

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
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FILER

DEVON GROUP INC

CIK: **40542** | IRS No.: **030212800** | State of Incorporation: **DE** | Fiscal Year End: **0331**
Type: **10-Q** | Act: **34** | File No.: **000-14850** | Film No.: **96663850**
SIC: **2790** Service industries for the printing trade

Mailing Address

281 TRESSER BLVD
STE 501
STAMFORD CT 06901-3227

Business Address

281 TRESSER BLVD
STE 501
STAMFORD CT 06901-3227
2039641444

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 1996

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 2-14850

DEVON GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

03-0212800
(I.R.S. Employer Identification No.)

281 Tresser Boulevard, Suite 501, Stamford, Connecticut 06901-3227
(Address of principal executive offices)

Registrant's telephone number, including area code (203) 964-1444

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 X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of November 12, 1996
Common Stock	7,379,817

<TABLE>

PART I

Item 1 - Financial Statements

DEVON GROUP, INC.
Condensed Consolidated Statements of Income
(Unaudited)

(in thousands, except per share data)

<CAPTION>

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Sales	\$ 68,389	\$ 63,449	\$130,943	\$123,230
Operating costs and expenses:				
Cost of sales	41,265	35,314	80,488	71,186
Selling, general, and administrative	17,209	16,267	33,082	31,012
Income from operations	9,915	11,868	17,373	21,032
Interest income (expense), net	219	155	467	305
Other income, net	384	418	610	786
Income before income taxes	10,518	12,441	18,450	22,123
Provision for income taxes	4,207	5,039	7,380	8,960
Net income	\$ 6,311	\$ 7,402	\$ 11,070	\$ 13,163
Net income per common share	\$.85	\$ 1.01	\$ 1.50	\$ 1.80

Average common shares outstanding	7,396	7,317	7,390	7,303
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</TABLE>

See accompanying notes to condensed consolidated financial statements.

<TABLE>

DEVON GROUP, INC.
Condensed Consolidated Balance Sheets
As of September 30, 1996 and March 31, 1996
(in thousands, except share and per share data)

Assets	September 30, 1996 (Unaudited)	March 31, 1996
<S>	<C>	<C>
Current Assets:		
Cash and cash equivalents	\$ 20,059	\$ 27,749
Receivables, less allowance for doubtful accounts of \$2,300 at September 30, 1996 and \$2,477 at March 31, 1996	52,394	39,629
Inventories, at lower of cost or market:		
Raw materials	1,959	2,726
Work-in-process	18,396	15,115
Finished goods	2,402	2,486
Total inventories	22,757	20,327
Deferred income tax benefit	3,430	3,430
Prepaid expenses and other current assets	7,016	6,079
Total current assets	105,656	97,214
Property, plant, and equipment, net	52,241	51,522
Deferred charges and other assets	1,129	1,111
Excess of cost over fair value of net assets acquired	6,752	6,579
	\$165,778	\$156,426

Liabilities and Stockholders' Equity

Current Liabilities:

Current installments of long-term debt	\$ 110	\$ 110
Accounts payable	7,985	9,439
Accrued expenses	11,058	9,963
Accrued compensation	8,555	9,493
Income taxes	1,093	1,634
Total current liabilities	28,801	30,639

Long-term debt, excluding current installments	1,968	2,003
Deferred and other compensation	6,418	6,413
Deferred income taxes	4,413	4,413

Stockholders' equity:

Common Stock, \$0.01 par value. Authorized 30,000,000 shares; issued 8,357,317 shares at September 30, 1996 and 8,304,317 shares at March 31, 1996	84	83
Additional paid-in capital	34,898	34,538
Retained earnings	102,076	91,006
	137,058	125,627

Less: Shares of common stock held in treasury, at cost; 932,000 at September 30, 1996 and 925,000 at March 31, 1996	(12,880)	(12,669)
Total stockholders' equity	124,178	112,958
	\$165,778	\$156,426

</TABLE>

See accompanying notes to condensed consolidated financial statements.

<TABLE>

DEVON GROUP, INC.

Condensed Consolidated Statements of Cash Flows
For the six months ended September 30, 1996 and 1995
(Unaudited)

(in thousands)

	1996	1995
<S>	<C>	<C>
Net cash provided by (used in) operating activities	\$ (1,009)	\$ 3,848

Cash flows from investing activities:

Capital expenditures	(6,396)	(3,691)
Payments for purchases of subsidiaries, net of cash acquired	(400)	(3,892)
Net cash used in investing activities	(6,796)	(7,583)
Cash flows from financing activities:		
Payments of long-term debt	(35)	(41)
Proceeds from the exercise of stock options and other	361	675
Purchase of treasury stock	(211)	(1,294)
Net cash provided by (used in) financing activities	115	(660)
Net decrease in cash and cash equivalents	(7,690)	(4,395)
Cash and cash equivalents, beginning of period	27,749	16,965
Cash and cash equivalents, end of period	\$20,059	\$12,570

</TABLE>

See accompanying notes to condensed consolidated financial statements.

