

UNITED STATES
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 July 2, 2005

OR

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

For the transition period _____ to _____

Commission file number: 0-14275

EDAC Technologies Corporation

(Exact name of registrant as specified in its charter)

Wisconsin

(State or other jurisdiction of
incorporation or organization)

39-1515599

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

1806 New Britain Avenue, Farmington, CT 06032

(Address of principal executive offices)

(860) 677-2603

(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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No X.

APPLICABLE ONLY TO CORPORATE ISSUERS:

On July 25, 2005 there were outstanding 4,504,270 shares of the Registrant's Common Stock, \$0.0025 par value per share.

PART I FINANCIAL INFORMATION
ITEM 1 FINANCIAL STATEMENTS

EDAC TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

| | July 2, 2005 <u>(Unaudited)</u> | January 1, 2005 <u>(Audited)</u> |
|--------------------------------|---------------------------------------|--|
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash | \$ 801,564 | \$ 549,198 |
| Trade accounts receivable, net | 6,081,697 | 6,573,114 |
| Inventories, net | 4,895,430 | 4,454,937 |
| Prepaid expenses and other | 338,319 | 57,290 |
| Refundable income taxes | - | 330,869 |
| Deferred income taxes | 469,135 | 733,583 |
| TOTAL CURRENT ASSETS | <u>12,586,145</u> | <u>12,698,991</u> |
| PROPERTY, PLANT, AND EQUIPMENT | 26,686,378 | 25,877,359 |
| less-accumulated depreciation | <u>18,085,269</u> | <u>17,297,856</u> |
| | <u>8,601,109</u> | <u>8,579,503</u> |
| OTHER ASSETS: | | |
| Deferred income taxes | 1,930,865 | 766,417 |
| Other | <u>125,918</u> | <u>102,183</u> |
| | <u>\$ 23,244,037</u> | <u>\$ 22,147,094</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

EDAC TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

| | July 2, 2005 <u>(Unaudited)</u> | January 1, 2005 <u>(Audited)</u> |
|---|---------------------------------------|--|
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | |
| CURRENT LIABILITIES: | | |
| Revolving line of credit | \$ - | \$ 580,555 |
| Current portion of long-term debt | 1,213,729 | 1,030,282 |
| Trade accounts payable | 3,340,577 | 3,249,892 |
| Accrued employee compensation and amounts withheld | 1,271,160 | 1,228,975 |
| Other accrued expenses | 775,552 | 502,450 |
| Customer advances | <u>164,052</u> | <u>363,745</u> |
| TOTAL CURRENT LIABILITIES | <u>6,765,070</u> | <u>6,955,899</u> |
| LONG-TERM DEBT, less current portion | <u>7,536,692</u> | <u>8,564,927</u> |
| OTHER LONG-TERM LIABILITIES | <u>1,423,054</u> | <u>1,423,054</u> |
| SHAREHOLDERS' EQUITY: | | |
| Common stock, par value \$.0025 per share; 10,000,000 shares authorized; issued - 4,502,870 on July 2, 2005 and 4,444,438 on January 1, 2005 | 11,257 | 11,111 |
| Additional paid-in capital | 9,414,722 | 9,377,508 |
| Accumulated deficit | <u>(3,562)</u> | <u>(2,282,044)</u> |
| | 9,422,417 | 7,106,575 |
| Less: accumulated other comprehensive loss | 1,903,196 | 1,903,196 |
| treasury stock, 0 shares on July 2, 2005 and 235 shares on January 1, 2005 | <u>-</u> | <u>165</u> |
| | <u>7,519,221</u> | <u>5,203,214</u> |
| | <u>\$ 23,244,037</u> | <u>\$ 22,147,094</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

