FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-07-27** | Period of Report: **1999-06-30**
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FILER

PENTECH INTERNATIONAL INC
CIK:**760461**| IRS No.: **232259391** | State of Incorp.:**DE** | Fiscal Year End: **0930**
Type: **10-Q** | Act: **34** | File No.: **000-15374** | Film No.: **99671142**
SIC: **3950** Pens, pencils & other artists' materials

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1999

OR

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

For the transition period from to .

Commission file number 0-15374

PENTECH INTERNATIONAL INC.
(Exact name of registrant as specified in its charter)

Delaware	23-2259391
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

195 Carter Drive, Edison, New Jersey	08817
(Address of principal executive offices)	(Zip Code)

(732) 287-6640
(Registrant's telephone number, including area code)

(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 and 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. [x] Yes [ ] No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of July 26, 1999 there were 12,570,258 shares of common stock outstanding, par value $.01 per share.

There is no Exhibit Index.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

PENTECH INTERNATIONAL INC.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS
(000's omitted)
(Substantially all pledged or assigned)

	June 30, 1999 (unaudited)	September 30, 1998
Current Assets:		
Cash	$ -	$ 759
Accounts receivable, net of allowances for doubtful accounts of $79 at June 30, 1999 and $30 at September 30, 1998	21,302	14,327
Inventories (Note 1)	16,410	20,015
Income taxes receivable	-	448
Prepaid expenses and other	1,660	1,436
Deferred tax asset (Note 5)	-	-
Available-for-Sale Security (Note 7)	325	622
Total current assets	39,697	37,607
Furniture and equipment (Note 1)	9,299	8,934
Less accumulated depreciation	(6,160)	(5,372)
	3,139	3,562
Other assets:		
Deferred tax assets, long-term (Note 5)	-	-
Trademarks, net of amortization (Note 1)	233	240
Due from officer	174	174
	407	414
	$43,243	$41,583

See notes to condensed consolidated financial statements.

PENTECH INTERNATIONAL INC.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONT'D)

LIABILITIES AND SHAREHOLDERS' EQUITY
(000's omitted)

	June 30, 1999 (unaudited)	September 30, 1998
Current liabilities:		
Notes payable, bank (Note 2)	$19,691	$18,618
Accounts payable	3,528	2,455
Accrued expenses	3,022	3,352
Settlement note payable (Note 6)	300	300
Total current liabilities	26,541	24,725
Other liabilities:		
Royalty payable, long-term (Note 6)	50	100
Settlement note payable, long-term (Note 6)	1,600	2,000
	1,650	2,100
Commitments and contingencies (Note 4)		
Shareholders' equity (Note 3):		
Preferred stock, par value $.10 per share; authorized 500,000 shares; issued and outstanding none		
Common stock, par value $.01 per share; authorized 20,000,000 shares; 12,570,258 shares issued and outstanding at June 30, 1999 and September 30, 1998, respectively	125	125
Capital in excess of par	6,838	6,838
Retained earnings	7,764	7,173
Unrealized gain on Available-for-Sale Security (Note 7)	325	622
	15,052	14,758
	$43,243	$41,583

See notes to condensed consolidated financial statements.

PENTECH INTERNATIONAL INC.

AND SUBSIDIARIES
(unaudited)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(000's omitted except for per share amounts)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	1999	1998	1999	1998
Net sales	$25,472	$21,931	$45,228	$43,299
Cost of sales	16,976	14,995	30,361	28,954
Gross profit	8,496	6,936	14,867	14,345
Selling, general and administrative expenses	6,093	5,213	13,234	13,590
(Income) from Lawsuit settlement (Note 9)	-	-	-	(965)
Loss (income) from Sale of Security (Note 7)	11	-	(2)	-
Interest expense	347	362	1,047	1,043
Interest (income)	-	-	(3)	(9)
	6,451	5,575	14,276	13,659
Income before taxes	2,045	1,361	591	686
Income taxes	-	517	-	261
Net income	$ 2,045	$ 844	$ 591	$ 425
Net income per share basic and diluted (Note 1)	$ .16	$ .07	$ .05	$ .03

See notes to condensed consolidated financial statements.

