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**
SEC Accession No. 0000891554-96-000838

(HTML Version on secdatabase.com)

FILER

GRAHAM FIELD HEALTH PRODUCTS INC

CIK:**709136**| IRS No.: **112578230** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-08801** | Film No.: **96665572**
SIC: **5047** Medical, dental & hospital equipment & supplies

Business Address
400 RABRO DR E
HAUPPAUGE NY 11788
5165825800

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

FORM 10-Q

Securities and Exchange Commission
Washington, D.C. 20549

(Mark One)

[x] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the 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 1-8801 NY

GRAHAM-FIELD HEALTH PRODUCTS, INC.
(Exact name of registrant as specified in its charter)

Delaware	11-2578230
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 Rabro Drive East, Hauppauge, New York	11788
(Address of principal executive offices)	(Zip Code)

(516) 582-5900
(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 _X_ No ___

Applicable Only to Issuers Involved in Bankruptcy Proceedings During the Preceding Five Years

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court. Yes___ No ___

Applicable Only to Corporate Issuers

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

Common Stock, $.025 Par Value --- 14,209,895 shares as of November 11, 1996

GRAHAM-FIELD HEALTH PRODUCTS, INC. AND SUBSIDIARIES

I N D E X

Part I. Financial Information:	Page
Item 1. Financial Statements:	
Condensed Consolidated Balance Sheets - September 30, 1996 (Unaudited) and December 31, 1995 (Audited)	3
Condensed Consolidated Statements of Operations for	

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

the three and nine months ended September 30, 1996 and 1995 (Unaudited) 4

Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 1996 and 1995 (Unaudited) 5/6

Notes to Condensed Consolidated Financial Statements (unaudited) 7/8/9/10

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 11/12/13

Part II. Other Information:

Item 1. Legal Proceedings 13

Item 4. Submission of Matters to a Vote of Security Holders 14

Item 6. Exhibits and Reports on Form 8-K 14

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS
GRAHAM-FIELD HEALTH PRODUCTS, INC. AND SUBSIDIARIES

<TABLE>
<CAPTION>

ASSETS	September 30, 1996	December 31, 1995
	(unaudited)	(audited)
CURRENT ASSETS:		
<S>	<C>	<C>
Cash and cash equivalents	$ 596,000	$ 214,000
Accounts receivable - net	30,377,000	21,936,000
Inventories	33,735,000	29,819,000
Other current assets	4,332,000	1,789,000
Recoverable and prepaid income taxes	246,000	221,000
TOTAL CURRENT ASSETS	69,286,000	53,979,000
PROPERTY, PLANT AND EQUIPMENT - net	7,672,000	8,120,000
EXCESS OF COST OVER NET ASSETS ACQUIRED - net	29,204,000	29,291,000
INVESTMENT IN LEVERAGED LEASE	--	487,000
OTHER ASSETS	5,381,000	4,910,000
DEFERRED TAX ASSET	1,151,000	3,012,000
TOTAL ASSETS	$ 112,694,000	$ 99,799,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Note payable to BIL	$ 4,000,000	
Note Payable to bank		2,100,000
Current maturities of long-term debt and Guaranteed Senior Notes	2,581,000	1,578,000
Accounts payable	9,219,000	8,750,000
Acceptances payable	12,500,000	5,000,000
Accrued expenses	4,386,000	2,788,000
TOTAL CURRENT LIABILITIES	32,686,000	20,216,000

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

LONG-TERM DEBT	577,000	972,000
GUARANTEED SENIOR NOTES	17,000,000	19,000,000
TOTAL LIABILITIES	50,263,000	40,188,000
STOCKHOLDERS' EQUITY:		
Preferred Stock	--	--
Common Stock	355,000	352,000
Additional paid-in capital	67,613,000	66,887,000
(Deficit)	(5,338,000)	(7,628,000)
Sub-total	62,630,000	59,611,000
Notes receivable from sale of shares	(199,000)	--
TOTAL STOCKHOLDERS' EQUITY	62,431,000	59,611,000
COMMITMENTS AND CONTINGENCIES		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 112,694,000	$ 99,799,000