EDAC TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | <u>For the three months ended</u> | | <u>For the six months ended</u> | |
|---|-----------------------------------|-------------------------|---------------------------------|-------------------------|
| | <u>July 2, 2005</u> | <u>July 3, 2004</u> | <u>July 2, 2005</u> | <u>July 3, 2004</u> |
| Sales | \$8,899,338 | \$8,766,891 | \$16,915,512 | \$16,073,384 |
| Cost of sales | <u>7,363,611</u> | <u>7,697,022</u> | <u>14,032,503</u> | <u>14,159,015</u> |
| Gross profit | 1,535,727 | 1,069,869 | 2,883,009 | 1,914,369 |
| Selling, general and administrative expenses | <u>845,891</u> | <u>634,617</u> | <u>1,572,782</u> | <u>1,272,286</u> |
| Income from operations | 689,836 | 435,252 | 1,310,227 | 642,083 |
| Non-operating income (expense): | | | | |
| Gain on debt forgiveness | - | - | 750,000 | 250,000 |
| Interest expense | (161,056) | (163,221) | (321,391) | (322,314) |
| Other | <u>-</u> | <u>-</u> | <u>13,646</u> | <u>-</u> |
| Income before income taxes | 528,780 | 272,031 | 1,752,482 | 569,769 |
| (Benefit from) Provision for income taxes | <u>(787,000)</u> | <u>8,000</u> | <u>(526,000)</u> | <u>17,000</u> |
| Net income | <u>\$ 1,315,780</u> | <u>\$264,031</u> | <u>\$ 2,278,482</u> | <u>\$552,769</u> |

Income per share data (Note A):

| | | | | |
|---------|----------------|----------------|----------------|----------------|
| Basic | <u>\$ 0.29</u> | <u>\$ 0.06</u> | <u>\$ 0.51</u> | <u>\$ 0.12</u> |
| Diluted | <u>\$ 0.27</u> | <u>\$ 0.06</u> | <u>\$ 0.48</u> | <u>\$ 0.12</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

EDAC TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | <u>For the six months ended</u> | |
|---|---------------------------------|-------------------------------|
| | <u>July 2,</u> <u>2005</u> | <u>July 3,</u> <u>2004</u> |
| Operating Activities: | | |
| Net income | \$2,278,482 | \$ 552,769 |
| Depreciation and amortization | 968,982 | 927,674 |
| Gain on debt forgiveness | (750,000) | (250,000) |
| Deferred income taxes | (900,000) | - |
| Gain on sale of property, plant & equipment | (10,000) | - |
| Changes in working capital items | <u>307,043</u> | <u>(1,459,220)</u> |
| Net cash provided by (used in) operating activities | <u>1,894,507</u> | <u>(228,777)</u> |
| Investing Activities: | | |
| Additions to property, plant and equipment | (925,609) | (92,999) |
| Proceeds from sale of property, plant and equipment | <u>10,000</u> | <u>-</u> |
| Net cash used in investing activities | <u>(915,609)</u> | <u>(92,999)</u> |
| Financing Activities: | | |
| (Decrease) increase in revolving line of credit | (580,555) | 1,874,255 |
| Repayments of long-term debt | (549,792) | (2,969,789) |
| Borrowings on long-term debt | 435,457 | 1,659,000 |
| Deferred loan fees | (69,167) | (30,783) |
| Proceeds from exercise of options and issuance of common stock | <u>37,525</u> | <u>-</u> |
| Net cash (used in) provided by financing activities | <u>(726,532)</u> | <u>532,683</u> |
| Increase in cash | 252,366 | 210,907 |
| Cash at beginning of period | <u>549,198</u> | <u>94,151</u> |
| Cash at end of period | <u>\$ 801,564</u> | <u>\$ 305,058</u> |
| Supplemental Disclosure of Cash Flow Information: | | |
| Interest paid | \$ 349,734 | \$ 333,757 |
| Income taxes refunded, net of payments | 299,387 | 12,950 |
| Non-cash transactions: | | |
| Capital lease obligation and equipment financing | 19,547 | 190,000 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

NOTE A -- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated 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 Rule 10-01 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 and adjustments to previously established loss provisions) considered necessary for a fair presentation have been included. Operating results for the three and six months ended July 2, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the fiscal year ended January 1, 2005.

