

# DGT HOLDINGS CORP.

## FORM 10-Q (Quarterly Report)

Filed 12/11/96 for the Period Ending 11/02/96

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 November 2, 1996  
Commission File Number 1-10512

## DEL GLOBAL TECHNOLOGIES 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 ----- (Address of principal executive offices)	10595 ----- (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 - 7,403,834**

## **PART I**

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

#### **Consolidated Balance Sheets - November 2, 1996 and August 3, 1996**

Consolidated Statements of Income for the Three Months ended November 2, 1996 and October 28, 1995

Consolidated Statements of Cash Flows for the Three Months ended November 2, 1996 and October 28, 1995

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

**DEL GLOBAL TECHNOLOGIES CORP. & SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

(Unaudited)

ASSETS	November 2, 1996	August 3, 1996
	-----	-----
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,804,358	\$ 5,817,800
Investments available-for-sale	579,346	545,651
Trade receivables	8,984,846	9,221,328
Inventory	24,700,070	23,819,882
Prepaid expenses and other current assets	1,740,221	1,675,039
	-----	-----
Total current assets	41,808,841	41,079,700
	-----	-----
<b>FIXED ASSETS - Net</b>		
INTANGIBLES - Net	9,914,660	9,538,489
GOODWILL - Net	1,302,912	1,322,552
DEFERRED CHARGES	4,263,785	4,311,472
OTHER ASSETS	750,524	784,751
	680,693	692,788
	-----	-----
TOTAL	\$58,721,415	\$57,729,752
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 120,076	\$ 120,078
Accounts payable - trade	3,668,495	3,693,580
Accrued liabilities	3,621,148	4,070,202
Income taxes	666,013	643,545
	-----	-----
Total current liabilities	8,075,732	8,527,405
	-----	-----
<b>LONG-TERM LIABILITIES</b>		
LONG-TERM DEBT (less current portion included above)	822,854	499,852
OTHER	792,618	789,589
DEFERRED INCOME TAXES	843,378	843,378
	-----	-----
Total liabilities	10,534,582	10,660,224
	-----	-----
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$.10 par value; Authorized 10,000,000 shares; Issued and outstanding - 7,463,837 shares at November 2, 1996 and 7,440,108 shares at August 3, 1996	746,209	722,340
Additional paid-in capital	45,129,820	43,272,713
Retained earnings	2,647,489	3,411,160
	-----	-----
	48,523,518	47,406,213
	-----	-----
Less common stock in treasury - 60,003 shares at November 2, 1996 and 60,003 shares at August 3, 1996	336,685	336,685
	-----	-----
Total shareholders' equity	48,186,833	47,069,528
	-----	-----
TOTAL	\$58,721,415	\$57,729,752
	=====	=====

See notes to consolidated financial statements

**DEL GLOBAL TECHNOLOGIES CORP. & SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

	Three Months Ended	
	November 2, 1996	October 28, 1995
NET SALES	\$ 12,311,384	\$ 7,471,181
COSTS AND EXPENSES		
Cost of sales	7,506,238	4,190,634
Research and development	1,076,827	642,831
Selling, general and administrative administrative	2,325,539	1,571,966
Interest (income) or expense - net	(19,456)	309,227
	10,889,148	6,714,658
INCOME BEFORE PROVISION FOR INCOME TAXES	1,422,236	756,523
PROVISION FOR INCOME TAXES	433,782	226,957
NET INCOME	\$ 988,454	\$ 529,566
PER SHARE AMOUNTS:		
NET INCOME PER COMMON SHARE AND COMMON SHARE EQUIVALENTS PRIMARY AND FULLY DILUTED	\$ .12	\$ .10
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING AND COMMON SHARE EQUIVALENTS	8,463,327	5,546,650

See notes to consolidated financial statements

**DEL GLOBAL TECHNOLOGIES CORP. & SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Unaudited)

	Three Months Ended	
	November 2, 1996	October 28, 1995
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 988,454	\$ 529,566
Adjustments to reconcile net income to net cash provided by operating activities:		
Imputed interest	16,954	16,532
Depreciation	231,625	160,610
Amortization	132,391	97,308
Changes in assets and liabilities:		
Decrease in trade receivables	236,482	1,226,429
Increase in cost and estimated earnings in excess of billings on uncompleted contracts	--	(8,183)
Increase in inventory	(880,188)	(1,086,773)
Increase in prepaid and other current assets	(78,208)	(362,808)
(Increase) decrease in other assets	(1,831)	31,458
Decrease in accounts payable - trade	(25,085)	(2,091)
Decrease in accrued liabilities	(478,201)	(30,189)
Increase in income taxes payable	51,614	147,979
Net cash provided by operating activities	194,007	719,838
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for fixed assets	(607,796)	(371,072)
Investment in marketable securities	(33,695)	(35,347)
Payments to former shareholder of subsidiary acquired	(13,925)	(13,125)
Net cash used in investing activities	(655,416)	(419,544)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds (repayment of) from bank borrowing	323,000	(511,819)
Proceeds from exercise of stock options and warrants	138,352	7,132
Payment for repurchase of shares	--	(6,215)
Other	(13,385)	--
Net cash provided by (used in) financing activities	447,967	(510,902)

