MARLTON TECHNOLOGIES INC
Form 10-Q
May 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 March 31, 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 Identificati

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

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: 7,445,001

Transitional Small Business Disclosure Form (check one):

Yes ________________ No X

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

ASSETS	March 31, 2001
Current:	
Cash and cash equivalents	$ 646
Accounts receivable, net of allowance of $703 and $836, respectively	20,041
Inventory	8,838
Prepaids and other current assets	2,744
Deferred income taxes	724
Total current assets	32,993
Investment in affiliates	1,690
Property and equipment, net of accumulated depreciation of $6,985 and $6,623, respectively	5,214
Rental assets, net of accumulated depreciation of $2,582 and $2,417, respectively	2,040
Goodwill, net of accumulated amortization of $3,558 and $3,353, respectively	19,224
Other assets, net of accumulated amortization of $1,235 and $1,196, respectively	587
Total assets	$ 61,748
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Current portion of long-term debt	$ 34
Accounts payable	5,618
Accrued expenses and other current liabilities	11,423
Total current liabilities	17,075
Long-term liabilities:	
Long-term debt, net of current portion	16,033
Other long-term liabilities	-
Deferred income taxes	339

Total long-term liabilities	16,372
Total liabilities	33,447
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; 7,446,429 and 7,428,429 issued, respectively	745
Additional paid-in capital	30,553
Accumulated (deficit)	(2,885)
	28,413
Less cost of 5,000 treasury shares	(112)
Total stockholders' equity	28,301
Total liabilities and stockholders' equity	$ 61,748

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	
	March 31, 2001	March 31
Net sales	$ 20,877	$ 25,
Cost of sales	15,728	18,
Gross profit	5,149	6,
Selling expenses	2,590	2,
Administrative and general expenses	1,532	2,
Operating profit	1,027	1,
Other income (expense):		
Interest and other income	37	
Interest expense	(301)	(
Income (loss) from investments in affiliates	(123)	
Income before income taxes	640	1,

Provision for income taxes	256	
Net income	$ 384	$
Net income per common share:		
Basic	$ .05	$
Diluted	$ .05	$

See notes to consolidated financial statements.

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MARLTON TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2001
(UNAUDITED)
(In thousands except share data)

	Common Stock		Additional	
	Shares	Amount	Paid-in Capital	Accumulated Deficit
Balance, December 31, 2000	7,428,429	$ 743	$ 30,544	$ (3,269)
Issuance of shares under compensation arrangements	18,000	2	9	-
Net income for the three months ended March 31, 2000	-	-	-	384
Balance, March 31, 2001	7,446,429	$ 745	$ 30,553	$ (2,885)

See notes to consolidated financial statements.

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

	For the thr
	March 31, 2001
Cash flows from operating activities:	
Net income	$ 384
Adjustments to reconcile net income to cash provided by (used in) operating activities:	
Depreciation and amortization	794
Termination of employment agreements	(544)
Equity in (income) loss of affiliates	100

Other items	150
Change in operating assets and liabilities:	
(Increase) decrease in accounts receivable, net	850
(Increase) decrease in inventory	80
(Increase) decrease in prepaid and other assets	570
(Decrease) in accounts payable, accrued expenses and other current liabilities	(1,856)
Net cash provided by (used in) operating activities	528
Cash flows from investing activities:	
Guaranteed payments to sellers	(18)
Capital expenditures	(558)
Net cash used in investing activities	(576)
Cash flows from financing activities:	
Payments for loan origination fees	-
Borrowings from revolving credit facility	-
Principal payments on long-term debt	(55)
Net cash provided by (used in) financing activities	(55)
Increase (decrease) in cash and cash equivalents	(103)
Cash and cash equivalents - beginning of period	749
Cash and cash equivalents - end of period	$ 646
Supplemental cash flow information:	
Cash paid for interest	$ 375
Cash paid for income taxes	$ 3
Non-cash financing activity:	
Stock options issued in connection with revolving credit facility	$ -

See notes to consolidated 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 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. MAJOR CUSTOMERS:

During the first quarter of 2001, no customer accounted for over 10% of net sales. During the first quarter of 2000, one customer accounted for 10% of consolidated net 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, 2001	Three months ended March 31, 2000
Net income	$ 384	$ 616
Weighted average common shares outstanding used to compute basic net income per common share	7,441	7,354
Additional common shares to be issued assuming the exercise of stock options, net of shares assumed reacquired	--	323
Total shares used to compute diluted net income per common share	7,441	7,677
Basic net income per share	$ .05	$ .08
Diluted net income per share	$ .05	$ .08

Options and warrants to purchase 2,175,064 and 814,000 shares of common stock were outstanding at March 31, 2001 and 2000, respectively, but were excluded in the computation of diluted income per common share because the option and warrant exercise prices were greater than the average market price of the common shares.

