

Edgar Filing: ARBOR ENTECH CORP - Form 10QSB

ARBOR ENTECH CORP  
Form 10QSB  
September 19, 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: July 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  
-----

(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  
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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<br>-----                           | OUTSTANDING AT JULY 31, 2002<br>----- |
|--|---------------------------------------|
| Common Stock, par value \$.001 per share | 7,050,540                             |

Transitional Small Business Format (check one):      Yes              No      X

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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 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

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.

#### QUARTER ENDED JULY 31, 2002 COMPARED TO THE QUARTER ENDED JULY 31, 2001.

Net sales for the quarter ended July 31, 2002 were approximately \$247,000, an increase of 87% as compared to net sales of approximately \$132,000 for the quarter ended July 31, 2001. Net sales increased due to more sales to Home Depot.

Cost of sales were approximately \$148,000 for the quarter ended July 31, 2002, an increase of approximately \$81,000 or 121% over the comparable 2001 period cost of sales of approximately \$67,000. Cost of sales as a percentage of net sales was approximately 60% for the quarter ended July 31, 2002 compared to approximately 51% for the quarter ended July 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 \$107,000 for the quarter ended July 31, 2002, a decrease of approximately \$50,000 or 32% over selling, general and administrative expenses of approximately \$157,000 for the quarter ended July 31, 2001. This decrease was due primarily to a decrease in salaries and related costs and other general expenses.

Interest income for the quarter ended July 31, 2002 was approximately \$500 compared to \$3,000 for the quarter ended July 31, 2001.

Arbor's net loss decreased from approximately \$89,000 for the quarter ended July 31, 2001 to approximately \$8,000 for the quarter ended July 31, 2002. This was a decrease of approximately \$81,000, or 91%.

#### 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 July 31, 2002 we had working capital of approximately \$695,000.

As at July 31, 2002, we had cash and cash equivalents of approximately \$287,000, which represented 36% 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 \$22,000 for the quarter ended July 31, 2002, as compared to net cash used in operating activities of approximately \$340,000 for the quarter ended July 31, 2001. This increase of approximately \$362,000 is primarily attributable to a reduction of net loss of approximately \$81,000 and a net change in operating assets and liabilities of approximately \$281,000.

Net cash provided by financing activities increased by approximately \$14,000, primarily attributable to net capital contributed in connection with related party loans.

### ARBOR ENTECH CORPORATION BALANCE SHEET JULY 31, 2002 (Unaudited)

#### ASSETS

|  |            |
|--|------------|
| Current Assets:  |            |
| Cash and Cash Equivalents  | \$ 287,097 |
| Accounts Receivable  | 198,553    |
| Inventories  | 177,361    |
| Prepaid Expenses   | 79,136     |
|  | -----      |
| Total Current Assets   | 742,147    |
| Property, Plant and Equipment (Net of Accumulated<br>Depreciation of \$87,862) |            |
|  | 52,196     |
|  | -----      |
|  | \$ 794,343 |
|  | =====      |

#### LIABILITIES AND STOCKHOLDERS' EQUITY

|  |           |
|--|-----------|
| Current Liabilities:                     |           |
| Accounts Payable and Accrued Liabilities | \$ 46,992 |
|  | -----     |
| Total Current Liabilities                | 46,992    |
|  | -----     |

Commitments and Contingencies

Stockholders' Equity:

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|  |             |
|--|-------------|
| Common Stock, \$.001 Par Value; Authorized |             |
| 10,000,000 Shares; Issued and Outstanding  |             |
| 7,050,540 Shares                           | 7,050       |
| Additional Paid-In Capital                 | 2,245,503   |
| Retained Earnings (Deficit)                | (447,516)   |
| Notes Receivable - Related Parties         | (1,057,686) |
|  | -----       |
| Total Stockholders' Equity                 | 747,351     |
|  | -----       |
|  | \$ 794,343  |
|  | =====       |

