

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-08-13** | Period of Report: **1996-06-30**
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FILER

DANNINGER MEDICAL TECHNOLOGY INC

CIK: **731241** | IRS No.: **310992628** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-16893** | Film No.: **96610041**
SIC: **3842** Orthopedic, prosthetic & surgical appliances & supplies

Business Address
4140 FISHER RD
COLUMBUS OH 43228
6142768267

THIS PAPER DOCUMENT IS BEING
SUBMITTED PURSUANT TO RULE
901(d) OF REGULATION S-T

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 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: 000-16893

DANNINGER MEDICAL TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

31-0992628
(I.R.S. Employer
Identification No)

5160-B BLAZER MEMORIAL PARKWAY
DUBLIN, OHIO
43017-1339
(Address of principal executive offices)

(614) 718-0500
(Registrant's telephone number)

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
 --- ---

4,739,990
 Shares of Common Stock Outstanding
 As Of
 June 30, 1996

DANNINGER MEDICAL TECHNOLOGY, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (In thousands)

	June 30, 1996 (Unaudited) -----	December 31, 1995 (Audited) -----
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,093	
Accounts receivable trade (net of allowance for doubtful accounts of \$203 and \$204 for 1996 and 1995, respectively)	4,652	\$ 3,497
Inventories	4,753	4,227
Prepaid expenses, and other current assets	471	409
Deferred income taxes	161	174
	-----	-----
Total current assets	11,130	8,307
	-----	-----
Property and equipment, net	917	724
	-----	-----
OTHER ASSETS:		
Other assets	872	304
Deferred income taxes	133	182
	-----	-----
Total assets	\$13,052	\$9,517
	-----	-----
	-----	-----

The accompanying notes are an integral part
of the financial statements

DANNINGER MEDICAL TECHNOLOGY, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (In thousands except share amounts)

	June 30, 1996 (Unaudited) -----	December 31, 1995 (Audited) -----
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Cash overdraft		\$ 167
Current portion, term debt	\$ 452	3,380
Current portion, capital lease obligations	35	26
Accounts payable, trade	2,011	1,146
Accrued expenses, and other liabilities	448	402
	-----	-----
Total current liabilities	2,946	5,121
	-----	-----
Non-current portion, term debt	6,138	839
	-----	-----
Obligations under capital leases, net of current maturities	86	35
	-----	-----
SHAREHOLDERS' EQUITY:		
Common stock, \$.01 par value:		
Authorized, 10,000,000 shares; issued and outstanding 4,739,990 and 4,707,490 shares for 1996 and 1995, respectively	47	47
Paid-in capital	3,444	3,367
Retained earnings	391	108
	-----	-----
Total shareholders' equity	3,882	3,522
	-----	-----
Total liabilities and shareholders' equity	\$ 13,052	\$ 9,517
	-----	-----
	-----	-----

The accompanying notes are an integral part
of the financial statements

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DANNINGER MEDICAL TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the three month and six month periods ending June 30, 1996 and 1995
(In thousands except share and per share amounts)
(UNAUDITED)

	Three Months Ended June 30, 1996	Three Months Ended June 30, 1995	Six Months Ended June 30, 1996	Six Months Ended June 30, 1995
Revenue:				
Net sales	\$ 3,406	\$ 2,474	\$ 7,163	\$ 5,693
Lease and rental revenue	374	176	667	256
	-----	-----	-----	-----
	3,780	2,650	7,830	5,949
Cost of goods sold	1,667	1,104	3,578	2,638
	-----	-----	-----	-----
Gross margin	2,113	1,546	4,252	3,311
	-----	-----	-----	-----
Operating expenses:				
Sales and marketing	974	695	1,954	1,412
General and administrative	605	460	1,250	971
Research and development	238	306	456	572
	-----	-----	-----	-----
	1,817	1,461	3,660	2,955
Operating income	296	85	592	356
Interest expense, net	103	65	217	123
	-----	-----	-----	-----
Income before income taxes	193	20	375	233