Inventories: Inventories are stated at the lower of cost (first-in, first-out method) or market. The Company has specifically identified certain inventory as obsolete or slow moving and has provided a full reserve for these parts. As of July 2, 2005 and January 1, 2005, inventories consisted of the following:

| | <u>July 2, 2005</u> | <u>January 1, 2005</u> |
|------------------------------------|-------------------------|----------------------------|
| Raw materials | \$1,098,421 | \$ 893,452 |
| Work-in-progress | 2,885,327 | 2,812,222 |
| Finished goods | <u>1,524,214</u> | <u>1,392,283</u> |
| | 5,507,962 | 5,097,957 |
| Reserve for excess and obsolete | <u>(612,532)</u> | <u>(643,020)</u> |
| Inventories, net | <u>\$4,895,430</u> | <u>\$4,454,937</u> |

Income per share: The number of shares used in the income per common share computations for the three and six month periods ended July 2, 2005 and July 3, 2004 are as follows:

| | <u>For the three months ended</u> | | <u>For the six months ended</u> | |
|---|-----------------------------------|-------------------------|---------------------------------|-------------------------|
| | <u>July 2, 2005</u> | <u>July 3, 2004</u> | <u>July 2, 2005</u> | <u>July 3, 2004</u> |
| Basic: | | | | |
| Average common shares outstanding | 4,494,870 | 4,444,438 | 4,477,037 | 4,444,438 |
| Diluted: | | | | |
| Dilutive effect of stock options | <u>296,373</u> | <u>188,708</u> | <u>268,170</u> | <u>180,747</u> |
| Average common shares diluted | <u>4,791,243</u> | <u>4,633,146</u> | <u>4,745,207</u> | <u>4,625,185</u> |
| Options excluded since anti-dilutive | <u>42,000</u> | <u>97,000</u> | <u>42,000</u> | <u>97,000</u> |

The Company uses the intrinsic value method of accounting for stock options. Had compensation cost for the Company's employee stock option plans been determined based on the fair value at the grant dates of awards under these plans consistent with the methodology prescribed by SFAS No. 123, the Company's net income would have been adjusted to reflect the following pro forma amounts:

| | <u>For the three months ended</u> | | <u>For the six months ended</u> | |
|---|-----------------------------------|------------------|---------------------------------|------------------|
| | <u>July 2,</u> | <u>July 3,</u> | <u>July 2,</u> | <u>July 3,</u> |
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| Income: | | | | |
| As reported | \$1,315,780 | \$264,031 | \$2,278,482 | \$552,769 |
| Effect of stock-based employee compensation expense determined under fair valuation method for all awards, net of any related tax effects | (1,897) | (13,828) | (3,803) | (29,366) |
| Pro forma | <u>\$1,313,883</u> | <u>\$250,203</u> | <u>\$2,274,679</u> | <u>\$523,403</u> |
| Income per common share: | | | | |
| Basic: | | | | |
| As reported | \$0.29 | \$0.06 | \$0.51 | \$0.12 |
| Pro forma | \$0.29 | \$0.06 | \$0.51 | \$0.12 |
| Diluted: | | | | |
| As reported | \$0.27 | \$0.06 | \$0.48 | \$0.12 |
| Pro forma | \$0.27 | \$0.05 | \$0.48 | \$0.11 |

Comprehensive Income: Comprehensive income is the same as net income for the three and six month periods ended July 2, 2005 and July 3, 2004 since the valuation used in connection with determining the amount of the change in the minimum pension liability is determined at the end of the year.

Treasury stock: On October 11, 2002, the Company terminated its Employee Stock Ownership Plan and distributed the accounts of all participants in the form of shares of the Company. The fractional share portion of each account was paid in cash by the Company. The fractional shares totaling 235 shares were transferred back to the Company as treasury stock in 2003. The Company reissued the 235 shares of treasury stock in connection with the exercise of a stock option in the first quarter of 2005.

New Accounting Standards: In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), "Share-Based Payment". SFAS 123 (revised 2004) requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. Subsequent changes in fair value during the requisite service period, measured at each reporting date, will be recognized as compensation cost over that period. In April 2005, the SEC extended the effective date for SFAS No.

123 (revised 2004) for public companies, to the beginning of a registrant's next fiscal year that begins after June 15, 2005. The Company will be required to adopt SFAS No. 123 (revised 2004) in its first quarter of fiscal 2006. The Company is evaluating the impact of the adoption of SFAS No. 123 (revised 2004) on the Company's financial position and results of operations.

In March 2005, the Financial Accounting Standards Board issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB No. 143)". This Interpretation provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation are conditional on a future event. Interpretation No. 47 is not expected to have a material impact on the Company's financial position and results of operations.