PENTECH INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(000's omitted)
(unaudited)

	Nine Months Ended June 30, 1999	Nine Months Ended June 30, 1998
Cash flows from operating activities:		
Net income	$ 591	$ 425
Adjustments to reconcile net income to net cash (used in) operating activities:		
Depreciation and amortization	788	699
Sale of Cosmetic assets	-	758
(Increase) decrease in:		
Accounts receivable	(6,975)	(2,655)
Inventories	3,605	(1,822)
Prepaid expenses and other	(224)	(71)
Income taxes receivable	448	150
Due from officer	-	(32)
Deferred tax asset	-	85
Increase (decrease) in:		
Accounts payable	1,073	1,078
Accrued expenses	(330)	(430)
Settlement payables	(450)	(300)
Total adjustments	(2,065)	(2,540)
Net cash (used in) operating activities	(1,474)	(2,115)
Cash flows from investing activities:		
(Purchase) of furniture/equipment	(365)	(620)
Decrease in trademarks	7	51
Net cash (used in) investing activities	(358)	(569)

See notes to condensed consolidated financial statements.

PENTECH INTERNATIONAL INC.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(000's omitted)
(unaudited)

	Nine Months Ended June 30,	
	1999	1998
Cash flows from financing activities:		
Net increase in notes payable	$ 1,073	$ 2,041
Proceeds from the issuance of Common Stock	-	50
Net cash provided by financing activities	1,073	2,091
Net (decrease) in cash and cash equivalents	(759)	(593)
Cash and cash equivalents, beginning of period	759	649
Cash and cash equivalents, end of period	$ -	$ 56
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 1,142	$ 1,031

See notes to condensed consolidated financial statements.

PENTECH INTERNATIONAL INC.
AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(The information for the three and nine months ended
June 30, 1999 and 1998 is unaudited)

1. Summary of significant accounting policies:

Organization:

Pentech International Inc. (the "Company") was formed in April 1984. A wholly owned subsidiary, Sawdust Pencil Co. ("Sawdust") was formed in November 1989 and commenced operations in January 1991. The Company and its subsidiary are engaged in the production, design and marketing of writing and drawing instruments. In October 1993, the Company formed a wholly owned subsidiary, Pentech Cosmetics, Inc. ("Cosmetics"), to manufacture and distribute cosmetic pencils. During its fiscal year ended September 30, 1997, the Company decided to dispose of this product line. The Company primarily operates in one business segment: the manufacture and marketing of pens, markers, pencils and other writing instruments and related products to major mass market retailers located in the United States, under the "Pentech" name or licensed trademark brand. The Company's fiscal year ends September 30.

Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

Cash Equivalents:

The Company considers all time deposits with a maturity of three months or less to be cash equivalents.

Unaudited Financial Statements:

All unaudited financial information includes all adjustments (consisting of normal recurring adjustments) which the Company considers necessary for a fair presentation of the financial position at June 30, 1999, the results of operations for the three and nine month periods ended June 30, 1999 and 1998, and cash flows for the nine months ended June 30, 1999 and 1998.

Inventory and Cost of Sales:

Inventory is stated at the lower of cost or market (first-in, first-out). Interim inventories are based on an estimated gross profit percentage by product, calculated monthly. Cost of Sales for imported products includes the

PENTECH INTERNATIONAL INC.
AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(The information for the three and nine months ended
June 30, 1999 and 1998 is unaudited)

1. Summary of significant accounting policies (cont'd):

invoice cost, duty, freight in, display and packaging costs. Cost of domestically manufactured products includes raw materials, labor, overhead and packaging costs.

Equipment and Depreciation:

Equipment is stated at cost. Depreciation is provided by the straight-line method over the estimated useful lives of the assets, which range from five to ten years. Major improvements to existing equipment are capitalized. Expenditures for maintenance and repairs, which do not extend the life of the assets, are charged to expense as incurred.

Trademarks:

The costs thereof are being amortized over a five-year period on a straight-line basis.

