

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-30**  
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FILER

**PICO PRODUCTS INC**

CIK: **352994** | IRS No.: **150624701** | State of Incorporation: **NY** | Fiscal Year End: **0731**  
Type: **10-Q** | Act: **34** | File No.: **001-08342** | Film No.: **95546728**  
SIC: **3663** Radio & tv broadcasting & communications equipment

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Lakeview Terrace CA  
91342

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8188970028

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended April 30, 1995  
-----

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 1-8342  
-----

PICO PRODUCTS, INC.

-----  
(Exact name of registrant as specified in its charter)

NEW YORK

15-0624701

-----  
(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

12500 Foothill Blvd.  
Lakeview Terrace, California

91342

-----  
(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (818) 897-0028  
-----

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 requirement 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 June 9, 1995.

Common Stock, \$0.01 par value

3,637,046

-----  
Class

-----  
Number of Shares

This report consists of 30 pages.

PICO PRODUCTS, INC.

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PICO PRODUCTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

<TABLE>

<CAPTION>

	April 30, 1995	July 31, 1994
	-----	-----
ASSETS		
<S>	<C>	<C>
Current Assets:		

Cash and cash equivalents	\$ 559,544	\$ 441,609
Accounts receivable (less allowance for doubtful accounts: April 30, 1995, \$350,000; July 31, 1994, \$295,000)	4,950,403	4,417,712
Inventories (Note 2)	8,609,322	7,170,944
Prepaid expenses and other current assets	102,665	381,242
	-----	-----
Total Current Assets	14,221,934	12,411,507
Property, Plant and Equipment:		
Buildings	217,255	217,255
Leasehold improvements	313,244	308,310
Machinery and equipment	3,195,773	3,043,880
	-----	-----
	3,726,272	3,569,445
Less accumulated depreciation	2,932,722	2,774,336
	-----	-----
	793,550	795,109
Other Assets:		
Patents and licenses (less accumulated amortization: April 30, 1995, \$54,715; July 31, 1994, \$1,170,757) (Note 6)	166,495	241,407
Excess of cost over net assets of businesses acquired (less accumulated amortization: April 30, 1995, \$330,630; July 31, 1994, \$308,850)	246,805	268,585
Deposits and other miscellaneous assets	109,857	136,405
	-----	-----
	523,157	646,397
	-----	-----
	\$15,538,641	\$13,853,013
	-----	-----

</TABLE>

See notes to condensed consolidated financial statements.

PICO PRODUCTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(continued)  
(Unaudited)

<TABLE>

<CAPTION>

	April 30, 1995	July 31, 1994
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
<S>	<C>	<C>
Current Liabilities:		
Notes payable	\$ 6,241,772	\$ 5,787,282

Accounts payable	3,032,903	1,886,757
Accrued expenses:		
Legal and accounting	93,581	201,051
Payroll and payroll taxes	372,288	619,018
Other accrued expenses	293,269	261,214
Other liabilities (Note 5)	462,065	403,699
Current portion of long-term debt	364,230	101,547
	-----	-----
Total Current Liabilities	10,860,108	9,260,568
Long-Term Debt	305,165	631,654
Commitments and Contingencies (Note 5)	-	-
Shareholders' Equity:		
Preferred shares, \$.01 par value; authorized 500,000 shares; no shares issued	-	-
Common shares, \$.01 par value; authorized 15,000,000 shares; issued and outstanding 3,637,046 shares at April 30, 1995 and 3,632,046 at July 31, 1994	36,370	36,320
Additional paid-in capital	21,565,255	21,561,555
Accumulated deficit	(17,146,358)	(17,535,970)
Cumulative translation adjustment	(81,899)	(101,114)
	-----	-----
Total Shareholders' Equity	4,373,368	3,960,791
	-----	-----
	\$15,538,641	\$13,853,013
	-----	-----
	-----	-----

</TABLE>

See notes to condensed consolidated financial statements.

PICO PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

<TABLE>

<CAPTION>

	Three Months Ended April 30,		Nine Months Ended April 30,	
	1995	1994	1995	1994
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Sales	\$7,790,384	\$7,770,781	\$23,889,327	\$22,717,002

Cost of sales	5,908,862	5,913,131	18,162,668	17,478,647
Selling and administrative expenses	1,642,426	1,679,185	5,096,295	4,621,330
	-----	-----	-----	-----
Income from operations	239,096	178,465	630,364	617,025
Other income (Notes 3, 6)	24,829	164,517	275,728	448,513
Interest expense	(181,129)	(124,201)	(490,092)	(381,773)
	-----	-----	-----	-----
Income before income taxes	82,796	218,781	416,000	683,765
Income tax provision (Note 4)	26,388	0	26,388	0
	-----	-----	-----	-----
Net income	\$ 56,408	\$ 218,781	\$ 389,612	\$ 683,765
	-----	-----	-----	-----
	-----	-----	-----	-----
Net income per common and common equivalent share:				
Primary	\$ 0.01	\$ 0.05	\$ 0.09	\$ 0.16
	-----	-----	-----	-----
	-----	-----	-----	-----
Fully diluted	\$ 0.01	\$ 0.05	\$ 0.09	\$ 0.16
	-----	-----	-----	-----
	-----	-----	-----	-----
Weighted average common and equivalent shares outstanding:				
Primary	4,229,296	4,345,732	4,262,885	4,297,483
	-----	-----	-----	-----
	-----	-----	-----	-----
Fully diluted	4,229,296	4,345,732	4,262,885	4,319,164
	-----	-----	-----	-----
	-----	-----	-----	-----

</TABLE>

See notes to condensed consolidated financial statements.

