

# DGT HOLDINGS CORP.

## FORM 10-Q (Quarterly Report)

Filed 06/13/97 for the Period Ending 05/03/97

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 May 3, 1997  
Commission File Number 1-10512

## DEL GLOBAL TECHNOLOGIES CORP.

(Exact name of registrant as specified in its charter)

New York

13-1784308

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(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 - 7,393,569**

**PART I**

**Item 1. - FINANCIAL STATEMENTS**

**Consolidated Balance Sheets - May 3, 1997 and August 3, 1996**

Consolidated Statements of Income for the Three Months and Nine Months ended May 3, 1997 and April 27, 1996

Consolidated Statements of Cash Flow for the Nine Months ended May 3, 1997 and April 27, 1996

**Notes to Consolidated Financial Statements**

**DEL GLOBAL TECHNOLOGIES CORP. & SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

**ASSETS**

	May 3, 1997	August 3, 1996
	-----	-----
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,757,769	\$ 5,817,800
Investments available-for-sale	716,015	545,651
Trade receivables	9,856,026	9,221,328
Cost and estimated earnings in excess of billings on uncompleted contracts	1,301,173	--
Inventory	25,084,130	23,819,882
Prepaid expenses and other current assets	2,161,281	1,675,039
	-----	-----
Total current assets	44,876,394	41,079,700
	-----	-----
FIXED ASSETS - Net	10,576,600	9,538,489
INTANGIBLES - Net	1,263,631	1,322,552
GOODWILL - Net	4,183,254	4,311,472
DEFERRED CHARGES	674,457	784,751
OTHER ASSETS	599,765	692,788
	-----	-----
TOTAL	\$62,174,101	\$57,729,752
	=====	=====

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**CURRENT LIABILITIES**

Current portion of long-term debt	\$ 113,472	\$ 120,078
Accounts payable - trade	4,664,404	3,693,580
Accrued liabilities	3,919,764	4,070,202
Income taxes	605,128	643,545
	-----	-----
Total current liabilities	9,302,768	8,527,405
	-----	-----

**LONG-TERM LIABILITIES**

Long-term debt (less current portion included above)	467,531	499,852
Other	798,861	789,589
Deferred income taxes	843,378	843,378
	-----	-----
Total liabilities	11,412,538	10,660,224
	-----	-----

**SHAREHOLDERS' EQUITY**

Common stock, \$.10 par value;		
Authorized - 20,000,000 shares;		
Issued and outstanding -		
7,471,824 shares at May 3, 1997 and		
7,440,108 shares at August 3, 1996	747,182	722,340
Additional paid-in capital	45,477,269	43,272,713
Retained earnings	5,052,747	3,411,160
	-----	-----
	51,277,198	47,406,213
	-----	-----
Less common stock in treasury -		
78,255 shares at May 3, 1997 and		
58,255 shares at August 3, 1996	515,635	336,685
	-----	-----
Total shareholders' equity	50,761,563	47,069,528
	-----	-----
TOTAL	\$62,174,101	\$57,729,752
	=====	=====

See notes to consolidated financial statements

**DEL GLOBAL TECHNOLOGIES CORP. & SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	May 3, 1997	April 27, 1996	May 3, 1997	April 27, 1996
NET SALES	\$ 14,317,165	\$ 12,555,138	\$ 39,320,420	\$ 29,355,757
COSTS AND EXPENSES:				
Cost of sales	8,944,620	7,973,306	24,009,457	17,717,858
Research and development	1,190,800	869,886	3,383,239	2,301,780
Selling, general & administrative	2,365,075	2,232,346	7,124,822	5,588,463
Interest (income) or expense - net	(30,355)	353,298	(77,651)	948,509
	12,470,140	11,428,836	34,439,867	26,556,610
INCOME BEFORE PROVISION FOR INCOME TAXES	1,847,025	1,126,302	4,880,553	2,799,147
PROVISION FOR INCOME TAXES	563,343	343,482	1,488,569	853,700
NET INCOME	\$ 1,283,682	\$ 782,820	\$ 3,391,984	\$ 1,945,447
Per share amounts:				
Net income per common share and common share equivalents	\$ .15	\$ .14	\$ .40	\$ .34
Weighted average number of common shares outstanding and common share equivalents				
	8,467,700	5,781,557	8,507,759	5,721,441

