MARLTON TECHNOLOGIES INC
Form 10-Q
November 10, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004

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)

Pennsylvania	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 |_|

Indicate by check mark whether the issuer is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes |_| No |X|

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 stock as of the last practicable date: 12,844,696

Item 1. FINANCIAL STATEMENTS

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

ASSETS	September 30, 2004	De
Current:		
Cash and cash equivalents	$ 527	
Accounts receivable, net of allowance of $438 and $415, respectively	11,844	
Inventories	6,349	
Prepaid and other current assets	1,007	
Total current assets	19,727	
Property and equipment, net of accumulated depreciation of $11,134 and $10,106, respectively	2,585	
Rental assets, net of accumulated depreciation of $4,063 and $3,672, respectively	2,864	
Goodwill	2,714	
Other assets, net of accumulated amortization of $1,729 and $1,603, respectively	201	
Notes receivable	107	
Total assets	$ 28,198	
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 79	
Accounts payable	6,292	
Accrued expenses and other current liabilities	5,884	
Total current liabilities	12,255	
Long-term liabilities:		
Long-term debt, net of current portion	7,577	
Total long-term liabilities	7,577	
Total liabilities	19,832	
Commitments and contingencies	--	
Stockholders equity:		
Preferred stock, no par value - shares authorized 10,000,000; no shares issued or outstanding	--	
Common stock, no par value - shares authorized 50,000,000; 12,844,696 outstanding at September 30, 2004 and December 31, 2003	--	
Stock warrants	742	

Additional paid-in capital	32,951
Accumulated deficit	(25,179)
	8,514
Less cost of 148,803 treasury shares	(148)
Total stockholders equity	8,366
Total liabilities and stockholders equity	$ 28,198

The accompanying notes and the notes to the consolidated financial statements included in the Registrant's Annual Report on Form 10-K are an integral part of these financial statements.

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

	For the three months ended		For the nine
	September 30, 2004	September 30, 2003	September 30, 2004
Sales	$ 16,796	$ 12,626	$ 55,901
Cost of sales	13,462	10,400	43,574
Gross profit	3,334	2,226	12,327
Selling expenses	1,889	1,818	6,044
Administrative and general expenses	1,524	1,627	4,726
Restructuring and other expenses	--	1,114	--
Operating profit (loss)	(79)	(2,333)	1,557
Other income (expense):			
Interest income and other income	--	22	--
Interest expense	(156)	(58)	(381)
Income from investments in affiliates	50	20	50
Income (loss) before income taxes	(185)	(2,349)	1,226
Benefit from income taxes	--	(433)	--
Net income (loss)	(185)	(1,916)	1,226
Net income (loss) per common share:			
Basic	$ (0.01)	$ (0.15)	$ 0.10

Diluted	$ (0.01)	$ (0.15)	$ 0.09

The accompanying notes and the notes in the consolidated financial statements included in the Registrant's Annual Report on Form 10-K are an integral part of these financial statements.

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MARLTON TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	For the nine months ended September 30,	
	2004	2003
Cash flows from operating activities:		
Net income (loss)	$ 1,226	$(1,205)
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	1,546	1,486
Income from investments in affiliates	(50)	(20)
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(4,020)	1,092
(Increase) in inventories	(77)	(643)
(Increase) decrease in prepaid and other current assets	184	(627)
(Increase) decrease in notes and other receivables	246	(221)
Decrease in accounts payable, accrued expenses and other current liabilities	(267)	(760)
Net cash used in operating activities	(1,212)	(898)
Cash flows from investing activities:		
Capital expenditures	(840)	(620)
Proceeds from sale of stock in affiliate	50	--
Acqusition of business, net of cash acquired	--	(384)
Net cash used in investing activities	(790)	(1,004)
Cash flows from financing activities:		
Proceeds from revolving credit facility, net	2,511	1,500
Payments for acquisition obligation	(163)	--
Payments for leasehold improvement obligation	(34)	--
Proceeds from capital lease obligation	107	--
Payments for loan origination fees	(133)	(50)
Payments for promissory note	--	(113)
Net cash provided by financing activities	2,288	1,337
Increase (decrease) in cash and cash equivalents	286	(565)

Cash and cash equivalents - beginning of period	241	880
Cash and cash equivalents - end of period	$ 527	$ 315

The accompanying notes and the notes in the consolidated financial statements included in the Registrant's Annual Report on Form 10-K are an integral part of these financial statements.

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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 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. Operating results for the quarter and nine month periods are not necessarily indicative of the results that may be expected for the full year or for future periods. These financial statements should be read in conjunction with the Form 10-K for the year ended December 31, 2003.

