value of the common stock on the date of the grant. The aggregate fair market value (determined as of the date the option is granted) of common stock for which any person may be granted incentive stock options which first become exercisable in any calendar year may not exceed \$100,000. No person who owns, directly or indirectly, at the time of the granting of an incentive stock option to such person, more than 10% of the total combined voting power of all classes of capital stock of Torque (a "10% STOCKHOLDER") shall be eligible to receive any incentive stock options under the Plan unless the exercise price is at least 110% of the fair market value of the shares of common stock subject to the option, determined on the date of the grant. No stock option may be transferred by an optionee other than by will or the laws of descent and distribution and, during the lifetime of an optionee, the option will be exercisable only by the optionee or a representative of such optionee. In the event of termination of employment other than by death or disability, the optionee will have no more than three months after such termination during which the optionee shall be entitled to exercise the option, unless otherwise determined by the stock option committee. Upon termination of employment of an optionee by reason of death, such optionee's options remain exercisable for one year thereafter to the extent such options were exercisable on the date of such termination. Under the 1999 Plan, upon termination of employment of an optionee by reason of total disability (as defined in the 1999 Plan) such optionee's options remain exercisable for one year thereafter.

INDEMNIFICATION Our Certificate of Incorporation provides that we will indemnify its officers, directors, employees and agents to the fullest extent permitted by Delaware law. Indemnitees are entitled to such indemnification in advance of any final proceeding. Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "ACT") may be permitted to directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

28 DESCRIPTION OF PROPERTY On April 29, 1999, we entered into a three-year lease for a business office and manufacturing facility with approximately 33,000 square feet of combined office and manufacturing space at 2932 Thorne Drive, Elkhart, Indiana. The term of the lease is from May 1, 1999 to April 30, 2007, with an option to renew for two successive three-year periods. Torque has an option to acquire the property during the initial three-year term of the lease. Monthly lease payments average approximately \$10,000.00 per month, plus utilities and certain other maintenance expenses. We believe that the property is in good condition and is sufficient for its current operating plans.

LITIGATION PROCEEDINGS We have no pending litigation.

29 PRINCIPAL SHAREHOLDERS BENEFICIAL OWNERS As of December 7, 2001, other than (i) the persons identified in the following table and (ii) the directors and executive officers identified in the table under "Directors and Executive Officers" section below, no person owned beneficially more than five percent (5%) of our common stock.

SHARES BENEFICIALLY OWNED	PERCENT	NAME AND ADDRESS	TITLE OF CLASS OWNED	CLASS(1)
1,303,134	13.6%	4 Riviera Avenue Costa De Caza, California 92679	Common Stock	(1)
1,234,629	12.9%	4481 W. Holland Road, East Huntingburg, IN 47532	Common Stock	(2)

(1) Applicable percentage is based on 9,597,112 shares outstanding, plus any securities convertible

or exchangeable into shares of common stock for the purpose of computing the percentage ownership of such person only. (2) Excludes 61,540 shares owned by Mr. Lange's adult children, all of whom maintain separate residences from Mr. Lange. Includes 10,000 shares Mr. Lange is entitled to acquire within 60 days pursuant to an option granted to him as a member of the Board of Directors. 30 DIRECTORS AND EXECUTIVE OFFICERS The following table shows the amount of our capital stock beneficially owned by our directors, the executive officers named in the Summary Compensation Table below and by all directors and executive officers as a group as of December 7, 2001. Unless otherwise indicated, beneficial ownership is direct and the person indicated has sole voting and investment power. As of December 7, 2001, we had 9,597,112 shares of common stock outstanding. BENEFICIALLY OWNED PERCENT NAME AND ADDRESS SHARES OF CLASS(1) ----- Raymond B. Wedel, Jr. 1,611,702(2) 16.8% 1415 Meadow Lane Elkhart, IN 46514 Richard D. Wedel 1,483,334(3) 15.5% 3900 Woodcastle Evansville, IN 47711 I. Paul Arcuri 176,666(4) 1.8% c/o Torque Engineering Corporation 2432 Thorne Drive Elkhart, IN 46674 All officers and directors as a group (3 persons) 3,271,702(5) 34.1% ----- * Less than 1%. (1) Applicable percentage of ownership is based on 9,597,112 shares of common stock outstanding, together with applicable options for each shareholder. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options that are currently exercisable or exercisable within 60 days of December 7, 2001 are deemed to be beneficially owned by the person holding such options for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. (2) Excludes 740,000 shares owned by Mr. Wedel's brother, Richard D. Wedel. Includes 316,668 shares owned by Raymond B. Wedel, Jr.'s wife. Mr. Wedel disclaims beneficial ownership of such shares. Excludes an aggregate of 633,332 shares owned by Mr. Wedel's adult children who do not live with him. Also includes 20,000 shares Mr. Wedel is entitled to acquire within 60 days pursuant to options granted to him as a member of the Board of Directors. Excludes 10,000 shares owned by Wanda Pride and 10,000 shares owned by Blanche Wedel. Ms. Pride and Ms. Wedel are Mr. Wedel's sisters. Mr. Wedel disclaims beneficial ownership of such shares. (3) Includes 400,000 shares owned by Richard D. Wedel's wife. Mr. Wedel disclaims beneficial ownership of such shares. Includes 400,000 shares owned by Mr. Wedel's minor son who lives with him. Also includes 20,000 shares Mr. Wedel is entitled to acquire within 60 days pursuant to options granted to him as a member of the Board of Directors. Excludes 10,000 shares owned by Wanda Pride and 10,000 shares owned by Blanche Wedel. Ms. Pride and Ms. Wedel are Mr. Wedel's sisters. Mr. Wedel disclaims beneficial ownership of such shares. (4) Includes 66,666 shares vested under an option to purchase 100,000 shares granted to him as Vice-President and Chief Financial Officer. Also includes 10,000 shares Mr. Arcuri is entitled to acquire within 60 days pursuant to an option granted to him as a member of the Board of Directors. (5) Includes options to acquire 156,666 shares of Torque's common stock exercisable within 60 days. 31 SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE Under U.S. securities laws, directors, executive officers and persons holding more than 10% of Torque's common stock must report their initial ownership of the common stock and any changes in that ownership on reports that must be filed with the SEC and Torque. The SEC has designated specific deadlines for these reports and Torque must identify in this Form 10-KSB those persons who did not file these reports when due. Based upon information provided to Torque by its directors, executive officers and persons holding more than 10% of Torque's common stock, Torque believes that Michel Attias filed one late Form 4 to report six (6) transactions, Michael Bennett, our former Chief Financial Officer and Director, inadvertently failed to file a Form 3 and Clement Lange, a former Director, inadvertently failed to file a Form 4 to report one transaction. Torque also believes Raymond B. Wedel, Jr., Richard D. Wedel, Donald Christensen, I. Paul Arcuri and Clement Lange, a former Director of Torque, inadvertently failed to file their respective Form 4's in connection with Torque's grant of stock options to these current and former officers and directors. 32 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS Effective May 28, 1999, Torque acquired the outstanding common stock of IPSL, a Nevada corporation, in exchange for the issuance of 1,500,000 shares of Torque common stock to Michel Attias, then the sole shareholder of IPSL and now a significant shareholder of Torque. The principal reason for Torque's acquisition of IPSL was to acquire certain property and equipment to be used to manufacture the Torque V-12, which property and equipment IPSL acquired from an Indiana corporation under the name of Torque in April 1999. During the year ended December 31, 1999, Torque through IPSL made repayments on prior loans to IPSL by affiliates of Michel Attias in the total amount of \$280,031. In June 2000, Torque sold 266,667 shares of common stock to Clement Lange, a former member of the

Board of Directors, at a price of \$1.50 per share for a total purchase price of \$400,000. In November 2000, Mr. Lange purchased an additional 307,692 shares of common stock at a per share price of \$1.625, for a total price of \$500,000. During September, October and December 2000, Torque received a total of \$60,000 in operating funds from two of its stockholders, Richard D. Wedel and Michel Attias. Mr. Wedel is the Chairman of the Board of Directors and Chief Executive Officer of Torque. In addition, \$11,656 of reimbursable expenses were owed to Mr. Wedel as of December 31, 2000. Those loans were converted to non-interest bearing promissory notes due June 30, 2001. During February 2001, Clement Lange, a former member of the Board of Directors, acquired 250,000 shares of common stock from Richard D. Wedel, Raymond Wedel and Michel Attias in exchange for \$250,000. In addition, Torque issued to Richard D. Wedel, Raymond D. Wedel and Michel Attias 125,000 shares of common stock at a price of \$2.00 per share for a total purchase price of \$250,000. Richard D. Wedel and Raymond D. Wedel are officers and directors of Torque.

