

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
SEC Accession No. **0000950115-96-001630**

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FILER

ADAGE INC

CIK: **2186** | IRS No.: **042225121** | State of Incorp.: **PA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-07336** | Film No.: **96663499**
SIC: **3600** Electronic & other electrical equipment (no computer equip)

Mailing Address

625 WILLOWBROOK LANE
625 WILLOWBROOK LANE
WEST CHESTER PA 19382

Business Address

625 WILLOWBROOK LANE
WEST CHESTER PA 19382
2154303900

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended September 30, 1996

Commission file number 33-31797

ADAGE, INC.

(Exchange name of registrant as specified in its charter)

Pennsylvania 04-2225121

(State or other jurisdiction of I.R.S. Employer Identification
Incorporation or organization) Number

400 Willowbrook Lane, West Chester, PA 19382

(Address of principal executive officers) (Zip Codes)

(215) 430-3900

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes X No
--- ---

Indicate the number of shares outstanding of each of the issuer's
classes of common stock, as of the latest practicable date of November 11, 1996

5,129,175 shares of Common Stock, par value \$.60 per share.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

ADAGE, INC.

Condensed Consolidated Balance Sheets

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996	DECEMBER 31, 1995
	-----	-----
	(Unaudited)	(Unaudited)
ASSETS		000's Omitted
-----		-----
Current Assets		
<S>	<C>	<C>

Cash	\$ -	\$ 134
Accounts receivable, net	10,698	10,853
Inventories	21,666	21,261
Marketable securities	227	177
Other current assets	1,996	2,114
	-----	-----
Total Current Assets	34,587	34,539
Property, plant and equipment, net	13,050	13,562
Investments and long-term receivable	618	980
Net assets of discontinued segments	4,621	5,376
Intangible and other assets	3,200	3,080
	-----	-----
Total Assets	\$ 56,076	\$ 57,537
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Current maturities of long-term debt	\$ 804	\$ 1,403
Accounts payable	4,447	6,838
Accrued expenses	2,167	3,221
Income taxes payable	1,473	301
	-----	-----
Total Current Liabilities	8,891	11,763
Long-term debt	14,477	13,154
Stockholders' equity	32,708	32,620
	-----	-----
	\$ 56,076	\$ 57,537
	=====	=====

</TABLE>

Note 1. The consolidated balance sheet at December 31, 1995 has been condensed from the audited financial statements.

See Notes to condensed consolidated financial statements.

ITEM 1 - FINANCIAL STATEMENTS - continued

ADAGE, INC.

Condensed Consolidated Statements of Income

<TABLE>
<CAPTION>

	FOR THE THREE MONTHS ENDED	
	SEPTEMBER 30,	
	1996	1995
	----	----
	(Unaudited)	(Unaudited)
	000's Omitted	
	-----	-----
<S>	<C>	<C>
Sales	\$ 18,608	\$ 19,257
Expenses		
Cost of products	14,764	16,247
Selling, general & administrative	3,868	3,985
	-----	-----

	18,632	20,232
	-----	-----
Operating Income	(24)	(975)
Other Expenses (income)		
Interest	268	230
Investment and other income	(153)	(127)
	-----	-----
	115	103
Income (loss) from continuing operations before income taxes and minority interest	(139)	(1,078)
Income taxes (Benefit)	(55)	(347)
	-----	-----
Income (loss) from continuing operations	(84)	(731)
Discontinued Operations		
Income from discontinued operations net of income taxes (benefit)	-	189
Gain on sale of discontinued operations net of taxes	-	1,409
	-----	-----
Net income	\$ (84)	\$ 867
	=====	=====
Earnings (Loss) Per Common Share		
Continuing operations	\$ (.02)	\$ (.14)
Discontinued operations	. -	.04
Sale of discontinued operations	. -	.27
	-----	-----
Net Income (Loss)	\$ (.02)	\$.17
	=====	=====
Weighted Average Common Shares Outstanding	5,126,698	5,105,440
	=====	=====

</TABLE>

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ITEM 1 - FINANCIAL STATEMENTS - continued

ADAGE, INC.

Condensed Consolidated Statements of Income

<TABLE>
<CAPTION>

	FOR THE NINE MONTHS ENDED	

	1996	1995
	-----	-----
	(Unaudited)	(Unaudited)
	000's Omitted	

<S>	<C>	<C>
Sales	\$ 59,074	\$ 62,130
Expenses		
Cost of products	46,025	50,952
Selling, general & administrative	12,246	12,633
	-----	-----
	58,271	63,585