PICO PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

<TABLE>  
<CAPTION>

	Nine Months Ended April 30,	
	1995	1994
<S>	<C>	<C>
Cash Flows From Operating Activities:		
Net income	\$ 389,612	\$ 683,765
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	296,122	401,957
Changes in operating assets and liabilities	(791,149)	(1,292,688)
Net cash used by operating activities	(105,415)	(206,966)
Cash Flows From Investing Activities:		
Capital expenditures	(170,334)	(64,787)
Cash Flows From Financing Activities:		
Net borrowings under a line of credit agreement	454,490	519,759
Principal payments on long-term debt	(63,806)	(565,756)
Change in restricted cash	-	209,993
Proceeds from exercise of stock options	3,000	34,000
Net cash provided by financing activities	393,684	197,996
Net increase (decrease) in cash and cash equivalents	117,935	(73,757)
Cash and cash equivalents at beginning of period	441,609	209,415
Cash and cash equivalents at end of period	\$ 559,544	\$ 135,658
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 476,070	\$ 379,241
Income taxes	15,138	-

</TABLE>

The Company financed its new management information system, totaling \$247,561, during the nine months ended April 30, 1994.

PICO PRODUCTS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

(1) GENERAL

The Company's primary industry is the manufacturing and distribution of equipment and parts for the cable television (CATV) and satellite master antenna television (SMATV) markets. The accompanying unaudited condensed consolidated financial statements include all adjustments which are, in the opinion of the Company's management, necessary to present fairly the Company's financial position as of April 30, 1995, and the results of its operations and its cash flows for the three and nine month periods ended April 30, 1995 and 1994. All significant intercompany accounts and transactions have been eliminated. All such adjustments are of a normal recurring nature.

The Company has made certain reclassifications to the condensed consolidated financial statements for the three and nine month periods ended April 30, 1994 to conform with classifications used in the condensed consolidated financial statements for the three and nine month periods ended April 30, 1995.

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 the rules and regulations of the Securities and Exchange Commission. These condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 1994.

The results of operations for the interim periods shown in this Report are not necessarily indicative of the results to be expected for the fiscal year.

(2) INVENTORIES

The composition of inventories was as follows:

<TABLE>

<CAPTION>

	April 30, 1995	July 31, 1994
	-----	-----
<S>	<C>	<C>
Raw materials	\$2,167,406	\$ 2,229,884
Work in process	285,913	86,551
Finished goods	6,156,003	4,854,509
	-----	-----
	\$8,609,322	\$ 7,170,944
	-----	-----
	-----	-----

</TABLE>



(3) OTHER INCOME

Other income consisted of the following:

<TABLE>

<CAPTION>

	Three Months Ended April 30,		Nine Months Ended April 30,	
	1995	1994	1995	1994
<S>	<C>	<C>	<C>	<C>
Royalty income	\$ 17,516	\$160,464	\$256,657	\$435,962
Interest income	7,313	4,053	19,071	12,551
	\$ 24,829	\$164,517	\$275,728	\$448,513

</TABLE>

(4) INCOME TAXES

A provision for U.S. Federal and State alternative minimum tax has been established for the three and nine month periods ended April 30, 1995. However, neither regular U.S. Federal and State income taxes nor foreign income taxes have been provided for the three and nine month periods ended April 30, 1995 and 1994 due to the Company's U.S. Federal and State net operating loss carryforward positions and tax holidays granted the Company's foreign subsidiaries.

(5) LITIGATION AND CONTINGENCIES

In November 1991, Arrow Communication Laboratories, Inc. (Arcom) of Syracuse, New York initiated a lawsuit in the Supreme Court in the County of Onondaga, New York. The suit, which was amended in June 1992, alleges that Arcom has a paid-up license with respect to the Company's patent for positive trapping systems, that Arcom is entitled to unspecified damages based on overpayment of royalty amounts, and that Arcom has incurred damages in excess of \$250,000 as a result of a Company press release announcing termination of the license agreement. The suit also asserts that Arcom is entitled to punitive damages of \$3,000,000. The Company responded by denying all liability and asserting certain common law and statutory defenses.

In December 1993, in response to a summary judgment motion filed by the Company, the New York State Court rejected Arcom's claim that it had a paid-up license. Instead, the Court held that when Arcom "defaulted in making royalty payments on or about November 15, 1991, the license terminated by its own terms 30 days later as asserted by the Company in its termination letter dated January 13, 1992." Following the New York State Court's summary judgment decision, the Company initiated a patent infringement lawsuit against Arcom in the United States District Court for the Northern District of New York. In its suit, the Company asked the Federal Court to award it treble damages for willful infringement plus attorney's fees. The Company also filed a motion for a preliminary injunction against further infringement by

Arcom. At a court hearing on February 15, 1994, the parties agreed, and it was ordered by the Court, that Arcom would post as security amounts equal to the royalties due to the Company for the manufacture and sale of product covered by the license agreement from December 15, 1991, the date that the license would have terminated, until the expiration of the patent in February 1995. Through May 31, 1995 Arcom has made cash payments of \$462,065 covering royalties through February 14, 1995. The Company has not included these amounts in income in any fiscal period but has recorded a current liability for \$462,065 at April 30, 1995. In addition, Arcom posted an irrevocable letter of credit in an amount deemed sufficient to permit recovery of a significant portion of the Company's damages if it were to prevail on its willful infringement claim. In exchange, the Company withdrew its request for a preliminary injunction. In the event that the Company does not prevail on its infringement claims, the Company has agreed to refund all security payments made by Arcom.

