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MARLTON TECHNOLOGIES INC  
Form 10-Q  
May 13, 2005

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, 2005

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  No

Indicate by check mark whether the issuer is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  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

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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:  
12,939,696

### ITEM 1. FINANCIAL STATEMENTS

#### MARLTON TECHNOLOGIES, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands except share and per share data)

ASSETS	March 31, 2005	December 31, 2004
	-----	-----
Current:		
Cash and cash equivalents	\$ 1,205	\$ 311
Accounts receivable, net of allowance of \$384 and \$444, respectively	14,155	10,157
Inventories	7,968	7,069
Prepaid and other current assets	691	400
	-----	-----
Total current assets	24,019	17,937
Property and equipment, net of accumulated depreciation of \$10,960 and \$10,792, respectively	3,157	2,469
Rental assets, net of accumulated depreciation of \$4,361 and \$4,239, respectively	2,875	2,875
Goodwill	2,750	2,750
Other intangible assets, net of accumulated amortization of \$44	5,096	--
Other assets, net of accumulated amortization of \$1,794 and \$1,781, respectively	137	126
Notes receivable	158	178
	-----	-----
Total assets	\$ 38,192	\$ 26,335
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 1,209	\$ 83
Accounts payable	6,606	5,596
Accrued expenses and other current liabilities	7,994	7,722
	-----	-----
Total current liabilities	15,809	13,401
Long-term liabilities:		
Long-term debt, net of current portion	11,002	5,070
Other long-term liabilities	1,775	--
	-----	-----
Total long-term liabilities	12,777	5,070
	-----	-----
Total liabilities	28,586	18,471
	-----	-----
Commitments and contingencies	--	--
Stockholders' equity:		

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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; 12,939,696 outstanding at March 31, 2005 and December 31, 2004	--	--
Stock warrants	1,528	742
Additional paid-in capital	32,998	32,998
Accumulated deficit	(24,772)	(25,728)
	-----	-----
	9,754	8,012
Less cost of 148,803 treasury shares	(148)	(148)
	-----	-----
Total stockholders' equity	9,606	7,864
	-----	-----
Total liabilities and stockholders' equity	\$ 38,192	\$ 26,335
	=====	=====

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.

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

	For the three months ended	
	March 31, 2005	March 31, 2004
	-----	-----
Net sales	\$ 18,835	\$ 18,549
Cost of sales	14,422	13,810
	-----	-----
Gross profit	4,413	4,739
Selling expenses	2,147	2,217
Administrative and general expenses	1,209	1,525
	-----	-----
Operating profit	1,057	997
Other income (expense):		
Interest and other income	34	--
Interest expense	(135)	(92)
	-----	-----
Income before income taxes	956	905
Provision for income taxes	--	--
	-----	-----
Net income	956	905
	=====	=====
Net income per common share:		
Basic	\$ 0.07	\$ 0.07
	=====	=====
Diluted	\$ 0.06	\$ 0.07
	=====	=====

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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.

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

	For the three months ended	
	March 31, 2005	March 31, 2004
	-----	-----
Cash flows from operating activities:		
Net income	\$ 956	\$ 9
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	348	5
Change in operating assets and liabilities:		
Increase in accounts receivable, net	(2,685)	(3,2
Increase in inventories	(332)	(
(Increase) decrease in prepaid and other assets	(291)	
Decrease in notes and other receivables	20	
Increase (decrease) in accounts payable, accrued expenses and other current liabilities	(255)	9
	-----	-----
Net cash used in operating activities	(2,239)	(8
	-----	-----
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(2,752)	
Capital expenditures	(166)	(1
	-----	-----
Net cash used in investing activities	(2,918)	(1
	-----	-----
Cash flows from financing activities:		
Proceeds from revolving credit facility, net	5,104	1,3
Proceeds from term loan	1,000	
Payments for leasehold improvement obligation	(18)	(
Payments for loan origination fees	(25)	(1
Payments for capital lease obligations	(10)	
Payments for acquisition obligation	--	(
	-----	-----
Net cash provided by financing activities	6,051	1,1
	-----	-----
Increase in cash and cash equivalents	894	2
Cash and cash equivalents - beginning of period	311	2
	-----	-----
Cash and cash equivalents - end of period	\$ 1,205	\$ 4
	=====	=====

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### SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES

#### Acquisition of Showtime Enterprises, Inc. Assets and Specified Liabilities:

Cash purchase price	\$	2,752
Long-term debt incurred		982
Other long-term liabilities incurred		1,775
Fair value of stock warrants		786
		-----
Total purchase price	\$	6,295
		=====
Working capital acquired	\$	343
Fair value of property, equipment and rental assets acquired		812
Covenants not to compete acquired		570
Customer relationships acquired		4,570
		-----
Total purchase price	\$	6,295
		=====

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.

