DANZER CORP
Form 10-Q
June 14, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended April 30, 2001

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 0-17430

DANZER CORPORATION

(Exact name of registrant as specified in its charter)

New York (State of other jurisdiction of Incorporation or organization)	13-3431486 (IRS Employer Identification No.)
17500 York Road Hagerstown, MD (Address of principal executive offices)	21740 (Zip Code)

(301) 582-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X   NO ____

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

Common Stock	Outstanding at April 30, 2001

$.0001 par value	17,760,015 shares

DANZER CORPORATION AND SUBSIDIARY

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Review by Independent Accountants

The consolidated statement of financial position as of April 30, 2001, the consolidated statements of operations for the three-month and six-month periods ended April 30, 2001 and 2000, and the consolidated statements of cash flows for the six-month period ended April 30, 2001 and 2000, have been reviewed by the registrant's independent accountants, Linton, Shafer & Company, P.A., whose report covering their review of the financial statements follows.

Independent Accountants' Report

Board of Directors
Danzer Corporation

We have reviewed the accompanying condensed consolidated balance sheets of Danzer Corporation and Subsidiary as of April 30, 2001, and the related condensed consolidated statement of operations for the three-month and six-month periods ended April 30, 2001 and the consolidated statement of cash flows for the six-month period ended April 30, 2001 and 2000. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheets of the Company as of October 31, 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated December 13, 2000, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of October 31, 2000, is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Linton, Shafer & Company, P.A.

June 6, 2001
Frederick, Maryland

DANZER CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

ASSETS

	APRIL 200
	(Unaudit
CURRENT ASSETS	

Cash and cash equivalents	$ 25,9
Accounts receivable, less allowance for doubtful accounts of $21,315 and $ 22,221 respectively	839,2
Inventories	482,1
Prepaid expenses and other	23,4
Total current assets	1,370,7
PROPERTY, PLANT AND EQUIPMENT	4,074,9
Less - accumulated depreciation and amortization	(2,662,2
Total property, plant and equipment, net	1,412,7
OTHER ASSETS	
Other, net	54,8
Morrison License	60,0
Other Total Assets	114,8
TOTAL ASSETS	$ 2,898,3

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Current portion of long-term debt	$ 728,1
Accounts payable	428,6
Accrued salaries and wages	80,4
Accrued expenses, other	55,4
Total current liabilities	1,292,6
LONG-TERM DEBT, net of current portion	664,6
STOCKHOLDERS' EQUITY	941,0
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 2,898,3

The accompanying notes are an integral part of the consolidated financial statements.

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DANZER COPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS

UNAUDITED

	THREE MONTHS ENDED APRIL 30,		SIX MONTHS ENDED
	2001	2000	2001
NET SALES	$ 1,559,929	$ 2,284,021	$ 2,983,815
COST OF GOODS SOLD	1,257,554	1,807,279	2,396,570
GROSS PROFIT	302,375	476,742	587,245
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	265,322	350,640	512,861
INCOME (LOSS) FROM OPERATIONS	37,053	126,102	74,384
INTEREST EXPENSE, NET	39,184	51,875	77,946
OTHER (INCOME) NET	(4,980)	(7,805)	(9,033)
NET INCOME (LOSS)	2,849	82,032	5,471
PER COMMON SHARE DATA:			
NET INCOME (LOSS) per SHARE	$ .00	$ 0	$ .00
WEIGHTED AVERAGE SHARES OUTSTANDING	17,760,015	17,738,348	17,760,015

The accompanying notes are an integral part of
the consolidated financial statements.

