

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-04-15** | Period of Report: **1994-03-31**  
SEC Accession No. **0000082628-94-000002**

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### FILER

#### **SYMMETRICOM INC**

CIK: **82628** | IRS No.: **951906306** | State of Incorporation: **CA** | Fiscal Year End: **0630**  
Type: **10-Q** | Act: **34** | File No.: **000-02287** | Film No.: **94522978**  
SIC: **3674** Semiconductors & related devices

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SYMMETRICOM, INC. and SUBSIDIARIES

FORM 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SYMMETRICOM, INC. and SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 (In thousands)

	March 31, 1994 (Unaudited)	June 30, 1993
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,792	\$ 18,232
Accounts receivable	11,777	10,905
Inventories	18,273	12,937
Other current assets	1,366	216
	<hr/>	<hr/>
Total current assets	47,208	42,290
Property, plant and equipment, net	15,139	15,942
Other assets, net	2,667	722
	<hr/>	<hr/>
	\$ 65,014	\$ 58,954
	<hr/>	<hr/>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,684	\$ 2,914
Accrued liabilities	8,973	9,986
Current maturities of long-term debt	45	42
	<hr/>	<hr/>
Total current liabilities	12,702	12,942
Long-term debt, less current maturities	5,830	5,865
Deferred rent	474	604
Deferred income taxes	2,347	1,441
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value:		
Authorized - 500 shares		
Issued - none		
Common stock, no par value:		

Authorized - 32,000 shares		
Issued and outstanding - 13,976 and 13,728 shares	14,631	13,936
Retained earnings	29,030	24,166
Total shareholders' equity	<u>43,661</u>	<u>38,102</u>
	<u>\$ 65,014</u>	<u>\$ 58,954</u>

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

SYMMETRICOM, INC. and SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share amounts)  
(Unaudited)

	Three months ended		Nine months ended	
	March 31,		March 31,	
	1994	1993	1994	1993
Net sales	\$ 24,368	\$ 22,067	\$ 73,413	\$ 64,829
Cost of sales	14,457	12,937	42,271	39,538
Gross profit	<u>9,911</u>	<u>9,130</u>	<u>31,142</u>	<u>25,291</u>
Operating expenses:				
Research and development	2,567	2,258	8,626	5,953
Selling, general and administrative	5,244	4,730	15,586	13,660
Operating income	<u>2,100</u>	<u>2,142</u>	<u>6,930</u>	<u>5,678</u>
Interest income	83	104	242	293
Interest expense	(151)	(152)	(453)	(456)
Earnings before income taxes	<u>2,032</u>	<u>2,094</u>	<u>6,719</u>	<u>5,515</u>
Income taxes	561	571	1,855	1,224
Net earnings	<u>\$ 1,471</u>	<u>\$ 1,523</u>	<u>\$ 4,864</u>	<u>\$ 4,291</u>
Net earnings per common and common equivalent share	\$ .10	\$ .10	\$ .32	\$ .29
Weighted average common and common equivalent shares outstanding	15,263	15,333	15,428	14,866

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

SYMMETRICOM, INC. and SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

	Nine months ended	
	March 31,	
	1994	1993
Cash flows from operating activities:		
Cash received from customers	\$ 73,116	\$ 63,875
Cash paid to suppliers and employees	(69,688)	(55,885)
Interest received	255	284
Interest paid	(453)	(456)
Income taxes paid	(1,324)	(1,157)
Net cash provided by operating activities	1,906	6,661
Cash flows from investing activities:		
Purchase of Navstar	(2,012)	
Capital expenditures, net	(2,463)	(3,360)
Disposition (acquisition) of other assets	(534)	17
Net cash used for investing activities	(5,009)	(3,343)
Cash flows from financing activities:		
Repayment of long-term debt	(32)	(29)
Proceeds from issuance of common stock	695	1,523
Net cash provided by financing activities	663	1,494
Net increase (decrease) in cash and cash equivalents	(2,440)	4,812
Cash and cash equivalents at beginning of period	18,232	10,146
Cash and cash equivalents at end of period	\$ 15,792	\$ 14,958
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	\$ 4,864	\$ 4,291
Adjustments (net of effects of Navstar purchase):		
Depreciation and amortization	4,146	3,545
Net deferred income taxes	168	
(Increase) in accounts receivable	(560)	(949)
(Increase) in inventories	(4,892)	(1,430)