Income tax expense	47	17	92	76
	-----	-----	-----	-----
Net income	\$ 146	\$ 3	\$ 283	\$ 157
	-----	-----	-----	-----
	-----	-----	-----	-----
Earnings per share:				
Net income per share	\$.03	\$.00	\$.06	\$.03
	-----	-----	-----	-----
	-----	-----	-----	-----
Weighted average shares outstanding including common stock equivalents	5,001,859	4,914,665	4,981,136	4,875,962

The accompanying notes are an integral part
of the financial statements

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DANNINGER MEDICAL TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six month periods ending June 30, 1996 and 1995
(In thousands)
(Unaudited)

	1996	1995
	-----	-----
Net cash used in operating activities	(439)	(933)
	-----	-----
Cash flows used in investing activities:		
Purchases of property and equipment	(183)	(297)
	-----	-----
Net cash used in investing activities	(183)	(297)
	-----	-----
Cash flows from financing activities:		
Proceeds from term debt	307	860
Proceeds from convertible subordinated debenture offering	5,250	
Repayment of term debt and capitalized lease obligations	(3,205)	29
Debt issue costs	(540)	

Cash overdraft	(167)	
Proceeds from exercise of stock options	70	405
	-----	-----
Net cash provided by financing activities	1,093	1,294
	-----	-----
Net increase in cash	1,093	64
Cash balance at the beginning of the period	0	3
	-----	-----
Cash balance at the end of the period	\$ 1,093	\$ 67
	-----	-----
	-----	-----

The accompanying notes are an integral part
of the financial statements

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DANNINGER MEDICAL TECHNOLOGY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Management's Statement

In the opinion of management, the accompanying unaudited financial statements contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly the financial position of Danninger Medical Technology, Inc. and Subsidiaries at June 30, 1996, and the results of operations and cash flows for the three month and six month periods ending June 30, 1996 and 1995. The notes to the Consolidated Financial Statements which are contained in the 1995 Annual Report to Shareholders should be read in conjunction with these Consolidated Financial Statements.

2. Inventories

Inventories are valued at the lower of first-in, first-out cost or market and consisted of the following (In thousands):

June	December
1996	1995

Raw materials	\$ 849	\$ 671
Work-in-process	117	108
Finished goods	2,839	2,686
Consigned inventory	948	762
	-----	-----
	\$ 4,753	\$ 4,227
	-----	-----
	-----	-----

3. Income Taxes

The Company provides for federal, state, and local income taxes in interim periods using an estimated effective tax rate for the year. The Company maintains valuation allowances of \$560,000 against net deferred tax assets.

4. Contingency

The Company maintains a claims made product liability insurance policy with \$50,000 per occurrence and \$250,000 aggregate retention limits. Beyond these retention limits, the policy covers aggregate insured claims made during each policy year up to \$5,000,000.

The Company and other spinal implant manufacturers have been named as defendants in various class action product liability lawsuits alleging that the plaintiffs were injured by spinal implants supplied by the Company and others. All such lawsuits were consolidated for pretrial proceedings in the Federal District Court for the Eastern District of Pennsylvania and on February 22, 1995, the plaintiffs were denied class certification. In response to the denial of class certification, a large number of additional individual lawsuits have been filed alleging, in addition to damages from spinal implants, a

DANNINGER MEDICAL TECHNOLOGY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued
(UNAUDITED)

conspiracy among manufacturers, physicians and other spinal implant industry members. At March 1, 1996, approximately 500 such lawsuits have been filed in which the Company is a party. Approximately fifteen of such cases involve individual plaintiffs utilizing implants supplied by the Company. The Company cannot estimate precisely at this time the number of such lawsuits that may eventually be filed. The vast majority of such lawsuits are pending in federal courts and are in preliminary stages. Discovery proceedings, including the taking of depositions, have commenced in certain lawsuits. Plaintiffs in these cases typically seek relief in the form of monetary

