

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-07-28** | Period of Report: **1995-06-30**
SEC Accession No. **0000950124-95-002259**

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FILER

DYNA GROUP INTERNATIONAL INC

CIK: **844787** | IRS No.: **870404753** | State of Incorpor.: **NV** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-17385** | Film No.: **95557036**
SIC: **3960** Costume jewelry & novelties

Mailing Address
*1801 W 16TH STREET
BROADVIEW IL 60153*

Business Address
*1801 W 16TH ST
BROADVIEW IL 60153
7084509200*

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the period ended: June 30, 1995

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number: 0-17385

DYNA GROUP INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

NEVADA

87-0404753

(State or other jurisdiction of incorporation or organization)

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

1801 W. 16th Street, Broadview, Illinois

60153

(Address of principal executive offices)

(Zip Code)

708 - 450-9200

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

The number of shares outstanding of the registrant's common stock as of June 30, 1995 was 7,465,147.

DYNA GROUP INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET

<TABLE>
<CAPTION>

ASSETS	June 30, 1995 ----- (Unaudited)	December 31, 1994 -----
	<C>	<C>
CURRENT ASSETS:		
Cash	\$ 58,040	\$ 305,610
Accounts receivable, less allowance for doubtful accounts of \$92,000	1,803,312	1,915,466
Inventories	3,101,352	2,379,669
Prepaid expenses and other	203,109	111,589
Deferred tax assets	71,660	71,660
	-----	-----

	5,237,473	4,783,994
	-----	-----
PROPERTY AND EQUIPMENT, less accumulated depreciation of \$1,795,059 and \$1,661,778	1,141,897	1,060,108
	-----	-----
OTHER ASSETS:		
Cost in excess of net assets of acquired business, less accumulated amortization of \$91,023 and \$81,084	44,729	54,668
Investment in joint venture	18,140	25,490
Due from joint venture	140,298	39,441
Other	90,929	76,085
	-----	-----
	294,096	195,684
	-----	-----
	\$ 6,673,466	\$ 6,039,786
	=====	=====

</TABLE>

See accompanying notes.

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DYNA GROUP INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET

<TABLE>		
<CAPTION>		
LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 1995	December 31, 1994
	-----	-----
	(Unaudited)	
<S>	<C>	<C>
CURRENT LIABILITIES:		
Notes payable bank	\$ 1,175,000	\$ 740,000
Notes payable related party	450,000	500,000
Accounts payable	942,366	648,650
Accrued expenses	422,652	481,829
Current maturities of long-term debt	145,480	145,480
	-----	-----
	3,135,498	2,515,959
	-----	-----
LONG-TERM DEBT BANK:	764,751	835,197
	-----	-----
STOCKHOLDERS' EQUITY:		
Common stock \$.001 par value - authorized, 100,000,000 shares; issued 8,179,704	8,180	8,180
Capital in excess of par value	950,687	944,574
Retained earnings	1,988,069	1,859,135
Treasury stock - 714,557 and 684,057 shares, at cost	(143,657)	(100,196)
Unearned compensation	(30,062)	(23,063)
	-----	-----
	2,773,217	2,688,630
	-----	-----
	\$ 6,673,466	\$ 6,039,786
	=====	=====

</TABLE>

See accompanying notes.

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DYNA GROUP INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)

<TABLE>		
<CAPTION>		
	Three Months Ended June 30,	

	1995	1994
	----	----
<S>	<C>	<C>

NET SALES	\$ 2,123,768	\$ 2,494,288
COST OF SALES	1,096,405	1,248,132
	-----	-----
Gross profit	1,027,363	1,246,156
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	948,393	869,871
	-----	-----
Operating income	78,970	376,285
INTEREST EXPENSE	56,466	43,037
	-----	-----
LOSS FROM JOINT VENTURE	--	--
	-----	-----
Income before income taxes	22,504	333,248
PROVISION FOR INCOME TAXES	8,552	129,975
	-----	-----
NET INCOME	\$ 13,952	\$ 203,273
	=====	=====
INCOME PER COMMON SHARE	\$ --	\$.03
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	7,466,480	7,513,647

See accompanying notes.