Decrease (increase) in other current assets	(412)	49
(Decrease) in accounts payable	(265)	(259)
Increase (decrease) in accrued liabilities	(1,013)	1,512
(Decrease) in deferred rent	(130)	(98)
Net cash provided by operating activities	<u>\$ 1,906</u>	<u>\$ 6,661</u>

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

SYMMETRICOM, INC. and SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Basis of Presentation. The consolidated financial statements included herein have been prepared by Symmetricom, Inc., formerly known as Silicon General, Inc. (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to such rules and regulations. Although the Company believes that the disclosures which are made are adequate to make the information presented not misleading, it is suggested that these consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 1993.

In the opinion of the management, these unaudited statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position of the Company at March 31, 1994, the results of operations for the three and nine month periods then ended and cash flows for the nine month period then ended. The results of operations for the periods presented are not necessarily indicative of those that may be expected for the full year.

2. Fiscal Period. Fiscal years 1994 and 1993 consist of 53 and 52 weeks, respectively. The fiscal 1994 and 1993 first quarters consist of fourteen and thirteen weeks, respectively.

3. Inventories. Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories consist of:

	March 31, 1994	June 30, 1993
	(In thousands)	
Raw materials	\$ 8,703	\$ 4,115
Work-in-progress	5,060	5,424
Finished goods	4,510	3,398
	<u>\$ 18,273</u>	<u>\$ 12,937</u>

4. Acquisition. In August 1993, the Company acquired, in a purchase transaction, substantially all the assets and certain liabilities of Navstar Limited and its U.S. affiliate (collectively "Navstar") for \$3,047,000. The Company paid \$2,012,000 in cash, \$1,756,000 for technology, \$36,000 for net tangible assets and \$220,000 for acquisition expenses. Net tangible assets included substantially all tangible assets, \$1,071,000, and assumed tangible liabilities of \$1,035,000. The operating results of Navstar have been included in the consolidated statements of operations since the date of acquisition and are not material in relation to consolidated operations. Unaudited pro forma combined results of operations of the Company for the year ended June 30, 1993, assuming the acquisition of Navstar had occurred on July 1, 1992, are as follows: net sales, \$90,342,000, net earnings, \$5,052,000, and net earnings per common and common equivalent share, \$.34.

5. Litigation. On January 11, 1994, a complaint was filed in the United States District Court for the Northern District of California against the Company, three of its officers and two unaffiliated parties, by one of the Company's shareholders. The complaint requests that the court certify a class of plaintiffs consisting of persons who purchased shares of the Company's common stock during a specified period in 1993. The complaint alleges that false and misleading statements made during that period artificially inflated the price of the common stock in violation of federal securities laws. There is no specific amount of damages requested in the complaint.

The Company and its officers believe that the complaint is entirely without merit, and intend to vigorously defend against the action.

6. Reclassifications. Certain 1993 balances have been reclassified to conform to the 1994 presentation.

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

### Liquidity and Capital Resources

Working capital increased by \$5.2 million to \$34.5 million at March 31, 1994 from \$29.3 million at June 30, 1993, while the current ratio increased to 3.7 to 1.0 from 3.3 to 1.0. During the same period, cash and cash equivalents decreased by \$2.4 million to \$15.8 million from \$18.2 million. The decrease was primarily due to \$2.0 million used for the acquisition of Navstar and \$2.5 million used for capital expenditures, offset by \$1.9 million in cash provided by operating activities which was net of an approximate \$5.0 million increase in inventory. The inventory increase was substantially due to the purchase of certain components by the Company's Telecom Solutions operation in anticipation of possible shortages. At March 31, 1994, the Company had no outstanding borrowings under its \$7.0 million bank line of credit.

The Company believes that cash and cash equivalents, funds generated

from operations and funds available under its bank line of credit will be sufficient to satisfy working capital and capital equipment requirements over the near term. At March 31, 1994, the Company had no material outstanding commitments to purchase capital equipment.