DEVON GROUP, INC.

Notes to Condensed Consolidated Financial Statements

September 30, 1996

(Unaudited)

- (1) The condensed consolidated financial statements reflect the operations of the Company and its subsidiaries, all of which are wholly-owned except for Portal Aird Publications Pty. Ltd. ("Portal Aird"). All significant intercompany transactions have been eliminated in consolidation. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the results for the unaudited periods, have been included. Results of operations for the periods included in the report are not necessarily indicative of the results for the full year.

Reference should be made to the "Annual Report of Corporation Form 10-K" for the fiscal year ended March 31, 1996 (including its notes to consolidated financial statements) filed with the Securities and Exchange Commission.

- (2) Net income per common share is computed on the basis of the weighted average number of common shares outstanding during the three- and six-month periods ended September 30, 1996 and 1995. Options outstanding were not included in the 1996 or 1995 computations of net income per share as their effect was not material.
- (3) For purposes of the Statements of Cash Flows, the Company considers all short-term investments to be cash equivalents since the investments are highly liquid with maturities of three months or less.
- (4) Property, plant, and equipment is net of accumulated depreciation of \$82,621,000 and \$77,175,000 at September 30, 1996 and March 31, 1996, respectively.
- (5) Effective July 31, 1995, the Company acquired Proof Positive/Farrowlyne Associates, Inc. (PP/FA) for \$4,000,000 in cash and contingent consideration predicated on future earnings of which \$400,000 has been earned and paid to date. Located in Evanston, Illinois, PP/FA is a provider of editorial and creative services to the publishing industry, primarily in the educational sector. The excess of the purchase price over the fair value of net assets acquired was \$3,770,000 including the additional contingent consideration. Nobart, Inc., acquired effective March 1, 1996, is a full-service design, art, photography, and production studio located in Chicago, Illinois. The purchase price of \$1,217,000 was equal to the net book value of assets acquired.
- (6) In March 1995, the Company's Board of Directors authorized the purchase of up to 700,000 shares of its outstanding common stock in the open market from time to time. During the six-month periods ended September 30, 1996 and 1995, under this authorization, 7,000 and 50,000 shares, respectively, were repurchased.

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

Results of Operations

Sales:

Consolidated sales increased \$4,940,000, or 7.8%, and \$7,713,000, or 6.3%, for the three- and six-month periods ended September 30, 1996 versus the comparable prior year periods with each of the Company's subsidiaries contributing to this growth.

Pre-press

Revenues for Black Dot Group increased \$3,067,000, or 11.0%, and \$4,429,000, or 7.6%, respectively, for the three- and six-month periods ended September 30, 1996. The increases versus the prior year periods were primarily due to new retail advertising accounts, additional textbook volume, incremental revenues from Nobart and PP/FA, businesses acquired during fiscal 1996, and sales from the Company's developing multimedia business. Partially offsetting these factors were reductions in billings to Sears and Kmart reflecting reduced prices included in the five-year contract extensions.

Publishing

Devon Publishing Group's sales increased \$1,676,000, or 7.5%, and \$2,169,000, or 5.7%, for the three- and six-month periods ended September 30, 1996, reflecting increased revenues at Portal and Portal UK, while sales at The Winn Devon Art Group approximated the prior year periods. At Portal, sales of cards were especially strong reflecting the success of the Geddes imagery and the May 1996 introduction of the Boynton line. A decrease in poster/print and matted product revenues partially offset this gain. At The Winn Devon Art Group, an increase in revenues from the upscale Devon Editions poster line was offset by reduced framing revenues.

Printing

Sales at Graftek Press, Inc. increased \$197,000, or 1.5%, and \$1,115,000, or 4.1%, respectively, for the three- and six-month periods ended September 30, 1996. The increases were primarily due to increased work for catalog publishers, which was particularly strong during the first quarter of fiscal 1997, and the addition of new magazines added in fiscal 1997.

Gross Profit:

Gross profit as a percentage of sales was 39.7%, and 38.5%, respectively, for the three- and six-month periods ended September 30, 1996 versus 44.3%, and 42.2%, for the comparable prior year periods. For the three-month period ended September 30, 1996, the decrease was primarily due to a reduction at the pre-press subsidiary while margins at the publishing and magazine printing businesses were in line with the prior year period. In

the pre-press subsidiary, the decrease was primarily due to higher outside service costs related to new retail advertising customers, increased labor costs associated with the transition of Nobart into the Black Dot Group, expenditures related to further development of the interactive multimedia business, and the effects of the Sears and Kmart price concessions. For the six-month period, margins at both the pre-press and publishing subsidiaries decreased versus the prior year period and were partially offset by a slight improvement at the magazine printing business. In the pre-press subsidiary, the decline was primarily due to the aforementioned increase in labor costs and expenditures related to the multimedia business. Margins in the publishing subsidiary reflect higher charges related to calendar, seasonal card, and poster returns. The increased charge for calendar and seasonal card returns reflects the slightly higher than anticipated fiscal first quarter returns from previous sales and more aggressive current sales programs, while the charge for poster returns results from the issuance of credit vouchers for slower-moving product in an effort to reenergize this line. Material costs also increased slightly at the publishing subsidiary as a result of the shift in sales to cards, in particular, the boxed line. At the printing business, lower material costs contributed to its slight margin improvement.