2. ACQUISITION AND RESTRUCTURING COSTS:

On August 1, 2003, a Company subsidiary acquired the assets of Exhibit Crafts, Inc., a Los Angeles, CA area manufacturer of trade show exhibits and a 20% interest in International Exposition Services, Inc., (IES), a trade show shipping and installation provider. The initial purchase price was $694,000, including the assumption of certain liabilities totaling $310,000. In addition, the sellers received 20% of the subsidiary's common stock. The purchase price approximated the fair value of the net assets acquired. In addition, the asset purchase agreement provides for contingent payments of up to $750,000 based on operating performance in 2004, 2005 and 2006. The Company relocated its San Diego area manufacturing facility to the acquired Los Angeles, CA area facility during the third quarter of 2003. Costs recorded in the third quarter of 2003 in connection with this relocation and consolidation were $1.1 million, which included relocation and employee termination expenses and the Company recorded a charge for a portion of the remaining lease obligation related to the vacated San Diego area facility.

3. MAJOR CUSTOMERS AND CONCENTRATIONS:

During the first nine months of 2004 and 2003, one customer accounted for 11.3% and 17.9%, respectively, of the Company's total sales. This customer accounted for 12% of total accounts receivable at September 30, 2004.

4. 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		Nine mont
	September 30, 2004	September 30, 2003	September 30, 2004
Net income (loss)	$ (185)	$ (1,916)	$ 1,226
Weighted average common shares outstanding used to compute basic net income per common share	12,845	12,845	12,845
Additional common shares to be issued assuming the exercise of stock options, net of shares assumed reacquired	--	--	1,174
Total shares used to compute diluted net income per common share	12,845	12,845	14,019
Basic net income (loss) per share	$ (.01)	$ (.15)	$ .10
Diluted net income (loss) per share	$ (.01)	$ (.15)	$ .09

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

Excluded in the computation of diluted income per common share were outstanding options and warrants to purchase 333,000 shares of common stock at September 30, 2004 and 336,000 shares of common stock at September 30, 2003 because the option and warrant exercise prices were greater than the market price of the common shares. Also excluded in the computation of diluted income per common share were outstanding options and warrants to purchase 1,272,000 shares of common stock at September 30, 2004 and 1,163,000 shares of common stock at September 30, 2003 because inclusion of such shares would be antidilutive.

5. INVENTORIES:

Inventories, as of the respective dates, consist of the following (in thousands):

	September 30, 2004	December 31, 2003
Raw materials	$ 456	$ 467
Work in process	2,880	3,579
Finished goods	3,013	2,226
	$6,349	$6,272

6. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement

of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Exit or Disposal Activities" ("SFAS 146"). Statement of Financial Accounting Standards ("SFAS") 146 addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force ("EITF") has set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Effective in the first quarter of 2003, the Company adopted the provisions of SFAS 146. This new accounting principle had an impact on the timing and recognition of costs associated with the Company's relocation and consolidation of its West Coast operations during the second half of 2003 and in the second quarter of 2004.

7. STOCK-BASED COMPENSATION

The Company accounts for grants of stock options under its stock option plans based on the recognition and measurement principles of APB Opinion No. 25 and related Interpretations. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123 to stock-based employee compensation (in thousands except per share data):

	For the three months ended		For the nine
	Sept 30, 2004	Sept 30, 2003	Sept 30, 2004
Net income (loss), as reported	$ (185)	$ (1,916)	$ 1,226
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of tax	(8)	(15)	(43)
Pro forma net income (loss)	$ (193)	$ (1,931)	$ 1,183
Earnings (loss) per share:			
Basic:			
As Reported	$ (.01)	$ (.15)	$ 0.10
Pro forma	$ (.01)	$ (.15)	$ 0.09
Diluted:			
As reported	$ (.01)	$ (.15)	$ 0.09
Pro forma	$ (.02)	$ (.15)	$ 0.08

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model.

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

RESULTS OF OPERATIONS

For the three and nine month periods ended September 30, 2004 and 2003.