## Results of Operations

Net sales increased in the third quarter of fiscal 1994 by 10% to \$24.4 million from \$22.1 million in the third quarter of fiscal 1993, and in the first three quarters of fiscal 1994 by 13% to \$73.4 million from \$64.8 million in the first three quarters of fiscal 1993. The sales increases were principally due to higher unit shipments in the Company's Linfinity Microelectronics Inc. (LMI) operation and to the addition of sales by Navstar which was acquired by the Company in August 1993 for its Telecom Solutions operation.

	Three months ended March 31,			Nine months ended March 31,		
	1994	1993	Change	1994	1993	Change
Net sales data* (In millions):						
Telecom Solutions	\$ 14.2	\$ 14.0	1%	\$ 44.5	\$ 42.0	6%
LMI	10.2	8.0	28%	28.9	22.9	26%
	<u>\$ 24.4</u>	<u>\$ 22.1</u>	10%	<u>\$ 73.4</u>	<u>\$ 64.8</u>	13%

\*May not add due to rounding.

Telecom Solutions' net sales are highly dependent on obtaining large orders of which there is no assurance. Furthermore, the timing of the receipt and shipment of any such orders may result in a significant fluctuation of net sales from quarter to quarter.

The gross profit margin, as a percentage of net sales, was 41% in the third quarter of fiscal 1994 and 1993 and increased to 42% in the first three quarters of fiscal 1994 compared to 39% in the corresponding period of fiscal 1993. The gross profit margin percentages were impacted by higher unit volume and improved manufacturing efficiencies in LMI, and by a shift to lower margin products and decreased manufacturing efficiencies in Telecom Solutions. Future gross profit margins will largely depend on product mix and manufacturing efficiencies.

Research and development expenses increased to \$2.6 million and \$8.6 million in the third quarter and first three quarters of fiscal 1994, respectively, representing increases of 13% and 43%, compared to \$2.3 million and \$6.0 million in the corresponding periods of fiscal 1993. The growth in research and development expenses was due to increased development of new products and enhancement of existing products in both Telecom Solutions and LMI.

Selling, general and administrative expenses increased to \$5.2 million and \$15.6 million in the third quarter and first three quarters of fiscal 1994, respectively, representing increases of 11% and 14%, compared to \$4.7 million and \$13.7 million in the corresponding periods of fiscal 1993. The increases were due to higher selling expenses associated with an increased emphasis on marketing and sales activities.

The Company's effective tax rate was 28% in the third quarter and first three quarters of fiscal 1994 compared to 27% and 22% in the corresponding periods of fiscal 1993 and 22% for all of fiscal 1993. The increase in the fiscal 1994 tax rate was primarily due to the Company's expectation that a lower percentage of the Company's income will be derived from its Puerto Rico operation in fiscal 1994 than in fiscal 1993. The provisions of the Omnibus Budget Reconciliation Act of 1993 (Act) are not expected to have a material effect on the Company's financial position or its results of operations in fiscal 1994. However, certain provisions of the Act may result in less favorable tax treatment for its Puerto Rico operation in future years.

Net earnings in the third quarter of fiscal 1994 and 1993 were \$1.5 million or \$.10 per share. Net earnings in the first three quarters of fiscal 1994 increased to \$4.9 million or \$.32 per share from \$4.3 million or \$.29 per share in the same period of fiscal 1993.

The Company's future earnings and stock price may be subject to significant volatility. Any shortfall in sales or earnings from levels expected by securities analysts and investors could have an immediate and significant adverse effect on the trading price of the Company's common stock.

## PART II. OTHER INFORMATION

### Item 1. Litigation

On January 11, 1994, a complaint was filed in the United States District Court for the Northern District of California against the Company, three of its officers and two unaffiliated parties, by one of the Company's shareholders. The complaint requests that the court certify a class of plaintiffs consisting of persons who purchased shares of the Company's common stock during a specified period in 1993. The complaint alleges that false and misleading statements made during that period artificially inflated the price of the common stock in violation of federal securities laws. There is no specific amount of damages requested in the complaint.

The Company and its officers believe that the complaint is entirely without merit, and intend to vigorously defend against the action.

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

#### (a) Exhibits



None

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended March 31, 1994.

#### 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.

SYMMETRICOM, INC.  
(Registrant)

DATE: April 15, 1994

By: /s/J. Scott Kamsler

\_\_\_\_\_  
J. Scott Kamsler  
Vice President, Finance  
and Chief Financial Officer  
(for Registrant and as Principal,  
Financial and Accounting Officer)