

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1993-12-14** | Period of Report: **1993-10-30**
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FILER

DATAPOINT CORP

CIK: **205239** | IRS No.: **741605174** | State of Incorporation: **DE** | Fiscal Year End: **0731**
Type: **10-Q** | Act: **34** | File No.: **001-07636** | Film No.: **94500926**
SIC: **7373** Computer integrated systems design

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PARIS FRANCE 75008 10
5125937000*

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

(Mark One)

- Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934 For the quarterly period ended October 30, 1993, 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 1-7636

DATAPOINT CORPORATION

(Exact name of registrant as specified in its charter)

<TABLE>

<S>	Delaware	<C>	74-1605174
	(State or other jurisdiction of incorporation or organization)		(I.R.S. Employer Identification No.)

</TABLE>

5-7 rue Montalivet 75008, Paris, France
8400 Datapoint Drive
San Antonio, Texas 78229-8500
(Address of principal executive offices and zip code)

(33-1) 40 07 37 37
(210) 593-7000
(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 / /

As of December 3, 1993, 14,428,775 shares of Datapoint Corporation Common Stock were outstanding, exclusive of 6,562,442 shares held in Treasury.

2

<TABLE>

DATAPOINT CORPORATION AND SUBSIDIARIES
INDEX

<CAPTION>

<S>

Part I. Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets -
October 30, 1993 and July 31, 1993

3

Consolidated Statements of Operations -
Three Months Ended October 30, 1993 and
October 31, 1992

4

Consolidated Statements of Cash Flows -
Three Months Ended October 30, 1993 and
October 31, 1992

5

Notes to Consolidated Financial Statements

6

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

8

Page
Number
<C>

</TABLE>

3

<TABLE>

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
 CONSOLIDATED BALANCE SHEETS
 Datapoint Corporation and Subsidiaries
 <CAPTION>

(In thousands, except share data)
 (Unaudited)

	1992	1993	October 30, 1993	July 31, 1993
<S>			<C>	<C>
Assets				
Current assets:				
Cash and cash equivalents		\$14,558	\$22,452	
Restricted cash and cash equivalents	4,779	4,459		
Marketable securities at market		953	789	
Accounts receivable, net of allowance for doubtful accounts of \$2,621 and \$2,466, respectively			41,772	45,090
Inventories			17,466	17,536
Prepaid expenses and other current assets	3,717	3,843		
Total current assets			83,245	94,169
Fixed assets, net of accumulated depreciation of \$116,643 and \$116,086, respectively		27,659	27,950	
Excess of cost of investment over net assets acquired, net of accumulated amortization of \$51,301 and \$50,797, respectively			57,078	58,216
Other assets, net			23,590	21,940
			\$191,572	\$202,275
Liabilities and Stockholders' Equity				
Current liabilities:				
Payables to banks		\$16,864	\$14,129	
Current maturities of long-term debt	3,599	4,246		
Accounts payable			12,574	15,914
Accrued expenses		26,437	26,683	
Deferred revenue		12,132	12,579	
Income taxes payable		454	1,208	
Total current liabilities		72,060	74,759	
Long-term debt, exclusive of current maturities	71,433	71,551		
Other liabilities			9,078	8,944
Commitments and contingencies				
Stockholders' Equity:				
Preferred stock of \$1.00 par value. Shares authorized 10,000,000; shares issued and outstanding 1,784,456 (aggregate liquidation preference \$35,689).			1,784	1,784
Common stock of \$.25 par value. Shares authorized 40,000,000; shares issued of 20,991,217 in fiscal 1994 and 20,991,217 in fiscal 1993, including treasury shares of 6,571,688 and 6,637,065, respectively.	5,248	5,248		
Other capital			212,599	212,599
Foreign currency translation adjustment	6,492	7,707		
Retained deficit			(132,927)	(125,581)
Treasury stock, at cost			(54,195)	(54,736)
Total stockholders' equity			39,001	47,021
			\$191,572	\$202,275

<FN>

See accompanying Notes to Consolidated Financial Statements.

