

## [Memorex Telex NV](#) · 10-Q · For 9/30/96

Filed On [11/20/96](#) · SEC File [0-19862](#) · Accession Number 912057-96-27150

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<a href="#">11/20/96</a>	<a href="#">Memorex Telex NV</a>	10-Q	<a href="#">9/30/96</a>	2:14		<a href="#">912057</a>

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1: <a href="#">10-Q</a>	Quarterly Report	12	55K
2: <a href="#">EX-27</a>	Financial Data Schedule	2	7K

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 UNITED STATES  
 SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549  
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## FORM 10-Q

(MARK ONE)

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

FOR THE FISCAL QUARTER ENDED SEPTEMBER 30, 1996

OR

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

COMMISSION FILE NUMBER 0-19862

-----  
 MEMOREX TELEX N.V.

(Exact name of registrant as specified in their respective charter)

**THE NETHERLANDS**  
 (Jurisdiction of incorporation of  
 Memorex Telex N.V.)

**NOT APPLICABLE**  
 (I.R.S. Employer Identification  
 Number of Memorex Telex N.V.)

545 EAST JOHN CARPENTER FREEWAY

IRVING, TEXAS 75062-3931

TELEPHONE NO.: (972) 444-3500

(Address, including Zip Code, and telephone number, including  
 area code, of authorized representative in United States.)

-----  
 SECURITIES REGISTERED PURSUANT TO SECTION 12 (b) OF THE ACT: NONE  
 SECURITIES REGISTERED PURSUANT TO SECTION 12 (g) OF THE ACT:

AMERICAN DEPOSITORY RECEIPTS EVIDENCING AMERICAN DEPOSITORY SHARES WHICH  
 REPRESENT COMMON STOCK, 0.10 DFL. NOMINAL VALUE

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  
 filing requirements for the past 90 days. Yes  No   
 --- ---

Indicate by checkmark whether the registrant has filed all documents and  
 reports required to be filed by Section 12, 13 or 15(d) of the Securities  
 Exchange Act of 1934 subsequent to the distribution of securities under a plan  
 confirmed by a Court. Yes  No   
 ---

The number of shares of [the registrant](#)'s Common Stock, 0.10 DFL. Nominal Value, outstanding as of [October 31, 1996](#), was 25,076,665.

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**PART I: FINANCIAL INFORMATION**  
**ITEM 1: FINANCIAL STATEMENTS**

**MEMOREX TELEX N.V.**  
 (A Netherlands Corporation)  
**CONSOLIDATED BALANCE SHEETS**  
 (In thousands)

· [Enlarge/Download Table](#)

	<u>SEPT. 30, 1996</u>	<u>MAR. 31, 1996</u>
	----- (UNAUDITED)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents including restricted deposits and guarantees of \$7,253 at <a href="#">September 30, 1996</a> and \$7,592 at <a href="#">March 31, 1996</a> .	\$ 18,261	\$ 26,838
Accounts receivable, net	72,302	108,021
Inventories, primarily finished goods	39,470	34,891
Service parts	26,997	31,697
Other current assets	5,692	4,104
	-----	-----
Total current assets	162,722	205,551
Property, plant and equipment, net	23,984	28,622
Other assets	13,804	33,995
	-----	-----
	\$ 200,510	\$ 268,168
	-----	-----
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current Liabilities:		
Current debt obligations	\$ 103,554	\$ 114,578
Accounts payable	117,404	119,197
Accrued liabilities	149,227	169,098
	-----	-----
Total current liabilities	370,185	402,873
Debt obligations	4,286	4,903
Other long-term liabilities	123,609	137,743
Stockholders' Deficit:		
Common stock	1,338	1,338
Additional paid-in capital	73,726	73,726
Accumulated deficit	(373,370)	(354,749)
Foreign currency translation adjustment	736	2,334
	-----	-----
Total stockholders' deficit	(297,570)	(277,351)
	-----	-----
	\$ 200,510	\$ 268,168
	-----	-----

See accompanying note.

