

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

Filing Date: **1994-03-17** | Period of Report: **1994-01-31**  
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### FILER

#### RECOGNITION INTERNATIONAL INC

CIK: **82523** | IRS No.: **751080346** | State of Incorporation: **DE** | Fiscal Year End: **1031**  
Type: **10-Q/A** | Act: **34** | File No.: **001-07916** | Film No.: **94516473**  
SIC: **7373** Computer integrated systems design

Mailing Address  
P O BOX 660204  
DALLAS TX 75266

Business Address  
P.O. BOX 660204  
DALLAS TX 75266-0204  
2145796000



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

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- (a) Exhibits  
(b) Reports on Form 8-K

SIGNATURES

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&lt;/TABLE&gt;

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## RECOGNITION INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

(thousands)

&lt;TABLE&gt;

&lt;CAPTION&gt;

	January 31, 1994 (Unaudited)	October 31, 1993
	----- <C>	----- <C>
<S>		
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted amounts of \$4,704 in 1994 and \$4,731 in 1993	\$ 37,051	\$ 53,334
Short-term investments, including restricted amounts of \$227 in 1994 and \$231 in 1993	506	483
Receivables - net	43,234	45,420
Inventories:		
Raw materials and parts	11,469	12,203
Work in process	9,837	6,254
Finished goods	11,382	11,378
Other current assets	4,823	3,575
	-----	-----
Total current assets	118,302	132,647
	-----	-----
Property, plant and equipment - net	15,659	16,403
Service parts - net	24,464	19,115
Long-term receivables	5,294	4,886
Goodwill - net	18,067	18,597
Capitalized software - net	9,188	8,991
Other assets	16,324	16,725
	-----	-----
Total assets	\$207,298	\$217,364
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 5,691	\$ 5,776
Trade accounts payable	9,897	9,082
Domestic and foreign income taxes	1,155	3,803
Accrued compensation and benefits	3,178	6,924
Advance payments by customers	15,579	18,397
Accrued and other current liabilities	10,120	13,621
	-----	-----
Total current liabilities	45,620	57,603
	-----	-----
Long-term debt	53,656	53,656
	-----	-----
Other liabilities	6,435	5,303
	-----	-----
Stockholders' equity:		
Preferred stock, no par value: authorized shares - 800; issued shares - none	--	--
Series A junior participating preferred stock, no par value: authorized shares - 200; issued shares - none	--	--
Common stock, \$.25 par value: authorized shares - 30,000; issued shares - 14,977 in 1994 and 14,953 in 1993	3,744	3,738
Capital in excess of par value	138,346	137,865
Accumulated deficit	(36,711)	(37,367)
Translation adjustments	(3,365)	(3,007)
Treasury stock	(427)	(427)
	-----	-----
Total stockholders' equity	101,587	100,802
	-----	-----
Commitments and contingencies		

Total liabilities and stockholders' equity	----- \$207,298 =====	----- \$217,364 =====
--	-----------------------------	-----------------------------

</TABLE>

See notes to consolidated financial statements.

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RECOGNITION INTERNATIONAL INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OPERATIONS  
(Unaudited)  
(thousands, except per share)

<TABLE>  
<CAPTION>

	Three months ended	
	January 31,	
	1994	1993
	-----	-----
<S>	<C>	<C>
Revenues:		
Product	\$18,157	\$20,773
Customer service	32,191	28,255
	-----	-----
	50,348	49,028
Cost of revenues:		
Product	12,021	11,285
Customer service	19,856	19,676
	-----	-----
	31,877	30,961
	-----	-----
Gross profit	18,471	18,067
Operating expenses:		
Engineering and development	4,250	3,862
Selling and marketing	7,955	7,731
General and administrative	3,216	3,120
Amortization and other operating	905	839
	-----	-----
Operating income	2,145	2,515
Interest income	593	526
Interest expense	(1,077)	(1,397)
Foreign exchange gains (losses) - net	(43)	157
Other expense - net	(50)	(197)
	-----	-----
Income before income taxes	1,568	1,604
Provision for income taxes	(912)	(988)
	-----	-----
Net income	\$ 656	\$ 616
	=====	=====
Earnings per share	\$ .04	\$ .05
	=====	=====
Weighted average shares outstanding	15,884	13,141
	=====	=====

</TABLE>

See notes to consolidated financial statements.