In July 1994, the Appellate Division, Fourth Department of the New York Supreme Court ruled that parts of the license agreement relating to Arcom's paid-up license claims involve questions of fact that must be resolved at trial. Management anticipates that a trial will be scheduled late in 1995 or early in 1996. Management believes that the outcome of this matter will not have a material adverse effect on the Company's consolidated financial statements.

On March 6, 1995, a subsidiary of the Company received a Joint Request for Information (the "Information Request") from the United States Environmental Protection Agency, Region II (the "EPA"), under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), with respect to the release and/or threatened release of hazardous substances, hazardous wastes, pollutants or contaminants into the environment at the Onondaga Lake Site, Syracuse, Onondaga County, New York. The Company has learned that the EPA added the Onondaga Lake Site to the Superfund National Priorities List on December 6, 1994, and has completed an onsite assessment of the degree of hazard. The EPA has indicated that the Company is only one of 26 companies located in the vicinity of Onondaga Lake or its tributaries that have received a similar Information Request.

The Information Request relates to the activities of the Company's Printed Circuit Board Division, which was sold to a third party in 1992, and which conducted operations within the specified area. Under the Agreement of Sale with the buyer, the Company retained liability for environmental obligations which occurred prior to the sale.

The Company has provided all information requested by the EPA. The Information Request does not designate the Company as a potentially responsible party, nor has the EPA indicated the basis upon which it would designate the Company as a potentially responsible party. The Company is therefore unable to state whether there is any material

likelihood of liability on its part, and, if there were to be any such liability, the basis of any sharing of such liability with others.

The Company is involved, from time to time, in certain other legal actions arising in the normal course of business. Management believes that the outcome of other litigation will not have material adverse affect on the Company's consolidated financial statements.

#### (6) PATENT EXPIRATION

On February 14, 1995, the Company's patent for positive trapping systems

expired. As of April 30, 1995, the Company has fully amortized the cost of this patent and has written off the patent's cost and accumulated amortization from its books and records. Royalty income from license holders of the Company's patent totaled \$17,516 and \$256,657 for the three and nine month periods ended April 30, 1995.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS  
OF OPERATIONS AND FINANCIAL CONDITION

The following discussion compares the operations of the Company for the three and nine month periods ended April 30, 1995 with the operations for the three and nine month periods ended April 30, 1994, as shown by the unaudited condensed consolidated statements of income included in this quarterly report.

RESULTS OF OPERATIONS

Although sales increased by approximately \$1.2 million, or 5%, for the nine months ended April 30, 1995 compared to the nine months ended April 30, 1994, sales for the quarter ended April 30, 1995 were flat compared to the same period of the previous fiscal year. The Company's sales and profits would have been higher for the quarter had product been received when initially scheduled. However, delays in receipt of raw material and finished product from offshore vendors, and delays in receiving letters of credit and government documentation for shipments to customers in South America, resulted in shipments being delayed into the fourth quarter. The Company's order backlog, however, at April 30, 1995 was \$5.0 million compared to \$3.6 million at April 30, 1994 and represents a strong demand for the Company's products.

The Company's Pico Macom subsidiary recorded sales increases of approximately 7% in the nine months ended April 30, 1995, compared to the nine months ended April 30, 1994, but recorded a slight sales decrease of 1% in the quarter ended April 30, 1995, compared to the same period for the previous year. As stated previously, delays in receipt of product shipments from vendors caused the sales decrease. Although the Company's CATV division recorded a sales decrease of approximately 9% for the nine months ended April 30, 1995 compared to the same period of the prior year, the CATV division's sales in the third quarter increased by 4% compared to the third quarter of the prior fiscal year. This increase reflected a strong demand for cable security devices during the third quarter in the United States and overseas.

Cost of sales increased by approximately \$684,000, or 4%, for the nine months ended April 30, 1995 compared with the nine months ended April 30, 1994, and cost of sales was even for the fiscal quarter ended April 30, 1995 compared with the same fiscal quarter in the previous year. Cost of sales as a percentage of sales decreased by 1% (from 77% to 76%) for the nine months ended April 30, 1995 compared with the nine months ended April 30, 1994, and cost of sales as a percentage of sales was even for the fiscal quarter ended April 30, 1995 compared with the same fiscal quarter in the previous year. The dollar increase in cost of sales for the nine month period was primarily attributable to the increase in sales volume. The decrease in cost of sales as a percentage of sales for the nine month period was primarily due to a change in product mix between Pico Macom and the CATV Division.

Selling and administrative expenses increased by approximately \$475,000, or 10%,

for the nine months ended April 30, 1995 compared to the nine months ended April 30, 1994. The primary reasons for these increases were increased investment in product development and expenditures related to development of new markets in Asia, and the opening of a new Asia regional office in Hong Kong. The Hong Kong regional office is in full operation. Selling and administrative expenses for the third quarter were slightly lower compared to the same period of the previous year. While product development expenses and marketing expenses in Asia continued into the third quarter at a rate consistent with the first six months of the fiscal year, the Company experienced a reduction in patent amortization, legal and management incentive expenses compared to the third quarter of the previous year. Management anticipates that expenditures for product development and development of new markets in Asia will continue for the remainder of the fiscal year.