Selling, General, and Administrative Expenses:

Selling, general, and administrative expenses as a percentage of sales were 25.2%, and 25.3%, respectively, for the three- and six-month periods ended September 30, 1996 versus 25.6% and 25.2% for the comparable prior year period. For the quarter, the modest improvement in SG&A expenses as a percentage of sales was primarily attributable to the pre-press subsidiary and reflects a reduction in incentive-based compensation expenses, partially offset by higher costs due to the fiscal 1996 acquisitions of Nobart and PP/FA. For the six-month period ended September 30, 1996, SG&A expenses at each of the Company's subsidiaries were in line with the prior year period.

Interest Income (Expense):

Net interest income increased \$64,000 and \$162,000, respectively, for the three- and six-month periods ended September 30, 1996 reflecting an increase in the level of average short-term investments over the prior year periods.

Income Taxes:

The effective income tax rate was 40.0% for the three- and six-month periods ended September 30, 1996 versus 40.5% for the prior year periods.

Net Income:

As a result of the foregoing, net income per share decreased \$.16, or 15.8%, and \$.30, or 16.7%, respectively, versus the prior year three- and six-month periods.

Liquidity and Capital Resources

During the six-month period ended September 30, 1996, cash used by operating activities was \$1,009,000, while cash provided by operating activities for the prior year period was \$3,848,000. The change reflects a \$3,179,000 increase in working capital requirements versus the prior year period as well as a \$2,093,000 reduction in net income. The increased working capital requirements were primarily due to the higher inventory levels in the pre-press business as its customer base expands and higher levels of accounts receivable in the publishing business attributable to increased sales volume and the timing of payments. For the six-month period ended September 30, 1996, short-term investments were used to provide cash for operating activities and fund capital expenditures. For the six-month period ended September 30, 1995, cash provided by operating activities and existing short-term investments were used to fund capital expenditures and the acquisition of PP/FA in August 1995.

Recently Issued Financial Accounting Standards

Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" requires that long-lived assets and certain intangible assets to be held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. SFAS No. 121 further requires that assets in this category to be disposed of be reported at the lower of carrying amount or fair value less cost to sell. The Company will be required to adopt SFAS No. 121 for its fiscal year ending March 31, 1997, however, it is not expected that such adoption will have a material impact on the Company's financial position or results of operations.

In October 1995, Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", was issued. The Company currently does not plan to change its method of accounting for stock-based compensation; however, SFAS No. 123 will require additional footnote disclosure relating to the effect of using a fair value-based method of accounting for stock-based compensation costs for its fiscal year ending March 31, 1997.

DEVON GROUP, INC.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

The Company, in the ordinary course of business, is contingently liable on pending lawsuits and claims. Based upon advice from legal counsel, these pending items are not expected to have a material effect on the Company's consolidated financial position or results of operations.

Item 2. Changes in Securities.

None.

Item 3. Defaults Upon Senior Securities.

None.

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

a. The Company's Annual Meeting of Stockholders was held on July 30, 1996.

b. Not required.

c. A proposal to ratify the selection of the firm of KPMG Peat Marwick LLP as auditors for the Company for the fiscal year ending March 31, 1997 was adopted by the following vote:

For	Against	Abstain
6,709,374	150	5,513

The following Directors were elected for the ensuing year and until their respective successors have been duly elected and qualified by the following vote:

	For	Withhold Vote on
Marne Obernauer, Jr.	6,713,110	1,927
Robert S. Blank	6,713,110	1,927
John W. Dinzole	6,713,139	1,898
William G. Gisel	6,711,297	3,740
Thomas J. Harrington	6,711,610	3,427
Marne Obernauer	6,712,997	2,040
Edward L. Palmer	6,712,997	2,040

d. Not applicable.

DEVON GROUP, INC.

PART II - OTHER INFORMATION

Item 5. Other Information.

None.

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

a. Exhibits.

None.

b. Reports on Form 8-K.

None.

SIGNATURE

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.

DEVON GROUP, INC.

Date: November 14, 1996

s/Bruce K. Koch
Bruce K. Koch
Executive Vice President
Operations and Finance
and Chief Financial Officer
(Principal Financial Officer)

s/Robert H. Donovan
Robert H. Donovan
Senior Vice President, Finance
and Treasurer
(Principal Accounting Officer)

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