DANZER COPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

	SIX MONTHS ENDED
	2000
OPERATING ACTIVITIES:	
Net (Loss) income	($ 64,335)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	161,150
Net (increase) decrease in non-cash current assets:	
Accounts receivable	(403,063)
Inventories	(149,796)
Prepaid expenses and other	24,217
Provision for bad debt	11,423
Net increase (decrease) in non-debt current liabilities:	
Accounts payable	249,269
Accrued commissions, salaries and wages	6,172
Accrued expenses, other	(25,706)
(Increase) decrease in other assets, net	47,752
Net cash provided by (used in) operating activities	(142,917)
INVESTING ACTIVITIES:	
Purchase of property, plant and equipment	(79,814)
Proceeds from sale of equipment	-0-
Net cash used in investing activities	(79,814)
FINANCING ACTIVITIES:	
Deferred Financing Fees	(72,624)
Net borrowings (repayments) under revolving loan agreement	437,276
Payments of long-term debt	(645,661)
Proceeds from issuance of long term debt	600,000
Net cash provided by (used in) financing activities	318,991
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	96,260
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-0-
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 96,260

The accompanying notes are an integral part of
the consolidated financial statements.

DANZER COPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

	SIX MONTHS ENDED
	2001
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:	
Cash paid for -	
Interest	$ 77,946
Income taxes	$ 0

The accompanying notes are an integral part of
the consolidated financial statements

DANZER COPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED APRIL 30, 2001

NOTE 1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Description of Business

Danzer Corporation (the "Company") was incorporated on October 6, 1987. Effective August 1, 1998, Danzer Corporation acquired all of the issued and outstanding common shares of Global Environmental Holdings, Inc. ("Global Holdings"), Danzer Industries, Inc. ("Danzer"), a wholly owned subsidiary of Danzer Corp., that is principally engaged in the design and manufacture of truck bodies. Danzer's revenues represent approximately 100% of the Company's revenues and are generated throughout the United States.

The accompanying consolidated financial statements present the accounts of Danzer Corporation and its wholly owned subsidiary. The entities are collectively referred to herein as the "Company". All significant inter-company transactions and balances have been eliminated in consolidation. The Company is on an October 31, fiscal year. The Company has filed all required filings for its year ending October 31,2000 and incorporates by reference those filings. The reader should read the audit and accompanying footnotes in conjunction with this document. The figures as of April 30, 2001 and April 30, 2000 are unaudited.

The Company uses the equity method of accounting for a 49% owned interest in a joint venture. The original investment is recorded at cost, adjusted for the Company's share of undistributed earnings or losses. The operations of the joint venture are presently immaterial.

Inventories

Inventories are stated at the lower of cost (first in, first - out) or market and are comprised of the following components:

	April 30, 2001	October 31, 2000
Raw materials	$ 224,227	$ 335,037
Work-in-process	222,862	234,447
Finished goods	35,032	130,040
Total	$ 482,121	$ 699,524

Work-in-process and finished goods include purchased materials, direct labor and allocated overhead.

DANZER COPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED APRIL 30, 2001

NOTE 1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major Customers

The following is a list of the Company's customers that represent 10% or more of consolidated net sales (from continuing operations):

TOTAL PERCENTAGE OF NET SALES

	April 30	YEAR ENDED OCTOBER 31			
	2001	2000	1999	1998	1997
Elevator Manufacturer	0%	0%	0%	4%	13%
Truck Body Manufacturer	56%	57%	63%	55%	41%

The Company's decision to exit the manufacturing of elevator parts and focus exclusively on the manufacturing of truck bodies resulted in the loss of revenues from sales of this division.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require Management to make estimates and assumptions that effected the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

NOTE 2. FINANCING ARRANGEMENTS

On January 21, 2000, Danzer closed on a financing arrangement with Banc of America Commercial Finance Corporation ("BACFC). As part of this financing arrangement, BACFC extended a $600,000 term loan secured by its land and building terms of the loan call for monthly installments due over 7 years with interest calculated at BACFC's prime rate plus 2.25%. Additionally BACFC is providing a revolving line of credit up to $1.15 million secured by accounts receivables and inventory. BACFS and Danzer agreed upon advance rates, annual fees, audit fees covenants and other terms customary with this type of financing. Danzer used proceeds from these loans to repay certain indebtedness. On October 2, 2000, BACFC sold these notes to Wells Fargo Business Credit ("Wells Fargo"). Wells Fargo continues to service the loans just as BACFC did.