Operating Income	803	(1,455)
Other Expenses (income)		
Interest	786	640
Investment and other income	(293)	(532)
	-----	-----
	493	108
Income (loss) from continuing operations before income taxes and minority interest	310	(1,563)
Income taxes (Benefit)	117	(531)
	-----	-----
Income (loss) from continuing operations	193	(1,032)
Discontinued Operations		
Income from discontinued operations net of income taxes (benefit)	-	1,014
Gain on sale of discontinued operations	-	1,409
	-----	-----
Net income	\$ 193	\$ 1,391
	=====	=====
Earnings (Loss) Per Common Share		
Continuing operations	\$.04	\$ (.20)
Discontinued operations	. -	.20
Gain on sale of discontinued operations	. -	.28
	-----	-----
Net Income (Loss)	\$.04	\$.28
	=====	=====
Weighted Average Common Shares Outstanding	5,124,473	5,100,875
	=====	=====

</TABLE>

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ITEM 1 - FINANCIAL STATEMENTS - continued

ADAGE, INC.
Condensed Consolidated Statements of Cash Flows

	FOR THE NINE MONTHS ENDED September 30,	
	1996	1995
	-----	-----
	(Unaudited)	(Unaudited)
	000's Omitted	

Operating activities:		
<S>	<C>	<C>
Net income (loss)	\$ 193	\$ 1,391
Adjustments to reconcile net income to cash flows		
Depreciation and amortization	1,840	1,968
(Gain) Loss on sale of marketable securities	(50)	(187)
Gain on sale of property	(449)	-
Decrease (increase) in current assets		

Accounts receivable, net	154	1,335
Inventory	(405)	(1,608)
Other current assets	(337)	(671)
Increase (decrease) in current liabilities		
Accounts payable	(2,778)	(2,320)
Other current liabilities	427	(206)
Discontinued segment-noncash charges and working capital charges	535	678
Gain on sale of discontinued operations	-	(1,409)
	-----	-----
Cash (used) provided from operations	(870)	(1,029)
Investing activities:		
Property, plant and equipment		
Purchases	(755)	(588)
Sales	633	-
Long-term investments and receivables		
Sales	-	184
Investing activities of discontinued segment	-	(193)
Sales of discontinued operations	-	6,804
Other items	(118)	(14)
	-----	-----
Cash (used) provided by investing activities	(240)	6,193
Financing activities:		
Long-term debt		
Additions	-	345
Payments	(1,270)	(3,511)
Changes in lines of credit	2,246	(2,293)
Financing activities of discontinued segment	-	111
	-----	-----
Cash (used) by financing activities	976	(5,348)
	-----	-----
Increase in cash	(134)	(184)
Cash at beginning of period	134	184
	-----	-----
Cash at end of period	\$ -	\$ -
	=====	=====

</TABLE>

See Notes to Condensed Consolidated Financial Statements

Notes to Condensed Consolidated Financial Statements
(Unaudited)
(000's Omitted)

1. Condensed Consolidated Financial Statements

The condensed consolidated balance sheet as of September 30, 1996, the consolidated statements of operations and the consolidated statements of cash flows for the three months ended September 30, 1996 and 1995 have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows at September 30, 1995 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 1995 Annual

Report to Shareholders. The results of operations for the period ended September 30, 1995 are not necessarily indicative of the operating results for a full year.

2. Inventories	September 30, 1996 -----	December 31, 1995 -----
Inventories consisted of:		
Raw Material	\$ 10,269	\$ 8,688
Work in Process	2,744	3,884
Finished goods	8,653	8,689
	-----	-----
	\$ 21,666	\$ 21,261
	=====	=====

3. Stockholder's Equity

Stockholder's Equity is comprised of the following:

	September 30, 1996 -----	December 31, 1995 -----
Common Stock	\$ 3,072	\$ 3,073
Additional Capital	20,505	20,477
Retained Earnings	9,797	9,664
Net unrealized loss on marketable securities	(666)	(594)
	-----	-----
	\$ 32,708	\$ 32,620
	=====	=====

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

Results of Operations

As an aid to understanding the Company's operating results, the following table shows each item from the consolidated statement of income expressed as a percentage of net sales:

<TABLE>
<CAPTION>

	Quarter Ended		Percentage of Net Sales		Year Ended December 31, 1995 ----
	September 30, 1996 ----	1995 ----	Nine Months Ended September 30, 1996 ----		
	1996	1995	1996	1995	1995
	----	----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>
Sales	100.0%	100.0%	% 100.0%	100.0%	100.0%
Cost of sales	79.3%	84.4%	77.9%	82.0%	78.2%
Selling, general administrative	20.8%	20.6%	20.7%	20.3%	21.7%
Interest expense	1.4%	1.2%	1.3%	1.0%	1.9%
Net income from continuing operations	(.4%)	(3.8%)	.3%	(1.7%)	(1.0%)

Net Sales

Net sales for the nine months ended September 30, 1996 decreased \$649 compared to sales for the same period in 1995. This decrease was made up of the

following:

	Increase (Decrease)

Wireless Communication Equipment	\$ 2,345
Paper Manufacturing	(5,089)
Specialty Manufacturing	347

Sales in the wireless communications equipment business segment increased due to increased demand and the ability to source raw materials compared to the prior year. Decreases in the paper manufacturing were due to decreased volume and prices.

