

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1996-08-26** | Period of Report: **1996-06-30**
SEC Accession No. **0000762953-96-000007**

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FILER

INTELLIGENT CONTROLS INC

CIK: **762953** | IRS No.: **010354107** | State of Incorpor.: **ME** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **000-24894** | Film No.: **96620364**
SIC: **3825** Instruments for meas & testing of electricity & elec signals

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*PO BOX 638
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U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended June 30, 1996

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [No Fee Required]

For the transition period from _____ to _____

Commission File Number 1-13628

INTELLIGENT CONTROLS, INC.

(Exact name of small business issuer as
specified in its charter)

Maine
(State or other jurisdiction of
Employer
incorporation or organization)
No.)

01-0354107
(I.R.S.
Identification

74 Industrial Park Road, Saco, Maine 04072
(Address of principal executive offices)

(207) 283-0156
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to
be filed by Section 13 or 15(d) of the Exchange Act during
the past 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 No

There were 3,216,187 shares of Common Stock of the issuer
outstanding as of July 29, 1996.

page

PART I

ITEM 1. FINANCIAL STATEMENTS.

Unaudited financial statements of the Company appear beginning at page F-1 below, and are incorporated herein by reference. These financial statements include all adjustments which, in the opinion of management, are necessary in order to make the financial statements not misleading.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations For Six Months Ended June 30, 1996

For the six months ended June 30, 1996 sales were \$4.3 million a slight decrease from 1995's comparable period of \$4.5 million.

The lower sales were due to a 9% decrease in sales to \$3.6 million in the Petroleum segment of the business. This was a result of a softness in the market due to the cold winter and our lateness with new products. Due to the success of the Optimizer circuit breaker monitor, the Utility segment grew 13% to \$676,000 from 1995's comparable period. There are now a number of large utilities evaluating the product and Optimizer purchases are beginning to be budgeted for 1997. Management estimates that there are approximately 1.3 million circuit breakers in the world that the Optimizer can fit on.

Gross margins for the first six months were 47.1% compared to 47.4% for the same period in 1995. The quality problems with existing products and lower sales contributed to the unabsorbed overhead, which lowered margins in the first half of 1996. Lower than anticipated sales, lateness of new products and quality problems have also contributed to a \$1.0 million increase in inventories. Operating expenses grew 15% from \$1.8 million in 1995 to \$2.1 million in 1996. The growth was attributed to our continued increased investment in new product development and increase in the warranty

reserve. In the second quarter the digital probe was released for general sale and the Company is shipping approximately 100 units per month. The line leak detector continues to be shipped in a controlled release.

At the end of the second quarter the Company decided to eliminate a number of positions which did not fit with the longterm direction of the Company. In the third and fourth quarter's of this year a number of key positions will be created and filled. These positions will contribute to the continued growth of the Company.

Liquidity and Capital Resources at June 30, 1996

As of June 30, 1996 the Company had \$188,000 in cash and \$1,000,000 available to be borrowed on its \$3.0 million dollar line of credit. On April 15, 1996, the working capital line of credit was increased to \$3.0 million from \$2.0 million. To fund the \$1,000,000 increase in inventories and a \$115,000 loss from operations, the Company increased the days outstanding to trade creditors and borrowed \$600,000 on the working capital line of credit. Due to the operating losses in the last three quarters, the Company is out of compliance with its cash flow covenant. The required covenant is 1.5 times and the Company is currently .12 times. The cash flow covenant is calculated as operating cash flow divided by current portion of long term debt plus interest. The Company's primary lender is aware of the situation and has agreed to relax this covenant through the fourth quarter of 1996, but has increased the rate the Company borrows at to prime plus .25% from the current borrowing rate of prime. The Company expects that current resources will be sufficient to finance the Company's operating needs through the end of 1996.