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**MEMOREX TELEX N.V.**  
 ( A Netherlands Corporation)  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
 (In thousands, except share and per share amounts)

· [Enlarge/Download Table](#)

	FOR SIX MONTHS ENDED <a href="#">SEPT. 30, 1996</a>	FOR SIX MONTHS ENDED <a href="#">SEPT. 30, 1995</a>
(UNAUDITED)		
Revenues	\$ 360,777	\$ 428,421
Cost of revenues	285,029	317,360
	-----	-----
Gross margin	75,748	111,061
Selling, general, and administrative expenses	82,823	99,720
Other (income) expenses, net	1,391	(4,137)
Amortization of intangibles	0	62,561
	-----	-----
Operating loss	(8,466)	(47,083)
Interest income	373	702
Interest expense	(10,529)	(9,616)
Accretion of debt forgiveness discount	0	(3,254)
	-----	-----
Loss before income taxes	(18,622)	(59,251)
Provision for income taxes	0	0
	-----	-----
Net loss	\$ (18,622)	\$ (59,251)
	-----	-----
Net loss per common share of 0.10 DFL	\$ (0.74)	\$ (2.36)
	-----	-----
Weighted average number of common shares used in the computation of net loss per common share	25,076,665	25,061,225

See accompanying note.

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**MEMOREX TELEX N.V.**  
 (A Netherlands Corporation)  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
 (In thousands, except share and per share amounts)

· [Enlarge/Download Table](#)

	FOR THREE MONTHS ENDED <a href="#">SEPT. 30, 1996</a>	FOR THREE MONTHS ENDED <a href="#">SEPT. 30, 1995</a>
(UNAUDITED)		
Revenues	\$ 158,985	\$ 207,870
Cost of revenues	128,672	156,132
	-----	-----
Gross margin	30,313	51,738
Selling, general, and administrative expenses	39,535	47,898
Other (income) expenses, net	291	(3,434)
Amortization of intangibles	0	31,280
	-----	-----
Operating loss	(9,513)	(24,006)

Interest income	184	418
Interest expense	(5,653)	(4,680)
Accretion of debt forgiveness discount	0	(3,254)
	-----	-----
Loss before income taxes	(14,982)	(31,522)
Provision for income taxes	0	0
	-----	-----
Net loss	\$ (14,982)	\$ (31,522)
	-----	-----
Net loss per common share of 0.10 DFL	\$ (0.60)	\$ (1.26)
	-----	-----
Weighted average number of common shares used in the computation of net loss per common share	25,076,665	25,066,922

See accompanying note.

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**MEMOREX TELEX N.V.**  
(A Netherlands Corporation)  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**  
(In thousands)

• [Enlarge/Download Table](#)

	FOR SIX MONTHS ENDED <u>SEPT. 30, 1996</u>	FOR SIX MONTHS ENDED <u>SEPT. 30, 1995</u>
	----- (UNAUDITED) -----	
Cash flows from operating activities:		
Net loss	\$ (18,622)	\$ (59,251)
Adjustments to reconcile loss to net cash provided (used) by operating activities:		
Depreciation and amortization	4,452	67,774
Accretion of debt forgiveness discount	0	3,254
Changes in components of working capital excluding short-term debt	3,361	(19,537)
Other long-term liabilities	(13,267)	(6,795)
Other assets	4,374	5,444
Other	(717)	(4,295)
	-----	-----
Net cash used by operating activities	(20,419)	(13,406)
	-----	-----
Cash flows from investing activities:		
Proceeds from asset sales	25,000	4,813
Capital expenditures	(1,517)	(2,454)
	-----	-----
Net cash provided (used) by investment activities	23,483	2,359
	-----	-----
Cash flows from financing activities:		
Issuance of common stock	0	20
Issuance of debt	2,351	8,661
Redemption of debt	(13,992)	(8,855)
	-----	-----
Net cash provided (used) by financing activities	(11,641)	(174)
	-----	-----
Net decrease in cash and cash equivalents	(8,577)	(11,221)
Cash and cash equivalents at beginning of period	26,838	36,886
	-----	-----
Cash and cash equivalents at end of period	\$ 18,261	\$ 25,665
	-----	-----

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 See accompanying note.

