

Edgar Filing: ARBOR ENTECH CORP - Form 10QSB

ARBOR ENTECH CORP  
Form 10QSB  
December 16, 2002

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: October 31, 2002

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  
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(Exact name of registrant as specified in its charter)

DELAWARE  
-----

22-2335094  
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(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification Number)

Route 349, RD 1, Box 1076, Little Marsh, PA  
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16931  
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(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, including Area Code:

(570) 376-2217  
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(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.

X 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  
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Outstanding at January 31, 2002  
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Common Stock, par value \$.001 per share

7,050,540



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\$708,624

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

ARBOR ENTECH CORPORATION  
STATEMENT OF OPERATIONS  
(Unaudited)

|  | THREE MONTHS ENDED<br>OCTOBER 31, |            | SIX MONTHS ENDED<br>OCTOBER 31, |             |
|--|-----------------------------------|------------|---------------------------------|-------------|
|  | 2002                              | 2001       | 2002                            | 2001        |
| Net Sales  | \$ 121,980                        | \$ 461,929 | \$ 369,457                      | \$ 590,000  |
| Costs and Expenses:                                |                                   |            |                                 |             |
| Cost of Sales                                      | 73,188                            | 230,733    | 221,674                         | 290,000     |
| Selling, General and Administrative Expenses       | 134,544                           | 174,574    | 241,826                         | 330,000     |
|  | 207,732                           | 405,307    | 463,500                         | 620,000     |
| Operating Income (Loss)                            | (85,752)                          | 56,622     | (94,043)                        | (30,000)    |
| Other Income (Expense):                            |                                   |            |                                 |             |
| Interest Income                                    | 405                               | 1,124      | 852                             |             |
| Other  | --                                | 4,882      | --                              |             |
| Total Other Income                                 | 405                               | 6,006      | 852                             |             |
| Income (Loss) before Provision for<br>Income Taxes | (85,347)                          | 62,628     | (93,191)                        | (20,000)    |
| Provision for Income Taxes                         | --                                | 4,600      | --                              |             |
| Net Income (Loss)                                  | \$ (85,347)                       | \$ 58,028  | \$ (93,191)                     | \$ (30,000) |
| Earnings Per Common Share - Basic                  | \$ (.01)                          | \$ .01     | \$ (.01)                        | \$ (.01)    |
| Weighted Average Shares Outstanding                | 7,050,540                         | 7,050,540  | 7,050,540                       | 7,050,540   |

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

ARBOR ENTECH CORPORATION  
STATEMENT OF CASH FLOWS  
(Unaudited)

|   | SIX MONTHS ENDED<br>OCTOBER 31, |             |
|---|---------------------------------|-------------|
|   | 2002                            | 2001        |
| Cash Flows from Operating Activities:   |                                 |             |
| Net (Loss)  | \$ (93,191)                     | \$ (30,531) |
| Adjustments to Reconcile Net (Loss) to Net Cash<br>Provided (Used) by Operating Activities: |                                 |             |
| Depreciation  | 7,462                           | 6,786       |
| Changes in Operating Assets and Liabilities:  |                                 |             |
| (Increase) Decrease in Accounts Receivable  | 188,599                         | (151,348)   |
| (Increase) Decrease in Inventories  | (32,333)                        | (64,241)    |
| (Increase) Decrease in Prepaid Expenses   | (24,325)                        | 10,883      |
| (Decrease) in Accounts Payable  | (24,314)                        | (31,011)    |
| (Decrease) in Taxes Payable   | (1,479)                         | (47,323)    |
| Total Adjustments   | 113,610                         | (276,254)   |
| Net Cash Provided (Used) by Operating Activities  | 20,419                          | (306,785)   |
| Cash Flows from Investing Activities:   | --                              | --          |
| Cash Flows from Financing Activities:   |                                 |             |
| Capital Contributed   | 34,268                          | 48,205      |
| Loans to Related Parties - Net  | (7,268)                         | (48,205)    |
| Repayment of Loans to Related Parties   | --                              | 21,000      |