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RECOGNITION INTERNATIONAL INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)  
(thousands)

<TABLE>  
<CAPTION>

	Three months ended January 31,	
	1994	1993
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM: OPERATIONS -		
Net income	\$ 656	\$ 616
	-----	-----
Adjustments to reconcile net income to net cash used for operations:		
Depreciation	2,710	2,763
Amortization	1,591	1,464
Deferred income taxes	1,072	(44)
Sales-type leases and installment sales - net	(899)	493
Net book value of service parts used	250	303
Decrease in receivables	658	566
Increase in inventories	(2,812)	(3,574)
Other working capital changes	(11,336)	(7,492)
Other	1,051	635
	-----	-----
Total adjustments	(7,715)	(4,886)
	-----	-----
Net cash used for operations	(7,059)	(4,270)
	-----	-----
INVESTMENTS AND ACQUISITIONS -		
Additions to property, plant and equipment	(958)	(860)
Additions to service parts	(7,041)	(1,467)
Additions to capitalized software	(907)	(828)
Increase in short-term investments	(28)	(16)
Payment for acquisition of business	(218)	(126)
Other	39	5
	-----	-----
Net cash used for investments and acquisitions	(9,113)	(3,292)
	-----	-----
FINANCING ACTIVITIES -		
Proceeds from issuance of short-term debt	4	43
Repayment of short-term debt	--	(35)
Repayment of long-term debt	--	(750)
Issuance of common stock	224	800
Other	--	(58)
	-----	-----
Net cash provided by financing activities	228	--
	-----	-----
Effect of exchange rate changes on cash	(339)	(716)
	-----	-----
Net decrease in cash and cash equivalents	(16,283)	(8,278)
Cash and cash equivalents at beginning of period	53,334	25,851
	-----	-----
Cash and cash equivalents at end of period	\$37,051	\$17,573
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the three-month period for:		
Interest	\$ 99	\$ 447
Income taxes	\$ 2,145	\$ 2,488
	=====	=====

</TABLE>

See notes to consolidated financial statements.

RECOGNITION INTERNATIONAL INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (1) The unaudited financial statements presented herein have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles. These statements should be read in

conjunction with the financial statements and notes thereto included in Recognition's Annual Report on Form 10-K for the year ended October 31, 1993. The accompanying financial statements have not been examined by independent accountants in accordance with generally accepted auditing standards, but in the opinion of management such financial statements include all adjustments of a normal recurring nature necessary to fairly present Recognition's financial position, results of operations and cash flows. The results of operations for the three months ended January 31, 1994 may not be indicative of the results that may be expected for the year ending October 31, 1994.

- (2) Certain amounts in the 1993 financial statements have been reclassified to conform with the 1994 presentation.
- (3) At January 31, 1994, Recognition was contingently liable for approximately \$2,020,000 under letters of credit issued primarily to customers in connection with sales contracts.

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

### LIQUIDITY AND CHANGES IN FINANCIAL CONDITION

Working capital at January 31, 1994 was \$72.7 million, a decrease of \$2.4 million compared to October 31, 1993. The decrease was a result of a decrease in current assets of \$14.3 million, offset by a decrease in current liabilities of \$11.9 million.

The decrease in current assets was due primarily to a decrease in cash and cash equivalents of \$16.3 million (see Consolidated Statement of Cash Flows). Accounts receivable decreased \$2.2 million reflecting payments received on several large receivables outstanding at October 31, 1993. These decreases were partially offset by increases in inventories and other current assets of \$2.9 million and \$1.2 million, respectively. The increase in inventories is primarily due to purchases in anticipation of future shipments. Other current assets increased primarily due to prepaid expenses.

The decrease in current liabilities included a \$2.6 million decrease in domestic and foreign income taxes primarily due to payments of 1993 taxes by certain foreign subsidiaries. Accrued compensation and benefits decreased \$3.7 million primarily due to the payment of 1993 annual performance bonuses. Advance payments by customers decreased \$2.8 million due to revenues recorded in the first quarter of 1994 for which payment was received in 1993. Accrued and other current liabilities decreased \$3.5 million primarily due to payments related to restructuring and to sales and property taxes accrued at October 31, 1993.

