MARLTON TECHNOLOGIES INC
Form 10-Q
May 13, 2004

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 March 31, 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 Identific

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

Issuer's telephone number (215)

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	March 31, 2004
Current:	
Cash and cash equivalents	449
Accounts receivable, net of allowance of $473 and $415, respectively	11076
Inventories	6329
Prepaid and other current assets	1172
Total current assets	19026
Property and equipment, net of accumulated depreciation of $10,446 and $10,106, respectively	2960
Rental assets, net of accumulated depreciation of $3,826 and $3,672, respectively	2680
Goodwill	2714
Other assets, net of accumulated amortization of $1,677 and $1,603, respectively	424
Notes receivable	140
Total assets	27944
LIABILITIES AND STOCKHOLDERS EQUITY	
Current liabilities:	
Current portion of long-term debt	89
Accounts payable	7392
Accrued expenses and other current liabilities	5966
Total current liabilities	13447
Long-term liabilities:	
Long-term debt, net of current portion	6452
Total long-term liabilities	6452
Total liabilities	19899

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 March 31, 2004 and December 31, 2003	--
Stock warrants	742
Additional paid-in capital	32951
Accumulated deficit	(25500)
	8193
Less cost of 148,803 treasury shares	(148)
Total stockholders equity	8045
Total liabilities and stockholders equity	27944

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.

2

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

	For the three months ended	
	March 31, 2004	March 31, 2003
Net sales	$ 18,549	$ 17,456
Cost of sales	13,810	13,054
Gross profit	4,739	4,402
Selling expenses	2,217	2,300
Administrative and general expenses	1,525	1,645
Operating profit	997	457
Other income (expense):		
Interest and other income	-	4
Interest expense	(92)	(45)
Income before income taxes	905	416
Provision for income taxes	-	-
Net income	905	416
Net income (loss) per common share:		
Basic	$.07	$.03

Diluted	$.07	$.03

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 CASH FLOWS
(UNAUDITED)
(In thousands)

	For the three month
	March 31, 2004
Cash flows from operating activities:	
Net income	$ 905
Adjustments to reconcile net income to cash provided by (used in) operating activities:	
Depreciation and amortization	569
Change in operating assets and liabilities:	
Increase in accounts receivable, net	(3,252)
(Increase) decrease in inventories	(57)
(Increase) decrease in prepaid and other assets	19
Increase (decrease) in accounts payable, accrued expenses and other current liabilities	915
Net cash used in operating activities	(901)
Cash flows from investing activities:	
Capital expenditures	(106)
Net cash used in investing activities	(106)
Cash flows from financing activities:	
Proceeds from revolving credit facility, net	1,328
Payments for acquisition obligation	(11)
Payments for leasehold improvement obligation	(11)
Payments for loan origination fees	(117)
Payments for promissory note	-
Proceeds from notes receivable	26
Net cash provided by (used in) financing activities	1,215
Decrease in cash and cash equivalents	208
Cash and cash equivalents - beginning of period	241
Cash and cash equivalents - end of period	$ 449

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
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. Operating results for the quarter 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.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

2. MAJOR CUSTOMERS:

During the first quarter of 2004 and 2003, the same customer accounted for 12% and 16%, respectively, of the Company's total sales.

3. 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	
	March 31, 2004	Marc
Net income	$905	
Weighted average common shares outstanding used to compute basic net income per common share	12,845	
Additional common shares to be issued assuming the exercise of stock options, net of shares assumed reacquired	742	
Total shares used to compute diluted net income (loss) per common share	13,587	
Basic net income per share	$.07	

Diluted net income per share	$.07

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 248,846 shares of common stock at March 31, 2004 and 7,373,512 shares of common stock at March 31, 2003 because the option and warrant exercise prices were greater than the average market price of the common shares.

4. INVENTORIES:

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

	March 31, 2004	Decembe
Raw materials	$491	
Work in process	3,063	
Finished goods	2,775	
	$6,329	

5. 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.

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

RESULTS OF OPERATIONS

Three months ended March 31, 2004 as compared with three months ended March 31, 2003

Sales

	Three Months Ended (in thousands) March 31, 2004	March 31, 2003
Trade show exhibits group	$ 13,208	$ 14,017
Permanent and scenic displays group	5,341	3,439
Total sales	$ 18,549	$17,456

Total net sales of $18.5 million for the first quarter of 2004 grew 6% from total net sales of $17.5 million for the first quarter of 2003. This increase was led by higher sales of permanent and scenic displays, which increased $1.9 million, or 55%, while sales of trade show exhibits and related services decreased $0.8 million, or 6%, below the prior year first quarter results. The increase in sales of permanent and scenic displays was attributable to higher sales of store fixtures and permanent museum displays. The decrease in sales of trade show exhibits and related products was principally attributable to lower trade show budgets and reduced attendance at certain trade shows for existing clients.