</TABLE>

<TABLE>
 CONSOLIDATED STATEMENTS OF OPERATIONS
 Datapoint Corporation and Subsidiaries
 (Unaudited)
 <CAPTION>

(In thousands, except share data)
 Three Months Ended

			October 30, 1993	October 31, 1992	
<S>	<C>	<C>			
Revenue:					
Sales			\$19,329	\$29,856	
Service and other		22,319	30,687		
Total revenue		41,648	60,543		
Operating costs and expenses:					
Cost of sales			10,841	14,825	
Cost of service and other		13,693	19,982		
Research and development			1,716	1,962	
Selling, general and administrative	15,689	20,746			
Restructuring costs			0	189	
Total operating costs and expenses		41,939	57,704		
Operating income (loss)			(291)	2,839	
Non-operating income (expense):					
Interest expense					(2,271) (2,129)
Other, net			285	(521)	
Income (loss) before income taxes		(2,277)	189		
Income taxes			49	567	
Loss before extraordinary item and effect of change in accounting principle	(2,326)	(378)			
Extraordinary item:					
Utilization of tax loss carryforward		0	473		
Net income (loss) before effect of change in accounting principle		(2,326)		95	
Effect of change in accounting principle (Note 3)	1,340	0			
Net income (loss)			\$ (986)	\$ 95	
Net income (loss), less preferred stock dividend	\$ (1,432)	\$ (351)			
Net income (loss) per common share:					
Before extraordinary item and effect of change in accounting principle			\$ (.19)	\$ (.06)	
Extraordinary item			.00	.03	
Effect of change in accounting principle	.09	.00			
Net loss			\$ (.10)	\$ (.03)	
Average common shares		14,380,672	13,891,766		

<FN>
 See accompanying Notes to Consolidated Financial Statements

</TABLE>

<TABLE>
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 Datapoint Corporation and Subsidiaries
 (Unaudited)
 <CAPTION>

(In Thousands)
 Three Months Ended
 October 30, October 31,

	1993	1992
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ (986)	\$ 95
Adjustments to reconcile net income to net cash used in operating activities:		
Losses incurred in lag month eliminated	(5,470)	0
Effect of change in accounting principle	(1,340)	0
Provision for unrealized losses (recoveries)		

on marketable securities	(164)	48		
Depreciation and amortization		2,768	3,962	
Provision for (gains) losses				
on accounts receivable	143	(211)		
Changes in assets and liabilities:				
Decrease in receivables		2,293	4,603	
(Increase) decrease in inventor	58	(1,068)		
Decrease in accounts payable		(3,049)	(4,150)	
Increase (decrease) in accrued expenses	225	(6,701)		
Decrease in other liabilities				
and deferred credits	(948)	(2,519)		
Other, net			599	(198)
Net cash used in operating activities		(5,871)	(6,139)	
Cash flows from investing activities:				
Proceeds from marketable securities		0	24	
Payments for fixed assets	(2,518)	(3,321)		
Proceeds from dispositions of fixed assets	416	1,334		
Other, net	(630)	40		
Net cash used in investing activities		(2,732)	(1,923)	
Cash flows from financing activities:				
Proceeds from borrowings	12,558	17,498		
Payments on borrowings		(11,010)	(14,896)	
Payment of dividend on preferred stock	(446)	(446)		
Restricted cash for letters of credit	(320)	(42)		
Other, net			97	14
Net cash provided from financing activities	879	2,128		
Effect of foreign currency translation on cash	(170)	1,840		
Net decrease in cash and cash equivalents	(7,894)	(4,094)		
Cash and cash equivalents at beginning of year	22,452	20,021		
Cash and cash equivalents at end of period	\$14,558	\$15,927		
Cash payments (refunds) for:				
Interest			\$355	\$734
Income taxes, net		583	(97)	

<FN>
See accompanying Notes to Consolidated Financial Statements.

</TABLE>

6

DATAPOINT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(In thousands)
(Unaudited)

1. Preparation of Financial Statements

The consolidated financial statements included herein have been prepared by Datapoint Corporation (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with generally accepted accounting principles. In the opinion of management, the information furnished reflects all adjustments which are necessary for a fair statement of the results of the interim periods presented. All adjustments made in the interim statements are of a normal recurring nature.

It is recommended that these statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report and Form 10-K for the year ended July 31, 1993.

The results of operations for the three months ended October 30, 1993, are not necessarily indicative of the results to be expected for the full year.

