

# DGT HOLDINGS CORP.

## FORM 10-Q (Quarterly Report)

Filed 06/13/95 for the Period Ending 04/29/95

Address	100 PINE AIRE DRIVE BAY SHORE, NY 11706
Telephone	631 231-6400
CIK	0000027748
Symbol	DGTC
SIC Code	3679 - Electronic Components, Not Elsewhere Classified
Industry	Medical Equipment & Supplies
Sector	Healthcare
Fiscal Year	07/31

# SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

## FORM 10-Q

### QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended April 29, 1995  
Commission File Number 1-10512

## DEL ELECTRONICS CORP.

(Exact name of registrant as specified in its charter)

New York  
(State or other jurisdiction of  
incorporation or organization)

13-1784308  
(I.R.S. Employer  
Identification No.)

One Commerce Park, Valhalla, NY 10595  
(Address of principal executive offices)

(Zip Code)

(914) 686-3600  
(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  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Common Stock - 4,079,334 shares

## **PART I**

### **Item 1. Financial Statements**

Consolidated Balance Sheets - April 29, 1995 and July 30, 1994

Consolidated Statements of Income for the Three Months and Nine Months ended April 29, 1995 and April 30, 1994

Consolidated Statements of Cash Flows for the Nine Months ended April 29, 1995 and April 30, 1994

### **Notes to Consolidated Financial Statements**

**DEL ELECTRONICS CORP. & SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)**

	April 29, 1995	July 30, 1994
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents .....	\$ 234,017	\$ 445,597
Investments available-for-sale .....	338,956	346,270
Trade receivables .....	5,520,524	6,120,457
Cost and estimated earnings in excess of billings on uncompleted contracts .....	425,819	551,301
Inventory .....	18,535,233	16,072,933
Prepaid expenses and other current assets .....	994,265	856,969
	-----	-----
Total Current Assets .....	26,048,814	24,393,527
	-----	-----
<b>FIXED ASSETS - NET .....</b>	<b>7,308,875</b>	<b>7,164,858</b>
<b>GOODWILL - NET .....</b>	<b>2,897,104</b>	<b>2,992,191</b>
<b>DEFERRED CHARGES .....</b>	<b>910,643</b>	<b>1,036,785</b>
<b>OTHER ASSETS .....</b>	<b>598,934</b>	<b>611,012</b>
	-----	-----
<b>TOTAL .....</b>	<b>\$ 37,764,370</b>	<b>\$ 36,198,373</b>
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt .....	\$ 943,383	\$ 928,568
Accounts payable - trade .....	2,256,005	2,477,101
Accrued liabilities .....	2,511,328	2,457,682
Income taxes payable .....	261,527	--
	-----	-----
Total Current Liabilities .....	5,972,243	5,863,351
	-----	-----
<b>LONG-TERM LIABILITIES</b>		
LONG-TERM DEBT (less current portion included above) .....	11,513,516	11,485,722
OTHER .....	738,900	757,410
DEFERRED TAXES PAYABLE .....	393,383	393,383
	-----	-----
Total Liabilities .....	18,618,042	18,499,866
	-----	-----
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$.10 par value		
Authorized - 10,000,000 shares		
Issued and outstanding -		
April 29, 1995 - 4,120,788		
July 30, 1994 - 4,091,002 .....	412,079	385,616
Additional paid-in capital .....	16,270,713	14,828,924
Retained earnings .....	2,696,620	2,583,817
	-----	-----
Total Shareholders' Equity .....	19,379,412	17,798,357
	-----	-----
Less common shares in treasury -		
April 29, 1995 - 41,454		
July 30, 1994 - 17,670 .....	233,084	99,850
	-----	-----
Total Shareholders' Equity .....	19,146,328	17,698,507
	-----	-----
<b>TOTAL .....</b>	<b>\$ 37,764,370</b>	<b>\$ 36,198,373</b>
	=====	=====

See notes to consolidated financial statements.