Revenue recognition:

Revenue is recognized upon shipment of product to the customer.

Fair Value of Financial Instruments:

The fair value for cash and accounts receivable approximates carrying amounts due to the short maturity of these instruments. The fair value amounts for notes payable approximate carrying amounts due to the variable interest rates.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. Summary of significant accounting policies (Cont d):

Stock Based Compensation:

Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation," encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Earnings per share:

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings Per Share, which was adopted by the Company in December, 1997. SFAS No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share exclude any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share for all periods have been presented, and where appropriate, restated to conform to the SFAS No. 128 requirements.

Notes to Condensed Consolidated Financial Statements
(The information for the three and nine months ended
June 30, 1999 and 1998 is unaudited.)

1. Summary of significant accounting policies (Cont d):

Earnings per share (Cont d):

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended June 30,		Nine months ended June 30,	
	1999	1998	1999	1998
Numerator:				
Net Income	$2,045,000	$ 844,000	$ 591,000	$ 425,000
Numerator for basic and diluted earnings per share	$2,045,000	$ 844,000	$ 591,000	$ 425,000
Denominator:				
Denominator for basic earnings per share - weighted average shares	12,570,258	12,543,591	12,570,258	12,526,258
Effect of dilutive securities: Employee stock options	-	256,782	37,140	362,063
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions:	12,570,258	12,800,373	12,607,398	12,888,321
Basic and diluted income per share	$ .16	$ .07	$ .05	$ .03

Notes to Condensed Consolidated Financial Statements
(The information for the three and nine months ended
June 30, 1999 and 1998 is unaudited.)

2. Notes payable, bank:

	June 30, 1999	September 30, 1998
Revolving line of credit interest payable monthly at prime plus .5% (8.25% at June 30, 1999 and 9% at September 30, 1998)	$ 5,961,000	$ 4,618,000
Revolving line of credit interest payable at maturity at libor plus 2.5% (7.5% at June 30, 1999 and ranging from 7.813% to 8.188% at September 30, 1998)	14,000,000	14,000,000
	$19,961,000	$18,618,000

(a) In January 1997, the Company entered into a three year Revolving Credit Agreement (the Credit Agreement) with BankAmerica Business Credit, Inc. (BABC). Borrowings under the Credit Agreement are subject to limitations based upon eligible inventory and accounts receivable as defined in the Credit Agreement. Borrowing under the Credit Agreement accrues interest, at the Company s option, at either prime plus .5% or libor plus 2.5%.

The Credit Agreement is collateralized by a security interest in substantially all of the assets of the Company. In connection with the Credit Agreement, the Company has agreed, among other things, to the maintenance of certain minimum amounts of tangible net worth, interest coverage ratios and cannot declare a cash dividend without the consent of BABC. The Company was in violation of its tangible net worth and interest rate coverage covenants at March 31, 1998, June 30, 1998 and September 30, 1998.

On January 11, 1999, the Company and BABC amended the Credit Agreement (the Amendment). The Amendment, among other things, modified the financial covenants for Fiscal 1999 to

PENTECH INTERNATIONAL INC.
AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(The information for the three and nine months ended
June 30, 1999 and 1998 is unaudited.)

2. Notes payable, bank (Cont d):

allow the Company to be in compliance based upon its current operating plan, lowered the maximum inventory advance and allowed for a seasonal over-advance.

3. Shareholders' Equity:

In December 1997, January 1998 and June 1998, options to purchase an aggregate of 66,000 shares of Common Stock were exercised at $.75 per share resulting in the issuance of 66,000 shares of Common Stock and proceeds of $49,500.

4. Contingency:

At June 30, 1999, the Company was contingently liable for outstanding letters of credit of approximately $107,247.

