MARLTON TECHNOLOGIES INC
Form 10-Q
August 14, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2001

OR

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

For the transition period from _______ to_______

Commission file number 1-7708

MARLTON TECHNOLOGIES, INC.
(Exact name of issuer as specified in its charter)

New Jersey	22-1825970
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2828 Charter Road	Philadelphia	PA	19154
(Address of principal executive offices)	City	State	Zip

Issuer's telephone number (215) 676-6900

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

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

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

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by court

Yes ______________________ No ___________________

APPLICABLE ONLY TO CORPORATE ISSUERS: State the number of shares outstanding of each of the issuer's classes of common equity as of the last practicable date 7,618,449

Transitional Small Business Disclosure Form (check one):

Yes _________________ No X

MARLTON TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In thousands except share data)

ASSETS	June 30, 2001	December 31, 2000
Current:		
Cash and cash equivalents	$ 1,214	$ 749
Accounts receivable, net of allowance of $408 and $836, respectively	18,148	20,891
Inventory	7,414	8,918
Prepaids and other current assets	2,457	3,314
Deferred income taxes	724	724
Total current assets	29,957	34,596
Investment in affiliates	1,733	1,813
Property and equipment, net of accumulated depreciation of $7,320 and $6,623, respectively	5,068	5,135
Rental assets, net of accumulated depreciation of $2,710 and $2,417, respectively	2,126	2,088
Goodwill, net of accumulated amortization of $3,754 and $3,353, respectively	19,028	19,429
Other assets, net of accumulated amortization of $993 and $1,196, respectively	586	766
Total assets	$58,498	$ 63,827
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 33	$ 56
Accounts payable	4,309	6,230
Accrued expenses and other	10,286	12,940
Total current liabilities	14,628	19,226
Long-term debt, net of current portion	15,034	16,067
Other long-term liabilities	-	289
Deferred income taxes	339	339

Total liabilities	30,001	35,921
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.10 par - shares authorized 10,000,000; no shares issued or outstanding		
Common stock, $.10 par - shares authorized	-	-
50,000,000; 7,618,499 and 7,428,429 issued, respectively	762	743
Additional paid-in capital	30,628	30,544
Accumulated deficit	(2,781)	(3,269)
	28,609	28,018
Less cost of 5,000 treasury shares	(112)	(112)
Total stockholders' equity	28,497	27,906
Total liabilities and stockholders' equity	$58,498	$ 63,827

See notes to consolidated financial statements.

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MARLTON TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)
(In thousands except per share data)

	For the three months ended June 30, 2001	June 30, 2000	Fo June 3
Sales	$ 22,150	$ 24,790	$
Cost of sales	16,978	19,237	
Gross profit	5,172	5,553	
Expenses:			
Selling	2,694	2,644	
Administrative and general	2,046	2,120	
	4,740	4,764	
Operating profit	432	789	
Other income (expense):			
Interest income and other income	34	6	
Interest (expense)	(336)	(367)	
Income (loss) from investments in affiliates, net	43	(23)	
	(259)	(384)	

Income before provision for income taxes	173	405	
Provision for income taxes	69	195	
Net income	$ 104	$ 210	$
Income per common share:			
Basic	$.01	$.03	$
Diluted	$.01	$.03	$

See notes to consolidated financial statements.

MARLTON TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2001
(In thousands except share data)

	Common Stock		Additional	
	Shares	Amount	Paid-in Capital	A
Balance at December 31, 2000	7,428,429	$ 743	$30,544	
Issuance of shares under compensation arrangements	190,070	19	84	
Net income for the six months ended June 30, 2001	-	-	-	
Balance at June 30, 2001	7,618,499	$ 762	$30,628	

See notes to consolidated financial statements.

MARLTON TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)
(In thousands)

	For the six months e
	2001

Cash flows from operating activities:		
Net income	$ 488	$
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	1,529	
Equity in income of affiliates	80	
Other items	(68)	
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	2,743	
(Increase) decrease in inventory	1,504	
(Increase) decrease in prepaid and other assets	857	
Increase (decrease) in accounts payable, accrued expenses and other	(4,575)	
Net cash provided by (used in) operating activities	2,558	
Cash flows from investing activities:		
Guaranteed payments to sellers	(18)	
Capital expenditures	(960)	
Net cash used in investing activities	(978)	
Cash flows from financing activities:		
Payments for loan origination fees	(60)	
Net borrowings from revolving credit facility	-	
Principal payments on revolving credit facility	(1,055)	
Net cash (used in) provided by financing activities	(1,115)	
Increase / (decrease) in cash and cash equivalents	465	
Cash and cash equivalents - beginning of period	749	
Cash and cash equivalents - end of period	$ 1,214	$
Supplemental cash flow information:		
Non-cash financing activity:		
Issuance of common stock for revolving credit facility	-	

See notes to consolidated financial statements.

MARLTON TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The consolidated financial statements included herein are unaudited and have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (of a normal and recurring nature) which are necessary to present fairly the financial position, results of operations and cash flows for the interim periods. These financial statements should be read in conjunction with the Annual Report to Shareholders and Form 10-K for the year ended December 31, 2000.