To provide additional availability under the BACFC revolving loan, Danzer entered into an agreement with Duncan-Smith Investments, Inc. (Duncan-Smith) whereby Duncan-Smith pledged a $150,000 certificate of deposit to provide additional availability to Danzer. Under terms of this agreement Danzer paid Duncan-Smith an origination fee of $7,500 and on a quarterly basis paid a fee to Duncan-Smith if the Company utilized this excess availability. Goodhue W. Smith III is a principal in Duncan-Smith and is Chairman of the Board of the Company. Through October 31, 2000 the Company made only limited use of this facility. This facility matured in January 2001. Danzer was desirous of extending this arrangement. In January 2001 the Company entered into a new agreement with Duncan-Smith. Under the new agreement, Danzer pays a quarterly fee of $2,000, pays no utilization fee and has the right to terminate this arrangement on 90 days written notice to Duncan-Smith. On April 30, 2001, the Company had $457,947 in availability under the line of credit. This availability does not include any availability under the advance from Duncan-Smith.

DANZER COPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED APRIL 30, 2001

Note 3. Management's discussion and analysis of financial condition and Results of Operations

The following discussion and analysis of the financial condition and results of operations of the Company should be read in conjunction with the non-audited financial statements and related notes of the Company included elsewhere in this report. This Management's Discussion and Analysis of Financial Condition and Results of Operations and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements that involve risks and uncertainties.

The Company's ability to increase sales depends on many factors not within the Company's control including planned capital expenditures by end users, general economic conditions and pricing policies by competitors. The Company's decision to focus exclusively on truck body sales also increases the risk of selling to only on industry segment.

As a result, the actual results realized by the Company could differ materially from the results discussed in or contemplated by the forward-looking statements made herein. Words or phrases such as "will," "expect," "believe," "intend," "estimates," "project," "plan" or similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on the forward-looking statements made in this Quarterly Report on Form 10-Q.

Results of Operations

Three Months

For the quarter ended April 30, 2001 the Company reported sales of $1,559,929 versus sales of $2,284,021 for the quarter ended April 30, 2000. This 31.7% decrease was primarily a result of a reduction of $354,596 in shipments to its largest customer. Danzer shipped $884,176 to this customer in the quarter ending April 30, 2001 versus $1,238,772 in the quarter ending April 30, 2000.

Gross profits for the quarter ending April 30, 2001 were $302,375 versus gross profits of $476,742 in the quarter ending April 30, 2000. The decrease is primarily due to the higher fixed cost component of manufacturing overhead being spread over fewer units being sold. The gross profit margin for the three months ending April 30, 2000 was 20.9% versus 19.4% in the April 30, 2001 quarter. Management of Danzer recognizes this gross profit margin to be below acceptable levels, but believes that with increased units sold margins will increase to more acceptable levels. Danzer is reviewing all aspects of the manufacturing process to identify potential savings.

DANZER CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED APRIL 30, 2001

Note 3 Management's discussion and analysis of financial condition and Results of Operations (Continued)

Selling, general and administrative expenses for the quarter ending April 30, 2001 totaled $265,322 versus $350,640 for the quarter ending April 30, 2000. Of this $85,318 decrease, $66,486 is attributable to lower administrative expenses. A portion of this lower administrative expense is a result of lower salary and bonuses for administrative staff. The Company did lose a salesman in one of its territories and has subsequently filled this position after the end of the second quarter.

Interest expense for the three months ending April 30, 2001 was $39,184 or $12,691 lower than for the comparable three-month period in 2000. This reduction is a result of a lower interest rates and lower amounts borrowed on the line of credit. This trend is expected to continue for the full fiscal year.

For the quarter ending April 30, 2001 the Company earned $2,849 versus $82,032 for the quarter ending April 30, 2000.