**DEL ELECTRONICS CORP. & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	Apr. 29, 1995	Apr. 30, 1994	Apr. 29, 1995	Apr. 30, 1994
Net sales .....	\$ 8,945,910	\$ 5,592,496	\$22,661,332	\$16,309,022
<hr/>				
Costs and expenses				
Cost of sales .....	5,356,021	3,052,376	12,855,964	9,396,224
Research and development .....	725,535	444,092	1,934,585	1,135,805
Selling, general & admin .....	1,822,568	1,250,127	4,877,374	3,478,174
Interest expense - net .....	289,891	127,050	866,184	345,932
	<hr/>	<hr/>	<hr/>	<hr/>
	8,194,015	4,873,645	20,534,107	14,356,135
<hr/>				
Income before provision for income taxes .....	751,895	718,851	2,127,225	1,952,887
Provision for income taxes .....	229,979	215,308	649,479	595,808
<hr/>				
Income before cumulative effect of change in method for accounting for income taxes ....	521,916	503,543	1,477,746	1,357,079
<hr/>				
Cumulative effect of change in method for accounting for income taxes .....	--	--	--	76,363
<hr/>				
Net income .....	\$ 521,916	\$ 503,543	\$ 1,477,746	\$ 1,433,442
<hr/>				
Per share amounts:				
Income before cumulative effect of change in method for accounting for income taxes .....	\$ .11	\$ .10	\$ .31	\$ .29
<hr/>				
Cumulative effect of change in method for accounting for income taxes .....	--	--	--	.02
<hr/>				
Net income per common share and common share equivalents primary and fully diluted .....	\$ .11	\$ .10	\$ .31	\$ .31
<hr/>				
Weighted average number of common shares outstanding and common share equivalents	4,832,384	4,856,068	4,853,630	4,713,676
<hr/>				

See notes to consolidated financial statements.

**DEL ELECTRONICS CORP. & SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Unaudited)

	Nine Months Ended	
	April 29, 1995	April 30, 1994
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income .....	\$ 1,477,746	\$ 1,433,442
Adjustments to reconcile net income to net cash provided by operating activities:		
Imputed interest .....	18,991	--
Depreciation .....	592,379	498,572
Amortization .....	301,047	242,792
Changes in assets and liabilities:		
Decrease (increase) in trade receivables .....	599,933	(161,457)
Decrease in cost and estimated earnings in excess of billings on uncompleted contracts .....	125,482	597,647
Increase in inventory .....	(2,462,300)	(3,492,934)
Increase in prepaid and other current assets .....	(97,870)	(472,971)
(Increase) decrease in deferred charges .....	(7,084)	16,384
Increase in other assets .....	(18,182)	(81,998)
Decrease in accounts payable - trade .....	(221,096)	(264,010)
Increase in accrued liabilities .....	224,021	271,713
Increase in income taxes payable .....	261,527	282,201
Increase in deferred taxes payable .....	--	213,210
	-----	-----
Net cash provided by (used in) operating activities .....	794,594	(917,409)
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for fixed assets .....	(736,396)	(386,838)
Net cash acquired on acquisition of subsidiary .....	--	4,049
Payments to former shareholders of subsidiary acquired .....	(207,876)	--
Investment in marketable securities .....	(97,946)	--
Sale of marketable securities .....	105,260	--
Other .....	--	(78,254)
	-----	-----
Net cash used in investing activities .....	(936,958)	(461,043)
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from bank borrowings .....	42,609	1,377,656
Interest rate protection purchased .....	(71,500)	--
Payment for repurchase of shares .....	(133,234)	--
Proceeds from exercise of stock options and warrants .....	111,864	--
Other .....	(18,955)	(18,887)
	-----	-----
Net cash (used in) provided by financing activities .....	(69,216)	1,358,769
	-----	-----
See notes to consolidated financial statements.		

**DEL ELECTRONICS CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
(Continued)

(Unaudited)

	Nine Months Ended April 29, 1995	April 30, 1994
	-----	-----
NET DECREASE CASH AND CASH EQUIVALENTS .....	\$ (211,580)	\$ (19,683)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD .....	445,597	384,958
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD .....	\$ 234,017	\$ 365,275
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid .....	\$ 645,341	\$ 267,209
	=====	=====
Income taxes paid .....	\$ 167,852	\$ 405,378
	=====	=====
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of subsidiaries .....		\$ 4,367,249
		-----
Cash acquired in acquisition .....		6,130
Common stock issued .....		871,429
Payment due to Bertan shareholders .....		2,600,000
Payments due under non-compete agreements .....		753,739
Acquisition costs in accrued liabilities .....		140,000
		-----
		4,371,298
		-----
Cash acquired on acquisition of subsidiary .....		\$ (4,049)
		=====
Issuance of stock to reduce accrued liabilities ....		\$ 2,500
		=====
See notes to consolidated financial statements		

**DEL ELECTRONICS CORP. & SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**NOTE 1. In the opinion of the Company, the accompanying unaudited**

consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the results of the Company's financial position as of April 29, 1995 and the results of its operations and its cash flows for the three months ended April 29, 1995 and April 30, 1994.