At January 31, 1994, Recognition had \$37.6 million of cash, cash equivalents and short-term investments, of which \$4.9 million was pledged as collateral or otherwise committed to secure certain guarantees and a foreign bank loan. Recognition has a revolving credit facility for up to \$25.0 million. The facility contains covenants including maintenance of certain financial ratios, net worth requirements, and restrictions on future borrowings and payment of dividends. Obligations under the facility are secured by a lien on substantially all of Recognition's assets, excluding its real estate. At January 31, 1994, letters of credit of \$1.5 million were outstanding under the facility, which reduced the amount of credit available to \$23.5 million.

Recognition believes it has sufficient cash, including amounts available under the credit facility, to meet its operating and capital requirements for fiscal year 1994.

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### RESULTS OF OPERATIONS - COMPARISON OF THREE MONTH PERIODS ENDED JANUARY 31, 1994 AND 1993

Consolidated revenues were \$50.3 million in the first quarter of 1994, an increase of three percent, or \$1.3 million, as compared to the first quarter of 1993. Revenues from equipment products and services were \$39.5 million in 1994, a decrease of \$3.2 million, or eight percent, as compared to 1993. Revenues from software products and services, including Plexus(R) software products and software sold in conjunction with equipment, were \$10.9 million in

1994. This represented an increase of \$4.5 million, or 71 percent, as compared to 1993.

The increase in consolidated revenues reflected an increase of \$4.0 million, or 26 percent, in foreign revenues partially offset by a decrease of \$2.7 million, or eight percent, in domestic revenues. Foreign operations contributed 38 percent of the first quarter of 1994 revenues compared to 31 percent in the first quarter of 1993.

Product revenues from equipment and software decreased 13 percent, or \$2.6 million, compared to the first quarter of 1993. Revenues from equipment were \$12.4 million in 1994, a decrease of 24 percent, or \$3.9 million. This reflected decreased revenues from document recognition products, offset partially by increased revenues from the delivery and installation of network products under major contracts in Canada. Revenues from software products were \$5.8 million in 1994, an increase of 30 percent, or \$1.3 million.

Customer service revenues increased 14 percent, or \$3.9 million, when compared to the first quarter of 1993. Equipment related service revenues were \$27.1 million in 1994, an increase of three percent, or \$.7 million. Software service revenues related to both Plexus products and software sold in conjunction with equipment were \$5.1 million in 1994, an increase of 165 percent, or \$3.2 million.

Consolidated gross profit in the first quarter of 1994 was \$18.5 million, up \$.4 million from the first quarter of 1993. Product gross profit was \$6.1 million, or 34 percent of revenues, in 1994 compared to \$9.5 million, or 46 percent, in 1993. This decline was attributed to four primary factors: the unfavorable impact of fixed manufacturing expenses on gross profit margins due to the lower revenues from document recognition products; a larger percentage of product revenues from lower gross profit margin contracts for network products in Canada; increased revenues from sales of lower gross profit margin third party software products; and revenues from certain contracts which required additional product customization resulting in lower gross profit margins. Customer service gross profit increased \$3.8 million primarily as a result of revenues from custom software development and additional service revenues from services on recently installed equipment and

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software which were performed by existing staff without increased expense.

Recognition's system business is undergoing a transition from older, closed architecture products to newer, open architecture products. Revenues from the older products declined more than anticipated in the first quarter and may continue at lower levels for the next several quarters until replaced by revenues from the newer products. Some of these newer products are being marketed to original equipment manufacturers (OEMs). Gross profit margins on OEM revenues, as well as sales and marketing expenses, are generally lower than those on end-user revenues. Recognition expects lower customer service revenues from OEM products, as end-users will typically obtain equipment maintenance services from the OEM. Recognition is marketing its maintenance services for products manufactured by other companies to generate additional customer service revenues.

The provision for income taxes for 1994 and 1993 was a result of income earned by certain foreign entities with relatively high effective tax rates while no tax benefits were available to entities which recorded losses for the three months.

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## PART II - OTHER INFORMATION

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

- (a) Exhibits - The information required by this portion of Item 6 is set forth in the Index to Exhibits on pages 10 through 12 of this Report.
- (b) Reports on Form 8-K - No Reports on Form 8-K were filed during the quarter for which this Report is being filed.