</TABLE>

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
GRAHAM-FIELD HEALTH PRODUCTS, INC. AND SUBSIDIARIES

(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
REVENUES:				
Operations	$32,366,000	$25,642,000	$88,877,000	$74,460,000
Interest and other income	18,000	37,000	483,000	53,000
	32,384,000	25,679,000	89,360,000	74,513,000
COST AND EXPENSES:				
Cost of revenues	21,858,000	17,661,000	60,241,000	51,196,000
Selling, general and administrative	8,139,000	6,926,000	23,082,000	20,616,000
Interest expense	645,000	629,000	1,886,000	2,064,000
	30,642,000	25,216,000	85,209,000	73,876,000
INCOME BEFORE INCOME TAXES	1,742,000	463,000	4,151,000	637,000
INCOME TAXES	777,000	189,000	1,861,000	258,000
NET INCOME	$ 965,000	$ 274,000	$ 2,290,000	$ 379,000
PER SHARE DATA:				
NET INCOME PER SHARE	$ .07	$ .02	$ .16	$ .03
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES				

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

OUTSTANDING	14,691,000	13,145,000	14,483,000	13,052,000

</TABLE>

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
GRAHAM-FIELD HEALTH PRODUCTS, INC. AND SUBSIDIARIES
(Unaudited)

<TABLE>
<CAPTION>

	Nine Months Ended September 30,	
	1996	1995
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net income	$ 2,290,000	$ 379,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,415,000	2,533,000
Provision for losses on accounts receivable	441,000	321,000
Deferred income taxes	1,861,000	258,000
Gain on sale of product line	(360,000)	--
Other	--	1,000
Changes in operating assets and liabilities, net of effects of acquisitions		
Accounts receivable	(8,031,000)	(1,270,000)
Inventories, other current assets and recoverable and prepaid income taxes	(6,017,000)	4,112,000
Accounts and acceptances payable and accrued expenses	9,051,000	(5,154,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,650,000	1,180,000
INVESTING ACTIVITIES		
Purchase of short term investments	--	(1,995,000)
Purchases of property, plant and equipment	(694,000)	(475,000)
Acquisitions, net of cash acquired	(2,191,000)	(637,000)
Notes receivable from officers	(199,000)	--
Proceeds from sale of product line	500,000	--
Proceeds from sale of assets under leveraged lease	487,000	--
Net (increase) decrease in other assets	(158,000)	250,000
NET CASH (USED IN) INVESTING ACTIVITIES	$(2,255,000)	$(2,857,000)

</TABLE>

See notes to condensed consolidated financial statements.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS-Continued
GRAHAM-FIELD HEALTH PRODUCTS, INC. AND SUBSIDIARIES
(Unaudited)

<TABLE>
<CAPTION>

<S>	Nine Months Ended September 30, 1996 <C>	1995 <C>
FINANCING ACTIVITIES		
Proceeds from notes payable	$ 6,590,000	$ 1,000,000
Payments on notes payable	(4,690,000)	(1,673,000)
Principal payments on long-term debt	(1,392,000)	(443,000)
Proceeds on exercise of stock options	479,000	172,000
Issuance of common stock, net of expenses	--	3,574,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	987,000	2,630,000
INCREASE IN CASH AND CASH EQUIVALENTS	382,000	953,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	214,000	121,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 596,000	$ 1,074,000

</TABLE>

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
GRAHAM-FIELD HEALTH PRODUCTS, INC. AND SUBSIDIARIES
(Unaudited)

1. GENERAL

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position as of September 30, 1996 (unaudited), the results of operations for the three and nine months ended September 30, 1996 and 1995 (unaudited) and the statements of cash flows for the nine months ended September 30, 1996 and 1995 (unaudited).

Additionally, it should be noted that the accompanying financial statements and notes thereto do not purport to be complete disclosures in conformity with generally accepted accounting principles. While the Company believes that the disclosures presented are adequate to make the information contained herein not

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

misleading, it is suggested that these financial statements be read in conjunction with the financial statements and the notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

Inventories at September 30, 1996 have been valued at average cost based on perpetual records or gross profit method.