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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. 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, 2004.

##### 2. ACQUISITION OF BUSINESS:

On March 15, 2005, Sparks Exhibits & Environments Corp., a subsidiary of the Company, acquired substantially all of the assets and assumed specified liabilities of Showtime Enterprises, Inc. and its subsidiary, Showtime Enterprises West, Inc. (collectively "Showtime"). Showtime designed, marketed and produced trade show exhibits, point of purchase displays, museums and premium incentive plans. Showtime had sales of approximately \$21 million in 2004. The aggregate purchase price was \$6.3 million, comprised of \$2.8 million paid in cash, \$1.7 million for contingent royalty and percentage of sales payments, \$1 million of long-term debt assumption and \$0.8 million for stock

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warrants. The Company financed this acquisition by increasing its revolving credit facility borrowing capacity and obtaining a new term loan. The Company's Audit Committee engaged the Company's registered public accounting firm to perform the required audit of Showtime's financial statements. It was subsequently determined that such audit could not be performed. The inability to file these audited financial statements may limit the Company's ability to engage in certain types of transactions requiring Securities and Exchange Commission review, including without limitation, public offerings and certain private offerings of securities and business combination transactions requiring shareholder approval.

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

The estimated fair values of the assets acquired and liabilities assumed are summarized in the following table. The allocation of the purchase price to the business acquired is preliminary and may be adjusted based on completion of third party appraisals.

At March 15, 2005 (in thousands)

Current assets	\$1,880
Property, equipment and rental assets	812
Covenants not to compete	570
Customer relationships	4,570
	-----
	\$7,832
Current liabilities	\$1,537
Long-term debt	982
Other long-term liabilities	1,775
Stock warrants	786
	-----
Net assets acquired	\$2,752
	=====

Covenants not to compete will be amortized over 6 years and customer relationships will be amortized over an estimated life of 10 years. The covenants not to compete and customer relationships will be reviewed annually by management for impairment.

#### 3. MAJOR CUSTOMERS:

During the first quarter of 2005, one customer accounted for 12% of the Company's total sales. During the first quarter of 2004, a different customer accounted for 12% of the Company's total sales.

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

#### 4. PER SHARE DATA:

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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, 2005	March 31, 2004
	-----	-----
Net income	\$ 956	\$ 905
	=====	=====
Weighted average common shares outstanding used to compute basic net income per common share	12,940	12,845
Additional common shares to be issued assuming the exercise of stock options, net of shares assumed reacquired	4,218	742
	-----	-----
Total shares used to compute diluted net income per common share	17,158	13,587
	=====	=====
Basic net income per share	\$ 0.07	\$ 0.07
	=====	=====
Diluted net income per share	\$ 0.06	\$ 0.07
	=====	=====

Excluded in the computation of diluted income per common share were outstanding options and warrants to purchase 1,193,336 and 248,846 shares of common stock at March 31, 2005 and 2004, respectively, because the option and warrant exercise prices were greater than the market price of the common shares.

### 5. INVENTORIES:

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

	March 31, 2005	December 31, 2004
	-----	-----
Raw materials	\$ 584	\$ 440
Work in process	3,831	3,231
Finished goods	3,553	3,398
	-----	-----
	\$ 7,968	\$ 7,069
	=====	=====

### 6. RECENTLY ISSUED ACCOUNTING STANDARDS

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

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of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Exit or Disposal Activities" ("FASB Statement FAS 146"). FAS 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, and is expected to have an impact on the timing and recognition of costs associated with the Showtime acquisition and subsequent integration.