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**MEMOREX TELEX N.V.**  
 (A Netherlands Corporation)  
**NOTE TO CONSOLIDATED FINANCIAL STATEMENTS**  
 (In thousands)

**NOTE 1:**

Interim information is unaudited; however, in the opinion of [the Company's](#) management, all adjustments necessary for a fair presentation of interim results have been included. All such adjustments are of a normal recurring nature. The results for the six months ended [September 30, 1996](#) are not necessarily indicative of results to be expected for the entire year. These financial statements and notes should be read in conjunction with [the Company's](#) consolidated financial statements contained in [the Company's](#) Annual Report on Form 10-K for the fiscal year ended [March 31, 1996](#).

During the quarter [the Company](#) concluded the sale of its Asia/Pacific operations. See Management's Discussion and Analysis of Financial Condition and Results of Operations in the Liquidity section for a discussion of the use of proceeds from the sale.

The financial statements have been prepared assuming that [the Company](#) will continue as a going concern which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. On October 15, the Company announced that the U.S. operations filed for protection under Chapter 11 of the U.S. Bankruptcy code with the intent to sell the U.S. operations. As of November 1, the Bankruptcy court had approved sales agreements for substantially all of its U.S. operations.

The bankruptcy filing by the U.S. operation is an event of default under [the Company's](#) \$100 million Restructured Credit Facility ("[Restructured Credit Facility](#)") and the \$12 million Term Loan Credit and Guaranty Agreement ("[Term Loan](#)") (the Restructured Credit Facility and the Term Loan are collectively referred to as "[the Credit Facilities](#)"). In addition, [the Company](#) is in default of certain other covenants and debt repayment obligations under the Credit Facilities. The proceeds from the sale of the U.S. operations will not be sufficient to cure the events of default. The obligations under the Credit Facilities are secured on a first priority basis to substantially all assets of [the Company](#) including the securities of the remaining [subsidiaries](#).

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**ITEM 2:**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**FOR THE SIX AND THREE MONTHS ENDED [SEPTEMBER 30, 1996](#)**

**RESULTS OF OPERATIONS:**

[The Company](#) is a provider of information technology solutions including the distribution and integration of data network and storage products and the provision of related services.

The following table sets forth [the Company's](#) revenues and gross margins for its product groups for the six and three months ended [September 30, 1996](#) and the

six and three months ended [September 30, 1995](#) ("the comparable periods"). The table includes results from the U.S. operations which declared bankruptcy subsequent to [September 30, 1996](#). See Note 1. The revenues and gross margins associated with the Asia/Pacific operations for the three months ended [June 30, 1996](#) and six months ended [September 30, 1995](#) have been included as a separate line for presentation purposes.

• [Enlarge/Download Table](#)

(\$ in millions)	Six Months Ended		Six Months Ended		Three Months Ended		Three Months Ended	
	September 30, 1996		September 30, 1995		September 30, 1996		September 30, 1995	
Revenues								
Networks	\$ 150.8		\$ 190.0		\$ 68.8		\$ 93.7	
Storage	34.1		30.2		11.8		10.5	
Service	147.2		159.6		73.7		80.4	
Other	10.0		11.7		4.7		5.5	
Subtotal	342.1		391.5		159.0		190.1	
Asia/Pacific	18.7		36.9		0.0		17.7	
Total	\$ 360.8		\$ 428.4		\$ 159.0		\$ 207.8	
Gross Margins								
		Gross Margin %		Gross Margin %		Gross Margin %		Gross Margin %
Networks	\$ 27.6	18.3%	\$ 48.9	25.7%	\$ 11.9	17.3%	\$ 22.1	23.6%
Storage	11.3	33.1%	8.6	28.5%	3.8	32.2%	2.6	24.8%
Service	28.2	19.2%	39.9	25.0%	12.6	17.1%	19.9	24.8%
Other	4.4	44.0%	4.5	38.5%	2.1	44.7%	2.6	47.3%
Subtotal	71.5	20.9%	101.9	26.0%	30.4	19.1%	47.2	24.8%
Asia/Pacific	4.2	22.5%	\$ 9.2	25.0%	\$ 0.0	0.0%	\$ 4.5	25.4%
Total	\$ 75.9	21.0%	106.4	25.9%	32.5	19.1%	49.8	24.9%