Six Months

For the six months ended April 30, 2001 Danzer realized revenues of $2,983,815 versus $3,486,747 in revenues for the six months ending April 30, 2000. Of this $ 502,932 decrease $439,951 were OEM sales and $62,981 were sales of the Morrison line. The Company increased prices on its OEM service bodies effective November 1, 2000. In addition, due to the lower purchase order received from the Company's major customer certain volume purchase discounts were not earned by this customer.

While gross profits decreased from $667,568 in the April 30, 2000 quarter to $587,245 in the April 30, 2001 quarter, the gross profit margins were higher 19.6% versus 19.1%. This increase is attributed to the previously mentioned price increases to its largest customer.

Selling, general and administrative expenses for the April 30, 2001 quarter were $512,861 versus $655,944 in the quarter ending April 30, 2000. This decrease is a result of an aggressive cost containment program by management. Administrative salaries, commissions, travel, fringe benefits and bank finance fees were all less than in the previous quarter. Accruals for management bonuses were less then in prior year accruals. Interest expense for the quarter ending April 30, 2001 was $14,154 lower than in the same quarter of the prior year with a total expense of $77,946. This lower interest expense was a result of smaller outstanding balances on the line of credit and lower interest rates. Danzer was negatively impacted by a requirement to pay a certain minimum amount of interest to its lender.

For the six months ending April 30, 2001 the Company reported an income of $ 5,471 versus a loss of $64,335 in the quarter ending April 30, 2000.

DANZER CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED APRIL 30, 2001

Note 3 Management's discussion and analysis of financial condition and Results of Operations (Continued

Liquidity and Capital Resource

Cash flow from operations increased during the six months ending April 30, 2001 by $203,489 over the October 31,2000 figures. This improvement was the result of the lower revenues requiring substantially less accounts receivable, lower accrued expenses and lower inventories. Even though accounts payable were lower the reduction in the current assets was greater. The Company made a concerted effort to minimize inventories during this period by reducing the amount of finished goods inventory by $95,008. Also because of the lower revenues, the amount borrowed on the line of credit was substantially below the figures at year-end.

Investing activities utilized for capital items $20,880 in cash for fiscal quarter April 30, 2001. Capital expenditures were made to purchase a die to form a new style drip edge on all our truck bodies manufactured. This compares to $79,814 invested in the same six-month period the prior year.

Effective January 21, 2000, the Company and Banc of America Commercial Finance Corporation ("BOACFC") entered into a loan agreement whereby BOACFC agreed to lend the Company $600,000 pursuant to a 7 year term loan and arrange a $1.15 million working capital credit facility (the "BOACFC Loan"). Upon closing, the BOACFC Loan replaced the Company's facility with Finova and paid off the Duncan Smith Company Note in full. The Company has received indications from its largest customer that there requirements for product will be at a greater levels. Accordingly Danzer is anticipating that its working capital requirements will increase dramatically in its third quarter. The Company believes it will be able to meet these needs by utilizing its line of credit and increasing its payables and accrued liabilities.

DANZER CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED APRIL 30, 2001

PART II OTHER INFORMATION

Danzer has entered into a preliminary agreement with Obsidian Capital Partners, L.P. and two of its principals ("Obsidian") with regard to a business combination with four entities of Obsidian. It is anticipated that the transaction will close in June 2001. Once all of the entities are combined with Danzer, Obsidian will have effective control of Danzer. The combination will be effected with Danzer issuing convertible preferred stock. Although a tentative agreement has been reached with the principals of Obsidian, there can be no assurances that a final agreement will be negotiated and approved by all the necessary parties, or that all the necessary approvals of any regulatory bodies or lenders will be obtained.

SIGNATURES

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.

DAZNER CORPORATION
(Registrant)

Date: June 12, 2001

/S/ Mark McGlaughlin

Mark McGlaughlin, Chief Financial Officer