33 MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND OTHER SHAREHOLDER MATTERS Our common stock has been quoted on the Over-the-Counter Bulletin Board maintained by the NASD since October 22, 1999, under the symbol "TORQ." From May 14, 1998 to October 21, 1999, our common stock was quoted on the Over-the-Counter bulletin Board under the symbol "QTSN." The following table sets forth the range of high and low bid quotations for each calendar quarter for our common stock for the prior two years, as well as the first three calendar quarters of 2001. **BID PRICE PER SHARE** -----

HIGH	LOW	----	---	FISCAL YEAR	1999 January 1999 to March 1999	\$0.010	\$0.010	April 1999 to June 1999	\$9.875					
\$0.010	July 1999 to September 1999	\$6.250	\$2.125	October 1999 to December 1999	\$3.250	\$1.125	FISCAL YEAR							
\$6.000	January 2000 to March 2000	\$1.125	April 2000 to June 2000	\$4.000	\$1.000	July 2000 to September 2000	\$4.125	\$1.437	October 2000 to December 2000	\$4.125	\$0.656	FISCAL YEAR 2001		
\$2.625	January 2001 to March 2001	\$0.875	April 2001 to June 2001	\$1.600	\$0.760	July 2001 to September 2001	\$1.270	\$0.250	October 2001 to November 2001	\$0.530	\$0.250	The above prices were obtained from the Over-the-Counter Bulletin Board. The quotations represent inter-dealer quotations, without retail mark-up, markdown or commission, and may not necessarily represent actual transactions. As of December 7, 2001, we believe there were approximately 35 holders of record and approximately 400 beneficial shareholders of our common stock. We have not paid dividends in the past on any class of stock and we do not anticipate paying dividends in the foreseeable future.		

34 DESCRIPTION OF SECURITIES AUTHORIZED CAPITAL STOCK. Our authorized capital stock consists of 50,000,000 of common stock. Each holder of common stock is entitled to one vote for each share held on all matters submitted to a vote by our shareholders. As of December 7, 2001, we had 9,597,112 shares of common stock outstanding. **OPTIONS.** As of December 7, 2001, we had outstanding options to purchase 250,000 shares of common stock at a weighted average exercise price of \$2.629 per share. Of that total, options to purchase 234,000 shares of common stock were vested. **CONVERTIBLE DEBENTURES.** As of October 28, 2001, we had issued Convertible Debentures in the original principal amount of \$300,000. These Convertible Debentures are convertible into shares of our common stock at a price equal to 80% of the average closing bid price of our common stock for the four trading days immediately preceding conversion. If such conversion had taken place on December 7, 2001, then the holders of the Convertible Debentures would have received 955,414 shares of common stock. These Convertible Debentures accrue interest at a rate of 6% per year and are convertible at the holder's option. These Convertible Debentures have a term of five years. At Torque's option, these debentures may be paid in cash or converted into shares of common stock on the fifth anniversary unless converted earlier by the holder. **TRANSFER AGENT AND REGISTRAR.** Computashare Trust Company, Inc., is the transfer agent and registrar for our common stock. Its address is 12039 West Alameda Parkway, Suite Z2, Lakewood, Colorado 80228. **EXPERTS** The financial statements as of December 31, 2000 and 1999 and for each of the two years in the period ended December 31, 2000 included in this Prospectus have been so included in reliance on the report (which contains an explanatory paragraph relating to Torque's ability to continue as a going concern as described in Note 15 to the financial statements) of Weinberg & Company, P.A., independent accountants, given on the authority of said firm as experts in auditing and accounting. **LEGAL MATTERS** Kirkpatrick & Lockhart LLP, Miami, Florida, will pass upon the validity of the shares of our common stock. **AVAILABLE INFORMATION** For further information with respect to us and the securities offered hereby, reference is made to the Registration Statement, including the exhibits thereto. Statements herein concerning the contents of any contract or other document are not necessarily complete, and in each instance reference is made to such contract or other statement filed with the Securities and Exchange Commission or included as an exhibit, or otherwise, each such statement, being qualified by and subject to such reference in all respects. Reports, registration statements, proxy and information statements, and

other information filed by us with the Securities and Exchange Commission can be inspected and copied at the public reference room maintained by the Securities and Exchange Commission at Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. Copies of these materials may be obtained at prescribed rates from the Public Reference Section of the Securities and Exchange Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. The Securities and Exchange Commission maintains a site on the World Wide Web (<http://www.sec.gov>) that contains reports, registration statements, proxy and information statements and other information. You may obtain information on the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330.

35 TORQUE ENGINEERING CORPORATION CONSOLIDATED FINANCIAL STATEMENTS INDEX ----- Page
 ---- CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2001 (UNAUDITED) AND DECEMBER 31, 2000 (AUDITED) F-1 CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000 F-2 CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000 F-3 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS F-4 TORQUE ENGINEERING CORPORATION CONSOLIDATED BALANCE SHEETS September 30, December 31, 2001 2000 (Unaudited) (Audited) ----- ASSETS CURRENT ASSETS Cash \$ -0- \$ 160,113 Accounts receivable, net 233,407 311,159 Marketable securities 1,213 1,213 Prepaid expenses 37,124 50,008 Advances to suppliers 84,756 109,180 Due from factor 76,855 -0- Inventory, net 682,094 789,135 ----- Total current assets 1,115,449 1,420,808 Property & Equipment, net 8,618,281 9,451,698 ----- TOTAL ASSETS \$ 9,773,730 \$ 10,872,506 ----- LIABILITIES AND STOCKHOLDERS' EQUITY CURRENT LIABILITIES Cash - Overdraft \$ 36,163 \$ -0- Accounts payable & other liabilities 571,812 341,069 Obligations under capital leases - current portion 194,102 127,278 Due to factor 219,586 -0- Accrued factor fees 16,810 -0- Loan payable - officer 6,000 -0- Notes payable - officer 233,156 71,656 ----- Total current liabilities 1,277,629 540,003 LONG-TERM LIABILITIES Obligations under capital leases, net of current portion 359,094 454,363 ----- TOTAL LIABILITIES 1,636,723 994,366 ----- STOCKHOLDERS' EQUITY Common Stock, \$0.00001 par value, 50,000,000 shares authorized, 8,571,842 and 8,099,607 86 84 shares issued and outstanding, respectively Additional paid in capital 14,589,966 14,243,709 Accumulated deficit (6,219,924) (4,088,936) Accumulated other comprehensive loss (211,063) (211,063) ----- 8,159,065 9,943,794 Less treasury stock at cost (6,750 Shares) (56,970) (56,970) Less deferred compensation expense (5,088) (8,684) Total stockholders' equity 8,097,007 9,878,140 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 9,733,730 \$ 10,872,506 ===== See accompanying notes to consolidated financial statements. F-1

TORQUE ENGINEERING CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) THREE MONTHS ENDED NINE MONTHS ENDED ----- SEPTEMBER 30, SEPTEMBER 30, SEPTEMBER 30, SEPTEMBER 30, 2001 2000 2001 2000 ---- SALES \$ 14,054 \$ 229,840 \$ 360,485 \$ 238,774 COST OF SALES 278,086 295,828 859,752 559,894 ----- GROSS LOSS (264,032) (65,988) (499,267) (321,120) ----- OPERATING EXPENSES Payroll 53,061 55,253 163,558 180,840 Depreciation 280,910 279,588 843,732 818,960 Rent 30,000 30,000 90,000 90,000 Stock based compensation 1,199 -0- 42,429 -0- Stock based consulting -0- -0- 55,028 -0- Other selling, general & administrative 118,542 114,357 310,898 414,224 Total Operation Expenses 483,712 479,198 1,505,645 1,504,024 ----- NET (LOSS) FROM OPERATIONS (\$747,744) (\$545,186) (\$2,004,912) (\$1,825,144) ----- OTHER INCOME (EXPENSE) Interest Income -0- 1,210 379 9,774 Interest Expense (10,218) (35,603) (50,973) (35,603) Factoring fees (26,442) -0- (56,767) -0- Other (10,016) -0- (18,716) 428 ----- Total Other Income (Expenses) (46,676) (34,393) (126,077) (25,401) ----- NET (LOSS) BEFORE EXTRAORDINARY ITEMS (\$794,420) (\$579,579) (\$2,130,989) (\$1,850,545) EXTRAORDINARY ITEMS Gain on extinguishments of debt -0- -0- -0- 28,708 ----- NET (LOSS) (\$794,420) (\$579,579) (\$2,130,989) (\$1,821,837) OTHER COMPREHENSIVE (LOSS), NET OF TAX Unrealized gain (loss) on marketable securities - net (2,426) (9,492) -0- (22,684) ----- COMPREHENSIVE LOSS (\$796,846) (\$589,071) (\$2,130,989) (\$1,844,521) ===== Loss before Extraordinary Gain (\$ 0.093) (\$ 0.072) (\$ 0.163) (\$.233) ----- Extraordinary gain \$ -0- \$ -0- \$ -0- \$ 0.004 ----- Net loss per share - basic & diluted (\$ 0.093) (\$ 0.072) (\$ 0.163) (\$ 0.229) ===== Weighted average