Networks revenue and gross margin declined against the comparable periods. Sales of network connectivity products for the six months ended [September 30, 1996](#) increased slightly when compared to the comparable period while the upward trend was reduced by the 13.6% decline in sales for the three months ended [September 30, 1996](#) when compared against the comparable period. Networks gross margin as a percentage of sales continued to decline from the prior year due to the continued shift in sales mix away from higher margin fixed function display and mainframe network products and to a higher volume of sales of lower margin business partner products during the current year.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FOR THE SIX AND THREE MONTHS ENDED [SEPTEMBER 30, 1996](#)**

Storage revenue for the six and three months ended [September 30, 1996](#) increased 12.9% and 12.4%, respectively, when compared to their comparable periods. The increases are mainly attributed to increased sales of tape products offsetting the lower than expected revenues from [the Company's](#) other midrange storage products. Storage margins as a percentage of revenues increased in the current year primarily due to the stronger margins achieved on the sales of tape products.

Service revenue declined 7.8% and 8.3% for the six months and three months ended [September 30, 1996](#), respectively. In the current year, growth in revenues from advanced services was offset by the continued decline in revenues from traditional maintenance. Service gross margin as a percentage of revenues declined against the level achieved in the prior year as a result of the decline in revenues from higher margin traditional maintenance [contracts](#) which have largely been replaced with lower margin subcontracted services for cabling and third party maintenance [contracts](#). Additionally, price competition and product mix changes have adversely impacted service margins.

Other revenue declined against the prior year due to a decline in lease and brokerage revenues.

[The Company](#) estimates that the stronger U.S. dollar when compared with the comparable periods unfavorably affected revenues, \$7.6 million and \$2.9 million, and margins, \$1.5 million and \$1.1 million for the six and three months ended [September 30, 1996](#), respectively.

Selling, general and administrative expenses for the six and three months ended [September 30, 1996](#), decreased \$16.9 million and \$8.4 million, respectively, against the comparable periods. The reductions reflect the continued effect of [the Company's](#) cost reduction programs. The stronger U.S. dollar, when compared against the comparable period, favorably affected selling, general and administrative expenses for the six and three months ended [September 30, 1996](#) by approximately \$1.1 million and \$.4 million, respectively.

Other income for the six and three months ended [September 30, 1996](#) decreased approximately \$5.5 million and \$3.7 million, respectively, against the prior comparable periods. In the prior year, gains realized from the sale of assets of \$2.7 million and \$.5 million and foreign currency gains of \$3.1 million and \$3.4 million primarily account for the decrease between the comparable periods.

No tax provision was recorded in the current year due to tax credits and current year losses which are expected to result in no taxable income.

[The Company](#) does not believe that inflation has had a material impact on its results of operations.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FOR THE SIX AND THREE MONTHS ENDED [SEPTEMBER 30, 1996](#)**

The following unaudited condensed financial information presents a summary of the consolidated results of non-U.S. operations for the six months ending [September 30, 1996](#) and [1995](#).

(\$ in millions)	Six Months Ended <a href="#">Sept. 30, 1996</a>	Six Months Ended <a href="#">Sept. 30, 1995</a>
Revenues	\$ 187.6	\$ 186.2
Gross Margin	38.6	48.2
Operating Expense	36.8	42.6
<b>EBITDA</b>	<b>6.9</b>	<b>11.7</b>



**LIQUIDITY:**

During the six months ended [September 30, 1996](#), [the Company](#)'s net loss excluding the noncash charges for depreciation used cash of \$14.2 million. Cash was provided from the sale of the Asia Pacific operations (\$25 million), from decreased receivables (\$24.1 million) and an increase in accounts payable (\$1.5 million). These cash sources and existing cash balances were used to purchase inventory (\$5.9 million), pay for workforce reductions, closure costs and unfavorable contractual obligations (\$8.7 million), pay accrued interest (\$2 million), reduce deferred tax assessments (\$2.8 million), reduce debt obligations (\$11.6 million) and pay for capital additions (\$1.5 million). Additionally, the deferred revenues on [contract](#) maintenance which are generally billed at the beginning of the calendar year and warranty obligations declined \$12.5 million during the period. As a result of the above, cash and cash equivalents, including restricted cash deposits, declined \$8.6 million.