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|  |           |           |
|--|-----------|-----------|
| Net Cash Provided by Financing Activities        | 27,000    | 21,000    |
|  | -----     | -----     |
| Increase (Decrease) in Cash and Cash Equivalents | 47,419    | (285,785) |
| Cash and Cash Equivalents - Beginning of Period  | 252,026   | 625,438   |
|  | -----     | -----     |
| Cash and Cash Equivalents - End of Period        | \$299,445 | \$339,653 |
|  | =====     | =====     |
| Supplemental Cash Flow Information:              |           |           |
| Cash Paid for Interest                           | \$ --     | \$ --     |
|  | =====     | =====     |
| Cash Paid for Income Taxes                       | \$ 50,200 | \$ 42,305 |
|  | =====     | =====     |

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

ARBOR ENTECH CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2002  
(Unaudited)

NOTE 1 - Unaudited Interim Financial Statements

In the opinion of the Company, the accompanying financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of operations and cash flows presented.

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  | \$150,086 |
| Finished Goods | 26,486    |
|                | -----     |
|                | \$176,572 |
|                | =====     |

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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   |
| Automobiles and Trucks         | 39,782   |
|                                | -----    |
|                                | 140,058  |
| Less: Accumulated Depreciation | 91,593   |
|                                | -----    |
|                                | \$48,465 |
|                                | =====    |

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 in October 2001.

ARBOR ENTECH CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 2002  
 (Unaudited)

NOTE 4 - Notes Receivable - Related Parties (Continued)

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The notes consist of the following:

|                                       |           |
|---------------------------------------|-----------|
| Receivable from:                      |           |
| Rushmore Financial Services, Inc. (a) | \$784,024 |
| ATTAIN Technology, Inc.               |           |
| (F/K/A Double H Management Corp.) (b) | 195,072   |
|                                       | -----     |
|                                       | 979,096   |

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|                  |             |
|------------------|-------------|
| Accrued Interest | 82,224      |
|                  | -----       |
|                  | \$1,061,320 |
|                  | =====       |

- (a) A corporation wholly owned by Mr. Shefts and Mr. Houtkin.
- (b) A wholly owned subsidiary of Rushmore Financial Services, Inc.

NOTE 5 - Related Party Transactions

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The Company incurred \$27,000 and \$21,000 in administrative fees to a Company owned by two of its significant stockholders for the six months ended October 31, 2002 and 2001 respectively.

NOTE 6 - Commitments and Contingencies

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Line of Credit

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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 October 31, 2002 on this credit facility.

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

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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 2002 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 are a wood products company which has been in business since 1980. Our business has increased over the years. We are almost wholly dependent on sales to Home Depot.

### Results of operations

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QUARTER ENDED OCTOBER 31, 2002 COMPARED TO THE QUARTER ENDED OCTOBER 31, 2001.

Net sales for the quarter ended October 31, 2002 were approximately \$122,000, a decrease of \$340,000 or 74% as compared to net sales of approximately \$462,000 for the quarter ended October 31, 2001. Net sales decreased primarily due to less orders from Home Depot.

Cost of sales were approximately \$73,000 for the quarter ended October 31, 2002, a decrease of approximately \$158,000 or 68% over the comparable 2001 period cost of sales of approximately \$231,000. Cost of sales as a percentage of net sales was approximately 60% for the quarter ended October 31, 2002 compared to approximately 50% for the quarter ended October 31, 2001. This increase is primarily attributable to an increase in product costs during the current quarter that was not passed on to Home Depot.

Selling, general and administrative expenses were approximately \$135,000 for the quarter ended October 31, 2002, a decrease of approximately \$40,000 or 23% over selling, general and administrative expenses of approximately \$175,000 for the quarter ended October 31, 2001. This decrease was due primarily to a decrease in salaries and related costs of approximately \$30,000 along with reductions in other general expenses.