Effective January 1, 1996, the Company adopted 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." This standard establishes the accounting for the impairment of long-lived assets, certain identifiable intangibles and the excess of cost over net assets acquired, related to those assets to be held and used in operations, whereby impairment losses are required to be recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. SFAS No. 121 also addresses the accounting for long-lived assets and certain identifiable intangibles that are expected to be disposed of. The adoption of SFAS No. 121 did not have a material effect on the results of operations or financial condition of the Company.

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation," which requires adoption of the disclosure provisions no later than the fourth quarter of 1996. The new standard defines a fair value method of accounting for the issuance of stock options and other equity instruments. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. Pursuant to SFAS No. 123, companies are encouraged, but are not required, to adopt the fair value method of accounting for employee stock-based transactions. Companies are also permitted to continue to account for such transactions under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," but would be required to disclose in a note to the 1996 financial statements proforma net income and per share amounts as if the Company had applied the new method of accounting. SFAS No. 123 also requires increased disclosures for stock-based compensation arrangements. The Company has decided not to adopt the fair value method but will provide the necessary proforma information.

The results of operations for the three and nine months ended September 30, 1996 and 1995 are not necessarily indicative of results for the full year.

2. NET INCOME PER SHARE

Net income per common share for the three and nine months ended September 30, 1996 and for 1995 was computed using the weighted average number of common shares and dilutive common equivalent shares outstanding during the period.

3. INVENTORIES

Inventories consist of the following:

	September 30, 1996	December 31, 1995
Raw materials	$ 2,355,000	$ 2,871,000
Work-in-process	898,000	1,620,000
Finished goods	30,482,000	25,328,000
	$33,735,000	$29,819,000

4. INCOME TAXES

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("Statement No. 109"). Under Statement No. 109, the liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. As of

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

September 30, 1996, the Company has recorded net deferred tax assets of $1,151,000. These tax assets are primarily comprised of net operating loss carryforwards and investment, research and development, jobs tax and alternate minimum tax credits. Based upon the Company's expectation that future taxable income will be sufficient to utilize the carryforward prior to December 31, 2009, the Company has not recorded a valuation allowance on these deferred tax assets, except for an allowance of $55,000 related to tax assets recorded for acquired carryforwards. Future taxable income is expected to be derived from the Company's existing operations. The amount of the deferred tax asset considered realizable could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

5. OTHER MATTERS

During the first quarter of 1996, the Company's inventory buy-back program was introduced to provide an outlet for its customers to eliminate their excess inventory. Under the program, the Company purchases certain excess inventory from its customers, who in turn place additional purchase orders with the Company exceeding the value of the excess inventory purchased. The Company is able to utilize its vast customer base and distribution network to market and distribute the excess inventory through its division, National Medical Excess Corp. ("NME"). Substantially all of the medical products purchased by the Company as part of the inventory buy-back program are items not generally offered for sale by the Company. Items repurchased by the Company which are identified as items previously sold by the Company to a customer have been deminimus based on the Company's experience, and have been recorded in accordance with the Company's normal revenue recognition policy.

On March 4, 1996, the Company sold its Gentle Expressions(R) breast pump product line for $1,000,000 of which $500,000 was paid in cash with the balance in a secured subordinated promissory note, and recorded a gain of $360,000, which is included in other revenue on the accompanying condensed consolidated statements of operations.

In March 1996, the Company introduced a new regional operation under the name "GF Express" to provide "next-day" and "same-day" service to home healthcare dealers of certain strategic home healthcare products. In connection with the introduction of "GF Express," the Company made an initial payment of $500,000 on March 16, 1996 to acquire certain assets at a future date of Jeffco Express Medical Supply, Inc. ("JEM"), including a customer list, certain contracts and other assets. As part of the transaction, the Company entered into a Management and Administrative Agreement pursuant to which JEM managed and administered "GF Express" for a management fee. The Company acquired the assets of JEM on May 14, 1996, and delivered a non-negotiable promissory note in the amount of $500,000 for the balance of the purchase price, which is payable within one year to JEM, subject to the attainment of certain financial criteria.