4. INVENTORY:

Inventory, as of the respective dates, consists of the following (in thousands):

	March 31, 2001	December 31, 2000
Raw materials	$ 525	$ 252
Work in process	3,633	4,718
Finished goods	4,680	3,948

	$8,838	$8,918
	======	======

5. EMPLOYMENT AGREEMENTS:

Certain employment agreements were mutually terminated on January 23, 2001, which reduced administrative and general expenses by $544,000 in the first quarter of 2001.

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Three months ended March 31, 2001 as compared with three months ended March 31, 2000

Sales

	Three Months Ended (in thousands)	
	March 31, 2001	March 31, 2000
Trade show exhibits group	$ 16,608	$ 17,898
Permanent/scenic displays group	4,269	7,154
Total sales	$ 20,877	$ 25,052

Total sales for the first quarter 2001 decreased $4.2 million, or 17%, below the first quarter of 2000. Sales of trade show exhibits decreased $1.3 million, or 7%. This decrease was due in large part to lower sales of temporary business theater exhibits previously produced at the Company's San Francisco area operation. This manufacturing operation was relocated to the Company's San Diego area facility during the fourth quarter of 2000. Certain of the Company's Fortune 1000 clients have reduced their marketing trade show budgets as a result of slower economic growth. Sales of permanent/scenic displays decreased $2.9 million, or 40%, principally attributable to lower store fixture sales and to a decrease in scenic displays sales to a customer that became insolvent in the second half of 2000.

Operating Profit

Operating Profit decreased to $1.0 million in the first quarter of 2001 from $1.4 million in the first quarter of 2000 primarily as a result of lower sales volume. The gross profit margin decreased to 24.7% of sales in the first quarter of 2001 from 25.7% of sales in the same prior year period due in large part to lower new exhibit construction volume, which yields higher gross profit margins than other trade show exhibit sales such as on-site trade show services.

Selling expenses increased, as a percentage of net sales, to 12.4% in the first quarter of 2001 from 11.7% in the comparable period of 2000 largely due to certain relatively fixed selling expenses spread over lower sales volume.

Administrative and general expenses decreased to $1.5 million in the first quarter of 2001 from $2.1 million in the first quarter of 2000. This decrease was principally attributable to the mutual termination of certain employment agreements, which reduced administrative expenses by approximately $0.5 million as well as to cost reduction initiatives executed by management during the first quarter of 2001.

Other Income/(Expense)

A loss of $123,000 from investment in affiliates was incurred in the first quarter of 2001, due in large part to losses recorded for the Company's investment in Sparks Europe.

Income Taxes

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

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Net Income

Net income decreased to $384,000 ($.05 per fully diluted share) in the first quarter of 2001 from $616,000 ($.08 per fully diluted share) in the first quarter of 2000. Lower sales volume largely accounted for this decrease.

Backlog

The Company's backlog of orders at March 31, 2001 and March 31, 2000 was approximately $18 million and $23.5 million, respectively. The decrease was primarily due to lower orders received for store fixtures and from a permanent/scenic display customer that became insolvent during the second half of 2000.

LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of 2001, the Company's working capital increased $0.5 million to $15.9 million at March 31, 2001 from $15.4 million at December 31, 2000. This increase was due in large part to a reduction in accounts payable and accrued expenses, partially offset by a reduction in pre-paid expenses.

The Company had borrowings of $16 million at March 31, 2001 under its $25 million revolving credit facility.

OUTLOOK

The Company expects sales of trade show exhibits to be relatively unchanged and sales of permanent/scenic displays to decrease in the last nine 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. Slower growth rates for internet and technology-driven businesses in the Western Region have also inhibited trade show exhibit sales growth. 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 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; ability to attract and retain competent employees; ability to add and retain customers; changes in sales mix; 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.

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 $16 million from its $25 million revolving credit facility at March 31, 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 six are omitted since these items are either inapplicable or the response thereto would be negative.

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.

/s/ Robert B. Ginsburg

Robert B. Ginsburg
President and Chief Executive Officer

/s/ Stephen P. Rolf

Stephen P. Rolf
Chief Financial Officer

Dated: May 14, 2001