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

### ARBOR ENTECH CORPORATION STATEMENT OF OPERATIONS (Unaudited)

|  | Quarter Ended |             |
|--|---------------|-------------|
|  | July 31,      |             |
|  | 2002          | 2001        |
|  | -----         | -----       |
| Net Sales                                    | \$ 247,477    | \$ 132,049  |
|  | -----         | -----       |
| Costs and Expenses:                          |               |             |
| Cost of Sales                                | 148,486       | 66,880      |
| Selling, General and Administrative Expenses | 107,282       | 157,051     |
|  | -----         | -----       |
|  | 255,768       | 223,931     |
|  | -----         | -----       |
| Loss from Operations                         | (8,291)       | (91,882)    |
|  | -----         | -----       |
| Other Income:                                |               |             |
| Interest Income                              | 447           | 3,323       |
|  | -----         | -----       |
|  | 447           | 3,323       |
|  | -----         | -----       |
| Net Loss                                     | \$ (7,844)    | \$ (88,559) |
|  | =====         | =====       |
| Earnings Per Common Share - Basic            | \$ (.00)      | \$ (.01)    |
|  | =====         | =====       |
| Weighted Average Shares Outstanding          | 7,050,540     | 7,050,540   |
|  | =====         | =====       |

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

### ARBOR ENTECH CORPORATION STATEMENT OF CASH FLOWS (Unaudited)

|  | Quarter Ended<br>July 31, |             |
|--|---------------------------|-------------|
|  | 2002                      | 2001        |
| Cash Flows from Operating Activities:  |                           |             |
| Net Loss   | \$ (7,844)                | \$ (88,442) |
| Adjustments to Reconcile Net Loss to Net Cash Provided by<br>(Used) in Operating Activities: |                           |             |
| Depreciation   | 3,731                     | 3,731       |
| Changes in Operating Assets and Liabilities:   |                           |             |
| Decrease in Accounts Receivable  | 109,254                   | 14,254      |
| (Increase) in Inventories  | (33,122)                  | (185,122)   |
| (Increase) in Prepaid Expenses   | (38,527)                  | (38,527)    |
| (Decrease) in Accounts Payable and Accrued Liabilities                                       | (10,442)                  | (33,442)    |
| (Decrease) in Taxes Payable  | (1,479)                   | (49,479)    |
| Total Adjustments  | 29,415                    | (251,415)   |
| Net Cash Provided by (Used) in Operating Activities  | 21,571                    | (339,415)   |
| Cash Flows from Investing Activities:  | -                         | -           |
| Cash Flows from Financing Activities:  |                           |             |
| Loans to Related Parties - Net   | (3,634)                   | (24,634)    |
| Capital Contributed  | 17,134                    | 24,134      |
| Net Cash Provided by Financing Activities  | 13,500                    | -           |
| Increase (Decrease) in Cash and Cash Equivalents   | 35,071                    | (339,415)   |
| Cash and Cash Equivalents - Beginning of Period  | 252,026                   | 625,026     |
| Cash and Cash Equivalents - End of Period  | \$ 287,097                | \$ 285,611  |
| Supplemental Cash Flow Information:  |                           |             |
| Cash Paid for Interest   | \$ -                      | \$ -        |
| Cash Paid for Income Taxes   | \$ 50,200                 | \$ 42,200   |

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

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

## NOTE 1 - UNAUDITED INTERIM FINANCIAL STATEMENT

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  | \$ | 150,757 |
| Finished Goods |    | 26,604  |
|                |    | -----   |
|                | \$ | 177,361 |
|                |    | =====   |

## 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  |
|                                |    | -----   |
|                                |    | 140,058 |
| Less: Accumulated Depreciation |    | 87,862  |
|                                |    | -----   |
|                                | \$ | 52,196  |
|                                |    | =====   |

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

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### 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 consist of the following:

Receivable from:

|                                       |             |
|---------------------------------------|-------------|
| Rushmore Financial Services, Inc. (a) | \$ 784,024  |
| Attain Technology, Inc. (b)           | 195,072     |
|                                       | -----       |
|                                       | 979,096     |
| Accrued Interest                      | 78,590      |
|                                       | -----       |
|                                       | \$1,057,686 |
|                                       | =====       |

(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

The Company paid \$13,500 in administrative fees to a Company owned by two of its significant stockholders during the quarters ended July 31, 2002 and 2001.

### 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, 2002 on this credit facility.

### PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) None

(b) None

### SIGNATURES

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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

By: s/Harvey Houtkin  
President

By: s/Mark Shefts  
Mark Shefts  
Chief Financial Officer

Dated: September 19, 2002