Interest income for the quarter ended October 31, 2002 was approximately \$400 compared to \$1,100 for the quarter ended October 31, 2001. The decrease in interest income is primarily attributable to lower average money market account balances in the current quarter coupled with lower interest rates.

Arbor's net loss was approximately \$85,000 for the quarter ended October 31, 2002 compared to net income of approximately \$58,000 for the quarter ended October 31, 2001.

SIX MONTHS ENDED OCTOBER 31, 2002 COMPARED TO THE SIX MONTHS ENDED OCTOBER 31, 2001.

Net sales for the six months ended October 31, 2002 were approximately \$369,000, a decrease of \$225,000 or 38% as compared to net sales of approximately \$594,000 for the six months ended October 31, 2001. Net sales decreased primarily due to less orders from Home Depot.

Cost of sales were approximately \$222,000 for the six months ended October 31, 2002, a decrease of approximately \$76,000 or 26% over the comparable 2001 period cost of sales of approximately \$298,000. Cost of sales as a percentage of net sales was approximately 60% for the six months ended October 31, 2002 compared to approximately 50% for the six months ended October 31, 2001. This increase is primarily attributable to an increase in product costs during the period that was not passed on to Home Depot.



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Selling, general and administrative expenses were approximately \$242,000 for the six months ended October 31, 2002, a decrease of approximately \$90,000 or 27% over selling, general and administrative expenses of approximately \$332,000 for the six months ended October 31, 2001. This decrease was due primarily to a decrease in salaries and related costs of approximately \$72,000 along with reductions in other general expenses.

Interest income for the six months ended October 31, 2002 was approximately \$900 compared to interest income of \$4,400 for the six months ended October 31, 2001. This decrease in interest income is primarily attributable to lower average money market account balances in the current period coupled with lower interest rates.

Arbor's net loss increased from approximately \$31,000 for the six months ended October 31, 2001 to approximately \$93,000 for the six months ended October 31, 2002. This was an increase of approximately \$62,000, or 200%.

### Liquidity and capital resources

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In the periods discussed above, Arbor's working capital requirements have been met primarily from sales of its wood products. At October 31, 2002 we had working capital of approximately \$627,000.

As at October 31, 2002, we had cash and cash equivalents of approximately \$299,000, which represented 42% of total assets. Arbor believes it has adequate working capital and will generate net revenues adequate to fund its operations for at least the next 12 months.

Net cash provided by operating activities was approximately \$20,000 for the six months ended October 31, 2002, as compared to net cash used in operating activities of approximately \$307,000 for the six months ended October 31, 2001. This increase of approximately \$327,000 is primarily attributable to the increase of net loss of approximately \$62,000 offset by a net change in operating assets and liabilities of approximately \$390,000.

Net cash provided by financing activities increased by approximately \$6,000, primarily attributable to net capital contributed in connection with related party loans.

## PART II - OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K

- (a) None
- (b) None

## SIGNATURES

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

ARBOR ENTECH CORPORATION  
Registrant

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By: s/Harvey Houtkin  
President

By: s/Mark Shefts  
Mark Shefts  
Chief Financial Officer

Dated: December 16, 2002

Certification of Chief Executive Officer and  
Chief Financial Officer Pursuant to  
18 U.S.C. Section 1350 as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-QSB of Arbor EnTech Corporation (the "'Company'") for the quarterly period ended October 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "'Report'"), Harvey Houtkin, as Chairman and Chief Executive Officer of the Company, and Mark Shefts, as Treasurer and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) I have reviewed this quarterly report on Form 10-QSB of the Company;

(2) Based on my knowledge, this quarterly report fully complies with the requirements of Section 113(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(3) Based on my knowledge, the information included in this quarterly report fairly presents in all material respects the financial condition and results of operations of the Company as of, and for, the periods presented in this quarterly report.

s/ Harvey Houtkin

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Harvey Houtkin  
Chief Executive Officer

December 16, 2002

s/ Mark Shefts

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Mark Shefts  
Chief Financial Officer