In December 2004, FASB issued FASB Statement No. 123 (revised 2004), Share-Based Payment ("FAS123(R)" or the "Statement"). FAS 123(R) requires that the compensation cost relating to share-based payment transactions, including grants of employee stock options, be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. FAS 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. The effect of the Statement will require entities to measure the cost of employee services received in exchange for stock options based on the grant-date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award. FAS 123(R) permits entities to use any option-pricing model that meets the fair value objective in the Statement. The Company will be required to apply FAS 123(R) starting January 1, 2006. FAS 123(R) allows two methods for determining the effects of the transition: the modified prospective transition method and the modified retrospective method of transition. Under the modified prospective transition method, an entity would use the fair value based accounting method for all employee awards granted, modified, or settled after the effective date. As of the effective date, compensation cost related to the non-vested portion of awards outstanding as of that date would be based on the grant-date fair value of those awards as calculated under the original provisions of Statement No. 123; that is, an entity would not re-measure the grant-date fair value estimate of the unvested portion of awards granted prior to the effective date of FAS 123(R). An entity will have the further option to either apply the Statement to only the quarters in the period of adoption and subsequent periods, or apply the Statement to all quarters in the fiscal year of adoption. Under the modified retrospective method of transition, an entity would revise its previously issued financial statements to recognize employee compensation cost for prior periods presented in accordance with the original provisions of Statement No. 123. Although it has not yet completed its study of the transition methods, the Company believes it will elect the modified prospective transition method. Under this method, the Company estimates that the adoption of FAS 123(R) would require the Company to record approximately \$15,000 of stock compensation expense in 2005 related to employee options issued and outstanding at December 31, 2004. Based on expected vesting of stock options outstanding at March 31, 2005, the Company may record compensation expense of approximately \$270,000 in each of 2006 through 2010. Any further impact of this Statement on the Company in fiscal 2005 and beyond will depend upon various factors including future compensation strategy. The pro forma compensation costs are calculated using the Black-Scholes option pricing model and may not be indicative of amounts which should be expected in future years.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 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	
	March 31, 2005	March 31, 2004
Net income, as reported	\$ 956	\$ 905
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of tax	(3)	--
Pro forma net income	\$ 953	\$ 905
Earnings per share:		
Basic:		
As Reported	\$ 0.07	\$ 0.07
Pro forma	\$ 0.07	\$ 0.07
Diluted:		
As reported	\$ 0.06	\$ 0.07
Pro forma	\$ 0.06	\$ 0.07

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

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

### RESULTS OF OPERATIONS

Three months ended March 31, 2005 as compared with three months ended March 31, 2004

#### Sales

	Three Months Ended (in thousands)	
	March 31, 2005	March 31, 2004
Trade show exhibits group	\$ 13,412	\$ 13,208
Permanent and scenic displays group	5,423	5,341
Total sales	\$ 18,835	\$ 18,549

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Total net sales of \$18.8 million for the first quarter of 2005 increased 1.5% from total net sales of \$18.5 million for the first quarter of 2004. Sales of trade show exhibits and related services increased 1.5% in the first quarter of 2005 from the same prior year period as sales to new customers offset budget reductions experienced for existing customers. Sales of permanent and scenic displays also increased 1.5% in the first quarter of 2005 from the comparable 2004 period as lower sales of permanent museum displays were offset by higher sales of store fixtures and point of purchase displays.

### Gross Profit

Gross profit, as a percentage of net sales, decreased to 23.4% for the first quarter of 2005 from 25.5% for the first quarter of 2004. This decrease was attributable to several factors, including additional facility costs incurred for the acquired Showtime business with no related trade show exhibit sales and lower gross profit margins earned on certain first quarter 2005 projects. Higher facility costs are expected to continue in 2005 and in the foreseeable future, which should be absorbed by higher volume anticipated from the Showtime business. The Company will relocate the Showtime Paulsboro, NJ facility to its Philadelphia, PA facility in the second quarter of 2005. Costs incurred for this relocation and consolidation are expected to reduce the Company's second quarter gross profit by approximately \$300,000.

### Selling Expenses

Selling expenses of \$2.1 million, or 11.4% of net sales, for the first quarter of 2005 decreased from \$2.2 million, or 11.9% of net sales, for the corresponding period of 2004. This decrease was largely the result of cost reduction initiatives, partially offset by approximately \$200,000 for initial Showtime payroll costs with no corresponding trade show exhibit sales.

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### Administrative and General Expenses

Administrative and general expenses decreased to \$1.2 million in the first quarter of 2005 from \$1.5 million in the same prior year period. This decrease was principally attributable to a bad debt recovery of \$575,000 from a bankruptcy settlement. Specifically, the Company received 4,266 shares of Sears Holding Corp (previously K-Mart) stock from its bankruptcy claim for accounts receivable and inventories, which were fully reserved for in 2001. The total number of shares from the bankruptcy claim is 5,019, with approximately 15% being subject to a holdback for the potential settlement of any excess bankruptcy claims. The Company will recognize an additional bad debt recovery based on the market price of Sears Holding Corp stock if and when the remaining 753 shares are received. The Company also recorded a reserve provision of \$175,000 for a customer dispute in the first quarter 2005, which partially offset the bad debt recovery.