Prior to 1994, the Company's foreign subsidiaries reported their results to the parent on a one-month lag which allowed more time to compile results but produced comparability problems in management accounting. Due to improved internal operations, the one-month lag became unnecessary and therefore was eliminated subsequent to 1993 and prior to 1994. As a result, the July 1993 results of operations for the Company's foreign subsidiaries was recorded to the retained deficit. This action resulted in a charge of \$5,470 being recorded against the retained deficit. The loss incurred in July 1993 resulted primarily from a low revenue level, which is usual for the first month following the end of a fiscal year.

2. Extraordinary Item

The utilization of post-acquisition net operating loss carryforwards of certain foreign subsidiaries resulted in an extraordinary credit during the first quarter of fiscal 1993 of \$473.

3. Change in Accounting Principle

Effective August 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes." SFAS 109 requires that liabilities and receivables for future taxes be calculated using a balance sheet approach rather than the income statement approach. As a result, the Company recorded additional deferred income tax assets of \$2,075, after a valuation allowance of \$66,720, and increased deferred income tax liabilities by \$735 which, in total, resulted in a \$1,340 credit (\$.09 per share) for the cumulative effect of the accounting change. Management believes that future taxable income of the Company will more likely than not result in utilization of the net deferred tax asset at August 1, 1993. Such future income levels are not assured due to the nature of the Company's business which is generally characterized by rapidly changing technology and intense competition.

After adoption of SFAS 109, the primary components of the Company's deferred tax assets and liabilities as of August 1, 1993 were as follows:

<TABLE>	<S>	<C>		
Deferred tax assets:				
Property, plant and equipment		\$3,445		
Loss and credit carryforwards		58,731		
Other			8,385	
		70,561		
Less: Valuation allowance		(66,720)		3,841
Deferred tax liabilities:				
Accrued retirement costs		1,979		
Other			1,065	
				3,044
Net deferred tax assets		\$797		

7

DATAPOINT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(In thousands)
(Unaudited)

4. Inventories

Inventories consist of:

<TABLE>	<S>	<C>	<C>	October 30, 1993	July 31, 1993
<CAPTION>					
Raw materials			\$5,344	\$9,876	
Work in process			2,245	2,041	
Finished goods			9,877	5,619	
			\$17,466	\$17,536	

</TABLE>

5. Fire at Belgium Subsidiary Warehouse

On November 19, 1993, the Company incurred a fire loss, covered by insurance, at a leased facility in Brussels, Belgium. The policies between the Company and its insurers generally provide for losses to be covered at replacement cost or sale value. An agreement has been partially negotiated and the Company expects to receive proceeds from its insurers during the second quarter of fiscal 1994.

6. Commitments and Contingencies

The Company is a defendant in various other lawsuits generally incidental to its business. The amounts sought by the plaintiffs in such cases are substantial and, if all such cases were decided adversely to the Company, the Company's aggregate liability might be material. However, the Company does not expect such an aggregate result based upon the limited number of such actions and an assessment that most such actions will be successfully defended. No provision has been made in the accompanying financial statements for any possible liability with respect to such lawsuits.

Item 2. Management's Discussion and Analysis of Financial
Condition and Results of Operations
(Years Referred to are Fiscal Years)

Results of Operations

The Company had an operating loss of \$0.3 million and a net loss of \$1.0 million for the first quarter of 1994. This compares with an operating income of \$2.8 million and a net income of \$0.1 million, for the first quarter of 1993. The following is a summary of the Company's sources of revenue:

<TABLE>

<CAPTION>

(In thousands)			Three Months Ended		
	<C>	<C>	10/30/93	10/31/92	
<S>					
Sales:					
Foreign			\$17,008	\$28,387	
U.S.			2,321	1,469	
				19,329	29,856
Service and other:					
Foreign			21,987	30,260	
U.S.			332	427	
				22,319	30,687
Total revenue	\$41,648		\$60,543		

</TABLE>

Revenue during the first quarter of 1994 declined \$18.9 million, or 31.2%, compared with the same period of the prior year. This decline was partly due to a stronger U.S. dollar during the first quarter of 1994, as compared to the local currencies of the Company's subsidiaries. The strengthening of the U.S. dollar negatively impacted sales revenue \$3.8 million and service and other revenue \$5.1 million. In addition, revenue for the first quarter of 1993 included \$0.8 million of sales revenue and \$1.2 million of service and other revenue for the former Australian subsidiary which was subsequently sold at the end of the second quarter of 1993. Excluding these items, revenue declined \$8.0 million; the Company attributes this to competitive pressure in its data processing business and the weak economic environment in many of the European countries in which the Company does a preponderance of its business.