See notes to consolidated financial statements

**DEL GLOBAL TECHNOLOGIES CORP. & SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOW**

(Unaudited)

	Nine Months Ended	
	May 3, 1997	April 27, 1996
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 3,391,984	\$ 1,945,447
Adjustments to reconcile net income to net cash provided by operating activities:		
Imputed Interest	51,045	49,852
Depreciation	722,227	539,637
Amortization	390,621	307,647
Deferred income tax provision	195,337	72,657
Changes in assets and liabilities:		
Increase in trade receivables	(634,698)	(2,641,087)
Increase in cost and estimated earnings in excess of billings on uncompleted contracts	(1,301,173)	(8,183)
Increase in inventory	(1,264,248)	(846,861)
Increase in prepaid and other current assets	(383,702)	(771,883)
(Increase) decrease in other assets	(6,124)	54,142
Increase in accounts payable - trade	970,824	1,147,253
(Decrease) increase in accrued liabilities	(423,312)	863,578
Increase in income taxes payable	239,538	371,809
Net cash provided by operating activities	1,948,319	1,084,008
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for fixed assets	(1,760,338)	(1,082,601)
Net cash paid on acquisition of subsidiaries	(15,000)	(5,815,540)
Investment in marketable securities - net	(170,364)	(142,644)
Payments to former shareholders of subsidiary acquired	(41,775)	(39,422)
Net cash used in investing activities	(1,987,477)	(7,080,207)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net (repayment of) proceeds from bank borrowing	(38,927)	4,803,572
Payment for repurchase of shares	(178,950)	(19,770)
Proceeds from exercise of stock options and warrants	175,338	1,059,099
Other	21,666	(95,079)
Net cash (used in) provided by financing activities	(20,873)	5,747,822

(Continued)

See notes to consolidated financial statements

**DEL GLOBAL TECHNOLOGIES CORP. & SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOW**

(Unaudited)

	Nine Months Ended	
	May 3, 1997	April 27, 1996
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (60,031)	\$ (248,377)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,817,800	505,989
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 5,757,769	\$ 257,612

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

Interest paid	\$ 36,109	\$ 662,421
Income taxes paid	\$ 1,091,188	\$ 434,405
SUPPLEMENTAL SCHEDULE OF INVESTING AND FINANCING ACTIVITIES:		
Acquisition of subsidiary	\$ 15,000	\$ 7,707,915
Subordinated note payable for acquisition		1,800,000
Acquisition costs in accrued expenses		92,375
		1,892,375
Cash paid to acquire subsidiary	\$ 15,000	\$ 5,815,540
Tax benefit related to exercise of stock options and warrants	\$ 277,955	\$ 139,397

(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 May 3, 1997 and the results of its operations and its cash flows for the nine months ended May 3, 1997 and April 27, 1996.

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 nine month period ended May 3, 1997** are not necessarily indicative of the results to be expected for the full year.

**NOTE 3 PERCENTAGE OF COMPLETION ACCOUNTING**

	Balance at May 3, 1997 -----
Costs incurred on uncompleted contracts	\$1,482,248
Estimated earnings	667,050 -----
	2,149,298
Less: Billings to-date	848,125 -----
Costs and estimated earnings in excess of billings on uncompleted contracts	\$1,301,173 =====

The backlog of unshipped contracts being accounted for under the percentage of completion method of accounting was \$4,279,640 at May 3, 1997.