Sales

	Three Months Ended (In thousands)		
	Sept. 30, 2004	Sept. 30, 2003	% Inc. (Dec.)
Trade show exhibits group	$ 8,191	$ 5,263	55.6%
Permanent and scenic displays group	8,605	7,363	16.9
Total sales	$16,796	$12,626	33.0%

	Nine Months Ended (In thousands)		
	Sept. 30, 2004	Sept. 30, 2003	% Inc. (Dec.)
Trade show exhibits group	$34,892	$30,964	12.7%
Permanent and scenic displays group	21,009	18,982	10.7
Total sales	$55,901	$49,946	11.9%

Total net sales of $16.8 million for the third quarter of 2004 increased 33% from the third quarter of 2003, and total net sales of $55.9 million for the first nine months of 2004 increased 11.9% from the same prior year period. The third quarter increase was principally attributable to higher sales of trade show exhibits and related services, which grew 55.6% from comparable sales for the third quarter of 2003. New customers and higher sales to several existing customers contributed to the third quarter trade show exhibits sales increase. Sales of permanent and scenic displays increased 16.9% in the third quarter of 2004 from the same 2003 period primarily due to higher sales of store fixtures. The sales increase for the first nine months of 2004 was comprised of a 12.7% increase in sales of trade show exhibits and related services and a 10.7% increase in sales of permanent and scenic displays. These increases were largely the result of the same factors discussed for the third quarter.

Gross Profit

Gross profit, as a percentage of sales, improved to 19.8% in the third quarter of 2004 from 17.6% in the same 2003 period. This improvement was attributable to several factors, including cost reduction initiatives and the favorable effect of higher sales on fixed overhead expenses. The gross profit percentage decreased to 22.1% for the first nine months of 2004 as compared with 22.5% in the same prior year period. This decrease was due, in large part, to additional lease expense of $0.2 million accrued in the second quarter of 2004 in connection with the Company's consolidation of its West Coast operations

initiated during the second half of 2003. The lease obligation for the remaining portion of the Company's vacated San Diego area facility was terminated on June 30, 2004. The additional expense recorded in the second quarter of 2004 reflected costs associated with this lease termination.

Selling Expenses

Selling expenses, as a percentage of sales, decreased to 11.2% for the third quarter of 2004 and to 10.8% for the first nine months of 2004 from 14.4% and 12.7% for the respective 2003 periods. These decreases were largely the result of cost reduction initiatives implemented near the end of 2003, which were realized during 2004.

Administrative and General Expenses

Administrative and general expenses were reduced $0.1 million in the third quarter of 2004 and $0.6 million in the first nine months of 2004 from the expense levels for the comparable periods of 2003. These reductions were principally attributable to cost reduction initiatives implemented for the Company's trade show exhibit businesses as well as to costs recognized in the second quarter of 2003 in connection with a terminated merger transaction.

Restructuring and Other Expenses

The Company relocated its San Diego area manufacturing facility to its Los Angeles, CA area facility during the third quarter of 2003. Costs recorded in the third quarter of 2003 in connection with this relocation and consolidation were $1.1 million, which included relocation and employee termination expenses and the Company recorded a charge for a portion of the remaining lease obligation related to the vacated San Diego area facility.

Interest Expense

Interest expense increased to $156,000 in the third quarter of 2004 from $58,000 in the same 2003 period and to $381,000 for the first nine months of 2004 from $169,000 for the first nine months of 2003. Approximately half of these increases were due to higher borrowing from the Company's revolving credit facility largely as a result of financing higher accounts receivable. The remaining portion of these increases was the result of higher interest rates on the Company's new credit facility discussed below.

Income from Investments in Affiliate

A gain of $50,000 was recognized in the third quarter of 2004 related to the sale of the Company's stock in a portable trade show exhibit manufacturer.

Benefit from Income Taxes

In the fourth quarter of 2002, the Company established a valuation allowance for deferred income tax assets related to net operating loss carry forwards. As a result, the Company did not record a provision for income taxes in 2004. In the third quarter of 2003, the Company recognized the benefit of an expected income tax refund for $0.4 million related to a net operating loss carry back.

Net Income (Loss)

The Company incurred a net loss of $0.2 million ($.01 per fully diluted share) in the third quarter of 2004 as compared with a net loss of $1.9 million ($.15

per fully diluted share) in the same prior year period. Net income of $1.2 million ($.09 per fully diluted share) for the first nine months of 2004 compared favorably to a net loss of $1.2 million ($.09 per fully diluted share) for the comparable period of 2003. These improvements were due in large part to higher sales and cost reduction initiatives in 2004 and the $1.1 million restructuring charge recorded in the third quarter of 2003.

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Backlog

The Company's backlog of orders was approximately $16 million at September 30, 2004 and September 30, 2003.

LIQUIDITY AND CAPITAL RESOURCES

On February 6, 2004, the Company replaced its $8 million revolving credit facility with a new credit facility provided by a commercial asset-based lender. The new credit facility, which expires on February 6, 2007, provides for borrowing capacity of up to $12 million based on a percentage of eligible accounts receivable and inventories. This new facility bears interest based on the 30-day dealer placed commercial paper rate plus 4.50% (effective rate of approximately 6% at September 30, 2004), restricts the Company's ability to pay dividends, and includes certain financial covenants (fixed charge coverage ratio and maximum cash capital expenditure amount of $1 million in 2004 and $1.25 million in 2005 and in 2006). The Company's borrowing capacity was $9.2 million at September 30, 2004. Proceeds from this credit facility are used primarily for working capital and other capital purposes.