NOTE B -- FINANCING ARRANGEMENTS

Notes payable and long-term debt consist of the following:

| | July 2, 2005 | January 1, 2005 |
|---|---------------------|----------------------|
| Revolving line of credit (1) | \$ - | \$ 4,585,024 |
| Equipment line of credit (1) | 435,457 | - |
| Term loans payable to Banknorth N.A. (1) | 4,567,175 | - |
| Term loans payable to former primary lender (1) | - | 995,531 |
| Note payable to former lender (2) | - | 750,000 |
| Mortgage loan to Banknorth N.A. | 1,606,605 | 1,628,509 |
| Mortgage loan to other lender | 1,813,187 | 1,842,653 |
| Equipment notes payable | 19,064 | 675 |
| Capital lease obligations | <u>308,933</u> | <u>373,372</u> |
| | 8,750,421 | 10,175,764 |
| Less - revolving line of credit | - | (1) 580,555 |
| Less - current portion of long-term debt | <u>1,213,729</u> | <u>(1) 1,030,282</u> |
| | <u>\$ 7,536,692</u> | <u>\$ 8,564,927</u> |

(1) On January 3, 2005, the Company refinanced all of its loan facilities with its former primary lender with financing from Banknorth N.A. (the "January 2005 Refinancing"). This credit facility includes a revolving line of credit which provides for borrowings up to \$5,000,000, a term loan of \$5,000,000 and an equipment line of credit which provides for borrowings up to \$1,500,000. The revolving line of credit is limited to an amount determined by a formula based on percentages of receivables and inventories and bears interest at the lender's prime

lending rate plus 1%, adjusted daily (7.25% at July 2, 2005). The revolving line of credit expires on August 31, 2005. The Company anticipates that Banknorth N.A. will renew the credit facility for a twelve month period prior to that date. The term loan is payable in 60 monthly payments of \$97,560 including interest at 6.3%. The equipment line of credit will provide advances to purchase eligible equipment and bears interest at the lender's prime lending rate plus 1%, adjusted daily (7.25% at July 2, 2005). The equipment line of credit will convert to a term note on August 31, 2005, with monthly payments of principal and interest in an amount to amortize the then existing principal balance in 60 equal monthly payments including interest at the then FHLBB 5 year Regular Amortizing Advance Rate plus 2.5%. The classification of the equipment line of credit has been determined in the accompanying July 2, 2005 condensed balance sheet after consideration of conversion to the sixty month term note. The credit facility gives Banknorth N.A. a first security interest in accounts receivable, inventories, equipment and other assets and prohibits the Company from paying cash dividends. As of July 2, 2005, the Company was in compliance with the related debt covenants. The classification of long-term and revolving debt has been determined in the accompanying January 1, 2005 condensed consolidated balance sheet after consideration of the January 2005 Refinancing.

(2) On April 1, 2005, in accordance with an April 3, 2003 agreement with the Company's former lender, the balance of a \$1 million non-interest bearing note payable to the former lender (which had been reduced by \$250,000 to \$750,000 on April 1, 2004) was forgiven in its entirety since certain events, including a change of control, sale of the Company or liquidation, had not occurred or been initiated as of that date. This forgiveness of debt of \$750,000 was recorded by the Company as a gain in the first quarter of 2005.

NOTE C – DEFINED BENEFIT PENSION PLAN

The following table sets forth the components of net periodic benefit cost (in thousands):

| | <u>For the three months ended</u> | | <u>For the six months ended</u> | |
|--|-----------------------------------|-----------------|---------------------------------|-----------------|
| | July 2, 2005 | July 3, 2004 | July 2, 2005 | July 3, 2004 |
| Components of net periodic benefit cost: | | | | |
| Interest cost | \$89 | \$91 | \$178 | \$182 |
| Expected return on plan assets | (74) | (70) | (148) | (140) |
| Amortization of actuarial loss | 35 | 32 | 70 | 64 |
| Net periodic pension expense | <u>\$50</u> | <u>\$53</u> | <u>\$100</u> | <u>\$106</u> |

Company contributions paid to the plan for the three and six month periods ended July 2, 2005 totaled \$116,763 and \$184,043, respectively.