PART II

ITEM 1. LEGAL PROCEEDINGS

On July 26, 1996 the Company received notice of the filing of an action entitled John D. Knight v Intelligent Controls, Inc. in Maine Superior Court, Cumberland County. The action is being brought by Mr. Knight, a former director and executive officer of INCON whose employment was recently terminated by the Company. Mr. Knight alleges that he is owed \$287,100 in unpaid bonus payments over a six and a half year period under his original Employment Agreement dated as of December 29, 1986. The complaint further alleges that he is entitled to \$574,200 in statutory punitive damages, plus attorneys' fees and costs. The Company believes that the

bonus arrangements called for in the 1986 agreement have been superseded from year to year by other annual bonus arrangements approved by the Board of Directors of which Mr. Knight was a voting member, and that all bonus payments due to Mr. Knight were paid each year in accordance with the substitute arrangements. The Company's management intends to defend vigorously against this claim.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Shareholders was held on June 4, 1996. At the meeting, the following matters were voted upon by shareholders. All matters were approved as indicated:

1. Establishing the number of directors at five and to elect Alan Lukas, Charlton H. Ames, Nathaniel V. Henshaw, George E. Hissong and Paul F. Walsh as directors.

	For	Withheld Authority For	Total
Alan Lukas	2,485,124	1,600	2,486,724
Charlton Ames	2,485,124	1,600	2,486,724
Nathaniel Henshaw	2,483,724	3,000	2,486,724
George Hissong	2,485,724	1,600	2,486,724
Paul Walsh	2,484,624	2,100	2,486,724

2. Ratification of Coopers & Lybrand L.L.P. as independent accountants to the Company for the year 1996.

For	Against	Abstain	Total
2,482,124	3,600	1,000	2,486,724

3. Ratification of the amendment to the employee stock purchase plan.

For	Against	Abstain	Unvoted	Total
2,459,816	3,100	21,050	2,758	2,486,724

ITEM 5. OTHER INFORMATION.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

No exhibits are being filed with this report. No reports on

Form 8-K were filed by the Company during the past fiscal quarter. June 30, 1996

SIGNATURES

In accordance with the requirements of the Exchange Act, the Company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTELLIGENT CONTROLS, INC.

By:

Kenneth J. Burek, Vice

President

of Finance (on behalf of

the

Company and as principal
financial officer)

Date: August 13, 1996

SIGNATURES

In accordance with the requirements of the Exchange Act, the Company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTELLIGENT CONTROLS, INC.

By: /s/ Kenneth J Burek

Kenneth J. Burek, Vice

President

of Finance (on behalf of

the

Company and as principal
financial officer)

Date: August 13, 1996

INTELLIGENT CONTROLS, INC.
BALANCE SHEETS

(unaudited)
June 30

December 31

1996

1995

Current Assets:

Cash and cash equivalents	\$ 187,989	\$ 225,518
Accounts receivable, net of allowance for doubtful accounts of \$50,350 in 1996 and \$29,495 in 1995	1,708,311	1,952,846
Inventories	3,243,277	2,242,516

Prepaid expenses and other	244,134	296,321
Deferred income taxes	211,062	126,300
	-----	-----
Total current assets	5,594,773	4,843,501
Property, Plant, and Equipment, net	896,798	858,752
Other assets	16,182	13,825
	-----	-----
	\$6,507,753	\$5,716,078
	=====	=====

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities:

Note payable - bank	\$1,963,572	\$1,362,647
Accounts Payable	754,270	446,840
Accrued expenses	493,239	443,366
Accrued income taxes	-	51,068
Current portion of long-term debt	160,500	160,500
	-----	-----
Total current liabilities	3,371,581	2,464,421
Long-term debt, net of current portion	535,746	535,677
Deferred taxes	45,750	45,750
Stockholders' Equity		
Common stock, no par value; 5,000,000 shares authorized; 3,218,340 issued in 1996 and 3,215,590 in 1995	2,221,352	2,221,352
Retained earnings	337,630	453,184
Less: Treasury stock, 2,153 shares at cost in 1996 and 2,153 shares at cost in 1995	(4,306)	(4,306)
	-----	-----
	2,554,676	2,670,230
	-----	-----
	\$6,507,753	\$5,716,078
	=====	=====

See accompanying notes

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INTELLIGENT CONTROLS, INC.