Cost of Sales

Cost of sales as a percentage of net sales decreased 4.1% to 77.9% for the nine months ended September 30, 1996 from 82.0% for the

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nine months ended September 30, 1995. Cost of sales was 78.2% of net sales for the year ended December 31, 1995. Details of this cost of sales as a percentage of net sales for each segment follows:

	Quarter Ended		Nine Months Ended	
	September 30, 1996	1995	September 30, 1996	1995
	----	----	----	----
Wireless Communication Equipment	69.9%	78.1%	74.6%	76.4%
Paper Manufacturing	88.4%	92.5%	84.9%	89.7%
Specialty Manufacturing	85.1%	83.5%	85.6%	85.6%

Costs decreased in the wireless communications equipment manufacturing segment due to increased efficiencies in the manufacturing process. Material costs, primarily recycled paper fiber, have decreased since the end of 1995. Prices for paperboard have decreased also but have generally lagged price decreases in raw materials. Decreased volume in the paper manufacturing segment resulted in less efficient absorption of fixed manufacturing costs compared to the prior year. The decrease in the specialty manufacturing segment is due to the absorption of a new product line of 1996.

Selling, General and Administrative Expenses

Selling general and administrative expenses which consist primarily of commissions, marketing, salary and related costs, data processing, occupancy and product development costs increased to 20.7% for the nine months ended September 30, 1996 from 20.3% for the nine months ended September 30, 1995. Selling general and administrative expenses were 21.7% of net sales for the year ended December 31, 1995. Details of selling, general and administrative expense by segment follows:

	Quarter Ended		Nine Months Ended	
	September 30, 1996	1995	September 30, 1996	1995
	----	----	----	----
Wireless Communication Equipment	\$ 2,336	\$ 2,167	\$ 7,788	\$ 7,482
Paper Manufacturing	673	677	1,978	2,229
Specialty Manufacturing	591	647	1,793	1,529
Corporate	521	482	1,367	1,349

Increases in the wireless communications segment are related to increased product development expenses compared to the prior year and increased selling costs on increased sales volume. Decreases in the paper manufacturing segment are related to decreased variable selling costs of decreased sales compared to the prior year. Increased selling salaries and reallocation of corporate expenses caused the increase in the specialty manufacturing segment.

Interest Expense

Interest Expense increased to 1.4% for the quarter ended September 30, 1996 and 1.3% for the nine months ended September 30, 1996 from 1.9% for year ended December 31, 1995. This decrease is related to decreased debt levels compared to 1995.

Income Taxes

Income taxes represented a 38.0% effective tax rate for the quarter and nine months ended September 30, 1996. This rate is made up of a 34% federal tax rate and varying state tax rates. The effective tax rate for 1995 was 40.1%.

Inflation and Changing Prices

Inflation and changing prices for the nine months ended September 30, 1996 and the nine months ended September 30, 1995 have contributed to increases in wages, facility and raw material costs.

The Company believes that it will be able to pass on most of its future inflationary increases to its customers. The wireless equipment manufacturing segment is also subject to changing foreign currency exchange rates in its purchases of raw materials. The Company employs several methods to protect against increases in costs due to currency fluctuations. It is not always possible to pass on the effects of currency fluctuations to customers. However, competition in these markets are subject to similar fluctuations in product cost.

Liquidity and Capital Resources

Working capital increased by \$ 2,920 during the nine months ended September 30, 1996. The Company has credit available under its existing lines of credit at September 30, 1996 in excess of \$1,000,000.

Capital expenditures for the first nine months of 1996 were \$755,000 which was paid from operating cash flow and bank credit lines.

Capital expenditures for 1996 for the combined entity are not expected to exceed \$1.5 million. Management expects that capital expenditures will be funded through operating cash flow and financing sources available to the Company. Based on the anticipated replacement needs, and expected purchases of equipment for additional capacity, management expects that capital expenditures will continue at these levels for the foreseeable future.

Inventories increased \$405,000 from December 31, 1995.

Discontinued Operations

In February, 1995 the Company decided to discontinue and dispose of its real estate development and management segment. Real estate inventories were written down to their estimated orderly liquidation value as of December 31, 1994.

In August 1995, the Company sold its' steel processing subsidiary for \$6.8 million in cash. Minority interests were decreased by \$1.5 million and long-term debt was decreased by this segments debt of \$6.0 and payments on the consolidated debt of the Company of \$4.0 million.

Management will consider disposal of subsidiaries that do not earn an adequate return or fit the long-term goals of the Company.

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ITEM 6. Exhibits and Reports of Form 8-K

b.) Reports on Form 8-K

The Registrant was not required to file reports on Form 8K during the quarter ended September 30, 1996.

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Pursuant to the requirements of Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ADAGE, INC.

\s\ Robert T. Holland

Robert T. Holland
Vice President - Finance

Date: November 14, 1996

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