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DYNA GROUP INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)

<TABLE>
<CAPTION>

	Six Months Ended June 30,	
	1995	1994
	-----	-----
<S>	<C>	<C>
NET SALES	\$ 4,164,207	\$ 4,500,979
COST OF SALES	2,125,703	2,370,695
	-----	-----
Gross profit	2,038,504	2,130,284
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,722,522	1,603,429
	-----	-----
Operating income	315,982	526,855
INTEREST EXPENSE	100,672	81,094
	-----	-----
LOSS FROM JOINT VENTURE	(7,350)	--
	-----	-----
Income before income taxes	207,960	445,761
PROVISION FOR INCOME TAXES	79,025	172,955
	-----	-----
NET INCOME	\$ 128,935	\$ 272,806
	=====	=====
INCOME PER COMMON SHARE	\$.02	\$.04
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	7,485,022	7,457,647

</TABLE>

DYNA GROUP INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30,	
	1995	1994
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 128,935	\$ 272,806
Adjustments to reconcile income from operations to net cash used by operating activities -		
Depreciation and amortization	143,220	139,654
Provision for losses on accounts receivable	--	21,022
Amortization of unearned compensation	7,063	5,761
Other	--	21,111
Loss from joint venture	7,350	--
Change in assets and liabilities:		
Decrease in accounts receivable	112,154	397,995
Increase in inventories	(721,683)	(441,514)
Decrease (increase) in prepaid expenses and other	(91,520)	41,723
(Decrease) increase in accounts payable	293,716	203,122
(Decrease) increase in accrued expenses	(59,177)	68,744
Decrease (increase) in other assets	(55,701)	(6,860)
	-----	-----
Cash provided (used) by operating activities	(235,643)	723,564
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(215,070)	(164,140)
	-----	-----
Cash used by investing activities	(215,070)	(164,140)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(70,446)	(21,120)
Increase (decrease) in notes payable	385,000	(556,000)
Advance to joint venture	(60,000)	--
Repurchase common stock	(51,411)	--
	-----	-----
Cash provided (used) by financing activities	203,143	(577,120)
	-----	-----
DECREASE IN CASH	(247,570)	(17,696)
CASH, beginning of period	305,610	290,870
	-----	-----
CASH, end of period	\$ 58,040	\$ 273,174
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for -		
Interest	\$ 93,083	\$ 64,983
Income Taxes	90,273	41,894

See accompanying notes.

NOTE 1 - FINANCIAL INFORMATION

The consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to or as permitted by such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1994.

The financial information included herein at June 30, 1995 and for the three months and six months ended June 30, 1995 and June 30, 1994 is unaudited and, in the opinion of the Company, reflects all adjustments (which includes only normal recurring adjustments) necessary for the fair presentation of financial position as of that date and the results of operations for those periods. The information in the consolidated balance sheet as of December 31, 1994 was derived from the Company's audited financial statements for 1994.

NOTE 2 - INVENTORIES

Inventories consist of the following:

<TABLE>
<CAPTION>

	June 30, 1995 -----	December 31, 1994 -----
<S>	<C>	<C>
Raw materials and work in process	\$ 1,337,371	\$ 839,827
Finished goods	1,763,981	1,539,842
	-----	-----
	\$ 3,101,352	\$ 2,379,669
	=====	=====

</TABLE>

NOTE 3 - NOTES PAYABLE TO BANKS

The Company has an agreement with a bank that provides for maximum aggregate borrowing of \$2,750,000 on qualified accounts receivable and inventories as defined. This debt is represented by a revolving credit note with a due date of June 30, 1995, and with interest payable at prime plus 3/4 percent (9 3/4% at June 30, 1995). The note is collateralized by accounts receivable and inventory. At June 30, 1995 the Company had approximately \$152,000 available for borrowing and was in compliance with all of its bank covenants. The Company has renewed this agreement with interest payable at prime plus 1/2%, with a due date of June 30, 1996.

DYNA GROUP INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - NOTE PAYABLE TO RELATED PARTY

In December 1994, the Company borrowed \$560,000 from a bank to repay the long-term debt due to the major stockholder. Concurrently, the major stockholder loaned the Company \$500,000 as evidenced by a promissory note due December 14, 1995 with interest at prime plus 1/2 percent (9.5% at June 30, 1995). The proceeds from this loan were used to reduce current indebtedness to the bank.

NOTE 5 - INCOME TAXES

The provision for income taxes from operations for the three months and six months ended June 30, 1995 and June 30, 1994 reflect the Company's estimated effective income tax rate for the full year. These effective rates differed from the federal statutory income tax rate primarily because of the graduated federal income tax rate structure.

NOTE 6 - LONG-TERM DEBT

In September 1993, the Company borrowed \$465,159, with interest at 7.74%, secured by land and building, and payable in monthly installments of \$5,580 for principal and interest, through September 17, 1998, at which time the balance of the principal is due. The proceeds from this borrowing were used to repay the previous 9% first mortgage loan. The balance due on this debt is \$405,767 at June 30, 1995.

In December 1994, the Company borrowed \$560,000, secured by a personal

investment account of the major stockholder, and a second mortgage on the land and building. This note is payable in monthly installments of \$9,333 plus interest at prime plus 1/2% (9.5% at June 30, 1995) through December 14, 1999. The proceeds from this note were used to retire the long-term indebtedness of \$536,211 to the major stockholder. The outstanding balance on this debt was \$504,000 at June 30, 1995.