### Other Income (Expense)

In the first quarter of 2005, the Company recognized income of \$34,000 from a former affiliate company.

Interest expense increased to \$135,000 in the first quarter of 2005 from \$92,000 in the first quarter of 2004 primarily as a result of higher interest rates under the Company's new borrowing base facility discussed below and additional indebtedness incurred in connection with the Showtime business acquisition.

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### Operating Profit

Operating profit increased to \$1.1 million for the first quarter of 2005 from \$1 million for the same period of 2004 largely as a net result of the bad debt recovery reported under general and administrative expenses partially offset by lower gross profit margins.

### Provision for Income Taxes

The Company is currently using operating loss carry forwards to offset its taxable income. As a result, the Company did not record an income tax provision in the first quarters of 2005 or 2004. The Company currently has a full valuation allowance against its operating loss carry forwards. This allowance is reviewed by management for possible recovery on a periodic basis.

### Net Income

Net income of \$1 million for the first quarter 2005 increased from \$0.9 million for the comparable 2004 period largely as a result of the bad debt recovery, partially offset by the lower gross profit margins.

### Backlog

The Company's backlog of orders was approximately \$33 million at March 31, 2005 and \$21 million at March 31, 2004. The increase in the backlog is due in large part to new permanent museum display projects, a substantial portion of which extends through 2006.

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## LIQUIDITY AND CAPITAL RESOURCES

On February 6, 2004, the Company replaced its revolving credit and security agreement with a new credit facility provided by a commercial asset-based lender. The new credit facility originally expired on February 6, 2007 and provided for maximum borrowing capacity of up to \$12 million based on a percentage of eligible accounts receivable and inventories. This facility bore interest based on the 30-day dealer placed commercial paper rate plus a formula-determined spread of 4.5% in 2004, restricts the Company's ability to pay dividends, and includes certain financial covenants (fixed charge coverage ratio and maximum capital expenditure amount). Based on the Company's performance in 2004, the formula-determined spread was reduced to 3.5% effective March 22, 2005, resulting in a total effective rate of 6.2% at such date.

On March 21, 2005, the Company amended its credit facility to increase the maximum borrowing capacity from \$12 million to \$15 million, to increase the maximum borrowings on certain inventories and to extend the term by one year to February 6, 2008. The Company also obtained a one-year term loan for \$1 million, bearing interest at the commercial paper rate plus 3.75% and requiring monthly principal payments of \$25,000 starting on April 1, 2005, with the remaining balance of \$700,000 due on March 21, 2006. The Company had borrowings of approximately \$10 million and additional borrowing capacity of approximately \$4.9 million at March 31, 2005. This credit facility amendment and term loan were obtained to finance the Showtime acquisition.

The Company's working capital increased \$3.7 million in the first quarter of 2005 to \$8.2 million at March 31, 2005 from \$4.5 million at December 31, 2004, largely due to a \$4 million increase in accounts receivable. The increase in accounts receivable was largely due to higher sales in the first quarter of 2005 as compared with the fourth quarter of 2004 (\$18.8 million versus \$16 million)

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and accounts receivable acquired in connection with the Showtime acquisition.

The Company anticipates capital expenditures of approximately \$1 million for 2005.

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:

Contractual Obligations	Total	Payment due by period (in thousands)			
		Less than 1 Year-2005	1-3 Years	3-5 Years	More than 5 Years
Long-Term Debt Obligations	\$ 12,211	\$ 1,209	\$ 11,002	\$ --	\$ --
Capital Lease Obligations	--	--	--	--	--
Operating Lease Obligations	6,986	1,697	4,563	726	--
Purchase Obligations	--	--	--	--	--
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet Under GAAP	1,775	--	1,318	457	--
Total	\$ 20,972	\$ 2,906	\$ 16,883	\$ 1,183	--

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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 since IES occupies this entire facility and pays the rent.

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 May 14, 2009 subject to the landlord's ability to re-rent 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.

### OUTLOOK

The Company expects sales of trade show exhibits and related services to increase in 2005 due to the Showtime acquisition.

Planned profit improvements for the Company's base businesses in 2005 are expected to be offset by relocation and transition costs anticipated to integrate the Showtime business with the Company's existing businesses. Subsequent to this relocation and transition, the Company expects profit improvements in 2006.