The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements as of July 30, 1994.

The consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements as of July 30, 1994.

**NOTE 2. The results of operations for the three and nine month periods ended**

April 29, 1995 are not necessarily indicative of the results to be expected for the full year.

**NOTE 3. PERCENTAGE OF COMPLETION ACCOUNTING**

	Balance at April 29, 1995
Costs incurred on uncompleted contracts .....	\$ 334,984
Estimated earnings .....	148,035
	-----
	483,019
Less: Billings to-date .....	57,200
	-----
Costs and estimated earnings in excess of billings on uncompleted contracts .....	\$ 425,819
	=====

The backlog of unshipped contracts being accounted for under the percentage of completion method of accounting was \$616,981 at April 29, 1995.

**NOTE 4. Inventory is stated at a lower of cost (first-in, first-out) or market.**

Inventories are determined by physical count for annual reporting purposes and are estimated by management for interim reporting purposes based on estimated gross margins.

Inventory consists of the following:

	April 29, 1995	July 30, 1994
Finished goods .....	\$ 3,259,148	\$ 2,825,816
Work in process .....	8,305,908	7,201,564
Raw material and purchased parts .....	7,084,974	6,142,965
	-----	-----
Total .....	18,650,030	16,170,345
Less: Progress payments/deposits .....	114,797	97,412
	-----	-----
	\$18,535,233	\$16,072,933
	=====	=====

**NOTE 5. FIXED ASSETS**

Fixed assets consist of the following:

	April 28, 1995	July 30, 1994
Land .....	\$ 694,046	\$ 694,046
Building .....	2,146,025	2,146,025
Machinery and equipment .....	6,109,587	5,475,642
Furniture and fixtures .....	767,160	707,846
Leasehold improvements .....	792,365	749,219
Transportation equipment .....	5,000	5,000
	-----	-----
	10,514,184	9,777,788
Less accumulated depreciation and amortization .....	3,205,309	2,612,930
	-----	-----
	\$ 7,308,875	\$ 7,164,858
	=====	=====

**NOTE 6. Net income per common share was computed using the modified treasury**

stock method. This method was utilized since the number of shares of common stock obtainable upon the assumed exercise of outstanding options and warrants in the aggregate exceeded 20% of the number of common shares outstanding at the end of the period. The weighted average number of common shares and common share equivalents for the periods presented includes the effect of the 3 percent stock dividends declared on May 16, 1995 and November 23, 1994 (see Note 7).

**NOTE 7. On May 16, 1995, the Company declared a 3 percent stock dividend to**

holders of record on June 7, 1995, which is payable on June 23, 1995. On November 23, 1994, the Company declared a 3 percent stock dividend to holders of record on December 8, 1994, which was paid on December 27, 1994.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### LIQUIDITY AND CAPITAL RESOURCES

The Company has a revolving line of credit of \$10,000,000 and two term loans, the outstanding balances of which were \$2,142,864 and \$3,000,000 at April 29, 1995. Borrowings under the line of credit are based on 85 percent of eligible accounts receivable and 50 percent of inventory, and has a \$1,000,000 maximum sub-limit for letters of credit. As of April 29, 1995 the amount outstanding under the line of credit was \$7,275,000 and the unused and available portion of the line of credit was approximately \$2,271,500. Letters of credit outstanding were \$453,500.

The Company believes that its current financial resources, future operating revenue and existing credit lines will be sufficient to meet its foreseeable working capital requirements.

Working capital was \$20,076,571 at April 29, 1995, compared to \$18,530,176 at July 30, 1994, an increase of 8.3 percent. The current ratio increased to 4.36 to 1 at April 29, 1995 from 4.16 to 1 at July 30, 1994.

