

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-04-02**
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FILER

SEQUENT COMPUTER SYSTEMS INC /OR/

CIK: **811716** | IRS No.: **930826369** | State of Incorpor.: **OR** | Fiscal Year End: **0102**
Type: **10-Q** | Act: **34** | File No.: **000-15627** | Film No.: **94528149**
SIC: **3571** Electronic computers

Mailing Address

*15450 SW KOLL PKWY
ED02 -803
BEAVERTON OR 97006-6063*

Business Address

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5036265700*

(X) Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended April 2, 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: 0-15627

SEQUENT COMPUTER SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Oregon 93-0826369
(State or other jurisdiction (I.R.S. Employer
of organization or incorporation) Identification Number)

15450 S.W. Koll Parkway
Beaverton, Oregon 97006-6063
(Address of principal executive offices, including zip code)

(503) 626-5700
(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 report), 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.

30,621,386 common shares were issued and outstanding as of April 30, 1994.

SEQUENT COMPUTER SYSTEMS, INC.

PART I. FINANCIAL INFORMATION

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	(b) No reports on Form 8-K were filed by the Company during the fiscal quarter ended April 2, 1994.

<TABLE>
SEQUENT COMPUTER SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - Unaudited
(in thousands, except per share amounts)

<S>	<C>	April 2, 1994	<C>	Jan. 1, 1994
ASSETS				
Current assets:				
Cash and cash equivalents	\$	38,177	\$	42,986
Restricted deposits		33,264		32,279
Investments		--		5,000
Receivables, net		105,194		115,561
Inventories		52,154		45,865
Prepaid royalties and other		12,726		11,587
Total current assets		241,515		253,278
Property and equipment, net		89,393		86,309
Capitalized software costs, net		34,296		32,217
Intangible assets and other, net		3,139		3,620
Total assets	\$	368,343	\$	375,424
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Notes payable	\$	33,264	\$	32,279
Accounts payable and other		48,957		64,223
Accrued payroll		7,466		10,903
Unearned revenue		9,859		7,123
Income taxes payable		972		1,015
Current obligations under capital leases		2,831		3,425
Current portion of long-term debt		83		154
Total current liabilities		103,432		119,122
Other accrued expenses		1,834		1,908
Long-term obligations under capital leases		399		654
Long-term debt		10,345		10,252
Total liabilities		116,010		131,936
Shareholders' equity:				
Common stock, \$.01 par, 30,586 and 30,245 shares outstanding		306		302
Paid-in capital		269,937		265,910
Accumulated deficit		(10,542)		(15,262)
Foreign currency translation adjustment		(7,368)		(7,462)

Total shareholders' equity		252,333		243,488
Total liabilities and shareholders' equity	\$	368,343	\$	375,424

See notes to consolidated financial statements.
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<TABLE>
SEQUENT COMPUTER SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS - Unaudited
(in thousands, except per share amounts)

<CAPTION>

<S>	<C>	Three Months Ended	
		April 2, 1994	April 3, 1993
Revenue:			
Product revenue		\$ 71,483	\$ 61,596
Service and other revenue		22,388	15,978
Total revenue		93,871	77,574
Costs and expenses:			
Cost of products sold		33,450	26,595
Cost of service and other revenue		15,404	10,697
Research and development		7,739	6,587
Selling, general and administrative		31,173	28,585
Total costs and expenses		87,766	72,464
Operating income		6,105	5,110
Interest, net		(490)	(593)
Other, net		(192)	(214)
Income before provision for income taxes		5,423	4,303
Provision for income taxes		703	898
Net income		\$ 4,720	\$ 3,405
Net income per share		\$ 0.15	\$ 0.12
Weighted average number of common and common equivalent shares outstanding		31,470	29,381

See notes to consolidated financial statements.
</TABLE>

<TABLE>
SEQUENT COMPUTER SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY - Unaudited
(in thousands)