**NOTE 4 INVENTORY**

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:

	May 3, 1997 -----	Aug. 3, 1996 -----
Finished goods	\$ 5,769,350	\$ 5,463,847
Work-in-process	10,033,652	9,538,081
Raw material and purchased parts	9,281,128	8,817,954
	-----	-----
Total	\$25,084,130	\$23,819,882
	=====	=====



## NOTE 5 FIXED ASSETS

Fixed assets consist of the following:

	May 3, 1997	Aug. 3, 1996
	-----	-----
Land	\$ 694,046	\$ 694,046
Building	2,146,025	2,146,025
Machinery and equipment	9,653,761	8,426,324
Furniture and fixtures	1,268,173	833,880
Leasehold improvements	1,156,676	1,043,996
Construction in progress	397,352	435,102
Transportation equipment	30,103	11,425
	-----	-----
	15,346,136	13,590,798
Less accumulated depreciation and amortization	4,769,536	4,052,309
	-----	-----
Net fixed assets	\$10,576,600	\$ 9,538,489
	=====	=====

## NOTE 6 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 7) declared on November 19, 1996.

## NOTE 7 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 8 ACQUISITION

As of March 6, 1996, the Company's wholly-owned subsidiary, Gendex-Del Medical Imaging Corp., acquired certain selected assets of the Gendex Medical Division of Dentsply International Inc.

Unaudited pro-forma financial information for the 3 and 9 month periods ended April 27, 1996, as if the Gendex Medical acquisition occurred at the beginning of the respective periods, is as follows:

	Three Months Ended April 27, 1996	Nine Months Ended April 27, 1996
	-----	-----
Net Sales	\$14,125,572	\$39,778,604
	=====	=====
Income before provision for income taxes	\$ 1,046,963	\$ 2,302,594
	=====	=====
Net Income	\$ 727,639	\$ 1,600,303
	=====	=====
Net income per common share and common share equivalents primary and fully diluted	\$ .13	\$ .29
	=====	=====

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.

## **Item 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **RESULTS OF OPERATIONS**

Net sales for the three months ended May 3, 1997 were approximately \$14.3 million compared to approximately \$12.6 million for the three months ended April 27, 1996, an increase of 14.0 percent over the corresponding period in the prior year. Net sales for the nine months ended May 3, 1997 were approximately \$39.3 million as compared to approximately \$29.4 million for the nine months ended April 27, 1996, an increase of 33.9 percent. These increases are due to the inclusion of net sales from the Gendex-Del subsidiary and internal growth.

Cost of sales, as a percentage of net sales for the three months ended May 3, 1997, was 62.5 percent compared to 63.5 percent for the three months ended April 27, 1996. Cost of sales, as a percentage of net sales, for the nine months ended May 3, 1997 was 61.1 percent as compared to 60.4 percent for the nine months ended April 27, 1996. 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 \$1.2 million for the three months ended May 3, 1997 from approximately \$870,000 for the three months ended April 27, 1996. Research and development expenses increased to approximately \$3.4 million for the nine months ended May 3, 1997 from approximately \$2.3 million for the nine months ended April 27, 1996. The increase was attributable to Gendex-Del and increases 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 \$2.4 million for the three months ended May 3, 1997 as compared to approximately \$2.2 million for the same period in the prior year. Selling, general and administrative expenses increased to approximately \$7.1 million for the nine months ended May 3, 1997 from approximately \$5.6 million for the same period in the prior year. These increases are primarily attributable to the inclusion of the selling, general and administrative expenses of Gendex-Del.

Net interest income was approximately \$30,000 for the three months ended May 3, 1997 as compared to net interest expense of approximately \$353,000 for the corresponding period in the prior year. Net interest income was approximately \$78,000 for the nine months ended May 3, 1997 as compared to approximately \$949,000 of interest expense for the corresponding prior period. 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 are in money market instruments and high grade commercial paper.

Income tax expense was 30.5 percent of pre-tax income for the nine months ended May 3, 1997 and for the nine months ended April 27, 1996. 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 \$1.3 million for the three months ended May 3, 1997, an increase of 64.0 percent from approximately \$783,000 for the prior corresponding period. Net income per common share for the three months ended May 3, 1997 increased to \$.15 from \$.14, on a primary and full diluted basis, even though the weighted number of common shares outstanding and common share equivalents increased 46.5 percent to 8,467,700 from 5,781,557 shares in the prior corresponding period. Net income increased to approximately \$3.4 million for the nine months ended May 3, 1997, an increase of 74.4 percent from approximately \$1.9 million for the prior corresponding period. Net income per common share for the nine months ended May 3, 1997 increased to \$.40 from \$.34, on a primary and fully diluted basis, even though the weighted number of common shares outstanding and common share equivalents increased 48.7 percent to 8,507,759 from 5,721,441 shares in the prior corresponding period. The increases in net income for the three and nine month periods ended May 3, 1997 are primarily due to higher sales to the Company's medical imaging and diagnostic product customers and the reduction of interest expense.