## 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.

RECOGNITION INTERNATIONAL INC.  
(Registrant)

Date: March 16, 1994

/s/ THOMAS E. HOEFERT  
Thomas E. Hoefert  
Vice President and Controller  
(Duly Authorized Officer and Chief  
Accounting Officer)

## INDEX TO EXHIBITS

<TABLE> <CAPTION> EXHIBIT -----	DESCRIPTION OF DOCUMENT -----
<S>	<C>
2.	Not Applicable.
4.1	Restated Certificate of Incorporation effective May 30, 1974 (incorporated by reference to Exhibit 3.1 to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1993).
4.2	Amendment to Article First of Registrant's Restated Certificate of Incorporation effective March 12, 1993 (incorporated by reference to Exhibit 28(b) to Registrant's Current Report on Form 8-K dated March 12, 1993).
4.3	Amendment to Article Fourth of Registrant's Restated Certificate of Incorporation effective April 3, 1985 (incorporated by reference to Exhibit 3.3 to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1993).
4.4	Amendment adding Article Thirteenth to Registrant's Restated Certificate of Incorporation effective March 16, 1987 (incorporated by reference to Exhibit 3.4 to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1992).
4.5	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock effective September 28, 1992 (incorporated by reference to Exhibit 3.5 to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1992).
4.7	By-Laws, as amended and restated as of October 28, 1993 (incorporated by reference to Exhibit 3.6 to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1993).
4.8	Indenture dated as of April 3, 1986 and First Supplemental Indenture dated as of November 1, 1987 between Registrant and MBank Dallas, National Association, as Trustee, with respect to Registrant's 7-1/4% Convertible Subordinated Debentures due 2011 (incorporated by reference to Exhibit 4.1 to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1992).
4.9	Rights Agreement dated as of September 18, 1992 between Registrant and Society National Bank as Rights Agent

</TABLE>

## INDEX TO EXHIBITS



<TABLE> <CAPTION> EXHIBIT -----	DESCRIPTION OF DOCUMENT -----
<S>	<C> (incorporated by reference to Registrant's Form 8-A Registration Statement dated September 25, 1992).
4.10	Amended and Restated Promissory Note dated as of March 30, 1992 by Registrant to TransTechnology Corporation in the principal amount of \$1,934,183 (incorporated by reference to Exhibit 4.10 to Registrant's Quarterly Report on Form 10-Q for the period ended July 31, 1992).
4.11	Amended and Restated Credit Agreement dated as of July 29, 1993 by and among Registrant and The First National Bank of Boston, National Bank of Canada, New York Branch and First Interstate Bank of Texas, N.A. (incorporated by reference to Exhibit 4.11 to Registrant's Quarterly Report on Form 10-Q for the period ended July 31, 1993).
4.12	First Amendment dated as of January 31, 1994 to Amended and Restated Credit Agreement dated as of July 29, 1993.
4.13	Amended and Restated Revolving Credit Notes dated as of July 29, 1993 in the principal amounts of \$12,000,000, \$7,000,000 and \$6,000,000 payable by Registrant to The First National Bank of Boston, as agent for The First National Bank of Boston, First Interstate Bank of Texas, N.A. and National Bank of Canada, New York Branch, respectively (incorporated by reference to Exhibit 4.12 to Registrant's Quarterly Report on Form 10-Q for the period ended July 31, 1993).
4.14	Security Agreement dated as of March 26, 1992 by and among Registrant, Hybrid Systems Inc. and The First National Bank of Boston (incorporated by reference to Exhibit 19.5 to Registrant's Quarterly Report on Form 10-Q for the period ended April 30, 1992).
4.15	General Security Agreement dated as of March 26, 1992 by and between Mohawk Data Sciences-Canada, Limited and The First National Bank of Boston (incorporated by reference to Exhibit 19.6 to Registrant's Quarterly Report on Form 10-Q for the period ended April 30, 1992).
4.16	Unlimited Guaranty dated as of March 26, 1992 by Hybrid Systems Inc. and Recognition Equipment (Japan), Inc.