5. Income taxes:

	Three Months Ended June 30, 1999	Nine Months Ended June 30, 1999
Federal:		
Current	$ 633,000	$183,000
Deferred	(633,000)	(183,000)
State:		
Current	184,000	53,000
Deferred	(184,000)	(53,000)
	$ -	$ -
Income tax at Federal statutory rate applied to income before taxes	$ 695,000	$201,000
Add: state income taxes	184,000	53,000
Less: effect of deduction of		

state income taxes for Federal purposes	(62,000)	(18,000)
Less: effect of decrease in Valuation allowance	(817,000)	(236,000)
Income taxes	$ -	$ -

PENTECH INTERNATIONAL INC.
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Notes to Condensed Consolidated Financial Statements
(The information for the three and nine months ended
June 30, 1999 and 1998 is unaudited.)

5. Income taxes (Cont d):

Significant components of the Company's deferred tax assets and liability as of June 30, 1999 and September 30, 1998 are as follows:

	June 30, 1999	September 30, 1998
Current deferred tax assets (liability):		
State taxes on deferred federal items	$ 258,328	$ (68,687)
Bad debts	33,942	55,390
Inventory reserve	477,300	477,300
Reserve for returns and allowances	234,461	303,528
Unicap	7,787	7,787
Total current deferred tax assets	1,011,818	775,318
Valuation allowance on current deferred tax assets	(1,011,818)	(775,318)
Net current deferred tax assets	$ -	$ -
Long-term deferred tax assets (liability):		
Depreciation	$ (932,290)	$ (932,290)
Reserve for litigation	817,000	1,053,500
State net operating loss carryforwards	482,598	535,598
Federal net operating loss carry forward	999,076	1,182,076

Total long-term deferred tax assets	1,366,384	1,838,884
Valuation allowance on long-term deferred tax assets	(1,366,384)	(1,838,884)
Net long-term deferred tax assets	$ -	$ -

PENTECH INTERNATIONAL INC.
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Notes to Condensed Consolidated Financial Statements
(The information for the three and nine months ended
June 30, 1999 and 1998 is unaudited.)

6. Paradise Settlement:

In Fiscal 1997, the Company entered into a settlement agreement with Leon Hayduchok, All-Mark Corporation and Paradise Creations, Inc., (collectively, "Paradise") providing, among other things, for Pentech to pay $500,000, deliver a $3,000,000 promissory note plus interest at the rate of 7% per annum (the Note) and enter into a five year non-exclusive license to sell such products for a 10% royalty, with a minimum royalty of $500,000 (the "Paradise Settlement"). The Company paid Paradise $500,000 at the date of signing in January 1997 and a required payment against the Note of $400,000 in February 1997. In addition, the Note required $100,000 quarterly principal payments commencing January 1, 1998. Quarterly principal payments were made in December 1997, April, July and October 1998, and January, April, and June 1999. The Company also paid $300,000 against the minimum royalty.

7. Sale of Cosmetic Assets/Available-for-Sale Security

In November 1997, the Company entered into an agreement to sell fixed assets and inventory of its Cosmetics subsidiary to an outside company, Fun Cosmetics, Inc. (Fun) (significantly owned by a former employee) for its net book value of $758,000 plus 200,000 shares of Fun. In December 1997, $100,000 was received as a down payment, $150,000 received at closing and a note was issued for approximately $508,000 bearing interest at a rate of 9% per annum. The terms of the note provided that the principal be reduced by $150,000 a month commencing February 1998, until repaid. This note was paid in full in March 1998. At the time of the sale, the Company assigned no value to the shares received since the acquiring company was a start-up company with minimal assets and was still seeking financing. Since November 1997, Fun has raised additional equity and funding and has become a non-reporting company whose shares are listed on the NASD Electronic Bulletin Board. The value of this stock(based on quoted market prices) as of June 30, 1999 was $1.625 a share. Due to the historically low level of trading activity, the number of shares the Company owns and the fact that the shares are unregistered, there is no assurance the Company will realize the current market value.

PENTECH INTERNATIONAL INC.
AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(The information for the three and nine months ended
June 30, 1999 and 1998 is unaudited.)