The Company's working capital increased to $7.5 million at September 30, 2004 from $3 million at December 31, 2003, largely due to a $4 million increase in accounts receivable. The increase in accounts receivable was principally attributable to higher sales near the end of the third quarter of 2004 as compared with sales near the end of 2003 as well as slower payment schedules from several of the Company's Fortune 1000 clients. The increase in accounts receivable also led to the increase in long-term debt to $7.6 million at September 30, 2004 from $5.1 million at December 31, 2003.

The Company has lease commitments for certain facilities under non-cancelable operating leases. Timing of future lease commitments as well as maturities of long-term debt is as follows:

		Payment due by period			
Contractual Obligations	Total	2004	2005 to 2007	2008 to 2010	After 2010
Long-Term Debt Obligations	$ 7,549	$ 45	$ 7,504	$ --	$ --
Capital Lease Obligations	107	34	73	--	--
Operating Lease Obligations	6,509	542	4,826	1,141	--
Purchase Obligations	--	--	--	--	--
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet Under GAAP	--	--	--	--	--
Total	$16,437	$ 1,082	$14,223	$ 1,133	--

The Company leases a facility from a partnership controlled by two outside shareholders of the Company. This lease, which expires on May 14, 2019, contains an option for the Company to terminate after 10 years (May 14, 2009) subject to the landlord's ability to relet the premises. The minimum annual rent is $771,000 through May 14, 2009 and is reset thereafter (not included in the table above). The Company is also responsible for taxes, insurance and other operating expenses for this facility.

The Company jointly leases a 31,000 square foot facility with International Expo Services ("IES"), in which the Company holds a minority interest. The annual lease commitment for this facility is $214,000 through September 22, 2007, which is not included with the above future operating lease commitments. Payments in connection with this lease are made by IES.

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OUTLOOK

The Company expects sales volume in 2004 to increase modestly above the 2003 sales level. The Company's trade show exhibit and retail chain client base of Fortune 1000 companies is expected to continue to closely manage their marketing and capital budgets, which would inhibit the Company's sales and margin growth. The Company continues to explore new sales opportunities while continuing to pursue operating efficiency improvements and cost reduction initiatives to mitigate the impact of its clients' tight budget management.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Exit or Disposal Activities" ("SFAS 146"). Statement of Financial Accounting Standards ("SFAS") 146 addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force ("EITF") has set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Effective in the first quarter of 2003, the Company adopted the provisions of SFAS 146. This new accounting principle had an impact on the timing and recognition of costs associated with the Company's relocation and consolidation of its West Coast operations during the second half of 2003 and in the second quarter of 2004.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. When used in this report, the words "intends," "believes," "plans," "expects," "anticipates," "probable," "could" 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 expenditures, 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 and labor 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; uncertainties about the impact of the threat of future terrorist attacks on business travel and related trade show attendance; 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 the 30-day dealer placed commercial paper rate plus 4.50%. The Company had borrowings of $7.4 million from its revolving credit facility at September 30, 2004.

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

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ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

The Company established a Disclosure Committee chaired by the Company's Chief Financial Officer and comprised of managers representing the Company's major areas, including financial reporting and control, sales, operations and information technology. This Committee carried out an evaluation of the effectiveness and operation of the Company's disclosure controls and procedures, and established ongoing procedures to monitor and evaluate these controls and procedures in the future. Based upon that evaluation, as of the end of the period covered by this report, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

(b) Changes in internal controls

There were no changes in the Company's internal controls over financial reporting identified in connection with the Item 4 (a) evaluation that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Responses to Items 1, 2, 3, 4 and 5 are omitted since these items are either inapplicable or the response thereto would be negative.

ITEM 6. EXHIBITS

(a) Exhibits.

10(a) First Amendment to Loan and Security Agreement

10(b) Second Amendment to Loan and Security Agreement

31(a) Rule 13a - 14(a) / 15(d) - 14 (a) Certification, Chief Executive Officer

31(b) Rule 13a - 14(a) / 15(d) - 14 (a) Certification, Chief Financial Officer

32 Section 1350 Certifications

SIGNATURES

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

MARLTON TECHNOLOGIES, INC.

By: /s/ Robert B. Ginsburg

Robert B. Ginsburg
President and Chief Executive Officer

By: /s/ Stephen P. Rolf

Stephen P. Rolf
Chief Financial Officer

Dated: November 10, 2004