The Company wrote off accounts receivable and inventories in 2001 as a result of K-Mart, a DMS Store Fixtures customer, filing for bankruptcy. The subsequent settlement from its bankruptcy claim is for 5,019 shares of Sears Holding Corp (previously K-Mart) common stock. The company received 4,266 shares of the stock and recognized a bad debt recovery of \$575,000 in the first quarter of 2005.

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Based on the current market price of Sears Holding Corp common stock, the Company has a contingent additional bad debt recovery of approximately \$109,000 for the remaining 753 shares from this bankruptcy settlement.

The Company acquired a past-due accounts receivable from mPhase Technologies, Inc. ("mPhase") in connection with the 2003 acquisition of Exhibit Crafts, Inc. In March 2005, the Company settled the claim with this customer for approximately 213,000 shares of mPhase restricted common stock. Based on the current market value of this common stock, the Company has a contingent gain of approximately \$50,000. Any gain will be recognized when the restrictions on the Company's right to sell this common stock expire.

### 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" ("FASB Statement FAS 146"). FAS 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, and is expected to have an impact on the timing and recognition of costs associated with the Showtime acquisition and subsequent integration.

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In December 2004, FASB issued FASB Statement No. 123 (revised 2004), Share-Based Payment ("FAS123(R)" or the "Statement"). FAS 123(R) requires that the compensation cost relating to share-based payment transactions, including grants of employee stock options, be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. FAS 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. The effect of the Statement will require entities to measure the cost of employee services received in exchange for stock options based on the grant-date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award. FAS 123(R) permits entities to use any option-pricing model that meets the fair value objective in the Statement. The Company will be required to apply FAS 123(R) starting January 1, 2006. FAS 123(R) allows two methods for determining the effects of the transition: the modified prospective transition method and the modified retrospective method of transition. Under the modified prospective transition method, an entity would use the fair value based accounting method for all employee awards granted, modified, or settled after the effective date. As of the effective date, compensation cost related to the non-vested portion of awards outstanding as of that date would be based on the grant-date fair value of those awards as calculated under the original provisions of Statement No. 123; that is, an entity would not re-measure the grant-date fair value estimate of the unvested portion of awards granted prior to the effective date of FAS 123(R). An entity will have the further option to either apply the Statement to only the quarters in the period of adoption and subsequent periods, or apply the Statement to all quarters in the fiscal year of adoption. Under the modified retrospective method of transition, an entity would revise its previously issued financial statements to recognize employee compensation cost for prior periods presented in

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accordance with the original provisions of Statement No. 123. Although it has not yet completed its study of the transition methods, the Company believes it will elect the modified prospective transition method. Under this method, the Company estimates that the adoption of FAS 123(R) would require the Company to record approximately \$15,000 of stock compensation expense in 2005 related to employee options issued and outstanding at December 31, 2004. Based on expected vesting of stock options outstanding at March 31, 2005, the Company may record compensation expense of approximately \$270,000 in each of 2006 through 2010. Any further impact of this Statement on the Company in fiscal 2005 and beyond will depend upon various factors including future compensation strategy. The pro forma compensation costs are calculated using the Black-Scholes option pricing model and may not be indicative of amounts which should be expected in future years.

### FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. When used in this report, the words "intends," "believes," "plans," "expects," "anticipates," "probable," "could," "should" 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 relocate and consolidate the Paulsboro, NJ facility of the Showtime business while maintaining the customer base; 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; 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.

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### 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 3.50%. The Company had borrowings of approximately \$10 million from its revolving credit facility at March 31, 2005.

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

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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

#### ITEM 5. OTHER INFORMATION

The Company's Audit Committee engaged the Company's registered public accounting firm to perform the required audit of Showtime's financial statements as previously reported on Form 8-K. It was subsequently determined that such audit could not be performed. The inability to file these audited financial statements may limit the Company's ability to engage in certain types of transactions requiring Securities and Exchange Commission review, including without limitation, public offerings and certain private offerings of securities and business combination transactions requiring shareholder approval.

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Employment agreements for the Company's executive officers were amended on May 12, 2005 in a manner substantially consistent with the disclosures in the Company's Form 10-K/A. Copies of such amendments are filed as exhibits to this Form 10-Q.