NOTE D – INCOME TAXES

The (benefit from) provision for income taxes is as follows
(in thousands):

| | <u>For the three months ended</u> | | <u>For the six months ended</u> | |
|---|-----------------------------------|-------------------------|---------------------------------|-------------------------|
| | <u>July 2, 2005</u> | <u>July 3, 2004</u> | <u>July 2, 2005</u> | <u>July 3, 2004</u> |
| Current provision | \$113 | \$8 | \$374 | \$17 |
| Deferred benefit | <u>(900)</u> | <u>-</u> | <u>(900)</u> | <u>-</u> |
| Total (benefit) provision for income taxes | <u>(\$787)</u> | <u>\$8</u> | <u>(\$526)</u> | <u>\$17</u> |

The current provision for the three and six month periods ending July 2, 2005, was calculated using an effective rate of 21.3% which reflects the alternative minimum tax. The effective income tax rate of 3.0% for the three and six month periods ended July 3, 2004 reflects minimum federal and state taxes and the utilization of alternative minimum tax net operating loss carryforwards.

The Company will only recognize a deferred tax asset when, based upon available evidence, realization is more likely than not. In making this determination, the Company has considered both available positive and negative evidence including but not limited to cumulative losses in recent years, future taxable income and prudent and feasible tax planning strategies.

As of July 2, 2005, the Company concluded that it is more likely than not that the Company will realize all of its deferred tax assets and has reversed its valuation allowance by \$900,000.

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

Sales.

Sales to the Company's principal markets are as follows (in thousands):

| | <u>For the three months ended</u> | | <u>For the six months ended</u> | |
|-------------------------|-----------------------------------|-------------------------|---------------------------------|-------------------------|
| | <u>July 2, 2005</u> | <u>July 3, 2004</u> | <u>July 2, 2005</u> | <u>July 3, 2004</u> |
| Non-aerospace customers | \$5,089 | \$4,517 | \$9,487 | \$8,051 |
| Aerospace customers | <u>3,810</u> | <u>4,250</u> | <u>7,429</u> | <u>8,022</u> |
| | <u>\$8,899</u> | <u>\$8,767</u> | <u>\$16,916</u> | <u>\$16,073</u> |

The Company's sales increased \$132,000, or 1.5%, and \$843,000, or 5.2%, for the three and six month periods ended July 2, 2005, respectively, as compared to the three and six month periods ended July 3, 2004. Sales to non-aerospace customers increased \$572,000, or 12.7%, and \$1,436,000, or 17.8%, for the three and six month periods ended July 2, 2005, respectively, as compared to the three and six month periods ended July 3, 2004, primarily due to increased sales to machine tool customers. Sales to aerospace customers decreased \$440,000, or 10.4%, and by \$593,000, or 7.4%, for the three and six month periods ended July 2, 2005, respectively, as compared to the three and six month periods ended July 3, 2004, due to an agreement reached with the Company's largest aerospace customer in the 2nd quarter of 2004 whereby the Company recognized revenue for completed contracts in the amount of \$785,000.

Sales and sales increases (decreases) for the three and six month periods ended July 2, 2005 compared to the three and six month periods ended July 3, 2004 by product line were as follows (in thousands):

| <u>Product Line</u> | <u>For the Three Months Ended</u> | | |
|---------------------|-----------------------------------|-------------------------|---------------|
| | <u>July 2, 2005</u> | <u>July 3, 2004</u> | <u>Change</u> |
| Apex Machine Tool | \$5,412 | \$5,041 | \$371 |
| Precision Aerospace | 2,398 | 2,904 | (506) |
| Gros-Ite Spindles | <u>1,089</u> | <u>822</u> | <u>267</u> |
| Total | <u>\$8,899</u> | <u>\$8,767</u> | <u>\$132</u> |

| <u>Product Line</u> | <u>For the Six Months Ended</u> | | |
|---------------------|---------------------------------|-------------------------|---------------|
| | <u>July 2, 2005</u> | <u>July 3, 2004</u> | <u>Change</u> |
| Apex Machine Tool | \$10,457 | \$9,913 | \$544 |
| Precision Aerospace | 4,404 | 4,653 | (249) |
| Gros-Ite Spindles | <u>2,055</u> | <u>1,507</u> | <u>548</u> |
| Total | <u>\$16,916</u> | <u>\$16,073</u> | <u>\$843</u> |

Sales for the Apex Machine Tool Co. product line increased \$371,000, or 7.4% and by \$544,000, or 5.5%, for the three and six months ended July 2, 2005, respectively, compared to the three and six months ended July 3, 2004. These increases were due to increased demand on certain tooling programs from a customer in the consumer products industry, partially offset by a decrease in demand for tooling from an aerospace customer. Based on projections from such consumer products customer for

the remainder of 2005, the Company anticipates a continuation of the demand experienced in the 1st six months of 2005 for its Apex Machine Tool product line.