<CAPTION>

<S>	<C>	Preferred Stock		Common Stock		Paid-in		Earnings		Retained Trans-		Foreign		Total
		Shares	Amount	Shares	Amount	Capital	Capital	(Deficit)	ation	ation	Total			
Balance, December 28, 1991		1,500	\$	15	20,603	\$	206	\$	172,204	\$	(22,171)	\$	(793)	\$ 149,461
Common shares issued, net of repurchases		--	--	--	1,847	19	13,823	--	--	--	--	--	--	13,842
Net income		--	--	--	--	--	--	--	14,433	--	--	--	--	14,433
Foreign currency translation adjustment		--	--	--	--	--	--	--	--	--	--	--	--	(5,234)
Balance, January 2, 1993		1,500	15	22,450	225	186,027	(7,738)	(6,027)	172,502	(5,234)	(1,435)	(7,368)	243,488	
Common shares issued, net of repurchases		--	--	--	4,795	47	79,883	--	--	--	--	--	--	79,930
Conversion of preferred stock		(1,500)	(15)	(15)	3,000	30	--	--	--	--	--	--	--	15
Net income		--	--	--	--	--	--	--	(7,524)	--	--	--	--	(7,524)
Foreign currency translation adjustment		--	--	--	--	--	--	--	--	--	--	--	--	(1,435)
Balance, January 1, 1994		--	--	30,245	302	265,910	(15,262)	(7,462)	243,488	(1,435)	(7,368)	94	94	252,333
Common shares issued, net of repurchases		--	--	--	341	4	4,027	--	--	--	--	--	--	4,031
Net income		--	--	--	--	--	--	--	4,720	--	--	--	--	4,720
Foreign currency translation adjustment		--	--	--	--	--	--	--	--	--	--	--	--	94
Balance, April 2, 1994		--	\$	--	30,586	\$	306	\$	269,937	\$	(10,542)	\$	(7,368)	\$ 252,333

See notes to consolidated financial statements.
</TABLE>

<TABLE>
SEQUENT COMPUTER SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - Unaudited
(in thousands)

<CAPTION>

<S>	<C>	April 2, 1994		April 3, 1993	
		<C>	<C>	<C>	<C>
Operating activities:					
Net income		\$	4,720	\$	3,405
Reconciliation of net income to net cash provided by operating activities -					
Depreciation and amortization			10,343		9,310
Changes in assets and liabilities -					
Receivables, net			10,367		6,824
Inventories			(6,289)		(5,757)
Prepaid royalties and other			(250)		(2,413)
Accounts payable and other			(15,336)		2,371
Accrued payroll			(3,437)		(3,220)
Unearned revenue			2,736		492
Income taxes payable			(43)		361
Deferred income taxes			(530)		311
Other, net			(156)		(311)
Net cash provided by operating activities			2,125		11,373
Investing activities:					
Restricted deposits			(985)		2,782
Investments, net			5,000		(10,000)
Purchases of property and equipment, net			(10,425)		(9,002)
Capitalized software costs			(4,807)		(5,221)
Foreign currency translation			94		135
Other, net			--		152
Net cash used for investing activities			(11,123)		(21,154)
Financing activities:					
Notes payable, net			985		(1,431)
Payments under capital lease obligations			(849)		(864)
Long-term debt, net			22		(1,012)

Stock issuance proceeds, net	4,031	63,815
Net cash provided by financing activities	4,189	60,508
Net increase (decrease) in cash and cash equivalents	(4,809)	50,727
Cash and cash equivalents at beginning of period	42,986	14,365
Cash and cash equivalents at end of period	\$ 38,177	\$ 65,092

See notes to consolidated financial statements.
</TABLE>

SEQUENT COMPUTER SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

APRIL 2, 1994

Basis of Presentation

The accompanying consolidated financial statements are unaudited and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and in the opinion of management include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report and Form 10-K for the fiscal year ended January 1, 1994.

The Company's fiscal year is based on a 52-53 week calendar ending the Saturday closest to December 31. The accompanying consolidated financial statements include the accounts of Sequent Computer Systems, Inc. and its wholly owned subsidiaries (the Company or Sequent). All significant intercompany accounts and transactions have been eliminated. The results for interim periods are not necessarily indicative of the results for the entire year.

Inventories

Inventories consist of the following:
(in thousands)

	Apr. 2, 1994	Jan. 1, 1994
Raw Materials	\$ 8,504	\$ 5,011
Work in Process	5,502	7,743
Finished Goods	38,148	33,111
	\$ 52,154	\$ 45,865

Property and Equipment

Property and equipment consist of the following:
(in thousands)

	Apr. 2, 1994	Jan. 1, 1994
Land	\$ 5,037	\$ 5,037
Operational Equipment	101,483	95,895
Furniture and Office Equipment	48,191	46,643
Leasehold Improvements	11,403	11,193
	166,114	158,768
Less Accum. Depr. & Amort.	76,721	72,459
	\$ 89,393	\$ 86,309

Research and Development

Amortization of capitalized software costs, generally based on a three-year life, was \$2.7 million for both three month periods ended April 2, 1994 and April 3, 1993, respectively.

Notes Payable

The Company has an unsecured line of credit agreement with a group of banks which provides short-term borrowings of up to \$50 million. No borrowings were outstanding at April 2, 1994.

The Company has a short-term borrowing agreement with a foreign bank as a hedge facility to cover certain foreign currency exposures. At April 2, 1994, maximum borrowings allowed under the agreement were \$39.4 million, of which \$33.3 million was outstanding.