In May 1996, the Company liquidated its investment in the leveraged lease agreement entered into in December 1983. The cash proceeds from the sale of the leased helicopters approximated the recorded investment in the leveraged lease.

The terms of the Amended and Restated Agreement and Plan of Merger dated as of September 3, 1996, and amended as of October 1, 1996 (the "Merger Agreement"), by and among the Company, E&J Acquisition Corp., a wholly owned subsidiary of the Company, Everest & Jennings International Ltd. ("Everest & Jennings") and BIL (Far East Holdings) Limited ("BIL"), the majority stockholder of Everest & Jennings, provide that the Company will acquire Everest & Jennings in a merger transaction. Pursuant to which the stockholders of Everest & Jennings will receive one share of common stock of the Company in exchange for each 2.857 shares of the common stock of Everest & Jennings, or a total of approximately 2.519 million shares of the Company's common stock. Notwithstanding the foregoing, the exchange ratio will be reduced to the extent necessary so that the value of each fraction of a share of common stock of the Company issued in exchange for a share of common stock of Everest & Jennings does not exceed $5.50.

The Merger Agreement provides that BIL will purchase up to an additional 1.923 million shares of common stock of the Company to be valued at the greater of $13.00 per share or the average market price of the common stock of the Company for the ten (10) consecutive trading days prior to the closing date, the proceeds of which will be used by the Company to repay all debt of Everest & Jennings in the approximate amount of $25 million to the Hong Kong and Shanghai Banking Corporation Limited. As part of the transaction, all debt of Everest & Jennings to BIL and all Convertible Preferred Stock of Everest & Jennings held by BIL will be exchanged for an equal amount of the Company Series B Convertible Preferred Stock in an amount not to exceed $61 million. The Series B Convertible Preferred Stock will yield a dividend at the rate of 1.5% per year, which will

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

be paid at the option of the Company either in cash or common stock. During the five (5) year period commencing on the closing date, and subject to a $20 per share conversion rate limitation, the Series B Convertible Preferred Stock will be convertible into common stock by BIL at a conversion rate of $20 per share, or by the Company at a conversion rate equal to the Company's average stock price during any ten (10) consecutive trading days, provided the common stock trades at an average stock price of $15.50 per share or greater during the applicable period. In the event the Series B Convertible Preferred Stock has not been converted during the applicable five (5) year period, the Series B Convertible Preferred Stock will automatically convert on the fifth anniversary date of the closing at a conversion rate of $15.50. As part of the transaction, BIL will purchase $10 million of the Company Series C Convertible Preferred Stock, with a dividend yield at the rate of 1.5% per year, which will be paid at the option of the Company either in cash or common stock. At the Company's option, the Series C Convertible Preferred Stock will either be converted into 500,000 shares of common stock on the fifth anniversary date of the closing, or redeemed by the Company at its stated value on such date. Immediately after the transaction and after giving effect to the conversion of the Series B and Series C Convertible Preferred Stock, BIL will own approximately 34% of the common stock of the Company on a fully-diluted basis. During July 1996, BIL loaned $4 million to the Company, which will be converted at closing into a subordinated loan maturing in 2001 with interest payable quarterly at an effective rate of 7.7% per year.

