

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**
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FILER

ELECTRONIC FAB TECHNOLOGY CORP

CIK: **916797** | IRS No.: **840854616** | State of Incorpor.: **CO** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-23332** | Film No.: **96666217**
SIC: **3672** Printed circuit boards

Business Address
7251 WEST 4TH ST
GREELEY CO 80634-9763
3033533100

U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 1996

TRANSITION REPORT PURSUANT SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 0-23332

ELECTRONIC FAB TECHNOLOGY CORP.

(Exact name of registrant as specified in its charter)

Colorado

84-0854616

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

7251 West 4th Street
Greeley, Colorado 80634-9763

(Address of principal executive offices)

(970) 353-3100
(Issuer's telephone number)

Not Applicable
(Former name, former address and former fiscal year, if changed
since last report)

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

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

Class of Common Stock
Common Stock, par value \$0.01
Outstanding at October 1, 1996
3,942,660 shares

ELECTRONIC FAB TECHNOLOGY CORP.

FORM 10-Q

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ELECTRONIC FAB TECHNOLOGY CORP.
CONDENSED BALANCE SHEETS
(unaudited)

<CAPTION>

	September 30, 1996	December 31, 1996
ASSETS		
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Current assets		
Cash and cash equivalents	\$30,556	\$481,086
Accounts receivable, net of allowances of \$20,000	3,420,482	4,982,450
Inventories (note 2)	10,147,092	9,859,414
Income taxes receivable	984,675	74,922
Prepaid expenses and other current assets	265,998	528,466
Total current assets	14,848,803	15,926,338
Property, plant and equipment, at cost	13,229,462	12,839,976
Less accumulated depreciation	4,393,291	3,949,163
Net property, plant and equipment	8,836,171	8,890,813
Other assets	45,323	167,148
	\$23,730,297	\$24,984,299
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Note payable	\$2,300,000	\$ -
Current portion of long-term debt	170,000	170,000
Accounts payable	2,458,883	4,986,757
Accrued expenses and other liabilities	1,737,430	901,738
Total current liabilities	6,666,313	6,058,495
Long-term debt, net of current portion	2,890,000	3,060,000
Deferred income taxes	334,883	356,606
Shareholders' equity		
Preferred stock, \$.01 par value. Authorized 5,000,000 shares; none issued or outstanding	-	-
Common stock, \$.01 par value. Authorized 45,000,000 shares; issued 3,942,660 shares and 3,940,860 shares	39,427	39,409

Additional paid-in capital	10,187,180	10,181,204
Retained earnings	3,612,494	5,288,585
Total shareholders' equity	13,839,101	15,509,198
	\$23,730,297	\$24,984,299

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See notes to condensed financial statements.
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ELECTRONIC FAB TECHNOLOGY CORP.
CONDENSED STATEMENTS OF INCOME
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Net sales	\$13,631,921	\$11,691,875	\$44,576,291	\$36,140,147
Cost of goods sold	13,096,171	11,072,107	42,676,203	33,253,580
Gross profit	535,750	619,768	1,900,088	2,886,567
Selling, general, and administrative expense	1,746,550	844,243	3,403,090	2,358,576
Impairment of fixed assets	725,869	-	725,869	-
Operating income (loss)	(1,936,669)	(224,475)	(2,228,871)	527,991
Other income (expense):				
Interest expense	(141,898)	(96,769)	(384,511)	(265,733)
Gain (loss) on disposition of assets	(12,723)	-	(12,723)	51,500
Other, net	13,341	6,959	29,812	22,638
	(141,280)	(89,810)	(367,422)	(191,595)
Income (loss) before income taxes	(2,077,949)	(314,285)	(2,596,293)	336,396
Income tax expense (benefit)	(718,626)	(101,404)	(920,203)	124,759
Net income (loss)	(\$1,359,323)	(\$212,881)	(\$1,676,090)	\$211,637
Income (loss) per common and common equivalent share	(\$0.34)	(\$0.05)	(\$0.42)	\$0.05
Weighted average shares outstanding	3,968,417	3,961,007	3,968,417	3,968,417