7. Sale of Cosmetic Assets/Available-for-Sale Security (Cont d)

	Unrealized Gain on Available-for-Sale Security
Beginning balance	$622,000
Less: reclassification Adjustment for gains realized	(2,000)
Net unrealized loss	(295,000)
Ending balance	$325,000

8. Impact of Year 2000

With respect to the Year 2000 issue, the Company is in the process of ensuring that all internal computer, manufacturing, distribution and business equipment will be Year 2000 compliant by August, 1999. The Company is in the process of making a full assessment of the risk associated with the Year 2000 issue and determine whether the consequences (if any) will have a material effect on the Company s business. In addition, if necessary upon completion of the assessment, the Company will develop a contingency plan. The Company utilizes a third party software package to run its internal operating and accounting systems and has purchased and installed the Year 2000 compliant version of this software. In addition, all telecommunications equipment and primary computer applications are Year 2000 compliant. The Company is also contacting its vendors and customers in order to assess any third party risk. The Company does not expect the costs associated with becoming Year 2000 compliant to be material and believes that it will be absorbed, for the most part, in its normal information technology budget.

9. Income from Lawsuit Settlement

In March 1998, the Company executed a settlement agreement providing for the Company to receive a payment in the amount of $965,000, net of legal fees, which payment was received in April, 1998.

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

This report on Form 10-Q may contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. These forward looking statements are subject to the business and economic risks faced by the Company and the Company's actual results could differ materially from those anticipated in these forward looking statements as a result of certain factors, including those set forth in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

(1) Material Changes in Results of Operations

Net sales increased in the three and nine months ended June 30, 1999 16.1% and 4.4%, respectively, from the same periods a year ago. These increases were as a result of the success of the Company s new licenses and further market penetration of the children's activity product line.

Gross profit as a percentage of net sales increased in the three months ended June 30, 1999 to 33.3% from 31.6% in the same 1998 period. This was due to an aggressive program by the Company to gain shelf space for some its new products in the prior year. Gross profit as a percentage of net sales decreased for the nine months ended June 30, 1999 to 32.8% from 33.1% in the same 1998 period. This was due to a greater percentage of sales in the first six months from its basic commodity and direct import programs, which are sold at a lower gross profit.

Selling, general and administrative ("SG&A") expenses as a percentage of sales for the three months ended June 30, 1999 slightly increased to 23.9% from 23.8% in the same 1998 period. This was due to an increase in royalties resulting from sales from three new licenses. SG&A expenses as a percentage of sales for the nine months ended June 30, 1999 decreased to 29.3% from 31.4%. This was due to the Company s cost reduction program. In addition, the Company recorded a severance accrual associated with the termination of some high level employees in the prior nine month period.

For the three months ended June 30, 1999, interest expense decreased as compared to the same period a year ago. This was due to lower interest rates and a lower outstanding balance due to the Company's inventory reduction program. For the nine months ended June 30, 1999, interest expense slightly increased as a result of a higher average outstanding balance this year which began at the start of the Fiscal year.

For the three and nine months ended June 30, 1999, the net income was $2,045,000 or $.16 per share and $591,000 or $.05 per share, respectively, as compared to a net income of $844,000 or $.07 per share and $425,000 or $.03 per share for the same periods in the prior fiscal year. The increase in income was primarily due to the higher sales volume. In addition, the Company's income tax expense for the three and nine months ended June 30, 1999 was zero as a result of the reduction in the Company's allowance for deferred tax assets.

(2) Material Changes in Financial Condition

In January 1997, the Company entered into a three year $30,000,000 revolving credit facility (the Credit Agreement) with BankAmerica Business Credit (BABC). The amount of drawings under the Credit Agreement are subject to limitations based upon eligible inventory and accounts receivable as described in the Credit Agreement. The Credit Agreement is collateralized by a security interest in substantially all of the assets of the Company. In addition, in accordance with the Credit Agreement, the Company has agreed, among other things, to the maintenance of certain minimum amounts of tangible net worth and interest coverage ratios.

In January 1999, the Company and BABC amended the Credit Agreement (the Amendment). The Amendment, among other things, reduced the revolving credit facility to $25,000,000, modified the financial covenants (which had been violated by the Company during Fiscal 1998) for Fiscal 1999 to allow the Company to be in compliance based upon its current operating plan, lowered the maximum inventory advance and allowed for a seasonal over-advance.