Upon the closing of the Everest & Jennings transaction, the Company will issue approximately 4.442 million shares of common stock, consisting of (i) approximately 2.519 million shares to the stockholders of Everest & Jennings and (ii) up to an additional 1.923 million shares of common stock to BIL, to be valued at the greater of $13 per share or the average market price of the common stock of the Company for the ten consecutive trading days prior to the closing date, the proceeds of which will be used by the Company to repay all debt of Everest & Jennings in the approximate amount of $25 million to the Hong Kong and Shanghai Banking Corporation Limited. In the event the Series B Convertible Preferred Stock has not converted during the applicable five (5) year period, the Series B Convertible Preferred Stock will automatically convert on the fifth anniversary date of the closing into approximately 3.935 million shares of the common stock of the Company at a conversion price of $15.50. In addition, at the Company's option, the Series C Convertible Preferred Stock will either be converted into 500,000 shares of common stock on the fifth anniversary date of the closing, or redeemed by the Company at its stated value on such date. In the event the Series B Convertible Preferred Stock automatically converts at a conversion rate of $15.50 and the Series C Convertible Preferred Stock converts into 500,000 shares on the fifth anniversary date of the closing, the Company will issue an aggregate of approximately 8.877 million shares (not including any shares that might be issued as a dividend on the Series B or Series C Convertible Preferred Stock) of common stock in connection with the Everest & Jennings transaction.

The Everest & Jennings transaction is currently scheduled to be completed on November 27, 1996. The transaction is subject to, among other things, the approval by the stockholders of Graham-Field and Everest & Jennings, the receipt of certain corporate approvals, and the satisfaction of other customary terms and

conditions. BIL, which owns approximately 80% of the outstanding common stock of Everest & Jennings, has agreed to vote in favor of the transaction.

On July 18, 1996, an affiliate of BIL provided the Company with a loan in the amount of $4,000,000, at an effective interest rate of 8.8%. The loan was used to fund the acquisition of V.C. Medical and for general corporate purposes. Under the terms of the loan, all principal and interest are payable upon the earlier to occur of 45 days after the closing of the Everest & Jennings merger transaction or 45 days after the termination of the transaction. The terms of the Everest & Jennings merger transaction provide that the loan will be converted upon closing of the transaction into a subordinated loan maturing in 2001 with interest payable quarterly at an effective rate of 7.7% per year.

In July 1996, the Company entered into a sales representative and consulting agreement with CustomerCare Corporation, which has enabled the Company to expand its product offering to include a complete line of wound care, urologicals and ostomy supplies, including the Hollister line of ostomy and colostomy products. The agreement provides for, among other things, a consulting fee in the amount of $100,000, and a minimum commission of $7,000 a month for a two year period.

On September 4, 1996, the Company acquired certain assets of V.C. Medical Distributors Inc. ("V.C. Medical"), a wholesale distributor of medical products in Puerto Rico, for a purchase price of approximately $1.950 million, consisting

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

of cash in the amount of approximately $1,700,000, with the balance payable in shares of common stock of the Company. The acquisition was accounted for as a purchase and accordingly, assets and liabilities were recorded at fair value at the date of acquisition and the results of operations are included subsequent to that date. The excess of cost over the net assets acquired amounted to approximately $950,000. As additional consideration, the Company will pay $500,000 to V.C. Medical in the event the business achieves certain earnings levels during the one year period following the closing. The acquisition of V.C. Medical contributed approximately $425,000 of revenue for the quarter and nine month period ended September 30, 1996.

Consolidated unaudited pro forma results of operations of the Company for the three and nine months ended September 30, 1996 and 1995 as if the V.C. Medical acquisition had taken place as of January 1, 1995, appear below. This information gives effect to the adjustment of interest expense, income tax provisions, and to the assumed amortization of fair value adjustments, including the excess of cost over net assets acquired.

<TABLE>
<CAPTION>

	Pro Forma			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Net Revenues	$33,083,000	$26,556,000	$92,550,000	$77,144,000
Income Before Income Taxes	$ 1,877,000	$ 537,000	$ 4,567,000	$ 858,000
Income Taxes	$ 838,000	$ 222,000	$ 2,048,000	$ 357,000
Net Income	$ 1,039,000	$ 315,000	$ 2,519,000	$ 501,000
Net Income per Share	$ .07	$ .02	$ .17	$ .04
Weighted Average Number of Common and Common Equivalent Shares Outstanding	14,714,000	13,178,000	14,513,000	13,085,000

</TABLE>

In November 1996, the Company entered into a commitment letter for a three year senior secured revolving credit facility for up to $55 million of borrowings with IBJ Schroder Bank & Trust Company. Under the terms of the proposed revolving credit facility, borrowings will bear interest at the bank's prime rate or 2.25% above LIBOR, whichever is lower. The Company anticipates entering into the credit facility by the end of November 1996. The credit facility will refinance certain existing indebtedness of the Company, including the indebtedness under the John Hancock Guaranteed Senior Notes and provide for the ongoing working capital needs of the Company.