Investments available-for-sale of \$338,956 at April 29, 1995 consist primarily of corporate debt securities and equities. These investments are used to fund a deferred compensation plan for a key Company employee.

Trade receivables at April 29, 1995 decreased \$599,993 as compared to July 30, 1994 primarily as the result of improved collections.

Unbilled contract revenues were \$425,819 at April 29, 1995 as compared to \$551,301 at July 30, 1994 due to shipments made on contracts which utilize the percentage of completion method of accounting.

Inventory at January 28, 1995 increased approximately \$2,462,300 as compared to July 30, 1994. The increase in inventory is primarily due to major new orders received in fiscal 1995.

Capital expenditures for the nine months ended April 29, 1995 were approximately \$736,000. These expenditures were primarily for printed circuit board tooling and for assembly and test equipment in order to improve manufacturing efficiency. There were no material open commitments for capital equipment expenditures at April 29, 1995. The funds for capital expenditure improvements were derived from operations and short-term borrowing.

The Company repurchased 23,784 shares of its common stock for \$133,234 during the nine months ended April 29, 1995.

## RESULTS OF OPERATIONS

Net sales for the three months ended April 29, 1995 were \$8,945,910 compared to \$5,592,496, an increase of approximately 60 percent over the corresponding period in the prior year. Net sales for the nine months ended April 29, 1995 were \$22,661,332 compared to \$16,309,022, an increase of approximately 38.9 percent over the corresponding period in the prior year. These increases were attributable to internal growth and the inclusion of the sales of Bertan this year.

Cost of sales, as a percentage of net sales for the three months ended April 29, 1995 was 59.9 percent compared to 54.5 percent for the prior corresponding period. This change reflects the change in product mix in the respective periods. Cost of sales, as a percentage of net sales for the nine months ended April 29, 1995 was 56.7 percent compared to 57.6 percent for the prior corresponding period. This decrease was primarily due to the reduction of payroll costs at the beginning of the current year and the change in product mix as the result of the acquisition of Bertan in April 1994.

Research and development expenses increased to \$725,535 for the three months ended April 29, 1995 from \$444,092 for the three months ended April 30, 1994. Research and development expenses increased to \$1,934,585 for the nine months ended April 29, 1995 from \$1,135,805 for the nine months ended April 30, 1994. These increases in research and development are primarily due to new projects and the inclusion of the Bertan subsidiary for the full nine and three months ended April 30, 1995. The Company continues to invest in research and development in order to introduce new state-of-the-art products for its medical, industrial and defense electronics markets.

Selling, general and administrative expenses were \$1,822,568 in the three months ended April 29, 1995 as compared to \$1,250,127 in the same period in the prior year. Selling, general and administrative expenses increased to \$4,877,374 for the nine months ended April 29, 1995 from \$3,478,174 for the same period in the prior year. These increases were primarily attributable to the increase in selling, general and administrative expenses due to the acquisition of Bertan and expanded international sales and marketing expenses.

Net interest expense was \$289,891 for the three months ended April 29, 1995 compared to \$127,050 for the corresponding prior period. Net interest expense was \$866,184 for the nine months ended April 29, 1995 compared to \$345,932 for the corresponding prior period. This increase was attributable to higher debt levels as the result of the acquisition of Bertan during April 1994 and higher interest rates.

Income tax expense was 30.5% of pre-tax income in the nine month periods ended April 29, 1995 and April 30, 1994. The effective tax rates reflect sales being made through the Company's Foreign Sales Corporation, increased research and development and other tax credits.

The Company adopted Statement of Financial Accounting Standards number 109 "Accounting for Income Taxes" effective August 1, 1993. The cumulative effect of change in method for accounting for income taxes was to increase net income in the nine months ended April 30, 1994 by \$76,363.

Net income increased to \$521,916 for the three months ended April 29, 1995, an increase of approximately 3.6 percent from \$503,543 for the prior corresponding period. Net income per common share increased to \$ .11 from \$.10. Net income increased to \$1,477,746 for the nine months ended April 29, 1995, an increase of approximately 3 percent from \$1,433,442 for the prior corresponding period. For the nine months ended April 29, 1995 primary and fully diluted net income per share was \$.31 as compared to \$.31 for the nine months ended April 30, 1994. The 1994 period includes \$.02 per share as the result of the cumulative effect of the adoption of SFAS number 109 "Accounting for Income Taxes". The number of outstanding shares and common share equivalents increased 3 percent from the nine month period ended April 30, 1994. The increases in net income for the three and nine month periods are primarily due to internal growth, the performance of the Bertan subsidiary and improved operating efficiencies throughout the Company.