Other income was \$25,000 for the third quarter ended April 30, 1995, compared with \$165,000 for the same quarter in the previous year, a decrease of 85%. Other income decreased by approximately \$173,000, or 39%, for the nine months ended April 30, 1995 compared to the nine month period in the previous year. The decreases in other income for both the three and nine month periods primarily related to expiration of the Company's patent for positive trapping systems in February, 1995.

Interest expense increased by approximately \$108,000, or 28% for the nine months ended April 30, 1995 compared with the nine months ended April 30, 1994, and interest expense increased by \$57,000, or 46%, for the fiscal quarter ended April 30, 1995 compared with the fiscal quarter ended April 30, 1994. The increase was primarily due to higher borrowing levels on the Company's bank line of credit to support the Company's working capital requirements, and due to several increases in the prime rate during the nine months ended April 30, 1995.

A provision for U.S. Federal and State alternative minimum tax has been established for the three and nine month periods ended April 30, 1995. However, neither regular U.S. Federal and State income taxes nor foreign income taxes have been provided for the three and nine month periods ended April 30, 1995 and 1994 due to the Company's U.S. Federal and State net operating loss carryforward positions and tax holidays granted the Company's foreign subsidiaries.

#### LIQUIDITY AND CAPITAL RESOURCES

As of April 30, 1995, the Company had working capital of approximately \$3,362,000 and a ratio of current assets to current liabilities of approximately 1.3:1, compared with working capital of approximately \$3,151,000 and a ratio of 1.3:1 as of July 31, 1994. During the nine months ended April 30, 1995, the Company recorded negative cash flow from operating activities primarily as a result of increased inventory purchases.

The Company's growth depends on its ability to supply a diverse line of products compatible with cable systems in the United States, Asia and South America. Further, as discussed earlier, the Company is investing resources in new product development. The result has been an increase in inventory while the Company continues to have a large backlog of orders due to the delay in the delivery of product from Asian vendors and the delay in receiving letters of credit and import documents for shipments to South American customers where the Company has existing purchase orders.

During the nine months ended April 30, 1995 and 1994, cash used for capital

expenditures was approximately \$170,000 and \$65,000, respectively. During the first nine months of fiscal year 1994, the Company financed approximately \$250,000 for the acquisition of a new management information system.

At April 30, 1995, Pico Macom had a \$10,000,000 revolving bank line of credit which provides for interest at the prime rate (9.0% at April 30, 1995) plus 1.25%. The bank line of credit is used to fund operating expenses, product purchases, and letters of credit for import purchases. The line is structured as a \$10,000,000 line of credit with a sub-limit of \$1,500,000 for outstanding letters of credit. The amount available is based on various percentages of eligible accounts receivable and inventories as defined in the agreement, which expires on May 25, 1996. The credit facility is subject to certain financial tests and covenants. At April 30, 1995, Pico Macom had approximately \$6,242,000 in revolving loans and approximately \$196,000 in letters of credit outstanding, and the unused portion of the borrowing base was approximately \$1,358,000.

Despite the expiration of the Company's patent for positive trapping systems in February 1995, management believes that continued profitable operations along with the current credit arrangements will provide sufficient cash to fund the Company's operational needs for the balance of the fiscal year 1995. Should the Company identify opportunities that require cash beyond that generated internally or available from its credit line, the Company would seek to increase its current credit line. Alternatively, the Company would consider seeking other sources of cash, including, but not limited to, a public offering or a private placement.

Profitability of operations is subject to various uncertainties including general economic conditions, favorable settlement of ongoing litigation and the actions of actual or potential competitors and customers. The Company's future depends on the growth of the cable TV market in the United States and internationally. In the United States, a number of factors could affect the future profitability of the Company, including changes in the regulatory climate for cable TV, changes in the competitive structure of the cable and telecommunications industries or changes in the technology base of the industry. Internationally, the Company's profitability depends on its ability to penetrate new markets in the face of competition from other United States and foreign companies.

## PART II OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS.

Incorporated by reference from financial statement footnote number 5 of Part I.

### Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

#### (a) Exhibits:

- 10(N) Employment Agreement between Pico Macom, Inc. and Norman Reinhardt, dated March 22, 1995.
- 10(O) Amendment to the Exclusive Manufacturing/Marketing Agreement between Good Mind Industries and Pico Macom, Inc., dated April

26, 1989.

11.1 Computation of Per Share Earnings.

27 Financial Data Schedule (included only in the EDGAR filing).

(b) Reports on Form 8-K:

None.

#### 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.

PICO PRODUCTS, INC.

REGISTRANT

DATE: June 9, 1995

Joseph T. Kingsley

-----  
Senior Vice President of Finance  
Chief Financial Officer

FORM 10-Q

QUARTER ENDED APRIL 30, 1995

EXHIBITS

10(N) Employment Agreement between Pico Macom, Inc. and Norman Reinhardt, dated March 22, 1995. (12 pages)

10(O) Amendment to the Exclusive Manufacturing/Marketing Agreement between Good Mind Industries and Pico Macom, Inc., dated April 26, 1989.

11.1 Computation of Per Share Earnings

27 Financial Data Schedule (included only in the EDGAR filing).

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (the "Agreement") dated as of March 22, 1995, between PICO MACOM, INC., a Delaware corporation ("Employer"), and NORMAN REINHARDT ("Employee").

BACKGROUND. Employee is currently employed by Employer as its Vice President -- Technology and Product Development. Employer and Employee mutually agree to continue the employment of Employee as Vice President -- Technology and Product Development upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants and agreements hereinafter set forth, the parties hereto, intending to be legally bound hereby, agree as follows:

1. EMPLOYMENT. Employer hereby employs Employee, and Employee hereby accepts such employment and agrees to perform his duties and responsibilities hereunder, in accordance with the terms and conditions hereinafter set forth.