2. PER SHARE DATA

The following table sets forth the computation of basic and diluted net income per common share (in thousands except per share data):

	Three months ended		Six months ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30 2000
Net income	$ 104	$ 210	$ 488	$ 826
Weighted average common shares outstanding used to compute basic net income per common share	7,499	7,366	7,470	7,360
Additional common shares to be issued assuming the exercise of stock options, net of shares assumed reacquired	--	--	--	235
Total shares used to compute diluted net income per common share	7,499	7,366	7,470	7,595
Basic net income per share	$.01	$.03	$.07	$.11
Diluted net income per share	$.01	$.03	$.07	$.11

Options and warrants to purchase 2,113,000 and 930,000 shares of common stock were outstanding at June 30, 2001 and 2000, respectively, but were excluded in the computation of diluted net income per share because the option and warrant exercise prices were greater than the average market price of the common shares.

3. INVENTORY

Inventory consists of the following (in thousands):

	June 30, 2001	December 31, 2000
Raw materials	$ 560	$ 252

Work-in-process	2,311	4,718
Finished goods	4,543	3,948
	------	------
	$7,414	$8,918
	======	======

4. RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the FASB issued SFAS No. 141. "Business Combinations" (SFAS 141), which supercedes Accounting Principles Board Opinion No. 16 "Business Combinations" (APB 16) and SFAS No. 38 "Accounting for Preacquisition Contingencies of Purchased Enterprises" (SFAS 38). It is expected that SFAS 141 will improve the transparency of the accounting and reporting for business combinations by requiring that all business combinations be accounted for under the purchase method. Use of the pooling-of-interests method is no longer permitted. The Company will adopt SFAS 141 in the third quarter of 2001. The adoption of SFAS 141 is not expected to have a material effect on the Company's financial position or results of operations.

In July 2001, the FASB issued SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS 142), which supercedes APB No. 17 "Intangible Assets". SFAS 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. It is expected that this change will provide investors with greater transparency regarding the economic value of goodwill and its impact on earnings. The Company will adopt SFAS 142 effective January 1, 2002. The Company recognized $0.4 million of goodwill amortization expense for each of the six month periods ended June 30, 2000 and 2001. These amounts are disclosed for informational purposes only and are not necessarily reflective of future reductions to amortization expense. The impact of adopting SFAS 142 has not yet been determined.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Sales

Three months ended
(in thousands)

%

	June 30, 2001	June 30, 2000
Trade show exhibits group	$15,190	$16,571
Permanent and scenic displays group	6,960	8,219
Total sales	$22,150	$24,790

	Six months ended (in thousands)	
	June 30, 2001	June 30, 2000
Trade show exhibits group	$31,798	$34,469
Permanent and scenic displays group	11,229	15,373
Total sales	$43,027	$49,842

%

Total sales decreased $2.6 million, or 10.6%, in the second quarter of 2001 and $6.8 million, or 13.7%, in the first half of 2001 as compared with the same periods of 2000. Lower trade show exhibit sales in the second quarter of 2001 were due in large part to reductions in some of the marketing trade show budgets of the Company's clients as a result of a generally slower economy. The decrease in trade show exhibit sales for the first six months of 2001 was attributable to this economic factor as well as to lower sales of temporary business theater exhibits previously produced at the Company's San Francisco area operation. This manufacturing operation was consolidated with the Company's San Diego area operation during the fourth quarter of 2000. The decrease in sales of permanent and scenic displays was principally attributable to lower sales of store fixtures and for Sparks scenic displays. The store fixture decrease was primarily due to lower sales to national retail customers experiencing slower new store growth. The decrease in sales of scenic displays was largely the result of lower sales of permanent themed displays previously manufactured at the Company's Orlando, Florida operation. This manufacturing operation was consolidated with the Company's Atlanta, Georgia production facility during the second quarter of 2001.

Operating Profit

Operating profit decreased to $0.4 million in the second quarter of 2001 from $0.8 million in the same period of 2000 and to $1.5 million in the first half of 2001 from $2.2 million in the first half of 2000. These decreases were principally attributable to lower sales volume and to relocation of the Company's Orlando, Florida operation, which incurred losses of $0.4 million in the second quarter and $0.6 million in the first half of 2001. Included in these losses were costs of approximately $0.3 million incurred in connection with this relocation, which is expected to eliminate operating losses for this operation. The gross profit margin percentage was essentially unchanged in the first half of 2001 and improved to 23.3% of sales in the second quarter of 2001 from 22.4% in the comparable period of 2000, despite the Orlando, Florida relocation costs.

Selling expenses increased to 12.2% of sales in the second quarter and first half of 2001 from 10.7% in the second quarter of 2000 and 11.2% in the first six months of 2000. This percentage increase was due in large part to investments in additional sales resources, particularly at the Company's Western Region operations. Total selling expenses were reduced $0.3 million in the first half of 2001 from those incurred in the first half of 2000.

Administrative and general expenses decreased $0.6 million in the first half of 2001 from the same prior year period primarily due to the mutual termination of certain employment agreements as well as cost reduction initiatives executed by management in the first half of 2001.