Sales for the Precision Aerospace product line decreased \$506,000, or 17.4% and by \$249,000, or 5.4%, for the three and six months ended July 2, 2005, respectively, compared to the three and six months ended July 3, 2004. These decreases were due entirely to an agreement reached with the Company's largest aerospace customer in the 2nd quarter of 2004 whereby the Company recognized revenue for completed contracts in the amount of \$785,000. Industry forecasts for the aerospace industry indicate improvement and increased sales for the industry in 2005. The Company believes that aerospace industry demand will continue to increase for large commercial engines. The Company has acquired a \$0.5 million machine in the 2nd quarter of 2005 and has committed another \$0.5 million in capital expenditures for 2005 to increase its machining capacity for large commercial jet engine parts.

Sales for the Gros-Ite Spindles product line increased \$267,000, or 32.5%, and by \$548,000, or 36.4%, for the three and six months ended July 2, 2005, respectively, compared to the three and six months ended July 3, 2004. This product line includes both the sale of new spindles and the repair of all brands of spindles. The increases in sales were due primarily to increased demand for new spindles, as well as the increased demand for the repair of spindles. The Company believes that the increased demand will continue throughout 2005 based on indications from its customers.

As of July 2, 2005, sales backlog was approximately \$21,700,000 compared to \$18,300,000 as of January 1, 2005. Backlog consists of accepted purchase orders that are cancelable by the customer without penalty, except for payment of costs incurred. The Company presently expects to complete approximately \$9,100,000 of its July 2, 2005 backlog during the remainder of the 2005 fiscal year. The remaining 12,600,000 of backlog is deliverable in fiscal year 2006 and beyond.

Cost of Sales. Cost of sales as a percentage of sales decreased to 82.7% from 87.8%, for the three month period ended July 2, 2005, compared to the three month period ended July 3, 2004. Cost of sales as a percentage of sales decreased to 83.0% from 88.1%, for the six month period ended July 2, 2005, compared to the six month period ended July 3, 2004. The decreases were due to (i) sales levels increasing in 2005 greater than manufacturing costs due to the fixed element of certain manufacturing costs and (ii) improved production management resulting in increased production efficiency and cost control. The decrease was partially offset by higher expendable tooling costs.

Selling, General & Administrative Expenses. Selling, general and administrative expenses increased by approximately \$211,000, or 33.3%, and by \$300,000, or 23.6%, for the three and six month periods ended July 2, 2005, respectively, compared to the three and six month periods

ended July 3, 2004. The increase in these costs was mainly the result of increased bonus and profit sharing expense and commission expense.

Interest Expense. Interest expense decreased by approximately \$2,000, or 1.3%, and by \$1,000, or 0.3%, for the three and six month periods ended July 2, 2005, respectively, compared to the three and six month periods ended July 3, 2004. This slight decrease was due to lower debt levels offset by increased interest rates.

Gain on Debt Forgiveness. The Company recorded a gain of \$750,000 in the first quarter of 2005 and \$250,000 in the first quarter of 2004 reflecting the forgiveness of a non-interest bearing note with a former lender. This reduction was in accordance with the Company's April 3, 2003 agreement with the former lender. (See Note B to condensed consolidated financial statements).

Income Taxes. The current provision for the three and six month periods ending July 2, 2005, was calculated using an effective rate of 21.3% which reflects the alternative minimum tax. The effective income tax rate of 3.0% for the three and six month periods ended July 3, 2004 reflect minimum federal and state taxes and the utilization of alternative minimum tax net operating loss carryforwards. The Company will only recognize a deferred tax asset when, based upon available evidence, realization is more likely than not. In making this determination, the Company has considered both available positive and negative evidence including but not limited to cumulative losses in recent years, future taxable income and prudent and feasible tax planning strategies. As of July 2, 2005, the Company concluded that it is more likely than not that the Company will realize all of its deferred tax assets and has reversed its valuation allowance by \$900,000.