Income Taxes

Effective the beginning of fiscal 1992, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting For Income Taxes" (FAS 109). The effective tax rate differs from the statutory tax rate principally due to tax benefits from the Company's foreign sales corporation and tax benefits related to the utilization of net operating loss carryforwards which the Company has available.

Earnings Per Share

See Exhibit 11 for the computation of average shares outstanding and earnings per share.

Long-Term Debt

The Company currently has \$10.1 million of 7.5% Convertible Subordinated Debentures (Debentures) outstanding which are due March 31, 2000. Beginning June 30, 1997, the Company is required to provide approximately \$1.3 million quarterly through June 1999 to retire the outstanding Debentures.

Significant Customers

The Company has no single customer that represents greater than 10% of total revenue for the quarters ending April 2, 1994 and April 3, 1993.

Geographic Segment Information

Export and foreign revenue was \$42.1 million (45% of total revenue) for the first quarter ended April 2, 1994 and \$34.1 million (44% of total revenue) for the first quarter ended April 3, 1993. The Company's United States operations generated operating income of \$4.1 million and foreign operations generated operating income of \$2.0 million for the three months ended April 2, 1994. Comparable amounts for the first quarter of 1993 are \$5.5 million operating income for U.S. operations and \$400,000 operating loss for foreign operations.

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

April 2, 1994

GENERAL

Total revenue was \$93.9 million in the first quarter of 1994 compared to \$77.6 million in the first quarter of 1993 and \$104.3 million in the fourth quarter of 1993. Net income was \$4.7 million in the first quarter of 1994 compared to

\$3.4 million in the first quarter of 1993 and a net loss of \$15.1 million in the fourth quarter of 1993. Total revenue improved 21% over the first quarter of 1993, but seasonally decreased 11% in the first quarter of 1994 compared to the fourth quarter of 1993. The Company historically experiences reduced first quarter end-user orders compared to the preceding fourth quarter. Total revenue in North America and Europe increased as the Company continues to benefit from system sales to large accounts along with increasing service and other revenue. Overall earnings for the first quarter of 1994 compared to the first quarter of 1993 benefited from incremental total gross margin dollars and a decrease in other non-operating expenses, offset by incremental operating expenses. The fourth quarter of 1993 included restructuring charges of \$22.3 million.

REVENUE

(dollars in millions)

	Quarter Ended		
	Apr. 2, 1994	% Chg	Apr. 3, 1993
End-user product revenue	\$ 63.6	15%	\$ 55.4
Service and other revenue	22.4	40%	16.0
Total end-user revenue	86.0	20%	71.4
OEM product revenue	7.9	27%	6.2
Total revenue	\$ 93.9	21%	\$ 77.6
Export and Foreign Revenue	\$ 42.1	24%	\$ 34.2

End-user product revenue for the first quarter of 1994 improved over the corresponding quarter of 1993 due to improved results in North American operations and Europe.

Service and other revenue continued to benefit from the growing installed customer base and increases in professional services revenue. OEM product revenue is substantially sales to Unisys Corporation.

Export and foreign revenue was 45% of total revenue in the first quarter of 1994 and 44% of total revenue in the corresponding quarter of 1993. The increase in export and foreign revenue as a percentage of total revenue in the first quarter of 1994 compared to the corresponding period in 1993 was due to the increase of European revenue as a percentage of total revenue.

COST OF SALES

(dollars in millions)

	Quarter Ended	
	Apr. 2, 1994	Apr. 3, 1993
Total cost of goods sold	\$ 48.9	\$ 37.3
As a percentage of total revenue	52%	48%

Total cost of goods sold as a percentage of total revenue increased in the first quarter of 1994 compared to the first quarter of 1993 primarily unfavorable product mix due to lower margin service and other revenue increasing as a percentage of total revenue and product pricing pressures.

RESEARCH AND DEVELOPMENT

(dollars in millions)

	Quarter Ended		
	Apr. 2, 1994	% Chg	Apr. 3, 1993
Research and development	\$ 7.7	17%	\$ 6.6
As a percentage of total revenue	8%		8%
Software costs capitalized	\$ 4.8	(8)%	\$ 5.2

Research and development costs remained constant as a percentage of total revenue. Research and development costs include continued investment in new product development and enhancements to existing products.

Software costs capitalized decreased in the first quarter of 1994 due to the initial shift in focus from host terminal-based products to open distributed client-server solutions and architecturally led engineering efforts, which are not capitalizable.

