SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-04-01**
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FILER

MICROPOLIS CORP

CIK:**718865**| IRS No.: **953093858** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-12046** | Film No.: **94528032**
SIC: **3572** Computer storage devices

Mailing Address
21211 NORDHOFF STREET
CHATSWORTH CA 91311

Business Address
21211 NORDHOFF ST
CHATSWORTH CA 91311
8187093300

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

(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 1, 1994

or

( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ______________
to ______________

Commission File Number: 0-12046

MICROPOLIS CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	95-3093858
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
21211 Nordhoff Street, Chatsworth, California	91311
(Address of principal executive offices)	Zip Code

Registrant's telephone number, including area code (818) 709-3300

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether 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 twelve months or for such shorter period that the

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Registrant was required to file such reports, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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

May 6, 1994: 15,155,200 shares of Common Stock, $1.00 Par Value

MICROPOLIS CORPORATION

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PART I - FINANCIAL INFORMATION

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MICROPOLIS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

<TABLE>
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	April 1, 1994 (Unaudited)	December 31, 1993
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash, cash equivalents and short-term investments	$ 82,046	$ 86,782
Accounts receivable, net	47,691	48,231
Inventories	44,582	59,677
Other current assets	3,229	4,389
Total current assets	177,548	199,079
Property, plant and equipment, at cost, less accumulated depreciation and amortization	47,295	48,480
Other assets	2,625	2,870
	$227,468	$250,429
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 24,190	$ 36,959
Other accrued liabilities	17,045	17,697
Total current liabilities	41,235	54,656
6% Convertible Subordinated Debentures	75,000	75,000
Deferred income taxes	2,417	2,417
Shareholders' equity:		
Preferred stock, $1.00 par value, 2,000,000 shares authorized, none issued	-	-

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Common stock, $1.00 par value, 50,000,000 shares authorized; 14,941,195 shares issued and outstanding (14,888,125 in 1993)	14,941	14,888
Additional paid-in capital	107,459	107,292
Retained deficit	(13,584)	(3,824)
Total shareholders' equity	108,816	118,356
	$227,468	$250,429

</TABLE>

See accompanying notes

MICROPOLIS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

<TABLE>
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	Three Months Ended	
	April 1, 1994	March 26, 1993
	(Unaudited)	
<S>	<C>	<C>
Net sales	$83,658	$94,558
Cost of sales	71,362	73,592
Gross profit	12,296	20,966
Operating expenses:		
Research and development	10,301	7,953
Selling, general and administrative	10,984	10,814
Total operating expenses	21,285	18,767
Income (loss) from operations	(8,989)	2,199
Interest income	512	553
Interest expense	(1,283)	(1,281)

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Income (loss) before income taxes	(9,760)	1,471
Provision for income taxes	-	14
	-------	-------
Net income (loss)	$(9,760)	$ 1,457
	=======	=======
Earnings (loss) per share	$(.65)	$.10
	=======	=======
Weighted average common and common equivalent shares outstanding	14,910	14,789
	=======	=======

</TABLE>

See accompanying notes. -3-

MICROPOLIS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

<TABLE>
<CAPTION>

	Three Months Ended	
	April 1, 1994	March 26, 1993
	(Unaudited)	
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	$ (9,760)	$ 1,457
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,697	5,965
Loss on disposal of fixed assets	50	26
Increase (decrease) from changes in:		

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Accounts receivable	540	(5,613)
Inventories	15,095	5,644
Other current assets	1,160	113
Accounts payable and other accrued liabilities	(13,282)	1,707
Other assets	227	(93)
Net cash provided by (used in) operating activities	(273)	9,206
Cash flows from investing activities:		
Additions to property, plant and equipment	(4,544)	(5,494)
Net change in short-term investments	(11,221)	19,748
Net cash provided by (used in) investing activities	(15,765)	14,254
Cash flows from financing activities:		
Proceeds from sale of common stock, net	220	763
Payment on capital lease obligation	(139)	(133)
Net cash provided by financing activities	81	630
Net increase (decrease) in cash and equivalents	(15,957)	24,090
Cash and equivalents at beginning of period	49,100	47,394
Cash and equivalents at end of period	33,143	71,484
Short-term investments	48,903	19,760
Total cash, cash equivalents and short-term investments	$ 82,046	$91,244
Supplemental cash flow information		
Interest payments	$ 2,390	$ 2,386
Tax payments	$ 36	$ 444

</TABLE>

See accompanying notes.