damages, often in unspecified amounts. While the aggregate monetary damages eventually sought in all of such individual actions is substantial and exceeds the limits of the Company's product liability insurance policies, the Company believes that it has affirmative defenses, and that these individual lawsuits are otherwise without merit. An estimate of the amount of loss cannot be made as the Company does not have sufficient information on which to base an estimate. All pending cases are being defended by the Company's insurance carrier, in some cases under a reservation of rights. There can be no assurance, however, that the \$5,000,000 per annum limit of the Company's coverage will be sufficient to cover the cost of defending all lawsuits or the payment of any amounts that may be paid in satisfaction of any settlements of judgments. Further, there can be no assurance that the Company will continue to be able to obtain sufficient amounts of product liability insurance coverage at commercially reasonable premiums.

In addition to the above, in the ordinary course of business the Company has been named as a defendant in various other legal proceedings. These actions, when finally concluded, will not, in the opinion of the Company, have a material adverse affect upon the financial position or results of operations of the Company. However, there can be no assurance that future quarterly or annually operating results will not be materially adversely affected by the final resolution of these matters.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade accounts receivable (domestic and international). The Company follows certain guidelines in determining the credit-worthiness of domestic and foreign customers. The credit risk associated with each customer and each country is reviewed before a credit decision is made. All international sales are denominated in U.S. dollars.

Certain of the Company's accounts receivable result from third party reimbursements that may be dependent on limitations imposed by the payor on the amount of reimbursement. The Company records the receivable and related revenue net of such limitations.

DANNINGER MEDICAL TECHNOLOGY, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table shows Danninger Medical Technology's operating results as a percent of revenues for the periods indicated for certain items reflected in the statement of operations.

	Percent of Sales for three months ending June 30,		Percent of Sales for six months ending June 30,	
	1996	1995	1996	1995
Net Sales	90.1%	93.4%	91.5%	95.7%
Lease/rental revenue	9.9%	6.6%	8.5%	4.3%
	-----	-----	-----	-----
	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	44.1%	41.7%	45.7%	44.3%
Gross margin	55.9%	58.3%	54.3%	55.7%
Operating expenses:				
Sales and marketing	25.8%	26.2%	25.0%	23.8%
General and administrative	16.0%	17.4%	15.9%	16.3%
Research and development	6.3%	11.5%	5.8%	9.6%
Interest expense	2.7%	2.5%	2.8%	2.1%
Income before income taxes	5.1%	.7%	4.8%	3.9%
Income taxes expense	1.2%	.6%	1.2%	1.3%
Net income	3.9%	.1%	3.6%	2.6%

DANNINGER MEDICAL TECHNOLOGY, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION AS OF JUNE 30, 1996

As of June 30, 1996, the Company's working capital position increased by \$4,998,000 resulting in a working capital ratio of 3.78 to 1. The increase in working capital is principally attributable to the retirement of the

\$3,000,000 line of credit facility with the proceeds from the Company's \$5,000,000 convertible subordinated debenture offering which was completed in May. The \$3,000,000 line of credit facility has been renewed, along with the remaining net proceeds of the offering, and is available to fund future working capital requirements. In addition, working capital increased due to the operating results experienced by the Company during the second quarter of 1996.

Accounts receivables increased by \$1,155,000, inventories increased by \$526,000 and trade payables increased by \$865,000. The increase in accounts receivables is attributable to increased sales in the second quarter.

During the second quarter of 1996, the Company received \$5,250,000 during the debenture offering. During 1996, the Company had additional borrowings of \$387,000 which contributed to an overall increase in liabilities.

The Company believes that the proceeds from the offering, its bank loan facility, working capital, and funds anticipated to be generated by operations will be sufficient to fund the Company's growth plans for the foreseeable future.