number shares outstanding 8,573,799 8,099,607 13,036,418 7,947,266 during the period - basic & diluted
 ===== See accompanying notes to consolidated financial statements. F-2 TORQUE ENGINEERING CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED) NINE MONTHS ENDED SEPTEMBER 30, 2001
 SEPTEMBER 30, 2000 ----- CASH FLOWS FROM OPERATIONS ACTIVITIES: Net Loss \$ (2,130,989) \$ (1,821,837) Adjustments to reconcile net loss to net cash used in operating activities: Depreciation 843,732 818,960 Recognized deferred compensation -0- 7,776 Stock based compensation 44,826 -0- Common stock issued for future services 55,028 -0- Provision for inventory obsolescence 184,273 -0- Gain on extinguishments of debt -0- (28,708) Changes in operating assets & liabilities: (Increase) Decrease in: Cash Overdraft 36,163 -0- Accounts receivable 77,752 (3,652) Prepaid expenses 12,884 (624) Advances to suppliers 24,426 (82,314) Inventory (77,232) (262,500) Increase (Decrease) in: Accounts payable & other liabilities 230,743 271,736 Accrued factor fees 16,810 -0- ----- Net cash used in operating activities (681,584) (1,101,163) -----
 ----- CASH FLOWS FROM INVESTING ACTIVITIES: Purchase of property & equipment (10,315) (97,649) Net cash used in investing activities (10,315) (97,649) ----- CASH FLOWS FROM FINANCING ACTIVITIES: Repayments on capital lease obligations (28,445) (21,007) Due to factor, net 142,731 -0- Proceeds from notes payable - related parties 161,500 30,000 Loan payable - officer 6,000 -0- Proceeds from issuance of common stock 250,000 400,000 Net cash provided by financing activities 531,786 408,993 ----- NET INCREASE (DECREASE) IN CASH (160,113) (789,819) CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD 160,113 798,019 ----- CASH & CASH EQUIVALENTS AT END OF PERIOD \$ -0- \$ 8,200 ----- See accompanying notes to consolidated financial statements. F-3 TORQUE ENGINEERING CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 1. BASIS OF PRESENTATION The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and have been condensed pursuant to the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position and results of operations. It is management's opinion, however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year. For further information, refer to the consolidated financial statements and footnotes included in the Company's Form 10-KSB for the year ended December 31, 2000. 2. ACCOUNTS RECEIVABLE CONCENTRATIONS The Company has a concentration of its accounts receivable with one customer totaling 96%. As of September 30, 2001 accounts receivable are deemed fully collectible. 3. ACCOUNTS RECEIVABLE AND FACTOR AGREEMENTS On May 2, 2001, the Company entered into an accounts receivable financing agreement with a factor. The receivables were transferred with recourse and due to a provision that could require the Company to repurchase the receivables, the transaction is accounted for as a financing arrangement. Under the terms of the agreement, the factor advances 65% of the face value of the receivables sold by the Company. The Company is charged a variable percentage fee based upon the length of the collection period. After 180 days, if the customer's accounts receivable is not paid, the factor is entitled to keep and assess the remaining 35% holdback reserve as a fee for service. All of the Company's accounts receivable, equipment, furniture and fixtures are pledged as collateral under this agreement. For the three months ended September 30, 2001 the Company has financed \$219,586 in accounts receivable. At September 30, 2001, the Company has \$76,855 due from the factor, which represents net advances made to the Company by the factor, less cash rebates received from the holdback reserve. The Company has \$219,586 due to the factor, which represents the gross receivables financed that have yet to be paid by the Company's customer. For the three months ended September 30, 2001, the Company incurred \$26,442 in factoring fees. 4. INVENTORIES Inventory at September 30, 2001 (unaudited) and December 31, 2000 (Audited) consisted of the following: 2001 2000 Purchased Parts, net \$314,931 \$376,532 Engines in Process 135,339 184,405 Completed Engines 231,824 228,198 ----- \$682,094 \$789,135 During the nine months ended September 30, 2001, the company recorded a provision for inventory obsolescence of \$184,273. F-4 5. LOAN PAYABLE OFFICER During the three months ended Sept 30, 2001, the Company received \$6,000 in operating funds from an officer. The note is non-interest bearing, however, upon the maturity date of the loan if the principal is not paid in full and the note is in default, a 10% interest payment in addition to principal will become due and payable immediately. 6. SHAREHOLDER LOANS During the three months ended September 30, 2000 shareholders of the

Company made advances of \$30,000 for operating funds. 7. STOCKHOLDERS' EQUITY Effective July 1, 2001, the company rescinded a consulting contract initially entered into on May 2, 2000. As a result, 180,000 shares of Common Stock were cancelled and returned to the company. On June 5, 2000 a total of 266,667 shares of common stock were issued at a price of \$1.50 per share or a total amount of \$400,000. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. Subsequent to September 30, 2000, the Company issued 4,000 shares of its common stock in exchange for \$13,000. 8. COST OF SALES For the three months ended September 30, 2001 and 2000 (unaudited) the Company charged to cost of goods sold \$278,086 and \$295,828 respectively. 9. GOING CONCERN The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has a working capital deficiency of \$162,180, a net loss from operations of \$2,130,989, negative cash flows from operating activities of \$681,584 and had an accumulated deficit of \$6,219,924 at September 30, 2001. In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its working capital requirements, and the success of its future operations. Management believes that action presently being taken to revise the Company's operating and financial requirements provide the opportunity for the Company to continue as a going concern. 10. SUBSEQUENT EVENTS DEBENTURE OFFERING In order to provide working capital and financing for the Company's expansion, the Company entered into an agreement with Cornell Capital Partners, L.P. ("the Purchaser") whereby the Purchaser acquired \$300,000 of the Company's 6% Convertible Subordinated Debentures, due November 13, 2006. The Holder is entitled, at its option, to convert, and sell all or any part of the principal amount of the Debenture, plus accrued interest, into shares (the "Conversion Shares") of the Company's common stock, par value \$.00001 per share ("Common Stock"), at the price per share (the "Conversion Price") equal to either (a) an amount equal to 120% of the closing bid price of the Common Stock as listed on a Principal Market, as quoted by Bloomberg L.P. (the "Closing Bid Price") as of the date hereof, or (b) an amount equal to 80% of the average of the four lowest Closing Bid Prices of the Common Stock for the five trading days immediately preceding the Conversion Date. F-5 Interest will be paid at the time of maturity or conversion. The Company may elect to pay interest in cash or in the form of Common Stock. The Company shall reserve and keep available out of its authorized but unissued shares of Common Stock such number of shares of Common Stock sufficient to effect such conversion, based upon the Conversion Price. This Debenture may be converted at any time following the date of closing, into shares of Common Stock at a price equal to the Conversion Price. EQUITY LINE OF CREDIT On November 9, 2001, the Company entered into an equity line of credit pursuant to which the Company may, at its discretion, periodically sell to the investor shares of common stock for a total purchase price of up to \$5 million. For each share of common stock purchased under the Equity Line of Credit, the investor will pay 91% of the average of the 2 lowest closing bid prices on which the common stock is traded for during the five days immediately following the notice date. Unless waived by the investor, the amount of each advance is subject to a maximum advance amount based on an average daily volume of the Company's common stock. A consulting fee of 10% of each advance will be paid upon closing each of the sales under this agreement. F-6 TORQUE ENGINEERING CORPORATION CONSOLIDATED FINANCIAL STATEMENTS INDEX ----- Page ---- INDEPENDENT AUDITORS' REPORT F-1 CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2000 AND 1999 F-2 CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999 F-3 CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2000 F-4 CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999 F-5 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS F-7 INDEPENDENT AUDITORS' REPORT To the Board of Directors of: Torque Engineering Corporation We have audited the accompanying balance sheets of Torque Engineering Corporation and Subsidiary as of December 31, 2000 and 1999 and the related statements of operations and comprehensive loss, changes in stockholders' equity and cash flows for the years ended December 31, 2000 and 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant

