

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-30**  
SEC Accession No. **0000889812-95-000300**

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### FILER

#### DRUG GUILD DISTRIBUTORS INC

CIK: **201696** | IRS No.: **112269958** | State of Incorporation: **NJ** | Fiscal Year End: **0731**  
Type: **10-Q** | Act: **34** | File No.: **002-96510-NY** | Film No.: **95546749**  
SIC: **5122** Drugs, proprietaries & druggists' sundries

Mailing Address  
350 MEADOWLAND PKWY  
SECAUCUS NJ 07096

Business Address  
350 MEADOWLAND PKWY  
SECAUCUS NJ 07096  
2013483700

UNITED STATES 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 the Quarterly Period Ended April 30, 1995      Commission File Number  
2-96510-N.Y.

DRUG GUILD DISTRIBUTORS, INC.  
(Exact name of Registrant as specified in its Charter)

New Jersey      11-2269958  
(State of other jurisdiction of      (I.R.S. Employer  
incorporation or organization)      Identification No.)

350 Meadowland Parkway, Secaucus, N.J.      07096  
(Address of principal executive offices)      (Zip Code)

Registrant's telephone number, including area code 201-348-3700

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 of 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 most recent practicable date:

As of April 30, 1995 there were outstanding 9,952,488 shares of the Registrant's Common Stock, par value \$1. and 36,762.76 shares of the Registrant's Preferred Stock \$100 par value.

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Part 1 - Financial Information

Item 1. Financial Statements

DRUG GUILD DISTRIBUTORS INC.  
BALANCE SHEET

ASSETS	April 30, 1995	July 31, 1994
CURRENT ASSETS:		
Cash	\$ 3,288	1,959,061
Trade Receivables-Stockholders	26,867,951	26,055,791
Nonstockholders	37,799,303	31,845,966
Allowance for doubtful accounts	(1,733,940)	(1,256,391)
Merchandise Inventory	41,341,620	34,862,779
Deferred income tax benefit	854,000	680,000
Prepaid expense and other current assets	405,287	1,237,062
	-----	-----
Total Current Assets	105,537,509	95,384,268
PROPERTY AND EQUIPMENT:		
Property and equipment	12,961,476	12,001,701
Less: Accumulated depreciation and amortization	9,738,711	9,034,811
	-----	-----
Depreciated Cost	3,222,765	2,966,890
	-----	-----
OTHER ASSETS:		
Trade Receivables-noncurrent portion-Stockholders	1,839,675	2,178,947
Nonstockholders	2,588,156	2,663,158
Allowance for doubtful accounts	(110,000)	(110,000)
Deferred income tax benefit	296,035	362,035
Various other assets	215,165	223,600
	-----	-----

Total Other Assets	4,829,031	5,317,740
TOTAL ASSETS	\$113,589,305	\$103,668,898
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Loans payable, bank	\$ 50,668,890	\$ 37,317,093
Notes payable	784,025	990,541
Accounts payable	39,968,705	41,977,608
Accrued expenses and taxes	1,442,734	1,179,485
Total Current Liabilities	92,864,354	81,464,727
LONG TERM LIABILITIES		
Notes payable	685,281	885,875
Deferred compensation payable	635,472	672,323
Total Long-Term Liabilities	1,320,753	1,558,198
TOTAL LIABILITIES	94,185,107	83,022,925
REDEEMABLE PREFERRED STOCK, \$100 PAR VALUE		
Authorized-250,000 shares		
Issued and outstanding-36,762.76 and 52.228.74 shares	3,676,276	5,222,874
Subscribed and unissued	10,500	10,500
Total before subscriptions receivable	3,686,776	5,233,374
Less: Subscription receivable	10,125	10,500
Total Redeemable Preferred	3,676,651	5,222,871
STOCKHOLDERS' EQUITY-NOTE 2		
Common stock- \$1 par value		
Authorized 25,000,000 shares		
Issued and outstanding-9,952,488 and 9,883,114 shares	9,952,488	9,883,114
Subscribed and unissued	469,936	671,107
Additional paid-in capital	3,861,948	3,927,030
Retained earnings	2,506,925	2,446,248
Total, before subscriptions receivable	16,791,297	16,297,499
Less: Subscriptions receivable	1,063,750	1,504,400
Total Stockholders' Equity	15,727,547	15,423,099
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$113,589,305	\$103,668,898

See accompanying Notes to the Financial Statement

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DRUG GUILD DISTRIBUTORS, INC.  
STATEMENT OF OPERATIONS  
(UNAUDITED)

<TABLE>  
<CAPTION>

	Three Months Ended		Nine Months Ended	
	April 30,		April 30,	
	1995	1994	1995	1994
	<C>	<C>	<C>	<C>
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NET SALES				
Stockholders	\$ 51,514,613	\$ 42,231,700	\$161,402,379	\$131,702,432
Nonstockholders	67,190,793	55,083,039	207,047,950	168,948,680