DANNINGER MEDICAL TECHNOLOGY, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 1996 AS COMPARED TO
THE THREE MONTHS ENDED JUNE 30, 1995

Total revenue increased 42.6% for the three months ended June 30, 1996 to \$3,780,000 from \$2,650,000 for the three months ended June 30, 1995. The increase is primarily attributable to increased sales of the Company's Synergy-TM- Spinal implant system. In addition, the Company benefited from continued penetration into the orthopedic home care rental market.

Cost of sales as a percentage of total revenue increased to 44.1% for the three months ended June 30, 1996 from 41.7% for the three months ended June 30, 1995. Sales and marketing expense decreased to 25.8% from 26.2% of total revenue for the three months ended June 30, 1996 and 1995, respectively.

General and administrative expenses decreased to 16.0% from 17.4% of total revenue for the three months ended June 30, 1996 and 1995, respectively.

Research and development expenses decreased to 6.3% from 11.5% of total revenue for the three months ended June 30, 1996 and 1995, respectively,

principally as a result of higher level of expenditures in 1995 in connection with obtaining Section 510(k) approval of the Synergy-TM- Spinal implant system.

These factors resulted in an overall increase in operating income to \$296,000 or 7.8% of total revenue for the three months ended June 30, 1996 from \$85,000 or 3.2% for the three months ended June 30, 1995.

Interest expense increased as a result of increased borrowings to provide additional working capital.

Net income increased to \$146,000 from \$3,000 for the three months ended June 30, 1996 and 1995, respectively, and earnings per share increased to \$.03 from \$.00 for the same periods.

DANNINGER MEDICAL TECHNOLOGY, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 1996 AS COMPARED TO THE SIX MONTHS ENDED JUNE 30, 1995

For the six months ended June 30, 1996 total revenue increased 31.6% to \$7,830,000 from \$5,949,000 for the six months ended June 30, 1995. Cost of goods sold increased to 45.7% from 44.3% for the six months ended June 30, 1996 and 1995, respectively. As a percentage of total revenue, sales and marketing expense increased to 25.0% from 23.8%, general and administrative expenses decreased to 15.9% from 16.3% and research and development expense decreased to 5.8% from 9.6% for the six months ended June 30, 1996 and 1995, respectively. Interest expense increased to 2.8% from 2.1% for the same periods.

Net income for the six months ended June 30, 1996 increased to \$283,000 from \$157,000 for the six months ended June 30, 1995. Earnings per share increased to \$.06 from \$.03 for the same periods.

Except for the historical information in this report, it includes forward-looking statements that involve risks and uncertainties, including, but not limited to quarterly fluctuations in results, the management of growth, and other risks detailed from time to time in the Company's Securities and Exchange Commission filings, including the Company's Form 10-K for the fiscal year ended December 31, 1995. Actual results may differ materially from management expectations.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

The Company maintains a claims made product liability insurance policy with per occurrence (\$50,000) and aggregate (\$250,000) retention limits. Beyond these retention limits, the policy covers aggregate insured claims made during each policy year up to \$5,000,000.

The Company and other spinal implant manufacturers have been named as defendants in various class action product liability lawsuits alleging that the plaintiffs were injured by spinal implants supplied by the Company and others. All such lawsuits were consolidated for pretrial proceedings in the Federal District court for the Eastern District of Pennsylvania and on February 22, 1995 the plaintiffs were denied class certification. In response to the denial of class certification, a large number of additional individual lawsuits have been filed alleging, in addition to damages from spinal implants, a conspiracy among manufacturers, physicians and other spinal implant industry members. At March 1, 1996, approximately 500 such lawsuits have been filed in which the Company is a party. Approximately fifteen of such cases involve individual plaintiffs utilizing implants supplied by the Company. The Company cannot estimate precisely at this time the number of such lawsuits that may eventually be filed. The vast majority of such lawsuits are pending in federal courts and are in preliminary stages. Discovery proceedings, including the taking of depositions, have commenced in certain of the lawsuits. Plaintiffs in these cases are typically seek relief in the form of monetary damages, often in unspecified amounts. While the aggregate monetary damages eventually sought in all of such individual actions is substantial and exceeds the limits of the Company's product liability insurance policies, the Company believes that it has affirmative defenses, and that these individual lawsuits are otherwise without merit. An estimate of the amount of loss cannot be made as the Company does not have sufficient information on which to base an estimate. All pending cases are being defended by the Company's insurance carrier, in some cases under a reservation of rights. There can be no assurance, however, that the \$5,000,000 per annum limit of the Company's coverage will be sufficient to cover the cost of defending all lawsuits or the payment of any amounts that may be paid in satisfaction of any settlements or judgments. Further, there can be no assurance that the Company will continue to be able to obtain sufficient amounts of product liability insurance coverage at commercially reasonable premiums.