6. LEGAL PROCEEDINGS

See part II, item 1 on page 13.

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

Operating Revenues

Operating revenues for the three months ended September 30, 1996 increased approximately $6,724,000 or 26% as compared to the same period last year. Operating revenues for the nine months ended September 30, 1996 increased approximately $14,417,000 or 19% as compared to the same period last year. The increase in operating revenues was primarily attributable to the Company's expansion of its Consolidated Advantage Program ("CAP") and the expansion of the "GF Express" program.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

In March 1996, "GF Express" was introduced to offer "next day" and "same day" service to home healthcare dealers of certain strategic home healthcare products, including Temco patient aids, adult incontinence products, wheelchairs, and nutritional supplements. Revenues attributable to GF Express were approximately $4,652,000 and $9,254,000 for the quarter and nine month period ended September 30, 1996, respectively. Based on the results of the operations of "GF Express," the Company plans on expanding the program throughout the United States.

On September 4, 1996, the Company acquired V.C. Medical Distributors, Inc. ("V.C. Medical"), a regional home healthcare wholesaler located in Puerto Rico. V.C. Medical currently operates as "GF Express - Puerto Rico". Revenues attributable to GF Express - Puerto Rico were approximately $425,000 for the quarter and nine month period ended September 30, 1996.

During the first quarter of 1996, the Company's inventory buy-back program was introduced to provide an outlet for its customers to eliminate their excess inventory. Under the program, the Company purchases certain excess inventory from its customers, who in turn place additional purchase orders with the Company exceeding the value of the excess inventory purchased. The Company is able to utilize its vast customer base and distribution network to market and distribute the excess inventory through its division, National Medical Excess Corp. ("NME"). Revenues attributable to NME, which was acquired as of July 1, 1995, were approximately $838,000 and $2,085,000 for the quarter and nine month period ended September 30, 1996, respectively.

The revenue increase was achieved despite the decline in sales to Apria Healthcare Group, Inc. ("Apria") of approximately $1,458,000 and $4,544,000 respectively, for the three and nine months ended September 30, 1996. The Company's supply agreement with Apria expired on December 31, 1995.

Interest and Other Income

Interest and other income for the three month period ended September 30, 1996 decreased $19,000, as compared to the same period last year. The decrease reflects lower cash balances on hand during this period.

Interest and other income for the nine month period ended September 30, 1996 increased by $430,000 as compared to the same period last year, primarily due to the gain and royalties related to the sale of the Gentle Expressions(R) breast pump product line and interest income on certain notes receivable.

Cost of Revenues

Cost of revenues as a percentage of operating revenues decreased for the three and nine months ended September 30, 1996 to 67.5% and 67.8%, respectively, as compared to 68.9% and 68.8% for the same periods last year. The decrease in cost of revenues in both the three and nine month periods is primarily related to the Company's maintenance of selling prices and improved purchasing and manufacturing efficiencies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of operating revenues for the three months ended September 30, 1996 was 25% as compared to 27% in the same period last year. Selling, general and administrative expenses as a percentage of operating revenues for the nine months ended September 30, 1996 was 26% as compared to 28% in the same period last year. The decrease in both fiscal periods is primarily due to cost reduction programs and the continued efficiencies generated by the Company's investment in new business systems.

Interest Expense

Interest expense for the three months ended September 30, 1996 increased $16,000 or 3% as compared to the same period last year. For the nine months ended September 30, 1996, interest expense decreased $178,000 or 9% as compared to the same period last year. The increase for the quarter is primarily the result of increased borrowings partially offset by lower interest rates. The decrease for the nine months ended September 30, 1996, is due to lower interest rates and reduced average borrowings as compared to the same period last year.