TOTAL NET SALES	118,705,406	97,314,739	368,450,329	300,651,112
COST OF SALES				
Inventory, beginning of period	46,307,142	20,592,904	34,862,779	39,936,840
Purchases	106,731,827	90,910,394	353,502,245	260,566,017
	153,038,969	111,503,298	388,365,024	300,502,857
Less: Inventory, end of period	41,341,620	20,471,212	41,341,620	20,471,212
COST OF SALES	111,697,349	91,032,086	347,023,404	280,031,645
GROSS PROFIT	7,008,057	6,282,653	21,426,925	20,619,467
OPERATING EXPENSES	5,548,005	5,418,000	17,496,575	17,177,390
INTEREST EXPENSE	1,446,548	607,379	3,829,223	2,129,035
TOTAL EXPENSES	6,994,553	6,025,379	21,325,798	19,306,425
INCOME BEFORE CORPORATE TAXES	13,504	257,274	101,127	1,313,042
PROVISION (CREDIT) FOR CORPORATE TAXES:				
Current	41,400	139,000	148,450	633,000
Deferred	(36,000)	(36,000)	(108,000)	(108,000)
Total Provision for Corporate Taxes	5,400	103,000	40,450	525,000
NET INCOME	8,104	154,274	60,677	788,042
Less: Stock Dividend on Preferred Stock (A)	71,711	91,871	220,576	283,543
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (63,607)	\$62,403	\$ (159,899)	\$504,499
EARNINGS (LOSS) PER COMMON SHARE	(\$0.02)	\$0.01	(\$0.02)	\$0.05
AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING	9,934,810	9,767,473	9,883,080	9,647,961

</TABLE>

(A) Gives effect to pro-rata portion of 8% Preferred dividend payable each July 31.

See accompanying Notes to the Financial Statement

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DRUG GUILD DISTRIBUTORS, INC.  
STATEMENT OF CASH FLOWS  
(UNAUDITED)

<TABLE>  
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	Three Months Ended April 30		Three Months Ended April 30	
	1995	1994	1995	1994
<S>	<C>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Income	\$ 8,104	\$154,274	\$ 60,677	\$ 788,042
Adjustment to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	231,300	293,236	703,900	981,436
Deferred compensation payable	(12,370)	7,752	(36,851)	99,270
(Increase) decrease in:				
Deferred income taxes	(36,000)	(36,000)	(108,000)	(108,000)
Trade receivables, net	2,632,299	(508,263)	(6,828,189)	(10,989,805)
Merchandise inventory	4,965,522	121,692	(6,478,841)	19,465,628
Prepaid expenses and other current assets	131,019	167,906	831,775	(51,525)
Increase (decrease) in:				
Accounts payable	(12,756,007)	4,685,967	(2,008,903)	4,338,723
Accrued expenses and taxes	319,385	(216,690)	282,843	(506,365)

Total adjustments	(4,524,852)	4,515,600	(13,642,266)	13,229,362
Net Cash Provided by (Used In) Operating Activities	(4,516,748)	4,669,874	(13,581,589)	14,017,404
CASH FLOWS FROM INVESTING ACTIVITIES:				
Disposal of Fixed Assets	--	--	--	102,463
Addition to property and equipment	(326,892)	(146,074)	(959,775)	(428,460)
Decrease (increase) in other assets	2,000	(10,975)	8,435	(2,060)
Net Cash Used In Investing Activities	(324,892)	(157,049)	(951,340)	(328,057)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of notes payable	(62,504)	(301,743)	(424,703)	(2,360,258)
Net increase (decrease) in short-term bank debt	4,785,513	(4,458,543)	13,351,797	(13,155,706)
Collections on common stock	122,900	226,299	444,050	722,789
Common stock redeemed	(24,785)	--	(24,785)	--
Payment of preferred stock	--	20,250	375	59,988
Preferred stock redeemed	--	--	(769,578)	(66,085)
Net Cash Provided By (Used In) Financing Activities	4,821,124	(4,513,737)	12,577,156	(14,799,272)
NET DECREASE IN CASH	(20,516)	(912)	(1,955,773)	(1,109,925)
CASH:				
Beginning of period	23,804	8,267	1,959,061	1,117,280
End of period	\$ 3,288	\$ 7,355	\$ 3,288	\$ 7,355
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid in the period for:				
Interest	\$1,447,548	\$607,379	\$3,830,223	\$2,129,035
Income taxes	--	\$70,000	--	\$717,000
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING & FINANCING ACTIVITIES:				
Reduction of accrued expenses due to issuance of notes payable	\$6,010	\$5,343	\$19,594	\$16,468
Accounts receivable reduced for redemptions of common stock	--	--	\$177,495	\$21,718
Accounts receivable reduced for redemptions of preferred stock	\$45,354	--	\$777,020	--

</TABLE>

See accompanying Notes to Financial Statements

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DRUG GUILD DISTRIBUTORS, INC.  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - FINANCIAL STATEMENTS:

These Financial Statements should read in conjunction with the July 31, 1994 financial statements which describe all accounting policies.