#### ITEM 6. EXHIBITS

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
2.1	Agreement and Plan of Merger of the Company (Incorporated by reference to the Company's Proxy Statement dated September 27, 2001, filed with the Commission).
2.2	Asset Purchase Agreement made as of January 11, 2005, by and among Showtime Enterprises, Inc., Showtime Enterprises West, Inc., and Sparks Exhibits & Environments Corp. (Incorporated by reference to Exhibit 2.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission).
2.3	Order entered March 4, 2005 in the United States Bankruptcy Court for the District of New Jersey in Showtime Enterprises, Inc. and Showtime Enterprises West, Inc. (Case Nos. 05-11089 and 05-11090). (Incorporated by reference to Exhibit 2.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with

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the Commission).

- 3.1 Articles of Incorporation of the Company (Incorporated by reference to the Company's Proxy Statement dated September 27, 2001, filed with the Commission).
- 3.2 Amended and Restated By-laws of the Company (Incorporated by reference to Exhibit 3(ii)(a) of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, filed with the Commission).
- 4.1 Warrant issued to Argosy Investment Partners II, L.P. to acquire shares of Marlton common stock at an exercise price of \$0.98 per share (Incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission).
- 4.2 Warrant issued to Argosy Investment Partners II, L.P. to acquire shares of Marlton common stock at an exercise price of \$1.48 per share. (Incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission).
- 4.3 Warrant issued to Alliance Mezzanine Investors, L.P. to acquire shares of Marlton common stock at an exercise price of \$0.98 per share. (Incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission).

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- 4.4 Warrant issued to Alliance Mezzanine Investors, L.P. to acquire shares of Marlton common stock at an exercise price of \$1.48 per share. (Incorporated by reference to Exhibit 4.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission).
- 10.1 Amended and Restated Employment Agreement dated November 20, 2001 between the Company and Robert B. Ginsburg (Incorporated by reference to the Company's September 27, 2001 Proxy Statement, filed with the Commission).\*
- 10.2 Employment Agreement dated 11/20/01 between the Company and Jeffrey K. Harrow (Incorporated by reference to the Company's September 27, 2001 Proxy Statement, filed with the Commission).\*
- 10.3 Employment Agreement dated 11/20/01 between the Company and Scott Tarte (Incorporated by reference to the Company's September 27, 2001 Proxy Statement, filed with the Commission).\*
- 10.4 Form of Warrants issued by the Company to Jeffrey K. Harrow, Scott Tarte, Robert B. Ginsburg and Alan I. Goldberg on 11/20/01 (Incorporated by reference to the Company's September 27, 2001 Proxy Statement, filed with the Commission). Schedule of grants (Incorporated by reference to Exhibit 10(f) to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, filed with the Commission).



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- 10.5 Stockholders' Agreement dated 11/20/01 among Jeffrey K. Harrow, Scott Tarte, Robert B. Ginsburg and the Company (Incorporated by reference to the Company's September 27, 2001 Proxy Statement, filed with the Commission).\*
- 10.6 Registration Rights Agreement dated 11/20/01 among Jeffrey K. Harrow, Scott Tarte, Robert B. Ginsburg, Alan I. Goldberg and the Company (Incorporated by reference to the Company's September 27, 2001 Proxy Statement, filed with the Commission).
- 10.7 Amended Agreement of Employment, dated December 11, 1992, between the Company and Alan I. Goldberg. (Incorporated by reference to Exhibit 10(g) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed with the Commission).\*
- 10.8 Letter Agreement dated January 2, 1998 to Amended Employment Agreement with Alan I. Goldberg (Incorporated by reference to Exhibit 7(2) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998, filed with the Commission).\*
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- 10.9 Letter Agreement dated 11/20/01 to Amended Employment Agreement with Alan I. Goldberg. (Incorporated by reference to Exhibit 10(k) to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, filed with the Commission).\*
- 10.10 Employment Agreement dated November 24, 1999 with Stephen P. Rolf (Incorporated by reference to Exhibit 10(l) to the Company Annual Report of Form 10-K for the year ended December 31, 1999, filed with the Commission).\*
- 10.11 Option Agreement dated January 10, 2000 with Stephen P. Rolf (Incorporated by reference to Exhibit 10(x) to the Company Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed with the Commission).\*
- 10.12 Option Agreements with Outside Directors (Incorporated by reference to Company Proxy Statement dated April 30, 1999, filed with the Commission).\*
- 10.13 Option Agreements dated August 7, 2000 with Outside Directors (Incorporated by reference to Exhibit 10(x) to the Company Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed with the Commission).\*
- 10.14 Option Agreements dated March 1, 2002 with Outside Directors (Incorporated by reference to Exhibit 10(e) to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, filed with the Commission).\*
- 10.15 2000 Equity Incentive Plan (Incorporated by reference to Exhibit 10(n) to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, filed with the Commission).\*