Liquidity and Capital Resources.

Net cash provided by operating activities of \$1,895,000 for the six months ended July 2, 2005 resulted primarily from net income adjusted for non-cash expenses, a decrease in accounts receivable and the collection of refundable income taxes partially offset by an increase in inventory and prepaid expenses and a decrease in customer advances. Accounts receivable decreased \$491,000 since January 1, 2005 due to the collection of several large contracts delivered in December 2004, while inventories and prepaid expense increased \$440,000 and \$281,000, respectively. Customer advances decreased \$200,000 since January 1, 2005, due to shipment on certain large contracts in the first six months of 2005. The Company is able to borrow against eligible accounts receivable and certain inventory through its revolving line of credit.

Net cash used in investing activities of \$916,000 for the six months ended July 2, 2005, consisted of expenditures for machinery and computer equipment.

Net cash used in financing activities of \$727,000 for the six months ended July 2, 2005, resulted from repayments of debt with cash generated from operating activities.

Net cash used in operating activities of \$229,000 for the six months ended July 3, 2004, resulted primarily from increases in accounts receivable, inventories and prepaid expenses partially offset by net income adjusted for non-cash items, and increases in accounts payable and customer deposits. Accounts receivable increased \$2,975,000 and accounts payable increased \$1,681,000 due to increased sales and production in the quarter ended July 3, 2004, compared to the quarter ended January 3, 2004. Customer advances increased \$427,000 due to advances from a non-aerospace customer on certain large contracts to be delivered in 2004.

Net cash used in investing activities of \$93,000 for the six months ended July 3, 2004, consisted of expenditures for machinery and computer equipment.

Net cash provided by financing activities of \$533,000 for the six months ended July 3, 2004, resulted from borrowings on the Company's revolving line of credit partially offset by repayments of long-term debt.

On January 3, 2005, the Company refinanced all of its loan facilities with its former primary lender with financing from Banknorth N.A. (the "January 2005 Refinancing"). This credit facility includes a revolving line of credit which provides for borrowings up to \$5,000,000, a term loan of \$5,000,000 and an equipment line of credit which provides for borrowings up to \$1,500,000. The revolving line of credit is limited to an amount determined by a formula based on percentages of receivables and inventories and bears interest at the lender's prime lending rate plus 1%, adjusted daily (7.25% at July 2, 2005). The revolving line of credit expires on August 31, 2005. The Company anticipates that Banknorth N.A. will renew the credit facility for a twelve month period prior to that date. The term loan is payable in 60 monthly payments of \$97,560 including interest at 6.3%. The equipment line of credit will provide advances to purchase eligible equipment and bears interest at the lender's prime lending rate plus 1%, adjusted daily (7.25% at July 2, 2005). The equipment line of credit will convert to a term note on August 31, 2005, with monthly payments of principal and interest in an amount to amortize the then existing principal balance in 60 equal monthly payments including interest at the then FHLBB 5 year Regular Amortizing Advance Rate plus 2.5%. The credit facility gives Banknorth N.A. a first security interest in accounts receivable, inventories, equipment and other assets and prohibits the Company from paying cash dividends.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management's Discussion and Analysis and Note A to the Consolidated Financial Statements in the Company's Annual Report, incorporated by reference in

Form 10-K for the Company's fiscal year 2004, describe the significant accounting policies used in preparation of the Consolidated Financial Statements. Actual results in these areas could differ from management's estimates.

Accounts receivable- The Company evaluates its allowance for doubtful accounts by considering the age of each invoice, the financial strength of the customer, the customers' past payment record and subsequent payments.

Inventories- The Company has specifically identified certain inventory as obsolete or slow moving and provided a full reserve for these parts. The assumption is that these parts will not be sold. The assumptions and the resulting reserve have been accurate in the past, and are not likely to change materially in the future. The reserve for inventory decreased by \$30,000 at July 2, 2005 compared to January 1, 2005 due to the sale of certain previously reserved parts.