NOTE 7 - STOCKHOLDERS' EQUITY

During the first quarter of 1995, the Company repurchased 64,000 shares of stock for its treasury at a cost of \$51,411.

In May 1995, the Company issued 37,500 shares of treasury stock to employees as a bonus. In connection with this transaction, the Company recorded \$14,063 in unearned compensation which is being amortized over three years. Also in May, 1995 the Company redeemed 4,000 shares of stock at no cost.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The Company's working capital ratio declined to approximately 1.7 to 1, and net cash in bank decreased by \$247,570.

Operating activities used \$235,643. Income from operations and non-cash adjustments provided \$286,568. Changes in net working capital items and other assets used \$522,211. Net working capital decreased primarily as a result of increases in inventory and prepaid expenses. These increases are the result of new product introductions and in anticipation of future sale requirements. This use of cash was in part offset by a moderate decrease in accounts receivable and a large increase in accounts payable. Capital expenditures, primarily dies and molds used \$215,070. Financing activities provided \$203,143. Payments on long-term debt, the repurchase of common stock, and an advance to our joint venture used \$181,857, while an increase in notes payable provided \$385,000.

At June 30, 1995 the Company has a revolving line of credit with a bank allowing borrowing up to \$2,750,000 against qualified accounts receivable and inventory. At June 30, 1995 approximately \$152,000 was available for borrowing. The Company has renewed this agreement with a due date of June 30, 1996.

As of June 30, 1995, there are no material commitments for future capital expenditures, and management does not anticipate any major expenditures in the foreseeable future. It is management's belief that the Company's present facilities will be adequate to meet its current and future needs.

Results of Operations

Net sales for the three months ended June 30, 1995 as compared to the three months ended June 30, 1994 decreased by \$370,520 or 14.9%. This decrease was due to a restructuring of the Company's sales representative force, a change in some customer buying patterns, and some minor impact from the baseball and hockey strikes. Gross margin percent decreased a nominal 1.7% as a result of a change in sales mix.

Selling, general and administrative expenses increased by \$78,522. This increase was related to introducing new products and improving product presentation. The Company is continuing its emphasis on cost control and views these increased expenditures as an investment for future growth.

Interest expense increased by \$13,952 as a result of rate increases and higher borrowing levels.

The Company's joint venture operation showed no gain or loss in the quarter ended June 30, 1995.

The above discussed factors resulted in an after tax profit from operations of \$13,952 for the quarter ended June 30, 1995 as compared to \$203,273 for the quarter ended June 30, 1994.

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For the six months ended June 30, 1995 as compared to the six months

ended June 30, 1994 sales decreased by \$336,772 or 7.5%. This decrease was a result of a restructuring of the sales representative force, a change in some customer buying patterns, and some minor impact from the baseball and hockey strikes. Gross margin percent improved 1.6% as a result of a change in sales mix.

Selling, general and administrative expenses for the six months ended June 30, 1995 increased by \$119,093. This increase was related to the introduction of new products, improving product presentation, and added personnel. The Company is continuing its emphasis on cost control, and views these increased expenditures as necessary for future growth and to better service the Company's customer base.

The Company's joint venture showed a nominal loss for the six months ended June 30, 1995. The Company anticipates as the volume of work done by the joint venture increases, it will become profitable, and cost savings will be realized.

Interest expense for the six months ended June 30, 1995 increased by \$19,588 over the similar period in 1994, primarily as a result of rate increases and higher borrowing levels.

The above discussed factors resulted in an after tax profit from operations of \$128,935 for the six months ended June 30, 1995 as compared to \$272,806 for the six months ended June 30, 1994.

The income tax provisions for the three and six months ended June 30, 1995 and June 30, 1994 were based on the Company's estimate of the tax for the full year.

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PART II - OTHER INFORMATION

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

- (a) The annual meeting of the stockholders was held on July 13, 1995.
- (b) Three directors were elected and received the following votes for, against or withheld:

<TABLE>

<CAPTION>

	For ---	Withheld -----
<S>	<C>	<C>
1. Roger R. Tuttle	7,043,110	30,600
2. William M. Sandstrom	7,042,710	31,000
3. Jeffrey L. Smith	7,043,110	30,600

</TABLE>

Item 5. Other Information

Mr. William Sandstrom has tendered his resignation as Treasurer and Principal Accounting and Financial Officer effective July 31, 1995. Mr. Sandstrom will continue to serve on the Board of Directors as an outside director.

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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.

DYNA GROUP INTERNATIONAL, INC.

(Registrant) -----

Date: July 27, 1995 /s/ Roger R. Tuttle

(Signature) Roger R. Tuttle, Chairman of the Board
and Chief Executive Officer

Date: July 27, 1995 /s/ William M. Sandstrom

(Signature) William M. Sandstrom, Treasurer (Principal
Accounting and
Financial Officer)

<TABLE> <S> <C>

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