The backlog of unshipped orders at April 29, 1995 was approximately \$20.0 million.

**PART II**

**Item 1. Legal Proceedings**

None

**Item 2. Changes in Securities**

None

**Item 3. Defaults on Senior Securities**

None

**Item 4. Submission to a Vote of Security Holders**

None

**Item 5. Other Information**

Not Applicable

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

(a) Exhibits:

**Exhibit 11 - Computation of Earnings Per Common Share**

**Exhibit 27 - Financial Data Schedule**

(b) Report on Form 8-K: None

## SIGNATURES

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

**DEL ELECTRONICS CORP.**  
(Registrant)

June 6, 1995  
Date

Leonard A. Trugman  
(Signature)  
Chairman of the Board,  
Chief Executive Officer  
and President

June 6, 1995  
Date

Michael H. Taber  
(Signature)  
Chief Financial Officer  
and Secretary

**EXHIBIT 11**

**DEL ELECTRONICS CORP. AND SUBSIDIARIES**

**COMPUTATION OF EARNINGS PER COMMON SHARE**

**THREE AND NINE MONTHS ENDED APRIL 29, 1995**

	Three Months Ended April 29, 1995		Nine Months Ended April 29, 1995	
	Primary	Fully Diluted	Primary	Fully Diluted
Reconciliation of net income per statement of income to amount used in earnings per computation:				
Net Income .....	\$ 521,916	\$ 521,916	\$ 1,477,746	\$ 1,477,746
 Add - Interest on short-term debt, net of tax effect on application of assumed proceeds from exercise of option in excess of 20% limitation (a) .....	 12,562	 11,137	 31,653	 28,662
	-----	-----	-----	-----
Net income, as adjusted ...	\$ 534,478	\$ 533,053	\$ 1,509,399	\$ 1,506,408
	=====	=====	=====	=====
Reconciliation of weighted average number of shares outstanding to amount used in earnings per share computation:				
Weighted average number of shares outstanding .....	4,074,405	4,074,405	3,991,834	3,991,834
 Add - shares issuable from assumed exercise of options in excess of 20% limitation (b) .....	 757,979	 757,979	 861,796	 861,796
	-----	-----	-----	-----
Weighted average number of shares outstanding as adjusted .....	4,832,384	4,832,384	4,853,630	4,853,630
	=====	=====	=====	=====
Net income per common share \$	.11	.11	.31	.31
	=====	=====	=====	=====

(a) Adjustments to income have been shown net of tax effect which was calculated at 30.5% of the gross amount of the adjustment.

(b) As determined by application of the modified treasury stock method described in APB #15, paragraph 38.

**ARTICLE 5**

CIK: 0000027748

NAME: DEL ELECTRONICS CORP.

MULTIPLIER: 1

CURRENCY: U.S. DOLLARS

PERIOD TYPE	9 MOS
FISCAL YEAR END	JUL 29 1995
PERIOD START	JUL 31 1994
PERIOD END	APR 29 1995
EXCHANGE RATE	1.000
CASH	234,017
SECURITIES	338,956
RECEIVABLES	5,668,501
ALLOWANCES	147,977
INVENTORY	18,535,233
CURRENT ASSETS	26,048,814
PP&E	10,514,184
DEPRECIATION	3,205,309
TOTAL ASSETS	37,764,370
CURRENT LIABILITIES	5,972,243
BONDS	0
COMMON	412,079
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	18,734,249
TOTAL LIABILITY AND EQUITY	37,764,370
SALES	22,661,332
TOTAL REVENUES	22,661,332
CGS	12,855,954
TOTAL COSTS	20,534,107
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	866,184
INCOME PRETAX	2,127,225
INCOME TAX	649,479
INCOME CONTINUING	1,477,746
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,477,746
EPS PRIMARY	.31
EPS DILUTED	.31

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