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<TABLE> <CAPTION> EXHIBIT -----	DESCRIPTION OF DOCUMENT -----
<S>	<C> in favor of The First National Bank of Boston (incorporated by reference to Exhibit 19.7 to Registrant's Quarterly Report on Form 10-Q for the period ended April 30, 1992).
4.17	Unlimited Guaranty dated as of March 26, 1992 by Mohawk Data Sciences-Canada, Limited in favor of The First National Bank of Boston (incorporated by reference to Exhibit 19.8 to Registrant's Quarterly Report on Form 10-Q for the period ended April 30, 1992).
4.18	Amendment of Security Documents Agreement dated as of July 29, 1993 by and among Registrant, Recognition Canada Inc., Recognition Japan Inc., Recognition Australia Pty. Ltd. and Recognition Holding Limited and The First National Bank of Boston (incorporated by reference to Exhibit 4.17 to Registrant's Quarterly Report on Form 10-Q for the period ended July 31, 1993).
10.	Not Applicable.
11.1	Statement re computation of per share earnings.
15.	Not applicable.
18.	Not applicable.
19.	Not applicable.
22.	Not applicable.
23.	Not applicable.
24.	Not applicable.
27.	Not applicable.
99.	Not applicable.



FIRST AMENDMENT TO  
AMENDED AND RESTATED CREDIT AGREEMENT AND  
AMENDMENT NO. 2 TO STOCK PLEDGE AGREEMENT

FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT AND AMENDMENT NO. 2 TO STOCK PLEDGE AGREEMENT, dated as of January 31, 1994 (the "Amendment"), by and among RECOGNITION INTERNATIONAL INC., a Delaware corporation (the "Borrower"), RECOGNITION AUSTRALIA PTY. LTD., a corporation organized under the laws of the state of New South Wales, Australia ("Recognition Australia"), RECOGNITION HOLDING LIMITED, a corporation organized under the laws of England ("Recognition Ltd."), THE FIRST NATIONAL BANK OF BOSTON, FIRST INTERSTATE BANK OF TEXAS, N.A., NATIONAL BANK OF CANADA, NEW YORK BRANCH and the other lending institutions from time to time listed on Schedule 1 to the Credit Agreement (as hereinafter defined) (collectively, the "Banks") and THE FIRST NATIONAL BANK OF BOSTON as agent (the "Agent") for itself and the other Banks, amending certain provisions of (a) the Amended and Restated Credit Agreement dated as of July 29, 1993 (as amended and in effect from time to time, the "Credit Agreement") by and among the Borrower, the Banks and the Agent and (b) the Stock Pledge Agreement, dated as of March 26, 1992 (as amended by Amendment No. 1 to Stock Pledge Agreement dated as of March 31, 1993, the Amendment of Security Documents Agreement dated as of July 29, 1993, and as further amended and in effect from time to time, including pursuant to the terms hereof, the "Stock Pledge Agreement") by and among the Borrower, Recognition Australia, Recognition Ltd. and the Agent. Terms not otherwise defined herein which are defined in the Credit Agreement shall have the same respective meanings herein as therein.

WHEREAS, the Borrower, the Banks and the Agent have agreed to modify certain terms and conditions of the Credit Agreement as specifically set forth in this Amendment; and

WHEREAS, the Borrower, Recognition Australia, Recognition Ltd., the Banks and the Agent have agreed to modify certain terms and conditions of the Stock Pledge Agreement as specifically set forth in this Amendment;

NOW, THEREFORE, in consideration of the mutual agreements contained in the Credit Agreement, the Stock Pledge Agreement and herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. AMENDMENT TO SECTION 1 OF THE CREDIT AGREEMENT.  
Section 1 of the Credit Agreement is hereby amended as follows:

(a) The definition of "Capital Expenditures" is hereby amended by inserting immediately after the words "such term shall

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not include" on the fifth line thereof the letter "(a)" and the words "any amounts paid or Indebtedness incurred by the Borrower, up to a maximum aggregate amount of \$5,000,000, in the fiscal quarters ending January 31, 1994 and April 30, 1994 in connection with the purchase by the Borrower of the Delphax Inventory and (b)"; and

(b) Section 1 of the Credit Agreement is further amended by inserting the following definitions in the appropriate alphabetical order:

"Delphax Inventory. Inventory purchased by the Borrower from Delphax Systems, a Massachusetts general partnership, pursuant to a Subcontract Agreement dated as of November 1, 1993 by and between the Borrower and Delphax Systems."

"Recognition Vendor Guarantees. One or more guarantees made by the Borrower in favor of any Person which sells personal computers and related equipment and software to Recognition Canada for resale by Recognition Canada under several customer contracts, which guarantee to such Person the payment and performance of obligations incurred by Recognition Canada; provided, however, the aggregate liability of the Borrower under all such guarantees outstanding at any time shall not exceed \$4,000,000."