STATEMENTS OF INCOME (unaudited)

Months Ended	Three Months Ended		Six	
	June 30 1996	June 30 1995	June 30 1996	June 30 1995
Net sales	\$2,286,432	\$2,430,042	\$4,269,686	\$4,545,318
Cost of sales	1,221,899	1,295,392	2,256,943	2,391,696
	-----	-----	-----	-----
	1,064,533	1,134,650	2,012,743	2,153,622
Operating expenses:				
Selling, general administrative	839,218	763,910	1,633,515	1,451,309
Research and development	238,131	217,052	484,856	384,153
	-----	-----	-----	-----
	1,077,349	980,962	2,118,371	1,835,462
Operating income (loss)	(12,816)	153,688	(105,628)	318,160
Other income (expense):				
Interest expense	(44,252)	(21,269)	(78,092)	(28,957)
Other income (expenses)	(18,964)	9,819	(12,664)	2,762
	-----	-----	-----	-----
	(63,216)	(11,450)	(90,756)	(26,195)
	-----	-----	-----	-----
Income (loss) before income tax expense	(76,032)	142,238	(196,384)	291,965
Income tax expense (benefit)	(29,876)	62,305	(80,830)	121,836
	-----	-----	-----	-----
Net income (loss) after tax	\$ (46,156)	\$ 79,933	\$ (115,554)	\$ 170,129
Earnings per share:				
Net Income (loss)	(\$.01)	\$.02	(\$.03)	\$.05
Weighted average number of common shares outstanding	3,366,617	3,519,125	3,366,617	3,519,125

See accompanying notes.

INTELLIGENT CONTROLS, INC.
STATEMENT OF CASH FLOWS (unaudited)

Six Months Ended

	June 30 1996	June 30 1995
Cash flows from operating activities		
Net Income	\$ (115,554)	\$170,129
Adjustments to reconcile net income to net cash (used) by operating activities:		
Depreciation and amortization	101,714	58,483
Changes in assets and liabilities:		
Accounts receivable	244,535	(243,779)
Inventories	(1,000,761)	(421,545)
Prepaid expenses and other	(32,575)	(83,063)
Accounts payable and accrued expenses	357,303	151,769
Accrued income taxes	(51,068)	18,065
Other	(2,357)	(3,288)
	-----	-----
Net cash (used) by operating activities	(498,763)	(353,229)
Cash flows from investing activities:		
Purchases of equipment and leasehold improvements, net	(139,760)	(243,778)
	-----	-----
Net cash (used) by investing activities	(139,760)	(243,778)
Cash flows from financing activities:		
Net borrowings on note payable - bank	600,925	238,111
Net borrowings of long-term debt	69	74,698
Issuance of common stock, net	---	5,139
Sale of treasury stock	---	8,378
Net cash provided by financing activities	600,994	326,326
	-----	-----
Net increase (decrease) in cash	(37,529)	(270,681)
Cash and cash equivalents at beginning of year	225,518	501,662
	-----	-----
Cash and cash equivalents at end of period	\$ 187,989	\$ 230,981
	=====	=====

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 78,092	\$ 28,957
Income taxes	\$ 55,000	\$ 103,771

See accompanying notes.

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INTELLIGENT CONTROLS, INC.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. The consolidated financial statements included herein have been prepared by 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 principals have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not to be misleading. In the opinion of management, the amounts shown reflect all adjustments necessary to present fairly the financial position and results of operations for the periods presented. All such adjustments are of a normal recurring nature.

Earnings per share of common stock have been determined by dividing net earnings by the weighted average number of shares of common stock outstanding.

It is suggested that the financial statements be read in conjunction with the financial statements and notes thereto included in the Company's 10-KSB.

2. Property, Plant, and Equipment

Property, plant, and equipment, at cost,

(Unaudited)	December
June 30	31
1996	1995

Leasehold improvements	\$ 105,442	\$ 104,503
Equipment	1,054,968	933,658
Software	119,554	103,164
Furniture and Fixtures	120,087	118,966
	-----	-----
	1,400,051	1,268,291
Less accumulated depreciation and amortization	(503,253)	(401,539)
	-----	-----
	\$ 896,798	\$ 858,752
	=====	=====

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3. Inventories consisted of the following at June 30, 1996 and December 31, 1995.

	(Unaudited) June 30 1996	December 31 1995
Raw Material	\$ 2,038,064	\$ 1,509,821
Work in Progress	394,210	176,130
Finished Goods	706,657	470,051
Other	104,346	86,514
	-----	-----
	\$ 3,243,277	2,242,516
	=====	=====

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