Net Income

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Income before income taxes for the three and nine months ended September 30, 1996 was $1,742,000 and $4,151,000, respectively, as compared to $463,000 and $637,000 for the same periods last year. The increase in income before income taxes is primarily due to the increase in revenues, an increased gross profit margin, a decrease in selling, general and administrative expenses as a percentage of operating revenues, and the gain realized in the first quarter from the sale of the Gentle Expressions(R) breast pump product line.

Net income for the three months ended September 30, 1996 was $965,000 as compared to $274,000 for the same period last year. Net income for the nine months ended September 30, 1996 was $2,290,000 as compared to $379,000 for the same period last year. The Company recorded income tax expense of $777,000 and $1,861,000 for the three and nine month periods ended September 30, 1996, respectively, as compared to income tax expense of $189,000 and $258,000 recorded during the same periods last year. As of September 30, 1996, the Company has recorded net deferred tax assets of $1,151,000, primarily comprised of net operating loss carryforwards and investment, research and development, jobs tax and alternative minimum tax credits.

Based upon the Company's expectation that future taxable income will be sufficient to utilize the carryforwards prior to December 31, 2009, the Company has not recorded a valuation allowance on these deferred tax assets, except for an allowance of $55,000 related to tax assets recorded for acquired carryforwards. Future taxable income is expected to be derived from the Company's existing operations. The total deferred tax asset will continue to be evaluated by management as to its realizability on a quarterly basis. The amount of the deferred tax asset considered realizable could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. Uncertainties which would impact the future realizability, but are not expected to occur include declines in sales and margins resulting from a possible loss of market share and increased competition.

The Company's business has not been materially affected by inflation.

Liquidity and Capital Resources

The Company had working capital of $36,600,000 at September 30, 1996, as compared to $33,763,000 at December 31, 1995. The increase in working capital is primarily attributable to the cash provided by the Company's net income of $2,290,000, which reflects $2,415,000 of depreciation and amortization expense, partially offset by the reclassification of an additional $1,000,000 of principal related to the John Hancock Guaranteed Senior Notes to reflect the scheduled principal payment of $2,000,000 due in February 1997, and the goodwill in the amount of $1,450,000 acquired in connection with certain acquisitions.

Cash provided by operations for the nine months ended September 30, 1996 was $1,650,000 as compared to $1,180,000 in the same period last year. The principal reason for the increase in cash provided by operations was the increase in the Company's operating profit.

The Company anticipates that its current cash balance together with expected cash flow from operations and its new commitment for a credit facility will be sufficient to meet its working capital requirements.

Financing

At September 30, 1996, the Company had a $16,000,000 unsecured line-of-credit with its bank, which expires on December 31, 1996. The line is available for direct borrowings in the amount of up to $5,000,000,

and provides for commercial letters of credit and bankers' acceptances. Credit availability under this line is subject to the bank's continuing satisfaction with current financial information. The line is guaranteed by the Company's wholly-owned subsidiaries. Interest on direct borrowings is payable at 1% above the bank's prime rate, acceptances are created for a fee of 1-1/2% above the bank's acceptance rate, and the commercial letters of credit commission rate is 3/8% per drawing.

At September 30, 1996, $12,500,000 had been utilized under the line for acceptances payable. Open letters of credit relating to supplier purchases approximated $2,163,000 at September 30, 1996.

In November 1996, the Company entered into a commitment letter for a three year senior secured revolving credit facility for up to $55 million of borrowings with IBJ Schroder Bank & Trust Company. Under the terms of the proposed credit facility, borrowings will bear interest at the bank's prime rate or 2.25% above LIBOR, whichever is lower. The Company anticipates entering into the credit facility by the end of November 1996. The credit facility will

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

refinance certain existing indebtedness of the Company, including the indebtedness under the John Hancock Guaranteed Senior Notes and provide for the ongoing working capital needs of the Company.