SELLING, GENERAL AND ADMINISTRATIVE

(dollars in millions)

	Quarter Ended		
	Apr. 2, 1994	% Chg	Apr. 3, 1993
Selling, general and administrative	\$ 31.2	9%	\$ 28.6
As a percentage of total revenue	33%		37%

Selling, general and administrative costs have increased in dollar amount in the first quarter of 1994 compared to the first quarter of 1993 primarily due to sales and marketing expenditure levels related to higher total revenue levels. Selling, general and administrative costs have decreased as a percentage of total revenue in the first quarter of 1994 compared to the first quarter of 1993 primarily due to larger individual orders increasing sales productivity. The fourth quarter of 1993 restructuring reduced operating expenses by approximately \$2 million for the first quarter of 1994.

INTEREST AND OTHER, NET

(dollars in millions)

	Quarter Ended	
	Apr. 2, 1994	Apr. 3, 1993
Interest, net	\$ (.5)	\$ (.6)
Other expense	(.2)	(.2)
Provision for income taxes	.7	.9

Interest income in the first quarter of 1994 and 1993 was primarily generated from deposits related to the proceeds of borrowings from a foreign bank to cover foreign currency exposures and investment of the proceeds from the February 1993 common stock offering.

Interest expense in the first quarter of 1994 and 1993 represents charges related to the Company's capital lease obligations, long-term debt and borrowings under the short-term borrowing agreement with a foreign bank.

Other expense primarily represents effects of foreign currency transactions and other miscellaneous non-operating expenses.

The provision for income taxes includes benefits related to the utilization of net operating loss carryforwards. The Company has unused net operating loss carryforwards which are available to reduce future income taxes expense and income taxes payable.

LIQUIDITY AND CAPITAL RESOURCES

Working capital increased to \$138.1 million at April 2, 1994 from \$134.2 million at January 1, 1994. The Company's current ratio at April 2, 1994 and January 1, 1994 was 2.3:1 and 2.1:1, respectively.

For the first three months of 1994, cash and cash equivalents decreased \$4.8 million. The Company continues to invest in property and equipment (\$10.4 million) and capitalized software (\$4.8 million). Other uses of funds were reductions in accounts payable and other (\$15.3 million), increase in inventories (\$6.3 million) and reductions in accrued payroll (\$3.4 million).

Primary sources of funds were net income and depreciation and amortization (\$15.1 million), reduction in net receivables (\$10.4 million), reductions in investments (\$5.0 million) and stock issuance proceeds from employee stock purchase and stock option plans (\$4.0 million).

Inventories increased due to investments in the transition to the Symmetry 5000 product family. Accounts receivable decreased due to seasonally lower revenue in the first quarter. Accounts payable and other decreased due to the liquidation of outstanding trade accounts payable.

The Company continues to maintain a line of credit with a group of banks of \$50 million for operating purposes and a short-term borrowing agreement with a foreign bank of approximately \$39 million as a hedge facility to cover certain foreign currency exposures. At April 2, 1994 no borrowings were outstanding under the line of credit and \$33.3 million was outstanding under the short-term borrowing agreement with the foreign bank.

Management expects that current funds, funds from operations, and the bank lines of credit will provide adequate resources to meet the Company's anticipated cash requirements through 1994.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SEQUENT COMPUTER SYSTEMS, INC.

Robert S. Gregg
Vice President - Finance, Treasurer and
Chief Financial Officer

Date: May 13, 1994

EXHIBIT INDEX

Exhibit No.	Description	Sequential Page No.
11	Statement regarding computation of earnings per share	

SEQUENT COMPUTER SYSTEMS, INC. AND SUBSIDIARIES
STATEMENT SHOWING CALCULATION OF AVERAGE
COMMON SHARES OUTSTANDING AND EARNINGS
PER AVERAGE COMMON SHARE
(in thousands, except per share amounts)

	April 2, 1994	Three Months Ended April 3, 1993
Weighted average number of common shares outstanding	30,383	27,503
Application of the "treasury stock" method to the stock option and employee stock purchase plans	1,087	1,878
Weighted average of common stock equivalent shares attributable to convertible debentures	639	962
Total common and common equivalent shares, assuming full dilution	32,109	30,343
Net income	\$ 4,720	\$ 3,405
Add:		
Interest on convertible debentures, net of applicable income taxes	\$ 165	\$ 226
Net income, assuming full dilution	4,885	3,631
Net income per common share, assuming full dilution (A)	\$ 0.15	\$ 0.12

(A) In accordance with generally accepted accounting principles, fully-diluted earnings per share may not exceed primary earnings per share. As such, the fully-diluted earnings per share amounts equal the primary earnings per share amounts.

The computation of primary net income per common share is not included as the computation can be clearly determined from the material contained in this report.