

ARBOR ENTECH CORP
Form 10QSB
September 17, 2003

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the period ended: July 31, 2003

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 0-30432**

ARBOR ENTECH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-2335094
(I.R.S. Employer Identification Number)

Route 349, RD 1, Box 1076, Little Marsh, PA
(Address of Principal Executive Offices)

16931
(Zip Code)

Registrant's Telephone Number, including Area Code: **(570) 376-2217**

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 No

Indicate the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date.

Class

Outstanding at July 31, 2003

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Common Stock, par value \$.001 per share

7,050,540

Transitional Small Business Format (check one): Yes No

ARBOR ENTECH CORPORATION

CONDENSED BALANCE SHEET

JULY 31, 2003

(Unaudited)

ASSETS

Current Assets:

| | | |
|---------------------------|----|----------------|
| Cash and Cash Equivalents | \$ | 384,022 |
| Accounts Receivable | | 73,953 |
| Inventories | | 85,384 |
| Prepaid Expenses | | 33,130 |
| | | <u>576,489</u> |
| Total Current Assets | | 576,489 |

Property, Plant and Equipment (Net of Accumulated Depreciation of \$100,453) 39,605

\$ 616,094

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

| | | |
|--|----|---------------|
| Accounts Payable and Accrued Liabilities | \$ | 26,820 |
| | | <u>26,820</u> |
| Total Current Liabilities | | 26,820 |

Commitments and Contingencies

Stockholders' Equity:

| | |
|---|----------------|
| Common Stock, \$.001 Par Value; Authorized 10,000,000 Shares; Issued and Outstanding 7,050,540 Shares | 7,050 |
| Additional Paid-In Capital | 2,314,039 |
| Retained Earnings (Deficit) | (659,593) |
| Notes Receivable Related Parties | (1,072,222) |
| | <u>589,274</u> |
| Total Stockholders' Equity | 589,274 |

\$ 616,094

The accompanying notes are an integral part of the financial statements.

CONDENSED STATEMENT OF OPERATIONS

(Unaudited)

| | Quarter Ended July 31, | |
|--|---------------------------|------------|
| | 2003 | 2002 |
| Net Sales | \$ 140,753 | \$ 247,477 |
| Costs and Expenses: | | |
| Cost of Sales | 87,830 | 148,486 |
| Selling, General and Administrative Expenses | 93,299 | 107,282 |
| | 181,129 | 255,768 |
| Loss from Operations | (40,376) | (8,291) |
| Other Income: | | |
| Interest Income | 194 | 447 |
| | 194 | 447 |
| Net Loss | \$ (40,182) | \$ (7,844) |
| Earnings Per Common Share Basic | \$ (.00) | \$ (.00) |
| Weighted Average Shares Outstanding | 7,050,540 | 7,050,540 |

The accompanying notes are an integral part of the financial statements.

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ARBOR ENTECH CORPORATION

CONDENSED STATEMENT OF CASH FLOWS

(Unaudited)

| | Quarter Ended July 31, | |
|---|---------------------------|------------|
| | 2003 | 2002 |
| Cash Flows from Operating Activities: | | |
| Net Loss | \$ (40,182) | \$ (7,844) |
| Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities: | | |
| Depreciation | 1,399 | 3,731 |
| Changes in Operating Assets and Liabilities: | | |

| | Quarter Ended July 31, | |
|---|-----------------------------------|---------------|
| | 2003 | 2002 |
| Decrease in Accounts Receivable | 153,052 | 109,254 |
| (Increase) in Inventories | (20,261) | (33,122) |
| Increase (Decrease) in Prepaid Expenses | 2,736 | (38,527) |
| (Decrease) in Accounts Payable and Accrued Liabilities | (28,509) | (10,442) |
| (Decrease) in Taxes Payable | | (1,479) |
| Total Adjustments | 108,417 | 29,415 |
| Net Cash Provided by Operating Activities | 68,235 | 21,571 |
| Cash Flows from Financing Activities: | | |
| Proceeds of Loans to Related Parties | 13,500 | 13,500 |
| Net Cash Provided by Financing Activities | 13,500 | 13,500 |
| Increase in Cash and Cash Equivalents | 81,735 | 35,071 |
| Cash and Cash Equivalents Beginning of Period | 302,287 | 252,026 |
| Cash and Cash Equivalents End of Period | \$ 384,022 | \$ 287,097 |
| Supplemental Cash Flow Information: | | |
| Cash Paid for Interest | \$ | \$ |
| Cash Paid for Income Taxes | \$ | \$ 50,200 |
| Supplemental Disclosure of Non-Cash Financing Activities: | | |
| Accrued Interest on Related Parties Loans Receivable Credited to Additional Paid-In Capital | \$ 17,134 | \$ 17,134 |