(Continued)

See notes to consolidated financial statements

**DEL GLOBAL TECHNOLOGIES CORP. & SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Unaudited)

	Three Months Ended	
	November 2, 1996	October 28, 1995
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (13,442)	\$ (210,608)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,817,800	505,989
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 5,804,358 =====	\$ 295,381 =====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	\$ 14,340 =====	\$ 119,543 =====
Income taxes paid	\$ 407,739 =====	\$ 78,978 =====

(Concluded)

See notes to consolidated financial statements

**DEL GLOBAL TECHNOLOGIES CORP. & SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 1 In the opinion of the Company's management, 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 November 2, 1996 and the results of its operations and its cash flows for the three months ended November 2, 1996 and October 28, 1995. The accounting policies followed by the Company are set forth in Note 1 to the Company's financial statements as of August 3, 1996. The consolidated financial statements should be read in conjunction with the notes to the financial statements as of August 3, 1996.

**NOTE 2 The results of operations for the three month period ended**

November 2, 1996 are not necessarily indicative of the results to be expected for the full year.

**NOTE 3 Inventory is stated at a lower of cost (first-in, first-out) or market.**

Inventories and their effect on cost of sales are determined by physical count for annual reporting purposes and are estimated by management for interim reporting purposes.

Inventory consists of the following:

	November 2, 1996	August 3, 1996
	-----	-----
Finished goods	\$ 5,681,016	\$ 5,463,847
Work-in-process	9,880,028	9,538,081
Raw material and purchased parts	9,139,026	8,817,954
	-----	-----
Total	\$24,700,070	\$23,819,882
	=====	=====

**NOTE 4 FIXED ASSETS**

Fixed assets consist of the following:

	November 2, 1996	August 3, 1996
	-----	-----
Land	\$ 694,046	\$ 694,046
Building	2,146,025	2,146,025
Machinery and equipment	8,915,308	8,426,324
Furniture and fixtures	1,198,910	833,880
Leasehold improvements	1,072,462	1,043,996
Construction in progress	136,740	435,102
Transportation equipment	35,103	11,425
	-----	-----
	14,198,594	13,590,798
Less accumulated depreciation and amortization	4,283,934	4,052,309
	-----	-----
Net fixed assets	\$ 9,914,660	\$ 9,538,489
	=====	=====



**NOTE 5 Net income per common share was computed using the treasury**

stock method. The weighted average number of common shares and common share equivalents for the period and for all periods presented includes the effect of the 3 percent stock dividend (see Note 6) declared on November 19, 1996.

**NOTE 6 On November 19, 1996, the Company declared a 3 percent stock**

dividend to holders of record on December 4, 1996, payable December 23, 1996.

**NOTE 7 ACQUISITION**

As of March 6, 1996, the Company acquired certain selected assets of the Gendex Medical Division of Dentsply International Inc. ("Dentsply"), which have been consolidated as of that date. The new entity formed is the Gendex-Del Medical Imaging Corp. ("Gendex-Del").

Unaudited pro-forma financial information for the 3 month period ended October 28, 1995, as if the Gendex Medical acquisition occurred at the beginning of the period, is as follows:

	Three Months Ended October 28, 1995 -----
Net Sales	\$ 12,327,000
Income before provision for income taxes	\$ 547,000 =====
Net Income	\$ 383,000 =====
Net income per common share and common share equivalents primary and fully diluted	\$ .07 =====

The pro forma financial information presented above is not necessarily indicative of the operating results which would have been achieved had the Company acquired Gendex Medical at the beginning of the periods presented or of the results to be achieved in the future.

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

Net sales for the three months ended November 2, 1996 were approximately \$12.3 million as compared to approximately \$7.5 million for the three months ended October 28, 1995, an increase of approximately 64.8 percent. This increase is due to net sales from the newly formed Gendex-Del subsidiary and internal growth from existing operations.

Cost of sales, as a percentage of net sales for the three months ended November 2, 1996, was 61.0 percent compared to 56.0 percent for the prior corresponding period. This change was due to the change in product mix in the periods. The current year period includes the gross margins of medical imaging systems manufactured by Gendex-Del.

Research and development expenses increased to approximately \$1.1 million for the three months ended November 2, 1996 from approximately \$643,000 for the three months ended October 28, 1995. The increase was primarily attributable to Gendex-Del and the increase in other research and development activities. The Company continues to invest in research and development in order to introduce new state-of-the-art products for its medical and industrial markets.

Selling, general and administrative expenses were approximately \$2.3 million for the three months ended November 2, 1996 as compared to approximately \$1.6 million for the same period in the prior year. This increase was primarily attributable to the inclusion of the selling, general and administrative expenses of Gendex-Del.

Net interest income was approximately \$19,000 for the three months ended November 2, 1996 as compared to net interest expense of approximately \$309,000 for the corresponding period in the prior year. Interest expense was significantly reduced as the Company paid off substantially all of its debt. Interest income resulted from the investment of some of the proceeds from the public offering of the Company's common stock, which were in money market instruments and high grade commercial paper.