On July 18, 1996, an affiliate of BIL provided the Company with a loan in the amount of $4,000,000, at an effective interest rate of 8.8%. The loan was used to fund the acquisition of V.C. Medical and for general corporate purposes. Under the terms of the loan, all principal and interest are payable upon the earlier to occur of 45 days after the closing of the Everest & Jennings merger transaction or 45 days after the termination of the transaction. The terms of the Everest & Jennings merger transaction provide that the loan will be converted upon closing of the transaction into a subordinated loan maturing in 2001 with interest payable quarterly at an effective rate of 7.7% per year.

Part II. Other Information

Item 1. Legal Proceedings

On May 21, 1996, the Company was sued by Minnesota Mining & Manufacturing Company ("3M") in a claim purportedly arising under Federal, state and common law trademark, false advertising and unfair competition laws, as well as for breach of, and interference with, contracts. 3M alleges that the Company is selling 3M products in violation of Federal and state law, and seeks monetary damages in an unspecified amount, as well as injunctive relief against the Company's continued sale of 3M products. The claim was filed in the Southern District of New York. The Company vigorously denies the allegations of 3M's complaint, and has filed an answer denying the allegations of wrongdoing and asserting affirmative defenses. In addition, the Company has asserted counterclaims against 3M under Federal antitrust laws, as well as an unfair competition claim.

In June 1996, the Company was sued in a purported class action captioned "Kauffman v. Hogg" in Delaware Chancery Court arising out of the Company's announced acquisition of Everest & Jennings. The complaint alleges that the Company aided and abetted breaches of fiduciary duty on the part of Everest & Jennings' controlling stockholder and its directors in connection with their negotiation of the proposed transaction. Plaintiff, a stockholder at Everest & Jennings, purports to seek to enjoin the transaction, or alternatively, rescission, or an award of compensatory or rescissory damages. The Company believes that it has valid defenses to the complaint's allegations of wrongdoing, and intends to vigorously defend the lawsuit.

The Company is a defendant in certain other legal actions which arose in the normal course of business, the outcome of which, in the opinion of management, will not have a material adverse effect on the Company's financial position.

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

None

Item 6. Exhibits and Reports on Form 8-K

Form 8-K filed on September 3, 1996 (Date of Event: September 3, 1996).

Form 8-K filed on September 4, 1996 (Date of Event: September 3, 1996).

Form 8-K filed on September 17, 1996 (Date of Event: September 4,1996).

S I G N A T U R E S

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.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

GRAHAM-FIELD HEALTH PRODUCTS, INC.
(Registrant)

Date: November 14, 1996

/s/ Irwin Selinger

Irwin Selinger
Chairman of the Board,
and Chief Executive Officer

Date: November 14, 1996

/s/ Gary M. Jacobs

Gary M. Jacobs
Vice President - Finance
Chief Financial and Accounting Officer

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

<TABLE> <S> <C>

<ARTICLE>	5	
<MULTIPLIER>		1,000

<S>	<C>	
<PERIOD-TYPE>	3-MOS	
<FISCAL-YEAR-END>		DEC-31-1996
<PERIOD-END>		SEP-30-1996
<CASH>		596
<SECURITIES>		0
<RECEIVABLES>		30,377
<ALLOWANCES>		0
<INVENTORY>		33,735
<CURRENT-ASSETS>		69,286
<PP&E>		7,672
<DEPRECIATION>		0
<TOTAL-ASSETS>		112,694
<CURRENT-LIABILITIES>		32,686
<BONDS>		17,577
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		355
<OTHER-SE>		62,076
<TOTAL-LIABILITY-AND-EQUITY>		112,694
<SALES>		32,366
<TOTAL-REVENUES>		32,384
<CGS>		21,858
<TOTAL-COSTS>		21,858
<OTHER-EXPENSES>		8,139
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		645
<INCOME-PRETAX>		1,742
<INCOME-TAX>		777
<INCOME-CONTINUING>		965
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		965
<EPS-PRIMARY>		.07
<EPS-DILUTED>		.07

</TABLE>

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document