NOTE 2 - REGISTERED PUBLIC OFFERING:

On June 10, 1991, the Company's Registration Statement on Form S-2 filed with the United States Securities and Exchange Commission (the "Registration Statement") became effective. Pursuant to the Registration Statement, the company will offer up to 4,500,000 shares of its common stock, \$1 par value. A Post-Effective Amendment was filed on August 31, 1994. The offering price of the common stock being sold will be its FIFO book value (book value adjusted for inventory and tax liabilities, stated as if the inventory was valued at the lower first-in, first-out cost or market) as of the close of the fiscal quarter immediately preceding the sale. As of April 30, 1995, the FIFO book value was \$2.28 per share. The outstanding subscribed shares are included in the accompanying financial statements based on the purchase price at that date. The difference between the par value and the purchase price of subscribed common shares has been credited to additional paid-in capital. Additional paid-in capital at April 30, 1995 includes \$595,480 on such uncollected subscriptions.

INFORMATION SUBJECT TO ADJUSTMENT:

While the information shown above is subject to adjustments on audit at the end of the fiscal year, all adjustments on audit at the end of the fiscal year, all adjustments which are in the opinion of Management necessary for a fair statement of the results for the interim period have been made.

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DRUG GUILD DISTRIBUTORS, INC.

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

Financial Condition at April 30, 1995 Compared to Financial Condition at July 31, 1994.

From July 31, 1994 to April 30, 1995, the Company's current assets increased to \$105,537,509 from \$95,384,268 and its current liabilities increased to \$92,864,354 from \$81,464,727. Such increase was attributable to the Company's higher inventory purchases based upon anticipated price increases in pharmaceuticals. Inventory as well as receivables increased as a result of higher volume customers. The Company's ratio of current assets to current liabilities remained substantially the same during the period, decreasing to 1.14:1 from 1.17:1.

The Company has an accounts receivable and inventory financing arrangement with a bank under which it can borrow up to 70% of its eligible accounts receivable and up to 50% of its eligible inventory, as defined.

As of April 30, 1995, there were \$53,649,000 of such eligible accounts receivable out of a total of \$60,189,000 or 89% and \$49,680,000 of eligible Fifo inventory, an amount in excess of 99% of total inventory. The maximum amount of borrowing with respect to its inventory pursuant to such Agreements is \$30,000,000. The combined borrowing limit for accounts receivable and inventory is \$80,000,000. Such limit is determined by the bank and may be raised or lowered by the bank at its discretion.

Total borrowings upon the line of credit equaled \$50,669,000 on April 30, 1995. On such date the interest rate with respect to such financing was the prime rate plus 1 1/4% (10 1/4%).

Inflation. The Company attempts to pass along price increases from its suppliers as soon as it is notified of those increases so as to preserve its gross profit margin and, subject to competitive pressures on particular products, is generally successful in doing so. Accordingly, the historical effect of inflation has been to increase the Company's revenues and profits.

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Three Months Ended April 30, 1995 Compared to Three Months Ended April 30, 1994.

Sales for the three months ended April 30, 1995 increased by 21.9% over those for the 1994 period. Approximately 25% of this increase was attributable to price increases and the balance to an increase in volume.

Gross profit for the period increased by 11.5% from gross profit for the 1994 period. Gross profit as a percentage of sales decreased to 5.9% from 6.5% as a result of competitive pressures.

Total expenses for 1995 increased by 16.1% over such expenses for 1994. Operating expenses (excluding interest expense) for the 1995 period were up approximately 2.4% as compared to the 1994 period. Increased warehouse and delivery expenses were offset by reduced general and administrative expenses.

Interest expense increased 138% on higher average borrowings for higher sales volume requiring higher receivables and inventory. In addition, interest rates were significantly higher.

The effect of the foregoing factors was that the Company's income before corporate taxes for the three months ended April 30, 1995 experienced a 94.7% decrease from the same period in 1994. Income taxes were 94.7% lower than the same period in 1994 resulting from the lower income.

Nine Months Ended April 30, 1995 Compared to Nine Months Ended April 30, 1994.

Sales for the nine months ended April 30, 1995 increased by 22.6% over

those for the 1994 period. Approximately 25% of this increase was attributable to price increases and the balance to an increase in volume. The number of stores serviced increased 15% to approximately 800.

Gross profit for the nine months increased by 3.9% from the gross profit for the 1994 period as a result of higher volume. Gross profit as a percentage of sales decreased to 5.8% from 6.8% as a result of competitive pressures.

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Total expenses for 1995 increased by 10.5% over such expenses for 1994. Operating expenses (excluding interest expense) for the 1995 period were up 1.9% as compared to 1994.

Interest expenses increased 79.9% due to higher interest rates as well as borrowing for higher receivables and inventory due to increased volume.

The effect of the foregoing factors was that the Company's income before corporate taxes for the nine months ended April 30, 1995 experienced a 92% decrease from the same period in 1994. Income taxes were 92% lower than the same period in 1994 resulting from the lower income.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be executed on its behalf by the undersigned, thereunto duly authorized.

Date: June 13, 1995

DRUG GUILD DISTRIBUTORS, INC.

By /s/ Jay Reba  
-----  
Jay Reba, Vice President of Finance  
(Duly authorized officer and principal  
financial officer)

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The schedule contains summary financial information extracted from balance sheet and statements of operations and is qualified in its entirety by reference to such financial statements.

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