The accompanying notes are an integral part of the financial statements.

ARBOR ENTECH CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

JULY 31, 2003
(Unaudited)

NOTE 1 Unaudited Interim Financial Statement

In the opinion of the Company's management, the accompanying unaudited condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the information set forth therein. These financial statements are condensed and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

Results of operations for interim periods are not necessarily indicative of the results of operations for a full year.

NOTE 2 Inventories

Inventories consist of the following:

| | |
|----------------|------------------|
| Raw Materials | \$ 79,723 |
| Finished Goods | 5,661 |
| | <u>85,384</u> |
| | <u>\$ 85,384</u> |

NOTE 3 Property, Plant and Equipment

Property, plant and equipment consists of the following:

| | |
|--------------------------------|------------------|
| Land | \$ 22,058 |
| Building and Improvements | 61,114 |
| Machinery and Equipment | 4,300 |
| Computers | 12,804 |
| Automotive Equipment | 39,782 |
| | <u>140,058</u> |
| Less: Accumulated Depreciation | 100,453 |
| | <u>\$ 39,605</u> |

The land and building are collateralized by a mortgage held by the Company's Secretary/Treasurer (see Note 6).

NOTE 4 Notes Receivable Related Parties

Notes receivable from related parties consists of amounts due from two affiliated companies. These loans are classified as a reduction of stockholders' equity. Although the loans bear interest such interest is not recorded as income for financial statement purposes but as additional contributed capital. In November 1999 the remaining two loans were memorialized into 10 year promissory notes bearing interest at 10% per annum, which was reduced to 7% per annum October 2001. The notes are payable in equal annual installments of \$108,789 and interest on the notes is payable semi-annually.

The notes consist of the following:

Receivable from:

| | |
|--------------------------------------|---------------------|
| Rushmore Financial Services, Inc.(a) | \$ 784,024 |
| Attain Technology, Inc.(b) | 195,072 |
| | <u>979,096</u> |
| Accrued Interest | 93,126 |
| | <u>\$ 1,072,222</u> |

(a) A corporation wholly owned by Mr. Shefts and Mr. Houtkin.

(b)

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A wholly owned subsidiary of Rushmore Financial Services, Inc.

The Company has not received the annual principal payments in the amount of \$108,789 that were due November 18, 2001 and 2002.

NOTE 5 Related Party Transactions

The Company paid \$13,500 in administrative fees to a Company owned by two of its significant stockholders during the quarters ended July 31, 2003 and 2002.

NOTE 6 Commitments and Contingencies

Line of Credit

The Company has a revolving credit facility with its Secretary/Treasurer, secured by a mortgage of the Company's real property located in Tioga County, Pennsylvania. This revolving line of credit provides for the extension of credit in the aggregate principal amount of \$100,000 with interest at 11% per annum. Principal and interest are payable on demand. There was no balance due at July 31, 2003 on this credit facility.

NOTE 7 Major Customers

Net sales to a major national retailer in 2003 and 2002 accounted for approximately 100% of net sales each period.

As of July 31, 2003, 100% of accounts receivable are amounts due from one major national retailer.

NOTE 8 Subsequent Events

On September 2, 2003, the Company informed The Home Depot, Inc., the customer that purchases more than 99 percent of the Company's wood products, that the Company would no longer do business with Home Depot due to increased difficulties in transacting business with Home Depot on a profitable basis. The Company stated to Home Depot that these difficulties included Home

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Depot's prohibition against price increases despite increases in the Company's increased costs of production, a diminution in the Home Depot territories the Company was allowed to sell product to, and Home Depot's demands regarding returns of ordered products that the Company was unwilling to accede to for economic reasons.