In addition to the above, in the ordinary course of business the Company has been named as a defendant in various other legal proceedings. These actions, when finally concluded, will not, in the opinion of the Company, have a material adverse affect upon the financial position or results of operations of the Company. However, there can be no assurance that future quarterly or

annually operating results will not be materially adversely affected by the final resolution of these matters.

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

- (a) Danninger Medical Technology, Inc. held its annual meeting of stockholders on May 22, 1996, for the purpose of electing three Class II directors and ratifying the appointment of independent certified public accountants for the fiscal year 1996.
- (b) At the annual meeting of stockholders, all directors nominated were elected.

PART II - OTHER INFORMATION, Continued

- (c) The table shows the voting tabulation for each matter voted upon at the annual meeting of shareholders.

ACTION -----	FOR ---	WITHHELD -----	
Election of Class III Directors:			
C. Craig Waldbillig	3,468,658		15,620
Peter H. Williams	3,470,658		13,620
	FOR ---	AGAINST -----	ABSTENTIONS -----
Ratification of appointment of Coopers & Lybrand as independent certified public accountants for the fiscal year 1996	3,467,698	7,525	9,055

ITEM 6. Exhibits and Reports on Form 8-K

- (a) Exhibits

The exhibits listed in the accompanying index to exhibits are filed as a part of this Report.

(b) Reports on Form 8-K

None

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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.

DANNINGER MEDICAL TECHNOLOGY, INC.
(Registrant)

Dated: August 14, 1996

/s/ Joseph A. Mussey
Joseph A. Mussey
Chief Executive Officer,
President, and Treasurer

Dated: August 14, 1996

/s/ Paul A. Miller
Paul A. Miller
Chief Financial Officer
(Principal Financial/Accounting Officer)

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DANNINGER MEDICAL TECHNOLOGY, INC. AND SUBSIDIARIES

FORM 10-Q
EXHIBIT INDEX

Exhibit No.	Exhibit	Page No.
11	Statement re: Computation of Per Share Earnings	15
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DANNINGER MEDICAL TECHNOLOGY, INC. AND SUBSIDIARY
EXHIBIT 11
COMPUTATION OF NET INCOME PER SHARE
For the three month periods ending June 30, 1996 and 1995

<TABLE>
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	Three Months Ended June 30, 1996	Three Months Ended June 30, 1995	Six Months Ended June 30, 1996	Six Months Ended June 30, 1995
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Weighted average number of common shares outstanding	4,728,974	4,683,490	4,720,108	4,584,440
Shares issuable pursuant to stock option plans and stock warrants, less shares assumed repurchased at the average market prices	272,885	231,175	261,028	291,522
Weighted average shares outstanding, including common stock equivalents	5,001,859	4,914,665	4,981,136	4,875,962
Net income	\$ 146,000	\$ 3,000	\$ 283,000	\$ 157,000
Net income per share	\$.03	\$.00	\$.06	\$.03

</TABLE>

Note: The application of the higher of quarter-end or year end market prices in calculating fully-diluted earnings per share does not result in a change to the calculation of primary earnings per share.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OEPRATIONS FOUND ON PAGES 1, 2 AND 3 OF THE COMPANY'S FORM 10-Q FOR THE YEAR-TO-DATE, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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