<FN>
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See notes to condensed financial statements.
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ELECTRONIC FAB TECHNOLOGY CORP.
CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine months ended September 30,	
	1996	1995
<S>	<C>	<C>
Cash Flows From Operating Activities:		
Net income (loss)	(\$1,676,090)	\$211,637
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	999,454	1,301,748
Deferred income taxes	(10,103)	300,423
(Gain) loss on sale and impairment of fixed assets	1,181,000	-
Changes in operating assets and liabilities:		
Accounts receivable	1,561,968	89,259

Inventories	(287,678)	(642,215)
Prepaid expenses and other current assets	250,848	(230,549)
Accounts payable	(2,527,874)	206,338
Accrued expenses	835,692	(336,995)
Income taxes	(909,753)	(328,193)
Other assets	121,824	(95,014)
Net cash provided by (used in) operating activities	(460,712)	476,439
Cash flows from investing activities		
Proceeds from sale of equipment	10,157	-
Purchase of property, plant and equipment	(2,135,969)	(2,231,860)
Net cash (used in) investing activities	(2,125,812)	(2,231,860)
Cash flows from financing activities		
Common stock issued, net	5,994	165,667
Principal payments on long-term debt	(170,000)	(170,000)
Borrowings (payments) on notes payable, net	2,300,000	1,625,000
Net cash provided by financing activities	2,135,994	1,620,667
Increase (decrease) in cash and cash equivalents	(450,530)	(134,754)
Cash and cash equivalents:		
Beginning of period	481,086	153,483
End of period	\$30,556	\$18,729

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See notes to condensed financial statements.

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ELECTRONIC FAB TECHNOLOGY CORP.
NOTES TO CONDENSED FINANCIAL STATEMENTS

Note 1--Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine month period ending September 30, 1996 are not necessarily indicative of the results that may be expected for the year ended December 31, 1996. The unaudited condensed financial statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's annual report and Form 10-K for the year ended December 31, 1995.

Note 2--Inventories

The components of inventory consist of the following:

	September 30, 1996	December 31, 1995
Purchased parts and completed subassemblies	\$7,993,503	\$8,051,548
Work-in-process	2,153,589	1,807,766
	\$10,147,092	\$9,859,414

Note 3--Supplemental Disclosure of Cash Flow Information

	Nine months ended September 30,	
	1996	1995
Cash paid during the period for:		
Interest	\$374,960	\$167,520
Income taxes	\$12,728	\$152,530

RESULTS OF OPERATIONS

Net sales. Net sales are net of discounts and are recognized upon shipment to a customer. The Company's net sales increased by 16.6% to \$13,631,921 for the third quarter of fiscal 1996, from \$11,691,875 during the same period in fiscal 1995. The increase in net sales is due primarily to increased material sales associated with electro-mechanical assembly (box-build) to one customer.

The company's net sales increased by 23.3% to \$44,576,291 during the nine months of fiscal 1996, from \$36,140,147 during the same period of fiscal 1995. Again this increase is primarily the result of the sales related to the box-build activity noted above.

Gross profit. Gross profit equals net sales less cost of goods sold (such as salaries, leasing costs, and depreciation charges related to production operations); and non-direct, variable manufacturing costs (such as supplies and employee benefits). In the third quarter of fiscal 1996, gross profit decreased 13.6% to \$535,750 compared to \$619,768 for the same period in 1995. The gross profit margin for the third quarter of fiscal 1996 was 3.9% compared to 5.3% for the same period of fiscal 1995. The primary reason for the decline in gross profit is related to restructuring charges of \$479,029 that were included in cost of goods sold for the third quarter of 1996. Without these restructuring charges, gross profit would have been \$1,014,779 or 7.4% of net sales, an increase of 63.7% over the third quarter of 1995. These restructuring charges were severance expenses related to a decrease in workforce, write down of inventory related to changes in the Company's customer mix, and expenses related to the reorganization of the manufacturing floor and manufacturing processes.

Gross profit decreased by 34.2% to \$1,900,088 compared to \$2,886,567 for the first nine months of fiscal 1996. The gross profit margin for the first nine months of fiscal 1996 was 4.3% compared to 8.0% for the first nine months of 1995. Excluding the restructuring charges as explained above gross profit would have been \$2,379,117 or 5.3% for the third quarter of 1996. The additional decline not related to the restructuring charge taken in the third quarter of fiscal 1996 was attributable to increased overhead associated with the change in product mix from third quarter of 1995 to third quarter of 1996. The decreased efficiencies prompted the Company to hire a new Chief Executive Officer and decrease its workforce and cost structure in order to position the Company for future success.