1.1 EMPLOYMENT TERM. The employment term of this Agreement shall be for a period of one year (the "Employment Term"). The initial Employment Term shall commence on the date hereof and shall continue until and end on the first anniversary date of this Agreement, unless terminated prior thereto in accordance with Section 7 hereof.

1.2 RENEWAL. This Agreement shall be automatically renewed for successive one year terms at the expiration of each Employment Term unless written notice to the contrary is provided by either the Employer or the Employee at least sixty days prior to the expiration of such Employment Term.

1.3 DUTIES AND RESPONSIBILITIES.

(a) During the Employment Term, Employee shall serve as Vice President -- Technology and Product Development of Employer and shall perform all duties and accept all responsibilities incidental to such position or as may be assigned to him by Employer's Board of Directors, and he shall cooperate fully with the Board of Directors and other executive officers of the Employer.

(b) Notwithstanding the provisions of Section 1.3(a) hereof, Employer's Board of Directors may alter the titles, duties and responsibilities of Employee as long as Employee is retained in an executive capacity with

Employer.

(c) Employee represents and covenants to Employer that he is subject to or a party to only those employment agreements, non-competition covenants, and non-disclosure agreements listed on Exhibit "A" hereto. Employee represents and covenants to Employer that neither those documents nor any other similar agreement, covenant, understanding or restriction to which Employee is subject would prohibit Employee from executing this Agreement and performing his duties and responsibilities hereunder, or would in any manner, directly or indirectly, limit or affect the duties and responsibilities which may now or in the future be assigned to Employee by Employer.

1.4 EXTENT OF SERVICE. During the Employment Term, Employee agrees to use his best efforts to carry out his duties and responsibilities under Section 1.3 hereof and to devote his full time, attention and energy thereto. The foregoing shall not be construed as preventing Employee from making investments in other business or enterprises provided that Employee agrees not to become engaged in any other business activity which may interfere with his ability to discharge his duties and responsibilities to Employer. Employee further agrees not to work either on a part time or independent contracting basis for any other business or enterprise during the Employment Term without the prior written consent of the Board of Directors of Employer.

1.5 BASE COMPENSATION. For all the services rendered by Employee hereunder, Employer shall pay Employee an annual salary at the rate of \$95,000 for the one-year Employment Term, plus such additional amounts, if any, as may be approved by the Employer's Board of Directors, less withholding required by law or agreed to by Employee, payable in installments at such times as Employer customarily pays its other executive officers.

#### 1.6 BENEFITS.

(a) During the Employment Term, Employee shall be entitled to fifteen working days of paid vacation during the Employment Term in accordance with Employer's then existing vacation policy.

(b) Employee shall be entitled to all normal and usual benefits provided by Employer to its employees, including, but not limited to, participation in profit sharing, disability, health, dental, hospitalization and retirement plans and such other benefits as the Board of Directors of Employer may from time to time determine based upon the benefits paid to other officers of Employer.

#### 1.7 CHANGE IN CONTROL.

(a) For purposes of this paragraph 1.7, "Change in Control" shall mean (i) a merger or consolidation of Employer or Employer's parent, Pico Products, Inc., a New York corporation ("Products"), with any entity other than an entity with which Employer or Products is affiliated at the date of execution



of this Agreement; (ii) a sale of substantially all of the assets of Employer to any person or entity other than a person or entity with which Employer or Products is affiliated at the date of execution of this Agreement; or (iii) individuals who were members of the Board of Directors of Products on the date of execution of this Agreement no longer constitute a majority of the Product's Board of Directors.

(b) In the event of a Change in Control, Employee may elect to terminate this Agreement for Good Cause. For purposes of this Agreement, "Good Cause" shall mean:

(i) the assignment to Employee of any duties inconsistent with his positions, duties, responsibilities and status with Employer as in effect immediately prior to such Change in Control;

(ii) a change in Employee's reporting responsibilities, titles or offices as in effect immediately prior to such Change in Control;

(iii) a reduction in Employee's base salary as in effect immediately prior to such Change in Control; or

(iv) a relocation of Employee's office to a city other than the city where Employee was based immediately prior to such Change in Control.

(c) Employee shall provide written notice to Employer of his election to terminate this Agreement for Good

Cause, and shall specify in such written notice the date upon which this Agreement shall terminate.

(d) If Employee terminates this Agreement following a Change in Control for any reason other than Good Cause, Employer shall pay Employee his base salary through the effective date of termination.

(e) If Employee elects to terminate this Agreement for Good Cause:

(i) Employer shall pay Employee, as severance compensation, an amount equal to twelve times Employee's base monthly cash compensation. Such severance compensation shall be paid in twelve equal monthly installments, commencing thirty days after the date of termination of this Agreement; and

(ii) Employer shall continue to provide Employee with all health, dental, hospitalization and disability benefits which Employee received pursuant to Section 1.6(b) hereof, for a period of twelve months following the termination of this Agreement.

1.8 SEVERANCE COMPENSATION. If Employer terminates this Agreement, other than pursuant to Section 7 hereof:

(a) Employer shall pay Employee an amount equal to twelve times Employee's base monthly cash compensation. Such severance compensation shall be payable in twelve equal monthly installments, commencing thirty days after the date of termination of this Agreement; and

(b) Employer shall continue to provide Employee with all health, dental, hospitalization and disability benefits which Employee received pursuant to Section 1.6(b) hereof, for a period of twelve months following the termination of this Agreement.