Pension- The Company maintains a defined benefit pension plan. Assumptions used in the accounting for the plan include the discount rate and expected rate of return on plan assets. The assumptions are determined based on appropriate market indicators and are evaluated each year as of the Plan's measurement date. A change in either of these assumptions would have an effect on the Company's net periodic benefit cost.

Income Taxes - The Company will only recognize a deferred tax asset when, based upon available evidence, realization is more likely than not. In making this determination, the Company has considered both available positive and negative evidence including but not limited to cumulative losses in recent years, future taxable income and prudent and feasible tax planning strategies. In particular the Company considered the following factors and assumptions:

- a) The trend of earnings has been toward increased profitability for the past two years.
- b) Sales backlog has increased from \$18.3 million at January 1, 2005 to \$21.7 million at July 2, 2005
- c) The Company anticipates projected operating profitability for 2006.

As of July 2, 2005, the Company concluded that it is more likely than not that the Company will realize all of its deferred tax assets and has reversed its valuation allowance by \$900,000.

All statements other than historical statements contained in this Form 10-Q constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Without limitation, these forward looking statements include statements regarding the Company's business strategy and plans, statements about the adequacy of the Company's working capital and other financial resources, statements about the Company's bank agreements, statements about the Company's backlog, statements about the Company's action to improve operating performance, and other statements herein that are not of a historical

nature. These forward-looking statements rely on a number of assumptions concerning future events and are subject to a number of uncertainties and other factors, many of which are outside of the Company's control, that could cause actual results to differ materially from such statements. These include, but are not limited to, factors which could affect demand for the Company's products and services such as general economic conditions and economic conditions in the aerospace industry and the other industries in which the Company competes; competition from the Company's competitors; the Company's ability to effectively use business-to-business tools on the Internet to improve operating results; the adequacy of the Company's revolving credit facility and other sources of capital; and other factors discussed in the Company's annual report on Form 10-K for the fiscal year ended January 1, 2005. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk related to its notes payable and long-term debt is the primary source of financial market risk to the Company.

The interest rate risk is limited, however, to the exposure related to those debt instruments and credit facilities which are tied to market rates. After the Company's 2005 Refinancing, the only variable rate debt instruments are the revolving line of credit and the equipment line of credit. A hypothetical increase of 1% in the interest rate applied to the revolving line of credit average balance would increase annual interest expense by approximately \$3,000. A hypothetical increase of 1% in the interest rate applied to the equipment line of credit balance would increase annual interest expense by approximately \$4,000.

The Company also maintains two mortgage loans at fixed interest rates, however, the interest rates are adjusted every five years to reflect a current index rate plus certain percentages. See Note B to the Condensed Consolidated Financial Statements. A hypothetical increase of 1% in the interest rate at the March 2006 adjustment date for the first mortgage will increase annual interest expense at that time by approximately \$18,000. A hypothetical increase of 1% in the interest rate at the April 2009 adjustment date for the Banknorth N.A. mortgage will increase annual interest expense at that time by approximately \$14,000.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure and procedures

The Company's management with the participation of the Chief Executive Officer and Chief Financial Officer of the Company evaluated the effectiveness of the Company's disclosure controls and procedures (as

defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of July 2, 2005 and, based on this evaluation, concluded that the Company's disclosure controls and procedures are functioning in an effective manner in that they provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

Change in internal controls

No changes in the Company's internal control over financial reporting occurred during the six months ended July 2, 2005, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II -- OTHER INFORMATION

ITEM 6. EXHIBITS

- 3.1* EDAC's Amended and Restated Articles of Incorporation
- 3.2* EDAC's Amended and Restated By-laws
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended.

* Incorporated by reference

SIGNATURES

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.

EDAC TECHNOLOGIES CORPORATION

August 3, 2005

By /s/Glenn L. Purple
Glenn L. Purple, Chief Financial
Officer and duly authorized officer

EXHIBIT INDEX

| <u>NUMBER</u> | <u>DESCRIPTION</u> |
|---------------|--|
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(1) Exhibit incorporated by reference to the Company's registration statement on Form S-1 dated August 6, 1985, commission file No. 2-99491, Amendment No.1.

(2) Exhibit incorporated by reference to the Company's Report on Form 8-K dated February 19, 2002.

* Filed herewith.