Selling, General and Administrative Expenses. Selling, general and administrative expenses (SGA expense) consist primarily of non-manufacturing salaries, sales commissions, and other general expenses. SGA expense increased by 106.9% to \$1,746,550 in the third quarter of 1996, compared with \$844,243 a year earlier. The increase is due to restructuring charges as explained above related to SGA expense in the amount of \$922,404 in the third quarter of 1996. Excluding these costs the SGA expense would have been \$824,146 a decrease of \$20,007 from third quarter of 1995. As a percentage of net sales SGA expenses increased from 7.2% of net sales in the third quarter of fiscal 1995 to 12.8% of net sales in fiscal 1996. Excluding the restructuring charges SGA expenses would have been 6.0% of net sales for the third quarter of 1996.

Selling, general and administrative expenses increased by 44.3% to \$3,403,090 for the nine months of fiscal 1996 compared with \$2,358,576 a year earlier. Excluding the restructuring charges incurred in third quarter of 1996 SGA expenses would have increased by \$122,110 or 5.2% over the first nine months of 1995. As a percentage of net sales, SGA increased to 7.6% in the first nine months of 1996 from 6.5% in the same period of fiscal 1995. Without the restructuring charges SGA expenses would have been 5.6% of net sales for the nine months ended September 30, 1996.

Impairment of fixed assets. During the third quarter of 1996 the Company incurred a write down associated with impaired assets in the amount of \$725,869. Statement of Financial Accounting Standards No.121-Accounting for the impairment of long-lived assets and for long-lived assets to be disposed of ; requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets and certain identifiable intangibles to be disposed of should be reported at the lower of carrying amount or fair value less cost to sell. The Company went through a corporate restructuring in the third quarter of 1996 which included a workforce reduction and a change in the way product is manufactured which resulted in several assets both tangible and intangible to be eliminated from operations. Certain software that we will no longer be using as well as excess equipment that is now held for sale was written down to fair value in order to comply with Statement No.121 as mentioned above.

Operating income. Operating income for the third quarter of fiscal 1996 decreased 762.8% to a loss of \$1,936,669 from a loss of \$224,475 for the third quarter of fiscal 1995. Operating income as a percentage of net sales decreased to (14.2%) in the third quarter of fiscal 1996 from (1.9%) in the same period last year. The decrease in operating income was attributable to the restructuring charges and impairment of fixed assets write down as noted above. The total of these items for the third quarter of 1996 was \$2,127,302. Excluding these items operating income would have been \$190,633 or 1.4% of net sales for the third quarter of 1996.

Operating income for the first nine months of fiscal 1996 decreased 522.1% to a loss of \$2,228,871 from income of \$527,991 in the first nine months of fiscal 1995. Operating income as a percent of sales decreased to (5.0%) in the first nine months of fiscal 1996 compared to 1.5% in the first nine months of 1995. By excluding the restructuring charges noted above the operating loss would have been \$101,569 or (0.2%) of net sales for the nine months ended September 30, 1996.

Interest expense. Interest expense for the third quarter of 1996 was \$141,898 compared to \$96,769 for the same period in fiscal 1995. The need to fund the increase in inventory and accounts receivable levels with operating debt was the primary reason for the increase in interest expense.

Interest expense for the first nine months of 1996 was \$384,511 compared to \$265,733 for the same period a year earlier. Borrowing due to increases in inventory and accounts receivable levels is the primary reason for the increase in interest expense.

Income tax expense. The estimate of the Company's effective income tax rate for the third quarter of fiscal 1996 and 1995 was 34.6% and 32.3% respectively. This percentage fluctuates substantially because relatively small dollar amounts tend to move the rate significantly as estimates change. State tax credits generated from capital investment and job creation also continue to effect state taxes because of the Company's location in a state-designated "enterprise" zone.