2. EXPENSES. Employee shall be reimbursed for the reasonable business expenses incurred by him in connection with his performance of services hereunder during the Employment Term upon presentation of an itemized account and written proof of such expenses.

3. DEVELOPMENTS. Employee will disclose promptly in writing to Employer all inventions, ideas, discoveries, and improvement, whether or not patentable, conceived by Employee during the period of Employee's employment with Employer, or a parent or subsidiary thereof, whether alone or with others, and whether or not during regular business hours, or on Employer premises or with the aid of Employer materials, which pertain in any way to Employee's work with Employer or to any business activity which is or at the time of such conception may be carried on by Employer or a parent or subsidiary thereof. All such inventions, ideas, discoveries, and improvements are the property of Employer to which Employee hereby assigns and transfers forever all Employee's rights, titles and interests.

Employee, upon request by Employer and at Employer's sole expense, will prepare and execute applications for patents for such inventions, ideas, discoveries, and improvements, both in the United States and in foreign countries, and will do everything necessary to ensure the issuance of such patents, irrespective of whether required to be done during or after the termination of Employee's period of employment with Employer. Employee will be eligible for any Employer awards normally given to Employees for submission of patents.

Any inventions, ideas, discoveries, and improvements conceived or made by Employee prior to the execution of this Agreement and not intended to be included within its provisions are listed or described on Exhibit "B" attached to this Agreement, and the absence of any such list or description indicates that there are no inventions, ideas, discoveries, or improvements not covered by this Agreement.

Employee has read the attached provisions of California law (Chapter 2, Div. 3 Labor Code Sec. 1 Art 3.5, Sections 2870, 2871 and 2872) and understands that under its provisions Employee may retain ownership of certain

inventions that Employee may make during the term of employment. Such inventions shall not be subject to the terms of this Agreement. Any such inventions which Employee desires to retain as Employee's property will be reported and disclosed to the Employer with the understanding, however, that the Employer may require Employee to disclose such information about such inventions, as in Employer's opinion is necessary to enable it to determine if the invention qualifies under this law for retention as Employee's property. It is further understood that information disclosed by Employee will be held in confidence by Employer. However, Employer need not treat any such disclosed information as confidential if it has

previously been known to it, or if at the time of Employee's disclosure or thereafter it is disclosed in patents or other publications, imparted to it by other parties having lawful possession of the same, or is well known to the trade to which it relates.

4. TRADE SECRETS. The Employee agrees that he will not at any time, either during or subsequent to the Employment Term, unless given express consent in writing by the Employer, either directly or indirectly use or communicate to any person or entity any confidential information of any kind concerning matters affecting or relating to the names, addresses, buying habits or practices of any of Employer's clients to customers; Employer's marketing methods, programs, formulas, patterns, compilations, devices, methods, techniques or processes and related data; the amount of compensation paid by Employer to employees and independent contractors and other terms of their employment or contractual relationships; other information concerning Employer's manner of operations. (The foregoing shall not be deemed to prohibit the disclosure of information which (a) is, at the time of disclosure, in the public domain other than as a result of Employee's breach of this Agreement, or (b) can be demonstrated by Employee to be known by Employee on the date hereof, with the burden of proof to be on Employee.) The Employee agrees that the above information and items are important, material and confidential trade secrets and that they affect the successful conduct of the Employer's business and its good will. The Employee agrees that all business procured by the Employee while employed by the Employer is and shall remain the permanent and exclusive property of the Employer. Employee further agrees that Employer's relationship with each of its employees and independent contractors is a significant and valuable asset of the Employer. Any interference with the Employer's business, property, confidential information, trade secrets, clients, customers, employees or independent contractors by the Employee or any of Employee's agents during or after the term of this Agreement shall be deemed a material breach of this Agreement.

5. NONSOLICITATION. The Employee hereby acknowledges and agrees that he is likely to be exposed to a significant amount of confidential information concerning the Employer's business methods, operations, employment relationships and customers while employed under this Agreement, that such information might be retained by Employee in tangible form or simply retained in the Employee's memory, and that the protection of the Employer's exclusive rights to such confidential information and the benefits flowing from it can best be ensured by

means of a

restriction on the Employee's activities after termination of employment. Therefore, the Employee agrees that for the one-year period following termination of employment (whether with or without cause) he shall not solicit, divert or initiate (or attempt to solicit, divert or initiate) any contact with any customer, client or vendor of the Employer if such action is on behalf of any person (including Employee) who shall then be in a business competitive with that of Employer, for any commercial or business reason whatsoever. The Employee also agrees that for such period he will not directly or indirectly solicit the employment of any employee of the Employer and will not attempt to persuade any employee to leave the employment of the Employer.

6. EQUITABLE RELIEF.

(a) Employee acknowledges that the restrictions contained in Sections 4 and 5 hereof are reasonable and necessary to protect the legitimate interests of Employer and that any violation of such restrictions would result in irreparable injury to Employer. If the period of time or other restrictions specified in Sections 4 and 5 should be adjudged unreasonable at any proceeding, then the period of time or such other restrictions shall be reduced by the elimination or reduction of such portion thereof so that such restrictions may be enforced in a manner adjudged to be reasonable. Employee acknowledges that Employer shall be entitled to preliminary and permanent injunctive relief for a violation of any such restrictions without having to prove actual damages or to post a bond; Employer shall also be entitled to an equitable accounting of all earnings, profits and other benefits arising from such violation, which rights shall be cumulative and in addition to any other rights or remedies to which Employer may be entitled in law or equity. In the event of a violation, the period referred to in Section 5 hereof shall be extended by a period of time equal to that period beginning with the commencement of any such violation and ending when such violation shall have been finally terminated in good faith.