MICROPOLIS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

APRIL 1, 1994

(Unaudited)

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NOTE 1. General
- ------------------

The accompanying condensed consolidated financial statements have not been audited by independent auditors but, in the opinion of the Company, such unaudited statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the consolidated financial position as of April 1, 1994, and the consolidated results of operations and cash flows for the three-month periods ended April 1, 1994 and March 26, 1993. 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. Nevertheless, the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading. Certain reclassifications have been made to prior year's consolidated financial statements to conform to the 1994 presentation. Interim results are not necessarily indicative of the results for the full fiscal year.

These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1993 filed with the Securities and Exchange Commission.

NOTE 2. Inventories
- --------------------

Inventories are stated at the lower of standard cost, which approximates first-in, first-out, or market:

<TABLE>
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<S>	April 1, 1994 <C>	December 31, 1993 <C>
Raw materials and purchased parts	$16,563	$ 18,776
Work in process	10,898	22,245
Finished goods	17,121	18,656
	$44,582	$ 59,677

</TABLE>

NOTE 3. Per Share Information
- ------------------------------

Earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock and applicable common stock equivalents outstanding during the period. Primary and fully diluted earnings per share are the same.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Three Months Ended April 1, 1994 Compared to Three Months Ended March 26, 1993

Net sales decreased 11.5% to $83.7 million in 1994 as compared to $94.6 million in 1993. The decrease in revenues was primarily attributable to a decrease in shipments of 5 1/4-inch drives with capacities of 1.6 gigabytes (GB) and below, offset in part by an increase in shipments of the Company's 3 1/2-inch drives. In addition, significant price erosion experienced by the Company for all of its drives during 1993 continued into the first quarter of 1994. OEM revenues declined by 53% in 1994 as compared to 1993 while sales made by Storage Systems Division increased by approximately 32%. The decline in OEM sales is principally due to the continued decrease in shipments of the Company's 5 1/4-inch drives. The increase in Storage Systems Division sales was attributable to high capacity 3 1/2-inch drives and storage subsystems products. Backlog as of April 1, 1994 was $25.3 million as compared to $57.3 million at March 26, 1993. The decline in backlog is attributable to a decline in orders for the older 5 1/4-inch drives with rotational speeds of 3600 rpm.

Cost of sales as a percent of sales increased to 85.3% in 1994 from 77.8% in 1993 resulting in a gross margin of 14.7% as compared to 22.2% in 1993. The decrease in margin was the result of a larger mix of lower margin 3 1/2-inch drives versus higher margin 5 1/4-inch drives. In addition, the Company's margins were negatively impacted by $1.0 million of expenses (approximately 1% of sales) associated with repairs of earthquake damage.

Research and development expenses increased to 12.3% of sales in 1994 as compared to 8.4% in 1993. The percentage increase is the result of lower sales and an increase in spending of $2.3 million. The increase in spending was a result of research and development on the Company's high capacity 3 1/2-inch drives, greater than 3.6 GB 5 1/4-inch drives, subsystem products and research and development on new disk substrates performed at Tulip Memory System.

Selling, general and administrative expenses were 13.1% of sales in 1994 as compared to 11.4% in 1993. The percentage increase is primarily the result of lower sales.

Interest expense was $1.3 million in 1994 (1.5% of sales) which is comparable to the same period a year ago. Interest income was $512,000 as

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compared to $553,000 in 1993 as a result of lower interest rates.

As a result of the above, loss before income taxes was $9.8 million in 1994 as compared to income of $1.5 million in 1993. The Company's income tax provision benefits from the tax holiday afforded the Company's Singapore operation, which will remain in effect through August 1999. The tax holiday afforded the Company's Thailand operation expired December 1993. The effect on net income and earnings per share of the income tax exemptions in Singapore and Thailand as compared to income taxes at the maximum statutory rates were approximately $1.0 million and $.07 and $2.4 million and $.16 for the first quarter of 1994 and 1993, respectively. The expiration of the tax holiday in Thailand is not expected to have a material effect on the results of operations in 1994. Net loss for 1994 was $9.8 million compared to net income of $1.5 million in 1993.

In addition to the Company's core high-capacity drive business, the Company expects to continue to invest in engineering and sales and marketing for several new value-added subsystem products which have not yet generated revenue. In the near-term, however, the Company's core drive business is operating in very competitive market segments. The Company expects that this, together with the current level of operating expenses which are required to develop and support the new drive and subsystem products, will result in continued losses in the second and third quarters.