The effective income tax rate for the first nine months of fiscal 1996 was 35.4% compared to 37.1% from the same period a year earlier. This percentage fluctuates because relatively small dollar amounts tend to move the rate significantly as estimates change and the Company is located in a state enterprise zone which gives access to state tax credits for capital investment and job creation.

LIQUIDITY AND CAPITAL RESOURCES

During the first nine months of fiscal 1996 cash used in operations was \$460,712 compared to cash provided by operations of \$476,439 in the same period last year. Cash used to reduce accounts payable was the key factor that created the use of cash in 1996.

As of September 30,1996, working capital totaled \$8,182,490 compared to \$9,867,843 at December 31,1995. The decline is

attributable primarily to the purchase of fixed assets and long-term debt retirement in the first nine months of the year.

Accounts receivable decreased 9.3% to \$3,420,482 at September 30, 1996 from \$3,769,264 at September 30, 1995. A comparison of receivable turns (i.e. annualized sales divided by current accounts receivable) for the third quarter of fiscal 1996 and the third quarter of fiscal 1995 is 15.9 and 12.4 turns, respectively.

Inventories increased 24.9% to \$10,147,092 at September 30, 1996 from \$8,121,589 at September 30, 1995. A comparison of inventory turns (i.e. annualized cost of sales divided by current inventory) for the third quarter of fiscal 1996 and 1995 shows a decrease to 5.2 from 5.5, respectively.

The Company used cash to purchase capital equipment totaling \$2,135,969 in the first nine months of 1996, compared with \$2,231,860 in the same period last year. Capital purchases for the remainder of 1996 are anticipated to be minimal with the exception of expenditures related to the installation of the new management information systems estimated to be about \$150,000 for the fourth quarter of 1996.

On October 2, 1996, the Company renegotiated its revolving line of credit in the amount of \$10,000,000 with a maturity date of June 5, 1997. The amount outstanding was \$2,300,000 at September 30, 1996. Interest on this credit facility accrues when drawn down at the Bank One Prime rate plus .25% (8.5% at September 30, 1996). The credit facility is collateralized by substantially all of the Company's assets, other than real estate. The loan agreement from this facility contains restrictive covenants relating to capital expenditures, borrowing and payment of dividends, and certain financial statement ratios. These credit facilities may be withdrawn/canceled at the bank's option under certain conditions such as default or in the event the Company experiences a material negative change in financial condition. The Company also has a term loan that is secured by deeds of trust on both of the Company's buildings and land. The term of the loan is seven years with a 20 year amortization. Principal payments of \$85,000 are semi-annual with monthly payments of interest. The loan rate floats at the Citibank prime rate plus 1% (9.25% at September 30, 1996) with a cap of 9.5%. The rate is adjusted annually on September 15. The balance due on the loan was \$3,060,000 at September 30, 1996.

The Company may require additional capital to finance enhancements to, or expansions of, its manufacturing capacity in accordance with its business strategy. Management believes that the need for working capital will continue to grow at a rate generally consistent with the growth of the Company's operations. Although no assurance can be given that financing will be available on terms acceptable to the Company, the Company may seek additional funds, from time to time, through public or private debt or equity offerings, bank borrowing, or leasing arrangements.

QUARTERLY RESULTS

Although management does not believe that the Company's business is affected by seasonal factors, the Company's sales and earnings may vary from quarter to quarter, depending primarily upon the timing of customer orders and product mix. Therefore, the Company's operating results for any particular quarter may not be indicative of the results for any future quarter of the year.

Item 5. Other Information

Mr. Jack Calderon was hired as the Company's Chief Executive Officer and appointed to the Board of Directors effective August 5, 1996.

Item 6. Exhibits and Reports on Form 8-K

(a) none

(b) The Company did not file any reports on Form 8-K during the

three months ended September 30, 1996.

Pursuant to 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.

ELECTRONIC FAB TECHNOLOGY CORP.
(Registrant)

Date: November 13, 1996 Jack Calderon
 Jack Calderon
 President and Chief
 Executive Officer

Date: November 13, 1996 Stuart Fuhlendorf
 Stuart W. Fuhlendorf
 Treasurer and Chief
 Financial Officer

Date: November 13, 1996 Brent L. Hofmeister
 Brent L. Hofmeister
 Controller

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