(b) Employee agrees that until the expiration of the covenants contained in Sections 4 and 5 of this Agreement, he will provide, and that Employer may similarly provide, a copy of the covenants contained in such Sections to any business or enterprise (i) which he may directly or indirectly own, manage, operate, finance, join, control or participate in the ownership, management, operation, financing, control or control of, or (ii) with which he may be connected with as an officer, director, employee, partner, principal, agent, representative, consultant

or otherwise, or in connection with which he may use or permit his name to be used.

7. TERMINATION. This Agreement shall terminate prior to the expiration of the term set forth in Section 1.1 above upon the occurrence of any of the following events:

7.1 DISABILITY. In the event that Employee is unable fully to perform his duties and responsibilities hereunder to the full extent required by the Board of Directors of the Employer by reason of illness, injury or incapacity for four consecutive months, during which time he shall continue to be compensated as provided in Section 1.5 hereof (less any payments due Employee under disability benefit programs, including Social Security disability, workers' compensation and disability retirement benefits), this Agreement may be terminated by Employer, and Employer shall have no further liability or obligation to Employee for compensation hereunder; provided, however, that Employee will be entitled to receive the payments prescribed under any disability benefit plan which may be in effect for employees of Employer and in which he participated. Employee agrees, in the event of any dispute under this Section 7.1, to submit to a physical examination by a licensed physician selected by the Board of Directors of Employer.

7.2 DEATH. In the event that Employee dies during the Employment Term, Employer shall pay to his executors, legal representatives or administrators an amount equal to the installment of his salary set forth in Section 1.5 hereof for the month in which he dies, and thereafter Employer shall have no further liability or obligation hereunder to his executors, legal representatives, administrators, heirs or assigns or any other person claiming under or through him; provided, however, that Employee's estate or designated beneficiaries shall be entitled to receive the payments prescribed for such recipients under any death benefit plan which may be in effect for employees of the Employer and in which Employee participated.

7.3 CAUSE. Notwithstanding any other provision hereof, Employer may terminate this Agreement at any time for "cause". For purposes of this Agreement, "cause" shall include, but not be limited to, the failure of Employee to perform or observe any of the terms or provisions of this Agreement, dishonesty, misconduct, conviction of a crime involving moral turpitude, habitual insobriety, misappropriation of funds, disparagement of the Employer, its management or its employees or financial inability of the Employer to continue to do business. The Employer's liability, if any, for payment to Employee as a

consequence of termination of Employee's employment pursuant to this Agreement shall be reduced by and to the extent of any earnings received by or accrued for the benefit of Employee during any unexpired part of the Employment Term.

8. SURVIVAL. Notwithstanding the termination of this Agreement by reason of Employee's disability under Section 7.1 or for cause under Section 7.3, his obligations under Section 4 and 5 hereof shall survive and remain in full force and effect for the periods therein provided, and the provisions for equitable relief against Employee in Section 6 hereof shall continue in force.

9. GOVERNING LAW. This Agreement shall be governed by and interpreted under the laws of the State of California.

10. DISPUTES AND ARBITRATION. Any disputes arising hereunder, including disputes arising from or relating to termination, shall be resolved by binding arbitration. Notice of the demand for arbitration by either party shall be given in writing to the other party to this Agreement. Upon such demand, the dispute shall be settled by arbitration before a single arbitrator pursuant to the rules of the American Arbitration Association (the "AAA"). Discovery shall be permitted prior to arbitration and California law shall be applied. The arbitrator shall be selected by the joint agreement of the parties, but if the parties do not so agree within twenty days after the date of the notice referred to above, the selection shall be made pursuant to the rules of, and from the panels of arbitrators maintained by the AAA. Any award rendered by the arbitrator shall be conclusive and binding upon the parties hereto; provided, however, that any such award shall be accompanied by written opinion of the arbitrator giving the reasons for the award. Each party shall pay its own expenses of arbitration and the expenses of the arbitrator shall be equally shared by the parties. Nothing herein shall prevent the parties from settling any dispute by mutual agreement at any time.

11. NOTICES. All notices and other communications required or permitted hereunder or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered or mailed by registered or certified mail, as follows (provided that notice of change of address shall be deemed given only when received):

If to Employer, to: Pico Macom, Inc.  
12500 Foothill Boulevard  
Lakeview Terrace, CA 91342

With a required copy to: Spencer W. Franck, Jr., Esquire  
Saul, Ewing, Remick & Saul  
3800 Centre Square West  
Philadelphia, PA 19102

If to Employee, to: Mr. Norman Reinhardt  
\_\_\_\_\_  
\_\_\_\_\_

or to such other names or addresses as Employer or Employee, as the case may be, shall designate by notice to each other person entitled to receive notices in the manner specified in this Section.

12. CONTENTS OF AGREEMENT; AMENDMENT AND ASSIGNMENT.

(a) This Agreement supersedes all prior agreements and sets forth the entire understanding among the parties hereto with respect to the subject matter hereof and cannot be changed, modified, extended or terminated except upon written amendment approved by the Board Directors of Employer and executed on its behalf by a duly authorized officer. Without limitation, nothing in this

Agreement shall be construed as giving Employee any right to be retained in the employ of Employer beyond the expiration of the Employment Term, and Employee specifically acknowledges that, unless this Agreement is renewed in accordance with Section 1.2 hereof, he shall be an employee-at-will of Employer thereafter, and thus subject to discharge by Employer with or without cause and without compensation of any nature.