Liquidity and Capital Resources

Cash, cash equivalents and short-term investments decreased to $82.0 million as of April 1, 1994 from $86.8 million as of December 31, 1993. Net cash used in operations of $273,000 includes a reduction in inventories of $15.1 million due principally to decreased work in process inventory levels and improved management of raw material and work in process inventories. Accounts payable and other accrued liabilities decreased by $13.3 million from the fourth quarter of 1993 due to decreased inventory receipts.

The Company's capital expenditures in the first quarter of 1994 were $4.5 million as compared to $5.5 million in 1992. Capital expenditures related primarily to equipment and tooling to support the 3 1/2-inch form factor. The Company currently anticipates that its 1994 capital spending will be slightly lower than 1993 and will be principally for equipment and tooling required for the Company's new products.

The Company has a $33 million credit facility. The availability under the facility is a function of the level of eligible receivables and borrowings are secured by substantially all of the Company's assets. The amount available under the facility as of April 1, 1994 was $16 million (of which $3 million is reserved for an outstanding standby letter of credit).

The Company believes that cash on hand, internally generated funds and the available credit facility will provide sufficient capital resources to finance

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operations, fund planned capital expenditures and pay interest on outstanding debt for the next twelve months.

PART II - OTHER INFORMATION

MICROPOLIS CORPORATION

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

10.43* Severance Agreement between Micropolis Corporation and Joel Appelbaum

b) Reports on Form 8-K

No reports on Form 8-K have been filed during the quarter for which this report is filed.

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*Management contract or commmpensatory plan or arrangement required to be filed as an Exhibit to this Form 10-Q Report pursuant to Item 6(a).

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, on May 13, 1994.

MICROPOLIS CORPORATION

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By s/Stuart P. Mabon

Stuart P. Mabon
Chairman of the Board, President
and Chief Executive Officer

By s/Dale J. Bartos

Dale J. Bartos
Senior Vice President - Finance
and Chief Financial Officer

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[LETTERHEAD OF MICROPOLIS]

EXHIBIT 10.43

February 15, 1994

Mr. Joel Appelbaum
21315 Lumbertown Lane
Saratoga, California 95070

Dear Joel:

I am pleased to confirm our offer of employment to you for the position of Executive Vice President and General Manager, SSD Division. This position reports directly to me. The terms of the offer are as follows:

- - Starting salary will be $3,847.00, payable weekly.

- - You will be eligible for a salary review in January, 1995.

- - You will be eligible to participate in the 1994 Key Person Bonus Plan. Bonus payments will be based upon your success in meeting objectives that you and I have established. The nominal bonus for 1994 will be $100,000.

- - You will be granted a stock option of 60,000 shares of Micropolis Corporation common stock, subject to approval by the Micropolis Board of Directors. The terms and vesting schedule are described in your Incentive Stock Option Agreement.

- - For tax purposes, the company will "gross up" the non-deductible relocation expenses incurred in connection with your relocation to Southern California.

- - You will receive a car allowance of $450.00 per month, net of income taxes. Pre-tax value of such allowance is about $780.00 per month.

Relocation benefits are specified in the attached enclosure.

Our benefit package is a comprehensive package which includes medical and dental coverage, long term disability, life insurance and educational assistance. These coverages are effective the day you begin work. You will be eligible to participate in our Employee Stock Purchase Program and in the Micropolis Employee Savings and Retirement Plan (401[k]) after completing six months of service prior to the standard enrollment dates.

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The Company retains the right to terminate the employment relationship at any time and for any reason, with or without notice. Solely for the purpose of this letter, cause for termination is defined as misconduct or willful failure to perform duties.

During your first twelve months of employment with Micropolis, should your employment be terminated for any reason other than cause or resignation, you will receive a lump sum payment equal to twelve months base salary. If the Company terminates you without cause after twelve months employment, you will receive a lump sum payment equal to six months base salary. All applicable federal, state and social security taxes will be deducted from any lump sum payment.

We all look forward to your joining Micropolis and know that the relationship will be mutually rewarding.

Sincerely,

/s/ STUART P. MABON

Stuart P. Mabon
President and Chief Executive Officer

I understand and accept the terms of this offer

/s/ JOEL APPELBAUM   2-28-94
- ------------------------------   ---------
Joel Appelbaum   Date

SPM:nmt
Enclosure:Relocation Program

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