The Company has discontinued its wood products business. The Company intends to seek other business opportunities, but there can be no assurance that such opportunities will be identified, engaged in, or result in any profits.

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Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

The statements contained in this report which are not historical fact are "forward-looking statements" that involve various important assumptions, risks, uncertainties and other factors which could cause the Company's actual results for 2003 and beyond to differ materially from those expressed in such forward-looking statements. These important factors include, without limitation, competitive factors and pricing pressures, changes in legal and regulatory requirements, technological change or difficulties, product development risks, commercialization and trade difficulties and general economic conditions, as well as other risks previously disclosed in the Company's securities filings and press releases.

General

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We have been a wood products company which has been in business since 1980. Our business has increased over the years. We have been almost wholly dependent on sales to Home Depot.

On September 2, 2003, the Company informed The Home Depot, Inc., the customer that purchases more than 99 percent of the Company's wood products, that the Company would no longer do business with Home Depot due to increased difficulties in transacting business with Home Depot on a profitable basis. The Company stated to Home Depot that these difficulties included Home Depot's prohibition against price increases despite increases in the Company's increased costs of production, a diminution in the Home Depot territories the Company was allowed to sell product to, and Home Depot's demands regarding returns of ordered products that the Company was unwilling to accede to for economic reasons.

The Company has discontinued its wood products business. The Company intends to seek other business opportunities, but there can be no assurance that such opportunities will be identified, engaged in, or result in any profits.

Results of operations

Quarter ended July 31, 2003 compared to the quarter ended July 31, 2002.

Net sales for the quarter ended July 31, 2003 were approximately \$141,000, a decrease of \$106,000 or 43% as compared to net sales of approximately \$247,000 for the quarter ended July 31, 2002. Net sales decreased primarily due to decreased orders from Home Depot.

Cost of sales were approximately \$88,000 for the quarter ended July 31, 2003, a decrease of approximately \$60,000 or 41% over the comparable 2002 period cost of sales of approximately \$148,000. Cost of sales as a percentage of net sales was approximately 62% for the quarter ended July 31, 2003 compared to approximately 60% for the quarter ended July 31, 2002. This increase is primarily attributable to an increase in product costs during the current year that was not passed on to Home Depot.

Selling, general and administrative expenses were approximately \$93,000 for the quarter ended July 31, 2003, a decrease of approximately \$14,000 or 13% over selling, general and administrative expenses of approximately \$107,000 for the quarter ended July 31, 2002. This decrease was due primarily to decreases in salaries and related costs.

Interest income for the quarter ended July 31, 2003 was approximately \$200 compared to \$400 for the quarter ended July 31, 2002.

Arbor's net loss increased from approximately \$8,000 for the quarter ended July 31, 2002 to a net loss of approximately \$40,000 for the quarter ended July 31, 2003.

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Liquidity and capital resources

In the periods discussed above, Arbor's working capital requirements have been met primarily from sales of its wood products. At July 31, 2003 we had working capital of approximately \$549,000.

As at July 31, 2003, we had cash and cash equivalents of approximately \$384,000, which represented 62% of total assets. Arbor believes it has adequate working capital to fund its operations for at least the next 12 months, but if we engage in new lines of business, additional working capital may be required. In connection with considering whether to engage in any particular new line of business, we will consider the availability of any additional working capital that may be required.

Net cash provided by operating activities amounted to approximately \$68,000 for quarter ended July 31, 2003. Net loss of \$40,000 was reduced by decreases in accounts receivable of \$153,000. Net cash provided by operating activities was decreased by increases in inventories of \$20,000 and decreases in accounts payable and accrued liabilities of \$29,000.

Net cash provided by financing activities was approximately \$14,000 for the quarter ended July 31, 2003 as a result of related party loan repayments.

Item 4. Controls and Procedures

(a)

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