(b) Employee acknowledges that from time to time, Employer may establish, maintain and distribute employee manuals or handbooks or personnel policy manuals, and officers or other representatives of Employer may make written or oral statements relating to personnel policies and procedures. Such manuals, handbooks and statements are intended only for general guidance. No policies, procedures or statements of any nature by or on behalf of Employer (whether written or oral, and whether or not contained in any employee manual or handbook or personnel policy manual), and no acts or practices of any nature, shall be construed to modify this Agreement or to create express or implied obligations of any nature to Employee.

(c) All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, except that the duties and responsibilities of Employee hereunder are of a personal nature and shall not be assignable or delegatable in whole or in part by Employee.

13. SEVERABILITY. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction.

14. REMEDIES CUMULATIVE; NO WAIVER. No remedy conferred upon Employer by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity. No delay or omission by Employer in exercising any right, remedy or power hereunder or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be exercised by Employer from time to time and as often as may be deemed expedient or necessary by Employer in its sole discretion.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

Attest:

PICO MACOM, INC.

Joseph T. Kingsley

-----  
Secretary

By: Everett T. Keech

-----  
Norman F. Reinhardt

-----  
NORMAN REINHARDT

EMPLOYMENT AGREEMENT

EXHIBIT "A"

EMPLOYMENT AGREEMENTS, NON-COMPETITION AGREEMENTS AND NON-DISCLOSURE AGREEMENTS

1. General Instrument, Video Cipher Division, SAR Agreement.
2. News Datacom, Inc. Employment Letter.
3. General Instrument, Video Cipher Division, Non-Disclosure Agreements with many and various commercial entities.
4. News Datacom, Inc. & News Corporation Non-Disclosure Agreement, with many and various commercial entities.
5. News Datacom, Inc. Release from Employment Agreement.



EXHIBIT 10(O)

Amendment to the Exclusive Manufacturing/Marketing Agreement between Good Mind Industries and Pico Macom, Inc., dated April 26, 1989:

A. The Exclusive Manufacturing/Marketing Agreement is extended for the three year period ending May 1, 1998. Pico Macom Inc. agrees to purchase exclusive products with minimum quantities to be specified for each year of the Agreement. To enable Good Mind to plan its monthly manufacturing requirements, Pico Macom will periodically update a twelve month forecast for key items.

B. Either party shall have the right to terminate this Agreement with one year notice. In the event of a termination notice, neither party will violate the exclusivity agreement in this contract.

C. Both parties agree that Good Mind Industries has the primary responsibility for engineering, design and manufacturing for products on the exclusive list.

D. During the past few years, technology changes have begun to impact the worldwide cable TV and SMATV markets. In order to respond to customer requests, Pico Macom employees and contractors may design products to meet the needs of different markets. For products totally developed by Pico Macom Inc. employees and contractors, both parties agree that Good Mind may be an Original Equipment Manufacturer (OEM) which will manufacture products in accordance with PMI's specifications. Good Mind agrees that when it is functioning as an OEM, it will receive information which is proprietary to Pico Macom Inc. Good Mind agrees to not disclose or use this information in any manner except as directed by Pico Macom Inc. OEM products will be included on a separate schedule.

E. Both parties agree that maintaining a continuous flow of product is essential. Therefore, both parties agree to establish procedures to ensure product flow in the event that a catastrophe interrupts shipments from Good Mind to Pico Macom for more than 30 days. Catastrophes include such items as natural disasters, acts of war, or labor disruptions. In the event of a catastrophe, Good Mind, if able, will work with Pico Macom personnel to arrange for alternative manufacturing

facilities or alternative sources of supply. If needed, Good Mind will make available all manufacturing parts lists, drawings and assembly instructions to allow manufacturing operating to begin at an alternate site or facility until Good Mind can resume their manufacturing operations.

PICO MACOM INC.

GOOD MIND INDUSTRIES

Date: April 10, 1995

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Everett T. Keech

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Chairman and CEO

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Date: March 28, 1995

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Y. T. Ho

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General Manager

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## EXHIBIT 11.1

PICO PRODUCTS, INC.  
COMPUTATION OF PER SHARE EARNINGS

(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

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	Three Months Ended April 30,		Nine Months Ended April 30,	
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NET INCOME ATTRIBUTABLE TO COMMON STOCK	\$ 56	\$ 219	\$ 390	\$ 684

## PRIMARY EARNINGS PER SHARE:

Weighted average number of common shares outstanding	3,637	3,617	3,635	3,599
Dilutive effect of stock options and warrants after application of treasury stock method	592	729	628	698
Number of shares used to compute primary earnings per share	4,229	4,346	4,263	4,297
Primary earnings per share	\$ 0.01	\$ 0.05	\$ 0.09	\$ 0.16

## FULLY DILUTED EARNINGS PER SHARE:

Weighted average number of common shares outstanding	3,637	3,617	3,635	3,599
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Dilutive effect of stock options and warrants after application of treasury stock method	592	729	628	720
	-----	-----	-----	-----
Number of shares used to compute fully diluted earnings per share	4,229	4,346	4,263	4,319
Fully diluted earnings per share \$	0.01	0.05	0.09	0.16
	-----	-----	-----	-----
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