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estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Torque Engineering Corporation and Subsidiary as of December 31, 2000 and 1999 and the results of their operations and their cash flows for the years ended December 31, 2000 and 1999 in conformity with accounting principles generally accepted in the United States of America. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 15 to the financial statements, the Company has a loss from current operations of \$2,752,608 and has negative cash flows from operating activities of \$1,468,442 that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

WEINBERG & COMPANY, P.A. Boca Raton, Florida February 21, 2001 F-1 TORQUE ENGINEERING CORPORATION AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS ASSETS DECEMBER 31, DECEMBER 31, 2000 1999 -----

Current assets	Cash and cash equivalents	\$ 160,113	\$ 798,019
Accounts receivable	311,159	2,289	
Advances to suppliers	109,180		
Inventory	789,135	1,165,010	
Marketable securities	1,213	32,145	
Prepaid expenses	50,008	4,768	

Total Current Assets		1,420,808	2,002,231
PROPERTY & EQUIPMENT - NET	9,451,698	10,454,045	

TOTAL ASSETS		\$ 10,872,506	\$ 12,456,276
=====			
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES	Accounts payable and accrued expenses	\$ 341,069	\$ 82,051
Obligations under capital leases - current portion	127,278	32,837	
Due to related parties	71,656	28,708	

Total Current Liabilities	540,003	143,596	
LONG-TERM LIABILITIES	Obligations under capital leases	454,363	575,536

Total Liabilities	994,366	719,132	
STOCKHOLDERS' EQUITY			
Common stock, \$.00001 par value, 50,000,000 shares authorized, 8,411,299 and 7,832,940 shares issued and outstanding, respectively	84	78	
Additional paid in capital	14,243,709	13,330,715	
Accumulated deficit	(4,088,936)	(1,336,328)	
Accumulated other comprehensive loss (211,063) (180,131)			9,943,794
Treasury Stock at cost (6,750 Shares) (56,970) (56,970)			Less
Deferred compensation expense (8,684) (20,220)			

Total Stockholders' Equity	9,878,140	11,737,144	

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 10,872,506	\$ 12,456,276
=====			

See accompanying notes to consolidated financial statements. F-2 TORQUE ENGINEERING CORPORATION AND SUBSIDIARY CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the Year Ended	For the Year Ended	December 31, 2000	December 31, 1999

SALES	\$ 718,801	\$ 91,300	
COST OF SALES	1,607,494	72,726	

GROSS PROFIT (LOSS)	(888,693)	18,574	
OPERATING EXPENSES			
Payroll and other compensation	240,538	392,795	
Depreciation	1,118,079	643,703	
Rent	120,000	70,168	
Other selling, general and administrative	384,817	321,016	

Total Operating Expenses	1,863,434	1,427,682	

LOSS FROM OPERATIONS	(2,752,127)	(1,409,108)	
OTHER INCOME (EXPENSE)			
Interest income	10,514	14,506	
Interest expense (40,130)	-	-	
Consulting	120,500		
Loss on marketable securities	(51,642)		
Other	427		

Total Other Income (Expense)	(29,189)	83,364	

NET LOSS BEFORE EXTRAORDINARY ITEMS	(2,781,316)	(1,325,744)	
EXTRAORDINARY ITEMS	Gain on extinguishments of debt	28,708	

NET LOSS	(2,752,608)	(1,325,744)	
OTHER COMPREHENSIVE LOSS			
Unrealized loss on marketable securities - net	(30,932)	(180,131)	

COMPREHENSIVE LOSS	\$ (2,783,540)	\$ (1,505,875)	
=====			
Loss per share before extraordinary gain	\$ (.347)	\$ (0.232)	
Extraordinary gain	.004		

Net loss per share - basic and diluted	\$ (.343)	\$ (0.232)	
=====			
Weighted average number of shares outstanding during the period -basic and diluted	8,012,677	5,717,440	
=====			

See accompanying notes to consolidated financial statements. F-3 TORQUE ENGINEERING CORPORATION AND SUBSIDIARY CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

Accumulated Additional Other Deferred Common Stock Paid-in	Accumulated Comprehensive Treasury
Compensation Shares	Amount Capital Deficit Loss Stock Expense Totals

Balance December 31, 1998	1,000,000
10	42,490
(10,584)	- - - 31,916

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Recapitalization 4,870,000 48 (48) - - - - Stock issued for acquisition of IPSL 1,500,000 15 11,759,985 - - - -
 11,760,000 Acquired treasury stock, net - - - - (56,970) - (56,970) Stock issued for cash 461,540 5 1,500,000 - - - -
 1,500,005 Stock issued for marketing services 1,400 - 2,688 - - - - 2,688 Stock options issued - - 25,600 - - - (20,220)
 5,380 Unrealized losses on available-for- sale securities - - - (180,131) - - (180,131) Net Loss, 1999 - - - (1,325,744) -
 - - (1,325,744) ----- BALANCE, DECEMBER
 31, 1999 7,832,940 \$ 78 \$13,330,715 \$ (1,336,328) \$ (180,131) \$ (56,970) \$ (20,220) \$ 11,737,144 Stock issued for
 cash 578,359 6 912,994 - 913,000 Deferred compensation expensed - - - - - 11,536 11,536 Unrealized loss on
 available for sale securities - - (30,932) - - (30,932) Net Loss, 2000 - - (2,752,608) - - - (2,752,608) -----
 ----- BALANCE, DECEMBER 31, 2000 8,411,299 \$ 84 \$
 14,243,709 \$ (4,088,936) \$ (211,063) \$ (56,970) \$ (8,684) \$ 9,878,140 =====

===== See accompanying notes to
 consolidated financial statements. F-4 TORQUE ENGINEERING CORPORATION AND SUBSIDIARY
 CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED FOR THE YEAR ENDED
 DECEMBER 31, 2000 DECEMBER 31, 1999 ----- CASH FLOWS FROM
 OPERATING ACTIVITIES: Net loss \$ (2,752,608) \$ (1,325,744) Adjustments to reconcile net loss to net cash used
 in operating activities: Depreciation and amortization 1,118,079 643,703 Compensation expense incurred in exchange
 for stock options 11,536 5,380 Gain on ~xtinguishments of debt (28,708) - Marketing expense incurred in exchange
 for common stock - 2,688 Write-off of investment - 2,000 Write-off of organization costs - 4,125 Loss on marketable
 securities - 51,642 Changes in operating assets and liabilities: (Increase) decrease in: Accounts receivable (308,870)
 (2,289) Advances to suppliers (109,180) - Prepaid expenses (45,240) (4,768) Inventories 375,875 (146,202) Increase
 (decrease) in: Accounts payable and accrued expenses 270,674 82,051 ----- Net cash used
 in operating activities (1,468,442) (687,414) ----- CASH FLOWS FROM INVESTING
 ACTIVITIES: Purchase of property and equipment (103,607) (50,681) Proceeds from sale of
 available-for-sale-securities - 316,158 ----- Net cash (used in) provided by investing
 activities (103,607) 265,477 ----- CASH FLOWS FROM FINANCING ACTIVITIES:
 Issuance of common stock 913,000 1,500,005 Payments on capital lease obligations (38,857) (25,809) Repayment of
 loans - (280,031) Proceeds from loans 60,000 - ----- Net cash provided by financing
 activities 934,143 1,194,165 ----- NET INCREASE (DECREASE) IN CASH (637,906)
 772,228 Cash and cash equivalents at beginning of YEAR 798,019 25,791 ----- Cash and
 cash equivalents at end of YEAR \$ 160,113 \$ 798,019 =====

===== Cash paid
 for interest \$ 4,278 \$ - ===== See accompanying notes to consolidated
 financial statements. F-5 TORQUE ENGINEERING CORPORATION AND SUBSIDIARY CONSOLIDATED
 STATEMENT OF CASH FLOWS Supplemental Disclosure Of Non-Cash Investing And Financing Activities:
 During 2000, the Company acquired equipment totaling \$12,125 under capital lease obligations. During 2000, the
 Company converted accounts payable with a shareholder to a related party note payable in the amount of \$11,656.
 During May 1999, the Company acquired IPSL in exchange for 1,500,000 shares of its common stock having a fair
 value of \$11,760,000. During 1999, the Company acquired equipment totaling \$634,182 under capital lease
 obligations. See accompanying notes to consolidated financial statements. F-6 TORQUE ENGINEERING
 CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NOTE 1 SUMMARY OF
 SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION -----