The Company's growth strategy continues to be to grow internally by expanded product development and marketing and by acquisition and/or joint ventures with specific focus on cost-effective medical imaging and diagnostic products.

The backlog of unshipped orders at May 3, 1997 was approximately \$22.1 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 May 3, 1997 and August 3, 1996, the Company's working capital was approximately \$35.6 million and \$32.6 million, respectively. On May 3, 1997 and August 3, 1996 the Company had approximately \$5.8 million in cash and cash equivalents.

**Inventory** at May 3, 1997 increased approximately \$1.3 million as compared to August 3, 1996. Major new orders received in the quarter ended May 3, 1997 resulted in the increase of inventory levels.

**Credit Facility and Borrowing.** At May 3, 1997, 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 \$13.7 million, after deducting outstanding letters of credit of approximately \$169,000, and approximately \$9.6 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 \$623,000 and \$1.8 million for capital equipment for the three month and nine month periods ended May 3, 1997, respectively.

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.

**Item 3. - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

None.

**PART II**

**Item 1. Legal Proceedings**

None

**Item 2. Changes in Securities**

None

**Item 3. Defaults Upon Senior Securities**

None

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

None

**Item 5. Other Information**

None

**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: June 13, 1997*

**EXHIBIT 11**

**DEL GLOBAL TECHNOLOGIES CORP. & SUBSIDIARIES**

**COMPUTATION OF EARNINGS PER COMMON SHARE**

**THREE MONTHS AND NINE MONTHS ENDED MAY 3, 1997**

	Three Months Ended May 3, 1997		Nine Months Ended May 3, 1997	
	----- Primary -----	Fully Diluted -----	----- Primary -----	Fully Diluted -----
Net income	\$1,283,682	\$1,283,682	\$3,391,984	\$3,391,984
	=====	=====	=====	=====
Reconciliation of weighted average number of shares outstanding to amount used in earnings per share computation:				
Weighted average number of shares outstanding	7,402,866	7,402,866	7,431,786	7,431,786
Add - shares issuable from assumed exercise of options under the Treasury Stock method	1,064,834	998,118	1,073,062	1,075,973
	-----	-----	-----	-----
Weighted average number of shares outstanding as adjusted	8,467,700	8,400,984	8,504,848	8,507,759
	=====	=====	=====	=====
Net income per common share	\$ 0.15	\$ 0.15	\$ 0.40	\$ 0.40
	=====	=====	=====	=====

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	9 MOS
FISCAL YEAR END	AUG 02 1997
PERIOD START	AUG 04 1996
PERIOD END	MAY 03 1997
EXCHANGE RATE	1.000
CASH	5,757,769
SECURITIES	716,015
RECEIVABLES	10,087,331
ALLOWANCES	231,305
INVENTORY	25,084,130
CURRENT ASSETS	2,161,281
PP&E	15,346,136
DEPRECIATION	4,769,536
TOTAL ASSETS	62,174,101
CURRENT LIABILITIES	9,302,768
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	747,182
OTHER SE	50,014,381
TOTAL LIABILITY AND EQUITY	62,174,101
SALES	39,320,420
TOTAL REVENUES	39,320,420
CGS	24,009,457
TOTAL COSTS	24,009,457
OTHER EXPENSES	10,508,061
LOSS PROVISION	0
INTEREST EXPENSE	(77,651)
INCOME PRETAX	4,880,553
INCOME TAX	1,488,569
INCOME CONTINUING	3,391,984
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	3,391,984
EPS PRIMARY	.40
EPS DILUTED	.40

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