The $3,000,000 note (the Note) issued in connection the Paradise Settlement requires $100,000 quarterly principal payments that commenced January 1, 1998 and are scheduled through April 1, 2004. Quarterly principal payments were made in December 1997, April, July, October 1998, January, April and June 1999.

The Company continued several actions to increase its liquidity. It established a policy obtaining thirty to sixty open credit to finance a majority of its purchases that historically had been financed pursuant to letters of credit. It continues to reduce the number of items held in inventory, has reduced the level of capital expenditures and has continued a cost reduction program.

In November 1997, the Company entered into an agreement to sell the fixed assets and inventory of its Cosmetics subsidiary to Fun Cosmetics, Inc. (Fun) (significantly owned by a former employee) for its net book value of $758,000. This amount was paid in Fiscal 1998. The Company also received 200,000 shares of Common stock of Fun.

In March 1998, the Company as part of the settlement of a lawsuit was awarded $965,000, net of legal fees.

Working capital increased $274,000 to $13,156,000 during the nine months ended June 30, 1999. As a result of the seasonal nature of the Company s business, the Company s use of its credit facility increases significantly in the months of May, June, July and August as the Company finances its inventory and receivables, and declines in September and October after the collections of receivables from its Back-to-School sales. The change in financial position during the nine months ended June 30, 1999 reflects primarily this seasonality due to the increase in receivables.

The Company anticipates that the Credit Agreement together with anticipated revenues from operations, will be sufficient to provide liquidity on both a short-term and long-term basis to finance its future operations. The Company believes these resources are sufficient to support its operating expenses.

With respect to the Year 2000 issue, the Company is in the process of ensuring that all internal computer, manufacturing, distribution and business equipment will be Year 2000 compliant by August 1999. The Company is in the process of making a full assessment of the risk associated with the Year 2000 issue and determine whether the consequences (if any) will have a material effect on the Company's business. In addition, if necessary, upon completion of the assessment, the Company will develop a complete contingency plan. The Company utilizes a third party software package to run its internal operating and accounting systems and has purchased and installed the Year 2000 compliant version of this software. In addition, all telecommunications equipment and primary computer applications are Year 2000 compliant. The Company is also contacting its vendors and customers in order to assess any third party risk. The Company does not expect the costs associated with becoming year 2000 compliant to be material and believes that it will be absorbed for the most part in its normal information technology budget.

(3) Safe Harbor Statement

Statements which are not historical facts, including statements about the Company's confidence and strategies and its expectations about new and existing products, technologies and opportunities, market and industry segment growth, demand and acceptance of new and existing products are forward looking statements that involve risks and uncertainties. These include, but are not limited to, product demand and market acceptance risks; the impact of competitive products and pricing; the results of financing efforts; the loss of any significant customers of any business; the effect of the Company's accounting policies; the effects of economic conditions and trade, legal, social, and economic risks, such as import, licensing, and trade restrictions; the results of the Company's business plan and the impact on the Company of its relationship with its lenders.

PART II. OTHER INFORMATION

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

(a) Exhibits

3.1 Certificate of Incorporation of the Company, as amended, incorporated by reference to Exhibit 3.1 to Registration Statement No. 2-95102-NY of the Company ("Form S-18").

3.2 The Company's by-laws are incorporated by referenced to Exhibit 3.2 of Form S-18.

10.1 The 1989 Stock Option Plan incorporated by reference to the Registration Statement No. 33-27009 ("Form S-8").

10.2 The 1993 Stock Option Plan incorporated by reference to the Company's Annual Report on Form 10-K for Fiscal Year 1992.

10.3 The 1995 Stock Option Plan incorporated by reference to the Registration Statement No. 333-30595 filed on Form S-8.

27 Financial Data Schedule

(b) Reports on Form 8-K.

None.

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.

PENTECH INTERNATIONAL INC.

Dated: July 27, 1999

By:/s/ William Visone
William Visone, Vice-President,
Finance and Administration
(Duly authorized officer)

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