During the quarter [the Company](#) completed the sale of its Asia/Pacific operations for \$25 million with which [the Company](#) used \$9 million of the proceeds to reduce debt and the remaining \$16 million to meet working capital requirements including accrued interest payments as agreed with the lenders to its Credit Facilities.

Subsequent to the quarter end, [the Company](#) announced that on [October 15, 1996](#), the U.S. operations filed for protection under Chapter 11 of the U.S. Bankruptcy code with the intent to sell the U.S. operations. On [November 1, 1996](#), the U.S. Bankruptcy Court approved the sale of substantially all of its U.S. operations. [The Company](#) believes that the proceeds from such sales of the U.S. operations will not be sufficient to pay all amounts due to the secured lenders. The U.S. operations has secured debtor in possession financing to assure continued operations during the completion of the sales and for the wind down of the U.S. activities.

The bankruptcy filing by the U.S. operation is an event of default under [the Company](#)'s \$100 million Restructured Credit Facility ("*Restructured Credit Facility*") and the \$12 million Term Loan Credit and Guaranty Agreement ("*Term Loan*") (the Restructured Credit Facility and the Term Loan are collectively referred to as "*the Credit Facilities*"). In addition, [the Company](#) is

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FOR THE SIX AND THREE MONTHS ENDED [SEPTEMBER 30, 1996](#)**

in default of certain other covenants and debt repayment obligations under the Credit Facilities. The proceeds from the sale of the U.S. operations will not cure the events of default under the Credit Facilities. Discussions are ongoing with the lenders to its Credit Facilities concerning the amounts owing under the Credit Facilities and alternatives for the curing of events of default.

In addition, [the Company](#) continues to emphasize working capital management in its remaining operations, particularly accounts receivable and inventory as potential sources of cash. [The Company](#) expects to also pursue other non-operating sources of funds such as increased factoring of accounts receivable, increased subsidiary lines of credit or, if necessary, undertake further asset dispositions to attempt to satisfy the obligations of the lenders.

[The Company](#) believes that any solution to curing the events of default would likely result in a substantial dilution of ownership of existing shareholders of [the Company](#). The ability of [the Company](#) to cure the events of

default is unknown at this time. Therefore, no assurances can be given that the Company will be able to do so or what other actions might be necessary.

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#### ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

At the annual meeting of stockholders held in Amsterdam on Monday, [September 30, 1996](#), the stockholders of Memorex Telex N.V. voted (i) 2,361,083 for, 100 against, and 116,790 abstaining to elect [Peter H. Dailey](#) to the Management Board of [the Company](#), (ii) 2,362,183 for, 0 against, and 116,790 abstained to elect Gregory S. Wood to the Management Board of [the Company](#), (iii) 2,361,183 for, 0 against, and 116,790 abstaining to elect Brad Sowers to the Management Board of [the Company](#), (iv) 2,362,183 for, 0 against, and 116,790 abstaining to elect Anthony J. Barbieri to the Management Board of [the Company](#), (v) 2,361.183 for, 0 against, and 116,790 abstaining to adopt the annual financial statements contained in the Statutory Annual Report of Memorex Telex N.V. for the fiscal year ended [March 31, 1996](#), which also contains the Report of the Management Board; and (vi) 2,361,83 for, 0 against, and 116,790 abstaining to appoint Ernst & Young LLP as United States auditors for [the Company](#) and Moret Ernst & Young LLP as Netherlands auditors for Memorex Telex N.V. for the fiscal year ending [March 31, 1997](#).

#### ITEM 5: OTHER INFORMATION

Effective [October 1, 1996](#), Messrs. Joshua Harris and Michael Gross resigned as members of the Supervisory Board of Directors of [the Company](#).

#### ITEM 6: EXHIBITS AND REPORTS

Exhibit 27.1 [FDS](#)

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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 SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

#### MEMOREX TELEX N.V.

By: /s/ [Peter H. Dailey](#)

-----  
([Peter H. Dailey](#))

[November 20, 1996](#)

Chief Executive Officer

By: /s/ [David J. Faulkner](#)

-----  
([David J. Faulkner](#))

[November 20, 1996](#)

Managing Director  
and Chief Financial Officer

By: /s/ [Greg Wood](#)

-----  
([Greg Wood](#))

[November 20, 1996](#)

Senior Vice President  
and Chief Accounting Officer

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