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Income Taxes

The provision for income taxes, as a percentage of pre-tax income, decreased to 40% in 2001 from 48% in 2000 largely as a result of non-taxable income in the first quarter of 2001 offset by non-deductible goodwill amortization.

Backlog

The Company's backlog of orders decreased to approximately $16 million at June 30, 2001 from $24 million at June 30, 2000. This decrease was primarily due to lower orders for store fixtures and from a permanent/scenic display customer that became insolvent during the second half of 2000.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital of $15.3 million at June 30, 2001 was essentially unchanged from December 31, 2000. A $2.7 million decrease in accounts receivable, a $1.5 million inventory reduction and a $0.9 million decrease in prepaids and other current assets were offset by a $4.6 million reduction in current liabilities.

Cash of $2.6 million generated from operations in the first half of 2001 was used for capital additions of $0.9 million and debt reduction of $1.1 million.

The Company had borrowings of $15 million at June 30, 2001 under its $25 million revolving credit facility as compared with $16 million at December 31, 2000.

RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the FASB issued SFAS No. 141. "Business Combinations" (SFAS 141), which supercedes Accounting Principles Board Opinion No. 16 "Business Combinations" (APB 16) and SFAS No. 38 "Accounting for Preacquisition Contingencies of Purchased Enterprises" (SFAS 38). It is expected that SFAS 141 will improve the transparency of the accounting and reporting for business combinations by requiring that all business combinations be accounted for under the purchase method. Use of the pooling-of-interests method is no longer permitted. The Company will adopt SFAS 141 in the third quarter of 2001. The adoption of SFAS 141 is not expected to have a material effect on the Company's financial position or results of operations.

In July 2001, the FASB issued SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS 142), which supercedes APB No. 17 "Intangible Assets". SFAS 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. It is expected that this change will provide investors with greater transparency regarding the economic value of goodwill and its impact on earnings. The Company will adopt SFAS 142 effective January 1, 2002. The Company recognized $0.4 million of goodwill amortization expense for each of the six month periods ended June 30, 2000 and 2001. These amounts are disclosed for informational purposes only and are not necessarily reflective of future reductions to amortization expense. The impact of adopting SFAS 142 has not yet been determined.

OUTLOOK

The Company expects sales of trade show exhibits to be relatively unchanged and sales of permanent/scenic displays to decrease in the last six months of 2001 as compared with the same prior year period. In view of current economic conditions, the trade show exhibit client base of Fortune 1000 companies is expected to tightly manage their marketing budgets, which may impact the Company's trade show exhibit sales and profit margins. Adversely affected internet and technology-driven businesses, particularly in the Western Region, have also inhibited trade show exhibit sales. The Company continues to explore new business development opportunities while pursuing operating efficiency improvements and cost reduction initiatives.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. When used in this report, the words "intends," "believes," "plans," "expects," "anticipates" and similar words are used to identify these forward looking statements. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, there are certain important factors that could cause the Company's actual results to differ materially from those included in such forward-looking statements. Some of the important factors which could cause actual results to differ materially from those projected include, but are not limited to: the Company's ability to continue to identify and enter new markets and expand existing business; continued availability of financing to provide additional sources of funding for capital expenditure requirements, working capital and investments; the effects of competition on products and pricing; growth and acceptance of new product lines through the Company's sales and marketing programs; changes in material prices from suppliers; changes in customers' financial condition; the Company's ability to attract and retain competent employees; the Company's ability to add and retain customers; changes in sales mix; the Company's ability to integrate and upgrade technology; uncertainties regarding accidents or litigation which may arise; the financial impact of facilities consolidations; and the effects of, and changes in the economy, monetary and fiscal policies, laws and regulations, inflation and monetary fluctuations as well as fluctuations in interest rates, both on a national and international basis.

ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's revolving credit facility bears a floating rate of interest, based on LIBOR rates, plus an applicable spread. The Company had borrowings of $15 million from its $25 million revolving credit facility at June 30, 2001.

Fluctuations in foreign currency exchange rates do not significantly affect the Company's financial position and results of operations.

ENVIRONMENTAL

The Company believes it is in compliance with federal, state and local provisions regulating discharge of materials into the environment or otherwise relating to protection of the environment. The Company has not been identified by federal or state authorities as a potentially responsible party for environmental clean-ups at any of its sites.

LITIGATION

The Company from time to time is a defendant and counterclaimant in various lawsuits that arise out of, and are incidental to, the conduct of its business. The resolution of pending legal matters should not have a material effect on the financial position of the Company.

PART II - OTHER INFORMATION

Responses to Items one through five are omitted since these items are either inapplicable or the response thereto would be negative.

ITEM 6.

(a) Exhibits

Not Applicable

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the period covered by this report on Form 10-Q

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MARLTON TECHNOLOGIES, INC.

/s/ Robert B. Ginsburg

Robert B. Ginsburg
President and Chief Executive Officer

/s/ Stephen P. Rolf

Stephen P. Rolf
Chief Financial Officer

Dated August 14, 2001