The gross profit margin for the first three months of 1994 was 41.1% compared with 42.5% for the same period a year ago. The slight change was due primarily to a change in product mix.

Operating expenses during the first quarter of 1994 declined \$5.5 million from the same period a year ago, or \$3.2 million if the effect of the stronger U.S. dollar is excluded, because the Company has significantly reduced the cost of its internal operations over the past year.

The non-operating income of \$0.3 million during the first quarter of 1994 consisted primarily of interest income. The non-operating expense of \$0.5 million during the first quarter of 1993 resulted from the unfavorable impact of changes in foreign currency exchange rates on certain of the Company's intercompany receivables and payables, which more than offset interest income earned during the period.

In the first quarter of 1994, the Company adopted Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes." SFAS 109 requires that liabilities and receivables for future taxes be calculated using a balance sheet approach rather than the income statement approach. As a result, the Company recorded additional deferred income tax assets of \$2.1 million, after a valuation allowance of \$66.7 million, and increased deferred income tax liabilities by \$0.7 million which, in total, resulted in a \$1.3 million credit (\$.09 per share) for the cumulative effect of the accounting change. The valuation allowance reflects the Company's assessment regarding the realizability of certain U.S. and non-U.S. deferred income tax assets. Management believes that future taxable income of the Company will more likely than not result in utilization of the net deferred tax asset at August 1, 1993. Such future income levels are not assured due to the nature of the Company's business which is generally characterized by rapidly changing technology and intense competition. The Company evaluates realizability of the deferred income tax assets on a quarterly basis.

Prior to 1994, the Company's foreign subsidiaries reported their results to the parent on a one-month lag which allowed more time to compile results but produced comparability problems in management accounting. Due to improved internal operations, the one-month lag became unnecessary and therefore was eliminated subsequent to 1993 and prior to 1994. As a result, the July 1993 results of operations for the Company's foreign subsidiaries was recorded to the retained deficit. This action resulted in a charge of \$5.5 million being recorded against the retained deficit. The loss incurred in July 1993 resulted primarily from a low revenue level, which is usual for the first month of the new fiscal year.

Financial Condition

During the first three months of 1994, the Company's cash and cash equivalents decreased \$7.9 million due primarily to the usage of cash in operations. The decrease in cash was chiefly a result of the revenue decline and a reduction in accounts payable, partially offset by continued strong collections of accounts receivables and additional bank borrowings.

As of October 30, 1993, the Company had restricted cash and cash equivalents of \$4.8 million which was restricted primarily to cover various lines of credits, reflected as payables to banks, and for \$1.6 million of guaranteed dividends on the \$1.00 Preferred Stock.

The Company has a secured credit facility ("Credit Facility") with The CIT Group, which consists of a term loan and a revolving loan. The borrowings outstanding under the Credit Facility, as of October 30, 1993, were \$3.8 million. The Credit Facility expires March 7, 1994, at which time the outstanding borrowings must be repaid in full. The Company intends to refinance this loan through The CIT Group, or another lender, or will use internal sources of liquidity to retire the Credit Facility.

The Company has an internal source of liquidity in an investment portfolio with a market value of \$5.0 million. As of October 30, 1993, the portfolio consisted of \$4.0 million of cash and \$1.0 million of marketable securities.

On November 19, 1993, the Company incurred a fire loss, covered by insurance, at a leased facility in Brussels, Belgium. The policies between the Company and its insurers generally provide for losses to be covered at replacement cost or sale value. An agreement has been partially negotiated and the Company expects to receive proceeds from its insurers during the second quarter of fiscal 1994. The business interruption resulting from the fire is not expected to have a major negative impact upon the Belgium subsidiary's ability to operate.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Item 3 of Registrant's Report on Form 10-K for the fiscal year ended July 31, 1993, for a description of certain legal proceedings heretofore reported. See also note 6 to the Consolidated Financial Statements included as Item 1 of Part I of this Report.

SIGNATURE

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.

DATAPOINT CORPORATION
(Registrant)

DATE: December 14, 1993

/s/ David G. Hargraves

David G. Hargraves
Chief Financial Officer
(Chief Accounting Officer)