----- (A) ORGANIZATION On June 26, 1996, Quintessence Oil Co.
 ("Quintessence") was incorporated in Wyoming to engage in oil and gas activities. Quintessence never commenced
 substantial operations, and in March 1999 common stock was issued to a new management group and an acquisition
 of IPSL, Inc. ("IPSL") was consummated in May 1999 (See Note 13). On November 17, 1999, Torque Engineering
 Corporation ("Torque" or the "Company") was incorporated in Delaware and Quintessence was merged into Torque to
 effect a domicile and name change. The transaction was treated as a recapitalization and the effect is shown
 retroactively in the accompanying consolidated financial statements. The Company designs and manufactures high
 performance offshore marine performance production engines. The Company was in the development stage through
 December 31, 1999. The year ended December 31, 2000 is the first year during which it is considered an operating
 company. (B) PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of
 the Company and its wholly-owned subsidiary, IPSL. All intercompany balances and transactions have been

eliminated in consolidation. (C) USE OF ESTIMATES In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates. (D) CASH AND CASH EQUIVALENTS For purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. (E) CONCENTRATION OF CREDIT RISK The Company maintains its cash in bank deposit accounts, which, at times, exceed federally insured limits. At December 31, 2000, the Company had \$51,438 in deposits which exceeded federally insured limits. The Company has not experienced any losses in such accounts as of December 31, 2000. (F) MARKETABLE SECURITIES The Company invests in various marketable equity instruments. The Company accounts for such investments in accordance with Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115") (See Notes 1(M) and 4)). Management determines the appropriate classification of its investments at the time of acquisition and reevaluates such determination at each balance sheet date. Available-for-sale securities are carried at fair value, with unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. Investments classified as held-to-maturity are carried at amortized cost. In determining realized gains and losses, the cost of the securities sold is based on the specific identification method. F-7 (G) INVENTORY Inventory is stated at the lower of cost (first-in, first-out) or net realizable value, and consists of purchased parts, engines-in-process and completed engines (See Note 6). (H) PROPERTY AND EQUIPMENT Property and equipment are stated at cost and depreciated using the straight-line method over the estimated economic useful lives of 3 to 10 years. Expenditures for maintenance and repairs are charged to expense as incurred. Major improvements are capitalized (See Note 7). (I) STOCK OPTIONS In accordance with Statement of Financial Accounting Standards No. 123, ("SFAS 123") the Company has elected to account for Stock Options issued to employees under Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25") and related interpretations. The Company accounts for stock options issued to non-employees under the fair value method of SFAS 123 (See Note 9(B)). (J) REVENUE RECOGNITION The Company recognizes revenue upon shipment of products. (K) ADVERTISING COSTS In accordance with the Accounting Standards Executive Committee Statement of Position 93-7 ("SOP 93-7"), costs incurred for producing and communicating advertising of the Company are charged to operations. For the years ended December 31, 2000 and 1999, the company charged \$74,461 and \$25,986, respectively. (L) INCOME TAXES The Company accounts for income taxes under the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("Statement 109"). Under Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. (M) COMPREHENSIVE INCOME (LOSS) The Company accounts for Comprehensive Income (Loss) under the Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("Statement No. 130"). Statement No. 130 establishes standards for reporting and display of comprehensive income and its components, and is effective for fiscal years beginning after December 15, 1997. The unrealized gains and losses, net of tax, resulting from the valuation of available-for-sale securities at their fair market value at year end (see Note 1 (F)) are reported as Other Comprehensive Income (Loss) in the Statement of Operations and as Accumulated Other Comprehensive Income (Loss) in Stockholders' Equity and in the Statement of Stockholders' Equity. (N) NEW ACCOUNTING PRONOUNCEMENTS The Financial Accounting Standards Board has recently issued accounting pronouncements, Statement No. 133 as amended by Statement Nos. 137 and 138 "Accounting for Derivative Instruments and Hedging Activities," that establishes accounting and reporting standards for derivative instruments and related contracts and hedging activities. This statement is effective for all fiscal quarters and fiscal years beginning after June 15, 2000. F-8 The Company believes that its adoption of these pronouncements will not have a material effect on the Company's financial position or results of operations. (O) LOSS PER SHARE Basic and diluted net loss per common share for the years ended December 31, 2000 and 1999 and for the period from June 26, 1996 (inception) to December 31, 2000 is computed based upon the weighted average common shares outstanding as defined by Financial Accounting Standards No. 128, "Earnings Per Share". Common stock equivalents

have not been included in the computation of diluted loss per share since the effect would be anti-dilutive. At December 31, 2000 and 1999 there were 240,000 common stock options issued and outstanding that could potentially dilute earnings per share in future periods. (P) BUSINESS SEGMENTS The Company applies Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information". The Company operates in one segment and therefore segment information is not presented. (Q) FAIR VALUE OF FINANCIAL INSTRUMENTS Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments", requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate that value. For purposes of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The carrying amounts of the Company's accounts receivable, accounts payable, accrued liabilities, and current loans payable approximates fair value due to the relatively short period to maturity for these instruments. (R) IMPAIRMENT OF LONG-LIVED ASSETS The Company has adopted Statement of Financial Accounting Standards No. 121 (SFAS 121) "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." Under the provisions of this statement, the Company has evaluated its long-lived assets for financial impairment, and will continue to evaluate them as events or changes in circumstances indicated that the carrying amount of such assets may not be fully recoverable. The Company evaluates the recoverability of long-lived assets not held for sale by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. At the time such cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. NOTE 2 ACCOUNTS RECEIVABLE AND CONCENTRATIONS ----- Accounts receivable at December 31, 2000 and 1999 were \$311,159 and \$2,289, respectively, and are deemed fully collectable. At December 31, 2000 and 1999, approximately 97.5% and 90%, respectively, of accounts receivable were due from one customer. Sales during 2000 and 1999 primarily related to six engine sales and one engine sale, respectively, to the above customer (See Note 16). NOTE 3 ADVANCES TO SUPPLIERS ----- Beginning in 2000, the Company maintains deposits on account with various vendors. The Company, upon executing a purchase order with these vendors, is required to provide a deposit for which goods are shipped against. As of December 31, 2000, the Company had a balance with these vendors of \$109,180. Included in the advances to suppliers balance at December 31, 2000 is an amount of \$34,750 which represents deposits on purchase orders with two vendors aggregating \$335,820 (See Note 8(C)). F-9 NOTE 4 MARKETABLE SECURITIES ----- The Company's marketable securities, purchased principally for the purpose of selling them in the near future, as defined under SFAS 115, are comprised of equity securities, all classified as available-for-sale securities, which are reported at their fair value based upon the quoted market prices of those investments at the year ended December 31, with unrealized losses reported as other comprehensive loss in a separate component of stockholders' equity until they are sold. Any realized gains or losses are included in net earnings at the time of sale (See Note 1(F)). The composition of marketable securities at December 31, 2000 is as follows: COST FAIR VALUE ----- Common stock \$ 212,276 \$ 1,213
===== Investment expenses for the year ended December 31, 2000 and 1999 consisted of the following: 2000 1999 ----- Net realized loss on the sale of marketable securities \$ - \$ (51,642) ===== Unrealized losses included in other comprehensive loss for the years ended December 31, 2000 and 1999 consisted of the following: 2000 1999 ----- \$ (30,932) \$ (180,131) ===== NOTE 5 PREPAID EXPENSES ----- During 2000, prepaid expenses primarily included the value of a boat engine exchanged for promotional and marketing services. The value of the engine exchanged was \$64,759, and as of December 31, 2000, \$16,190 had been charged to operations. Due to the cost and fair value of the engine exchanged being equivalent to marketing services, no gain or loss is recognized on the exchange. NOTE 6 INVENTORY ----- Inventory at December 31, 2000 and 1999 consisted of the following: 2000 1999 ----- Purchased parts \$ 376,532 \$ 307,067 Engines in process 184,405 367,943 Completed engines 228,198 490,000 ----- \$ 789,135 \$ 1,165,010 ===== During 2000, management specifically identified two engines that were no longer held for commercial sale and their carrying value of \$104,008 was charged to selling, general and other administrative expenses for the year ended December 31, 2000. The Company is maintaining these two engines for product testing and marketing. F-10 NOTE 7 PROPERTY AND EQUIPMENT ----- Property and equipment at December 31, 2000 and 1999 consisted of the