Gross Profit

Gross profit, as a percentage of net sales, of 25.5% for the first quarter of 2004 improved slightly from 25.2% for the same prior year period. This improvement was primarily due to higher gross profit margins generated by sales of store fixtures.

Selling Expenses

Selling expenses of $2.2 million, or 12% of net sales, for the first quarter of 2004 decreased from $2.3 million, or 13.2% of net sales, for the corresponding period of 2003. This decrease was largely the result of cost reduction initiatives and higher sales of permanent and scenic displays, which are subject to lower variable selling expenses.

Administrative and General Expenses

Administrative and general expenses were reduced to $1.5 million in the first quarter of 2004 from $1.6 million in the comparable prior year period. This reduction was principally attributable to cost reduction initiatives implemented for the Company's trade show exhibit businesses.

Operating Profit

Operating profit increased to $1 million for the first quarter of 2004 from $0.5 million for the same period of 2002 due, in large part, to higher sales volume and cost reduction initiatives.

7

Other Income/(Expense)

Interest expense increased to $92,000 in the first quarter of 2004 from $45,000 in the first quarter of 2003 due to higher borrowing from the Company's revolving credit facility and to higher interest rates on the Company's new credit facility discussed below.

Net Income

The Company generated net income of $0.9 million ($.07 per fully diluted share) in the first quarter of 2004 as compared with net income of $0.4 million ($.03 per fully diluted share) in the corresponding period of 2003. The improvement was principally attributable to higher sales volume and cost reduction initiatives.

Provision for 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 the first quarters of 2004 and 2003.

Backlog

The Company's backlog of orders was approximately $21 million at March 31, 2004 and $20 million at March 31, 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 5.5% at March 31, 2004), restricts the Company's ability to pay dividends, and includes certain financial covenants (fixed charge coverage ratio and maximum capital expenditure amount of $1 million in 2004 and $1.25 million in 2005 and in 2006). The Company's borrowing capacity was $9.3 million at March 31, 2004. Proceeds from this credit facility are used primarily for working capital and other capital purposes.

The Company's working capital increased to $5.6 million at March 31, 2004 from $3 million at December 31, 2003, largely due to a $3.3 million increase in accounts receivable. The increase in accounts receivable was principally attributable to higher sales near the end of the first quarter of 2004 as compared with sales in the fourth quarter of 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 are as follows:

		Payment due by period			
Contractual Obligations	Total	Less than 1 Year -2004	1-3 Years	3-5 Years	More tha 5 Years
Long-Term Debt Obligations	$ 6,541	$ 89	$6,452	$--	$--
Capital Lease Obligations	--	--	--	--	--
Operating Lease Obligations	16,160	1,651	4,919	1,590	8,000
Purchase Obligations	--	--	--	--	--
Other Long-Term Liabilities Reflected on the Registrant's					

Balance Sheet Under GAAP	--	--	--	--	--
Total	$22,701	$ 1,740	$11,371	$1,590	$8,000

8

The Company leases a facility from a partnership controlled by two 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 $857,173 through May 14, 2019 (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.

OUTLOOK

The Company expects combined sales of trade show exhibits and of permanent and scenic displays in 2004 to decrease from 2003 levels. The Company's trade show exhibit client base of Fortune 1000 companies is expected to closely manage their marketing budgets, which would inhibit the Company's trade show exhibit sales and margins. The Company expects sales of store fixtures to increase in 2004 from 2003 levels. The Company continues to explore new sales opportunities while pursuing operating efficiency improvements and cost reduction initiatives to mitigate the impact of lower sales volume.

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.

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 $6.3 million from its revolving credit facility at March 31, 2004.

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

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, within the 90 days prior to the date of 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 significant changes in the Company's internal controls or in other factors that would significantly affect these controls subsequent to the date of their evaluation.

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. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

Exhibit		Page
10(a)	Fifth Amendment to Lease for Premises located at 8125 Troon Circle, Austell, GA 30001.	12
10(b)	Third Amendment to Lease for Premises located at 2025 Gillespie Way, El Cajon, CA 90202.	18

Exhibit		Page
10(c)	Fourth Amendment to Lease for Premises located at 2025 Gillespie Way, El Cajon, CA 90202.	24
10(d)	Fifth Amendment to Lease for Premises located at 2025 Gillespie Way, El Cajon, CA 90202.	29
10(e)	Amendment to Standard Sublease at 2025 Gillespie Way, El Cajon, CA	35
10(f)	First Amendment to Loan and Security Agreement with General Electric Capital Corporation.	44
31(a)	Rule 13a - 14(a) / 15(d) - 14 (a) Certification, Chief Executive Officer	49
31(b)	Rule 13a - 14(a) / 15(d) - 14 (a) Certification, Chief Financial Officer	50
32	Section 1350 Certifications	51

(b) Reports on Form 8-K.

One report on Form 8-K dated March 31, 2004 was filed by the Company during the first quarter of 2004, reporting a Notification of Late Filing on Form 12b-25 dated March 31, 2004.

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: May 13, 2004