Income tax expense was 30.5 percent of pre-tax income for the three months ended November 2, 1996 and 30.0 percent for the three months ended October 28, 1995. The decrease from statutory rates is primarily due to sales being made through the Company's Foreign Sales Corporation, research and development and other tax credits.

Net income increased to approximately \$988,000 for the three months ended November 2, 1996, an increase of approximately 86.7 percent from approximately \$530,000 for the prior corresponding period. Net income per common share increased to \$.12 from \$.10 even though the weighted number of common shares outstanding and common share equivalents increased approximately 52.6 percent to 8,463,327 from 5,546,650. The increase in net income for the three month period ended November 2, 1996 is primarily due to higher sales to the Company's medical imaging and diagnostic product customers.

The backlog of unshipped orders at November 2, 1996 was approximately \$23.2 million.

### **LIQUIDITY AND CAPITAL RESOURCES**

The Company has funded its operations and acquisitions through a combination of cash flow from operations, bank borrowing and the issuance of the Company's common stock.

Working Capital. At November 2, 1996 and August 3, 1996, the Company's working capital was approximately \$33.7 million and \$32.6 million, respectively. At such dates the Company had approximately \$5.8 million in cash and cash equivalents.

Inventory at November 2, 1996 increased approximately \$880,000 as compared to August 3, 1996. Major new orders received in the quarter ended November 2, 1996 resulted in the increase of inventory levels.

Credit Facility and Borrowing. At November 2, 1996, the Company had a \$14.0 million revolving credit line and a \$10.0 million acquisition credit line. The available portion of the revolving credit line was approximately \$13.3 million, after deducting outstanding letters of credit of approximately \$368,000 and \$9.5 million was available under its acquisition credit line.

Capital Expenditures. The Company continues to invest in capital equipment, principally for its manufacturing operations, in order to improve its manufacturing capability and capacity. The Company has expended approximately \$608,000 for capital equipment for the three month period ended November 2, 1996.

The Company may expand its technical and marketing capabilities and product lines through the acquisition of other companies, businesses or technologies that are complementary to the Company's current business.

The Company anticipates that cash generated from operations and amounts available under its bank lending facilities will be sufficient to satisfy its current operating cash needs.

## 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

(i) On November 19, 1996, the Registrant declared a 3 percent stock dividend payable on December 23, 1996 to holders of record on December 4, 1996.

### 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 GLOBAL TECHNOLOGIES CORP.

*/S/LEONARD A. TRUGMAN*

-----  
*Leonard A. Trugman  
Chairman of the Board,  
Chief Executive Officer  
and President*

*/S/MICHAEL H. TABER*

-----  
*Michael H. Taber  
Vice President - Finance,  
Secretary and Chief  
Accounting Officer*

*Dated: December 11, 1996*

EXHIBIT 11

DEL GLOBAL TECHNOLOGIES CORP. & SUBSIDIARIES

COMPUTATION OF EARNINGS PER COMMON SHARE

THREE MONTHS ENDED NOVEMBER 2, 1996

	Primary -----	Fully Diluted -----
Net income	\$ 988,454 =====	\$ 988,454 =====
Reconciliation of weighted average number of shares outstanding to amount used		
in earnings per share computation:		
Weighted average number of shares outstanding	7,392,614	7,392,694
Add - shares issuable from assumed exercise of options under the Treasury Stock method	1,070,713 -----	1,108,987 -----
Weighted average number of shares outstanding as adjusted	8,463,327 =====	8,501,600 =====
Net income per common share	\$ .12 =====	\$ .12 =====

The Company utilized the Treasury Stock method for computing net income per common share.

**ARTICLE 5**

CIK: 0000027748

NAME: DEL GLOBAL TECHNOLOGIES CORP.

MULTIPLIER: 1

CURRENCY: U.S. DOLLARS

PERIOD TYPE	3 MOS
FISCAL YEAR END	AUG 02 1997
PERIOD START	AUG 04 1996
PERIOD END	NOV 02 1996
EXCHANGE RATE	1.000
CASH	5,804,358
SECURITIES	579,346
RECEIVABLES	9,216,955
ALLOWANCES	232,109
INVENTORY	24,700,070
CURRENT ASSETS	41,808,841
PP&E	14,198,594
DEPRECIATION	4,283,934
TOTAL ASSETS	58,721,415
CURRENT LIABILITIES	8,075,732
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	746,209
OTHER SE	47,440,624
TOTAL LIABILITY AND EQUITY	58,721,415
SALES	12,311,384
TOTAL REVENUES	12,311,384
CGS	7,506,238
TOTAL COSTS	7,506,238
OTHER EXPENSES	3,402,366
LOSS PROVISION	0
INTEREST EXPENSE	(19,456)
INCOME PRETAX	1,422,236
INCOME TAX	433,782
INCOME CONTINUING	988,454
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	988,454
EPS PRIMARY	0.12
EPS DILUTED	0.12

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