following: 2000 1999 ----- Special tooling \$ 9,309,965 \$ 9,269,944 Machinery and equipment 1,155,278 1,146,664 Equipment under capital leases 646,307 634,182 Vehicles 8,706 5,206 Computer equipment 13,660 12,596 Furniture and fixtures 79,673 29,156 ----- 11,213,589 11,097,748 Less: Accumulated depreciation (1,761,891) (643,703) ----- Property and equipment - net \$ 9,451,698 \$10,454,045
 ===== Depreciation expense for the years ended December 31, 2000 and 1999 was \$1,118,079 and \$643,703, respectively. NOTE 8 COMMITMENTS AND CONTINGENCIES (A) CAPITAL LEASES As of December 31, 2000 the Company had an aggregate of six machines under non-cancelable capital lease agreements. As of December 31, 1999 the Company had an aggregate of four machines under non-cancelable capital lease agreements. Future minimum lease payments under the capital lease are as follows at December 31, 2000 and 1999: 2000 1999 ----- Total future minimum lease payments \$ 708,398 \$ 748,464 Less: interest (126,757) (140,091) ----- 581,641 608,373 Less: current portion (127,278) (32,837) ----- Long-term obligation under capital leases \$ 454,363 \$ 575,536 ===== Future minimum lease payments for the capital leases as of December 31, 2000 are as follows: 2001 \$ 127,278 2002 128,372 2003 134,911 2004 144,932 2005 46,148 ----- \$ 581,641 ===== (B) OPERATING LEASE AGREEMENT The Company leases corporate office space under an operating lease. The lease has a remaining term through 2002. Future minimum lease payments for the operating lease as of December 31, 2000 are as follows: 2001 \$ 120,000 2002 40,000 ----- \$ 160,000 ===== F-11 Rent expense for the years ended December 31, 2000 and 1999 amounted to \$120,000 and \$70,168, respectively. (C) PURCHASE COMMITMENTS During December 2000, the Company entered into commitments with two vendors to purchase inventory aggregating \$335,820 (See Note 3). NOTE 9 STOCKHOLDERS' EQUITY ----- (A) PRIVATE PLACEMENT In September 1999, the Company offered common stock subscriptions pursuant to Rule 506 of Regulation D section 4 (2) of the Securities Act of 1933, as amended. The purchase price was \$3.25 per share. As of December 31, 2000 and 1999, cash of \$913,000 for 578,359 shares and cash of \$1,500,005, for 461,540 shares was received, respectively. (B) STOCK OPTIONS On October 7, 1999, the 1999 Stock Option Plan (the "Plan") was adopted by the Board of Directors of the Company and approved by the Company's stockholders. The Plan was developed to provide a means whereby directors, officers, employees of, and certain persons rendering services to the Company or any subsidiary may be granted stock to purchase common stock of the Company. The Plan authorizes options up to 500,000 shares of the Company's common stock and is administered by the Board of Directors of the Company or a committee of two or more members of the Board of Directors (the "Plan Committee"). The Company grants incentive and nonqualified stock options. Incentive stock options are only granted to employees of the Company or any subsidiary thereof. The exercise price which is established by the Plan Committee may not be less than 85% of the fair market value of the common stock at the time of grant for nonqualified stock options, may not be less than 100% of the fair market value of the common stock at the time of grant for incentive stock options and may not be less than 110% of the fair market value of the common stock at the time of grant if incentive stock options are granted to employees owning more than ten percent of the total voting power or value of all classes of stock of the Company. The term of the stock options is determined by the Plan Committee and shall not exceed ten years from the date of grant. In the case of incentive stock options which are granted to employees owning more than ten percent of the total voting power or value of all classes of stock of the Company, the term may not exceed five years. During the year ended December 31, 1999, the Company issued 240,000 stock options under the plan to employees and Board of Director members. The Company cancelled 10,000 options under the plan to employees during the year ended December 31, 2000 and also granted 60,000 options under the plan to employees and directors during the year ended December 31, 2000. In accordance with SFAS 123, for options issued to employees, the Company applies APB Options No. 25 and related interpretations in accounting for the options issued. Accordingly, compensation costs of \$11,536 and \$5,380 and deferred compensation expense of \$8,684 and \$20,220 respectively, were recognized as of December 31, 2000 and 1999, computed in accordance with the intrinsic value method. Had compensation cost for the Company's options been determined based on the fair market value of the options at the grant date, consistent with SFAS 123, the Company's net loss for the year ended December 31, 2000 and 1999 would have been increased to the pro-forma amounts indicated below. 2000 1999 ----- Net loss As reported \$ (2,752,608) \$(1,325,744) Pro forma \$ (3,045,648) \$(1,463,953) Net loss per share As reported \$ (.344) \$ (.232) Pro forma \$ (.380) \$ (.256) F-13 The effect of applying Statement No. 123 is not likely to be representative of the effects on reported net income for future years due to, among other things, the effects of vesting. For financial statement disclosure purposes the fair market value of

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each stock option granted was estimated on the date of grant using the Black-Scholes Option-Pricing Model in accordance with SFAS 123 using the following weighted-average assumptions: expected dividend yield 0%, risk-free interest rate of 5.125% in 2000 and 5.86% in 1999, volatility 229% in 2000 and 118% in 1999 and expected term of three years. A summary of the options issued to employees and Board of Director members as of December 31, 2000 is presented below:

Weighted Average Number of Exercise Options	Price	STOCK OPTIONS
Balance at beginning of period	240,000 \$ 2.77	Granted 60,000 \$ 3.01
Forfeited - \$		Exercised - - Cancelled (10,000) (1.81)
Balance at end of period	290,000 \$ 2.67	Options exercisable at end of period 250,626 \$ 2.93
Weighted average fair value of options granted during the period - \$ 3.01		

The following table summarizes information about stock options outstanding at December 31, 2000: Options

Options Outstanding Options Exercisable									
Range Of Number	Weighted	Weighted	Number	Weighted	Average	Outstanding	At		
Remaining	Average	Exercisable	At	Average	Exercise	December 31,	Contractual	Exercise	December, 31,
Price	2000	Life	Price	2000	Price				\$ 1.81
80,000	7.5	1.81	55,360	1.81	\$ 3.25	210,000	3.5	3.25	195,266
290,000	5.5	2.77	250,626	1.55					

NOTE 10 INCOME TAXES The Company and its subsidiary have elected to file separate tax returns. Income tax expense (benefit) for the years ended December 31, 2000 and 1999 for the parent company is summarized as follows:

2000	1999	Current: Federal	\$ -	\$ -	State	-
Deferred-Federal	and State (934,900)	(226,400)	Change in Valuation Allowance	934,900	226,400	

Income tax expense (benefit) \$ - \$ - The Company's tax expense differs from the "expected" tax expense for the years ended December 31, 2000 and 1999, as follows:

2000	1999	U.S. Federal income tax provision (benefit)	\$ (934,900)	\$ (226,400)
Effect of net operating loss carryforward	934,900	226,400		
			\$ -	\$ -

F-13 The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities at December 31 are as follows:

2000	1999	Deferred tax assets: Net operating loss carryforward	\$ 1,164,900	\$ 230,000
Total gross deferred tax assets	1,164,900	230,000	Less valuation allowance (1,164,900)	(230,000)
Net deferred tax assets	\$ -	\$ -		

At December 31, 2000, the Company has net operating loss carryforwards of approximately \$3,426,000 for U.S. Federal income tax purposes available to offset future taxable income expiring on various dates through 2020. The valuation allowance at January 1, 2000 was \$230,000. The net change in the valuation allowance during the year ended December 31, 2000 was an increase of approximately \$934,900.

NOTE 11 EXTRAORDINARY ITEM In June 2000, Torque Engineering's subsidiary IPSL, Inc. confirmed the extinguishment of debts from certain affiliates and a principal shareholder of IPSL, Inc., totaling \$28,708. As a result, an extraordinary gain was realized during the year ended December 31, 2000 (See Note 14).

NOTE 12 RECAPITALIZATION In March 1999, the Company issued 4,870,000 common shares to a new management group in consideration of the new management group seeking an acquisition candidate. This issuance was treated as a recapitalization of the Company with the par value of the stock charged to additional paid-in capital.