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- 10.16 2001 Equity Incentive Plan (Incorporated by reference to Exhibit 10(ee) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, filed with the Commission).\*
- 10.17 Lease for Premises located at 2828 Charter Road, Philadelphia, PA dated May 14, 1999 (Incorporated by reference to Exhibit 10(f) to the Company Annual Report on Form 10-K for the year ended December 31, 1999, filed with the Commission).
- 10.18 Amendment to Lease 2828 Charter Road, Philadelphia, PA dated February 25, 2000 (Incorporated by reference to Exhibit 10(g) to the Company's Annual Report on Form 10-K for the year ended December 31, 1999, filed with the Commission).
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- 10.19 Lease for Premises located at 8125 Troon Circle, Austell, GA 30001 (Incorporated by reference to Exhibit 10(s) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed with the Commission).
- 10.20 Exhibit removed.
- 10.21 Loan and Security Agreement dated as of February 6, 2004 with General Electric Capital Corporation. (Incorporated by reference to Exhibit 10(u) to the Company's Annual Report on Form 10-KK for the year ended December 31, 2003, filed with the Commission).
- 10.22 Option Agreement dated June 3, 2002 with Robert B. Ginsburg (Incorporated by reference to Exhibit 10(cc) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed with the Commission).\*
- 10.23 Option Agreement dated June 3, 2002 with Alan I. Goldberg (Incorporated by reference to Exhibit 10(dd) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed with the Commission).\*
- 10.24 Option Agreement dated October 23, 2002 with Washburn Oberwager (Incorporated by reference to Exhibit 10(ee) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, filed with the Commission).\*
- 10.25 Fourth Amendment to Lease Agreement dated September 11, 2003 for premises located at 8125 Troon Circle, Austell, GA 30001 (Incorporated by reference to Exhibit 10(cc) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, filed with the Commission).
- 10.26 Exhibit removed.
- 10.27 Exhibit removed
- 10.28 Lease Agreement, First and Second Amendments for Premises located at Building J, 10232 Palm Drive, Santa Fe Springs,

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CA 90670 (Incorporated by reference to Exhibit 10(ff) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, filed with the Commission).

- 10.29 Lease Agreement, First and Second Amendments for Premises located at Building G, Heritage Springs Business Park, Santa Fe Springs (Incorporated by reference to Exhibit 10(gg) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, filed with the Commission).
- 10.30 Option Agreement dated May 13, 2004 with Stephen P. Rolf (Incorporated by reference to Exhibit 10(c) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed with the Commission).\*
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- 10.31 Fifth Amendment to Lease Agreement dated April 27, 2004 for the Premises located at 8125 Troon Circle, Austell, GA (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
- 10.32 Lease dated November 17, 1998 by and between Sunset & Valley Distribution Center Joint Venture (the "Joint Venture") and Showtime Enterprises West, Inc. ("Showtime West"), as amended by and together with, the first amendment thereto dated June 22, 1999, the second amendment thereto dated March 31, 2000, by and between The Northwestern Mutual Life Insurance Company ("Northwestern"), Sunset and Valley View Partners ("Partners") and Showtime West the third amendment thereto dated March 27, 2003 by and between Northwestern, Partners and Showtime West and the fourth amendment thereto dated February 29, 2004 by and between Northwestern, Partners and Showtime West. (Incorporated by reference to the Company's Annual Report dated December 31, 2004, filed with the Commission).
- 10.33 Employment Agreement dated March 15, 2005 by and between Sparks Exhibits & Environments Corp. and David S. Sudjian\* (Incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission).
- 10.34 Employment Agreement dated March 15, 2005 by and between Sparks Exhibits & Environments Corp. and Harold Jensen.\* (Incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission).
- 10.35 Royalty Agreement dated March 15, 2005 by and among Sparks Exhibits & Environments Corp., Argosy Investment Partners II, LP and Alliance Mezzanine Investors, L. P. (Incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission).
- 10.36 Stock Option Agreement dated as of March 15, 2005 by Marlton Technologies, Inc and David S. Sudjian with respect

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to the grant of 500,000 shares of Marlton common stock.\*  
(Incorporated by reference to Exhibit 10.36 to the  
Company's Annual Report on Form 10-K for the year ended  
December 31, 2004, filed with the Commission).