NOTE 13 ACQUISITION Effective May 28, 1999, the Company acquired the outstanding common stock of IPSL, a Nevada corporation, incorporated on April 27, 1998, in exchange for 1,500,000 shares of the Company's common stock. The acquisition was accounted for under the purchase method of accounting and the stock was valued at \$7.84 per share, based on the average quoted trading price before and after the purchase was determined and the announcement was made. The resulting purchase price was \$11,760,000 and was allocated, based upon an independent appraisal performed for allocation purposes, to the assets acquired and liabilities assumed as follows:

Marketable securities	\$ 637,045	Inventory	1,018,808
Special tooling	9,256,014	Machinery and equipment	1,122,509
Furniture, fixtures, and other	34,363	Loan fee payable (200,875)	
Loan to stockholder (107,864)			
			\$ 11,760,000

The table below reflects the pro forma combined results of the Company as if the acquisition had taken place at January 1, 1998:

Net Sales	\$ 91,300	Net Loss	\$ (1,928,287)
Loss per share	\$ (0.337)		

F-14 NOTE 14 RELATED PARTIES As of December 31, 2000 and 1999 the Company owed two principal stockholders \$71,656 and \$28,708, respectively. Pursuant to an agreement entered into between IPSL and affiliates of a principal stockholder of IPSL prior to the acquisition (see Note 13), the Company owed the affiliates \$28,708 at December 31, 1999 relating to prior loans made to the Company. During 2000 the debt was cancelled and recorded as a gain on extinguishment of debt. During 2000, the

Company received \$60,000 in operating funds from two stockholders. In addition, \$11,656 of reimbursable expenses was owed to one of the stockholders as of December 31, 2000. All loans from the stockholders were converted to non-interest bearing notes payable due June 30, 2001. Consulting income as of December 31, 1999 included \$118,500, received from a principal stockholder. There was no consulting income received from related parties during the year ended December 31, 2000. NOTE 15 GOING CONCERN ----- The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has a loss from current operations of \$2,752,608 and negative cash flows from operating activities of \$1,468,442 at December 31, 2000. These conditions raise substantial doubt about the Company's ability to continue as a going concern. In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its working capital requirements, and the success of its future operations. Management believes that action presently being taken to revise the Company's operating and financial requirements provide the opportunity for the Company to continue as a going concern. NOTE 16 SUBSEQUENT EVENTS ----- During January 2001, the Company sold one engine for \$102,035 to its major customer (See Note 2). In February 2001, the Company sold \$125,000 shares of Rule 144 restricted common stock valued at \$2.00 per share for \$250,000 to three stockholders. F-15 WE HAVE NOT AUTHORIZED ANY DEALER, SALESPERSON OR OTHER PERSON TO PROVIDE ANY INFORMATION OR MAKE ANY REPRESENTATIONS ABOUT TORQUE ENGINEERING CORPORATION EXCEPT THE INFORMATION OR REPRESENTATIONS CONTAINED IN THIS PROSPECTUS. YOU SHOULD NOT RELY ON ANY ADDITIONAL INFORMATION OR REPRESENTATIONS IF MADE. ----- This prospectus does not constitute an ----- offer to sell, or a solicitation of an PROSPECTUS offer to buy any securities: ----- o except the common stock offered by this prospectus; o in any jurisdiction in which the offer or solicitation is not authorized; o in any jurisdiction where the 19,025,000 Shares of Common Stock dealer or other salesperson is not qualified to make the offer or solicitation; TORQUE ENGINEERING CORPORATION o to any person to whom it is unlawful to make the offer or solicitation; or o to any person who is not a United States resident or who is outside the jurisdiction of the United States. The delivery of this prospectus or any accompanying sale does not imply that: o there have been no changes in the _____, 2001 affairs of Torque Engineering Corporation after the date of this prospectus; or o the information contained in this prospectus is correct after the date of this prospectus. ----- Until _____, 2002, all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters. PART II INFORMATION NOT REQUIRED IN PROSPECTUS ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

----- INDEMNIFICATION Our Certificate of Incorporation provides that we will indemnify its officers, directors, employees and agents to the fullest extent permitted by Delaware law. Any indemnitee is entitled to such indemnification in advance of any final proceeding. Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "1933 Act") may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

----- The following table sets forth estimated expenses expected to be incurred in connection with the issuance and distribution of the securities being registered. Securities and Exchange Commission Registration Fee \$ 2,500 Printing and Engraving Expenses \$ 10,000 Accounting Fees and Expenses \$ 15,000 Legal Fees and Expenses \$ 50,000 Blue Sky Qualification Fees and Expenses \$ 2,500 Miscellaneous \$ 5,000 ----- TOTAL \$ 85,000 ===== ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES.

----- In March 1999, a total of 4,870,000 shares of common stock were issued to fifteen individuals, including Torque's current President, Raymond B. Wedel, Jr., current Chief Executive Officer, Richard D. Wedel, current Vice-President and Chief Financial Officer, I. Paul Arcuri, and current Secretary, Donald Christensen. Those shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. In May 1999, 1,500,000 shares of common stock were issued to Michel Attias, the sole shareholder of IPSL, Inc., in exchange for all of the issued and outstanding shares of IPSL capital stock. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. In September 1999, a total of 461,540 shares of common stock were issued to Clement M. Lange, a former Director of Torque, Glen

A. Lange, Joey Lange and Sheila Wendholt at a price of \$3.25 per share or a total amount of \$1,500,005. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. In November 1999, Torque issued options to purchase a total of 80,000 shares of common stock to various Torque employees under the Torque 1999 stock option plan. These stock options vest at a rate of 20% per year beginning one year after the grant of the options. On November 12, 1999, the Board of Directors approved the immediate vesting of 20% of those stock options issued to all but one of the Torque employees who were granted an option. That employee's option vests 20% on the one year anniversary of the option grant. The exercise price of these stock options is \$1.80625 per share. In November 1999, Torque issued options to purchase 10,000 shares of common stock to the following members of the Board of Directors: Richard D. Wedel, Raymond B. Wedel, Jr., and Donald Christensen. Mr. Christensen resigned as a member of the Board of Directors of Torque on . These options are immediately exercisable at a October 16, 2001 price of \$3.25 per share for a period of five years from the date of the option grant. Torque also II-1 granted I. Paul Arcuri, our Chief Financial Officer, an option to purchase 100,000 shares of common stock at an exercise price of \$3.25 per share. Mr. Arcuri's option vested one-third at the time of the option grant, and the remainder vests one-third twelve months from the date of the option grant, and one-third twenty-four months from the date of the option grant. Torque also granted Donald Christensen, an officer and a former Director of Torque, an option to purchase 30,000 shares of common stock at an exercise price of \$3.25 per share with the same vesting provisions as for Mr. Arcuri's option. The stock options described above were granted in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. In December 1999, a total of 1,400 shares were issued to Mark Sorg and Eugene Sobczak in exchange for marketing services provided to Torque in the amount of \$2,688. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. In February 2000, Torque issued an option to purchase 10,000 shares of common stock to an employee under the Torque 1999 stock option plan. This stock option was immediately 20% vested and vests at a rate of 20% per year thereafter. The exercise price of the stock option is \$1.80625 per share. In June 2000, a total of 266,667 shares of common stock were issued to Clement M. Lange, a former Director of Torque, at a price of \$1.50 per share or a total amount of \$400,000. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. In October 2000, a total of 4,000 shares of common stock were issued to Glen S. Graber at a price of \$3.25 per share or a total amount of \$13,000. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. In November 2000, Torque issued options to purchase 10,000 shares of common stock to the following members of the Board of Directors: Richard D. Wedel, Raymond B. Wedel, Jr., Donald Christensen, I. Paul Arcuri and Clement M. Lange. These options are immediately exercisable at a price of \$3.25 per share for a period of five years from the date of the option grant. In November 2000, a total of 307,692 shares of common stock were issued to Clement M. Lange, a former Director of Torque, at a price of \$1.625 per share or a total amount of \$500,000. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. In February 2001, a total of 125,000 shares of common stock were issued to Messrs. Richard D. Wedel, Raymond B. Wedel, Jr., and Michel Attias at a price of \$2.00 per share or a total amount of \$250,000. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. In October 2001, we issued 300,000 of convertible debentures, from which we received net proceeds of approximately \$270,000. These debentures accrued interest at 6% per year and are convertible into shares of common stock at a conversion price equal to 75% of the average closing bid price of Torque's common stock for the 5 days prior to conversion. At Torque's option, these debentures may be paid in cash or converted into shares of common stock on the fifth anniversary unless concerted earlier by the holder. Torque paid fees of \$30,000 to Cornell Capital Partners, L.P. in connection with this offering. In November 2001, we entered into an Equity Line of Credit pursuant to which Cornell Capital Partners, L.P. has agreed to purchase up to \$5.0 million of common stock. We have registered up to 18,125,000 shares in this registration statement for issuance to the investor under the Equity Line of Credit and convertible debentures. With respect to the sale of unregistered securities referenced above, all transactions were exempt from registration pursuant to Section 4(2) of the 1933 Act, and Regulation D promulgated under the 1933 Act. In each instance, the purchaser had access to sufficient information regarding us so as to make an informed investment decision. More specifically, each purchaser signed a written subscription agreement with respect to their financial status and investment sophistication in which they represented and warranted, among other things, that they had: o the ability to bear the economic risks of an investment in the shares of our common stock; o a certain net worth sufficient

to meet our suitability standards; and II-2 o been provided with all material information requested by the purchaser or his or her representatives, and been provided an opportunity to ask questions of and receive answers from us concerning our business and the terms of the offering. II-3 ITEM 27. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES. (a) The following exhibits are filed as part of this registration statement: EXHIBIT NO. DESCRIPTION LOCATION ----- 2.1 Form of Agreement and Plan of Merger by and Incorporated by reference to Exhibit A to the among Quintessence Oil Company and Torque Registrant's Definitive Proxy Statement filed on September 24, 1999 2.2 Plan and Agreement of Reorganization dated Incorporated by reference to Exhibit 2.2 to the May 21, 1999 between IPSL, Inc. and Registrant's Annual Report on Form 10-KSB filed Quintessence Oil Company on May 25, 2000 2.3 Bill of Sale between IPSL, Inc. and Torque Incorporated by reference to Exhibit 2.3 to the Registrant's Annual Report on Form 10-KSB filed on May 25, 2000 3.1 Articles of Incorporation of Quintessence Incorporated by reference to Exhibit 3.1 to the Oil Company Registrant's Form 10 filed on December 3, 1996 3.2 Certificate of Incorporation of Torque Incorporated by reference to Exhibit B to the Registrant's Definitive Proxy Statement filed on September 24, 1999 3.3 Bylaws of Quintessence Oil Company Incorporated by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form 10 filed on December 3, 1996 3.4 Bylaws of Torque Incorporated by reference to Exhibit C of the Registrant's Definitive Proxy Statement filed on September 2, 1999 5.1 Opinion Re: Legality Provided herewith 10.1 Lease Rental Agreement dated October 6, 1999 Incorporated by reference to Exhibit 10.1 of the between Quintessence Oil Company and CNC Registrant's Amended Annual Report on Form Associates (Lease No. 99870001) 10-KSB/A filed on August 10, 2000 10.2 Lease Rental Agreement dated October 6, 1999 Incorporated by reference to Exhibit 10.2 of the between Quintessence Oil Company and CNC Registrant's Amended Annual Report on Form Associates (Lease No. 99870002) 10-KSB/A filed on August 10, 2000 10.3 Lease Rental Agreement dated October 6, 1999 Incorporated by reference to Exhibit 10.3 of the between Quintessence Oil Company and CNC Registrant's Amended Annual Report on Form Associates (Lease NO. 99870003) 10-KSB/A filed on August 10, 2000 10.4 Lease Rental Agreement dated October 6, 1999 Incorporated by reference to Exhibit 10.4 of the between Quintessence Oil Company and CNC Registrant's Amended Annual Report on Form Associates (Lease No. 99870003) 10-KSB/A filed on August 10, 2000 10.5 Real Estate Lease dated April 29, 1999 by and Incorporated by reference to Exhibit 10.5 of the between Richard W. Streffling Industries, Inc. Registrant's Annual Report on Form 10-KSB filed and Quintessence Oil Company on May 25, 2000 10.6 Torque 1999 Stock Option Plan Incorporated by reference to Exhibit E to the Registrant's Definitive Proxy Statement filed on September 24, 1999 10.7 Corporate Note dated September 28, 2000 to Incorporated by reference to Exhibit 10.7 of the Richard D. Wedel Registrant's Annual Report on Form 10-KSB filed on March 29, 2001 EXHIBIT NO. DESCRIPTION LOCATION ----- 10.8 Corporate Note dated October 4, 2000 to Incorporated by reference to Exhibit 10.8 of the Richard D. Wedel Registrant's Annual Report on Form 10-KSB filed on March 29, 2001 10.9 Corporate Note dated October 12, 2000 to Incorporated by reference to Exhibit 10.9 of the Michael Attias Registrant's Annual Report on Form 10-KSB filed on March 29, 2001 10.10 Corporate Note dated December 31, 1000 to Incorporated by reference to Exhibit 10.11 of Richard D. Wedel the Registrant's Annual Report on Form 10-KSB filed on March 29, 2001 10.12 Account Purchase Agreement dated May 2, 2001 Incorporated by reference to Exhibit 10.1 to the between Torque and Crown Financial, L.L.C. Registrant's Quarterly Report on Form 10-QSB filed on August 17, 2001 10.13 Securities Purchase Agreement dated as of Provided herewith October 28, 2001 between Torque and Cornell Capital Partners, LP 10.14 Investor Registration Rights Agreement dated Provided herewith as of October 28, 2001 between Torque and Cornell Capital Partners, LP 10.15 Escrow Agreement dated as of October 28, 2001 Provided herewith among Torque, Yorkville Advisors Management, LCC and First Union National Bank 10.16 Transfer Agent Instructions dated as of Provided herewith October 28, 2001 among Torque, Cornell Capital Partners, LP and Computer Share Trust Company, Inc. 10.17 Equity Line of Credit Agreement dated November Provided herewith 14, 2001 between Torque and Cornell Capital Partners, LP 10.18 Registration Rights Agreement dated November Provided herewith 14, 2001 between Torque and Cornell Capital Partners, LP 10.19 Escrow Agreement dated November 14, 2001 among Provided herewith Torque, Cornell Partners, LP and First Union National Bank 10.20 Placement Agent Agreement dated November 14 Provided herewith 2001 between Torque and Westport Partners, Ltd. 23.1 Consent of Weinberg & Company, P.A. Provided herewith 23.2 Consent of Kirkpatrick & Lockhart LLP Provided herewith 24.1 Power of Attorney Included on Signature Page 27.1 Financial Data Schedule Not applicable 99.1 IPSL, Inc. Financial Statements as of May 28, Incorporated by reference to Exhibit 99.1 to the 1999 Registrant's Annual Report on Form 10-KSB filed on May 25, 2000 II-5 ITEM 28. UNDERTAKINGS. The

undersigned registrant hereby undertakes: (1) To file, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to: (i) Include any prospectus required by Sections 10(a)(3) of the 1933 Act; (ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; (iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement; (2) That, for the purpose of determining any liability under the 1933 Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be a bona fide offering thereof. (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering. (4) Insofar as indemnification for liabilities arising under the 1933 Act may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the small business issuer of expenses incurred or paid by a director, officer or controlling person of the small business issuer in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the small business issuer will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the 1933 Act and will be governed by the final adjudication of such issue. (5) For purposes of determining any liability under the 1933 Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by Torque pursuant to Rule 424(b)(1) or (4) or 497(h) under the 1933 Act shall be deemed to be part of this Registration Statement as of the time it was declared effective. II-6

SIGNATURES In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this registration statement to be signed on our behalf by the undersigned, in Elkhart, Indiana, December 13, 2001.

TORQUE ENGINEERING CORPORATION By: /s/ Richard D. Wedel ----- Name: Richard D. Wedel Title: Chief Executive Officer and Chairman **KNOW ALL MEN BY THESE PRESENTS**, that each person whose signature appears below constitutes and appoints Richard D. Wedel his true and lawful attorney-in-fact and agent, with full power of substitution and revocation, for him and in his name, place and stead, in any and all capacities (until revoked in writing), to sign any and all amendments (including post-effective amendments) to this Registration Statement and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or is substitute or substitutes, may lawfully do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates stated. **SIGNATURE TITLE DATE** ----- /s/ Richard A. Wedel Chief Executive Officer and December 13, 2001 ----- Chairman of the Board of Directors Richard A. Wedel /s/ Raymond B. Wedel, Jr. President and Director December 13, 2001 ----- Raymond B. Wedel, Jr. /s/ I. Paul Arcuri Chief Financial Officer and December 13, 2001 ----- Director I. Paul Arcuri