- 10.37 Stock Option Agreement dated as of March 15, 2005 by  
Marlton Technologies, Inc and Harold Jensen with respect to  
the grant of 500,000 shares of Marlton common stock.\*  
((Incorporated by reference to Exhibit 10.37 to the  
Company's Annual Report on Form 10-K for the year ended  
December 31, 2004, filed with the Commission).

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- 10.38 Letter agreement dated March 15, 2005 by and among Sparks  
Exhibits & Environments Corp., David S. Sudjian and Harold  
Jensen.\* (Incorporated by reference to Exhibit 10.38 to the  
Company's Annual Report on Form 10-K for the year ended  
December 31, 2004, filed with the Commission).
- 10.39 First Amendment to Loan and Security Agreement with General  
Electric Capital Corporation (Incorporated by reference to  
Exhibit 10(f) to the Company's Quarterly Report on Form  
10-Q for the quarter ended March 31, 2004, filed with the  
Commission).
- 10.40 Consent and Second Amendment to Loan and Security  
Agreement dated as of March 15, 2005 by and among General  
Electric Capital Corporation, Sparks Exhibits &  
Environments Corp., Sparks Exhibits & Environments, Ltd.,  
Sparks Exhibits & Environments, Inc. and DMS Store  
Fixtures LLC. (Incorporated by reference to Exhibit 10.40  
to the Company's Annual Report on Form 10-K for the year  
ended December 31, 2004, filed with the Commission).
- 10.41 Term Note issued by Sparks Exhibits & Environments Corp.  
in favor of General Electric Capital Corporation.  
(Incorporated by reference to Exhibit 10.41 to the  
Company's Annual Report on Form 10-K for the year ended  
December 31, 2004, filed with the Commission).
- 10.42 Note dated April 23, 2002 in favor of the United States  
Business Administration (the "SBA Note"). (Incorporated by  
reference to Exhibit 10.42 to the Company's Annual Report  
on Form 10-K for the year ended December 31, 2004, filed  
with the Commission).
- 10.43 Promissory Note made by Sparks Exhibits & Environments  
Corp. in face amount of \$257,144 in favor of Argosy  
Investment Partners II, L.P. (Incorporated by reference to  
Exhibit 10.43 to the Company's Annual Report on Form 10-K  
for the year ended December 31, 2004, filed with the  
Commission).
- 10.44 Promissory Note made by Sparks Exhibits & Environments  
Corp. in face amount of \$142,856 in favor of Alliance  
Mezzanine Investors, L.P. (Incorporated by reference to  
Exhibit 10.44 to the Company's Annual Report on Form 10-K  
for the year ended December 31, 2004, filed with the  
Commission).

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- 10.45 Agreement for Assumption of Indebtedness dated December 14, 2004 by and among the U.S. Small Business Administration, Showtime Enterprises, Inc. and Sparks Exhibits & Environments Corp. (Incorporated by reference to Exhibit 10.45 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission).
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- 10.46 Unconditional Guarantee issued by Marlton Technologies, Inc. in favor of the U.S. Small Business Administration with respect to the SBA Note. (Incorporated by reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission).
- 10.47 Option Agreement with Jeffrey Harrow dated December 20, 2004 \*
- 10.48 Option Agreement with Scott Tarte, dated December 20, 2004 \*
- 10.49 Agreement dated March 15, 2005 by and between Sparks Exhibits & Environments Corp., Argosy Investment Partners II, L.P. and Alliance Mezzanine Investors, L.P. (Incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission).
- 10.50 Amendment to Employment Agreement with Scott Tarte dated May 12, 2005
- 10.51 Amendment to Employment Agreement with Jeffrey Harrow dated May 12, 2005
- 10.52 Amendment to Employment Agreement with Robert B. Ginsburg dated May 12, 2005
- 10.53 Amendment to Employment Agreement with Alan I. Goldberg dated May 12, 2005
- 10.54 Amendment to Employment Agreement with Stephen P. Rolf dated May 12, 2005
- 14 Code of Ethics (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed with the Commission)
- 21 Subsidiaries of the Company (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed with the Commission)
- 31.1 Rule 13a - 14(a) / 15(d) - 14(a) Certification, Chief Executive Officer
- 31.2 Rule 13a - 14(a) / 15(d) - 14(a) Certification, Chief Financial Officer

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Section 1350 Certifications

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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  
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Robert B. Ginsburg  
President and Chief Executive Officer

By: /s/ Stephen P. Rolf  
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Stephen P. Rolf, Chief Financial Officer  
Dated: May 13, 2005

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