Section 2. AMENDMENT TO Section 2.5 OF THE CREDIT AGREEMENT.  
Section 2.5 of the Credit Agreement is hereby amended as follows:

(a) Section 2.5(b) is hereby amended by deleting the words "three and one-quarter percent (3 1/4%)" from the third line thereof and substituting in place thereof the words "three percent (3%)"; and

(b) Section 2.5(c) (B) is hereby amended by deleting the words "two and three-quarter percent (2-3/4%)" from the second line thereof and substituting in place thereof the words "two and one-half percent (2-1/2%)".

Section 3. AMENDMENT TO Section 4.5 OF THE CREDIT AGREEMENT.  
Section 4.5 of the Credit Agreement is hereby amended as follows:

(a) Section 4.5(b) is hereby amended by deleting the

words "three and one-quarter percent (3 1/4%)" from the third line thereof and substituting in place thereof the words "three percent (3%)"; and

(b) Section 4.5(c)(B) is hereby amended by deleting the words "two and three-quarter percent (2-3/4%)" from the second and third lines thereof and substituting in place thereof the words "two and one-half percent (2-1/2%)".

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Section 4. AMENDMENT TO Section 9.1 OF THE CREDIT AGREEMENT. Section 9.1 of the Credit Agreement is hereby amended by (a) deleting from Section 9.1(h) the amount "\$3,000,000" and substituting in place thereof the amount "\$4,000,000"; (b) deleting the word "and" at the end of Section 9.1(o); (c) deleting the period at the end of Section 9.1(p) and substituting in place thereof a semicolon and the word "and"; and (d) inserting immediately after the text of Section 9.1(p) and the word "and", the following:

"(q) Indebtedness arising under the Recognition Vendor Guarantees."

Section 5. AMENDMENT TO Section 9.3(B) OF THE CREDIT AGREEMENT. Section 9.3(b) of the Credit Agreement is hereby amended by inserting immediately after the words "Canadian Guaranty" on the first line thereof a comma and the words "the Recognition Vendor Guarantees".

Section 6. AMENDMENT TO Section 10.1 OF THE CREDIT AGREEMENT. Section 10.1 of the Credit Agreement is hereby amended by deleting the ratio of "2.50:1.00" which appears directly opposite the date April 30, 1994 and substituting in place thereof the ratio of "1.90:1.00".

Section 7. AMENDMENT TO Section 4 OF THE STOCK PLEDGE AGREEMENT. Section 4 of the Stock Pledge Agreement is hereby amended by inserting immediately after the first sentence in Section 4, the words "Notwithstanding anything to the contrary contained in this Section 4, so long as no Default or Event of Default has occurred or is continuing, the Pledgor shall be entitled to retain, up to an maximum aggregate amount of \$1,000,000 in any calendar year, any sums paid to it with respect to the redemption by Recognition Canada of the Class A Preference Shares previously issued to the Pledgor by Recognition Canada, and the Banks and the Agent hereby agree that upon receipt by the Agent of evidence satisfactory in form and substance to the Agent of such a redemption and the related request of the Pledgor, and at the Pledgor's sole cost and expense, the Agent shall release and return to the Pledgor shares of previously pledged Stock, consisting of Class A Preference Shares,

representing sixty five percent (65%) of the Class A Preference Shares of Recognition Canada to be redeemed."

Section 8. CONDITIONS TO EFFECTIVENESS. This Amendment shall not become effective until the Agent receives a counterpart of this Amendment executed by the Borrower, Recognition Australia, Recognition Ltd., the Guarantors, the Banks and the Agent.

Section 9. REPRESENTATIONS AND WARRANTIES. The Borrower hereby repeats, on and as of the date hereof, each of the representations and warranties made by it in Section 7 of the Credit Agreement, and each of the Borrower, Recognition Australia and Recognition Ltd. represents and warrants that all the representations and warranties of each as set forth in the Stock Pledge Agreement are true and correct in all material respects on and as of the date hereof; provided, that all references therein to the Credit Agreement or the Stock Pledge Agreement, as the case may be, shall refer to such

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Credit Agreement or Stock Pledge Agreement, as the case may be, as amended hereby.

Section 10. RATIFICATION, ETC. Except as expressly amended hereby, the Credit Agreement, the Stock Pledge Agreement and all documents, instruments and agreements related thereto, including, but not limited to the Security Documents, are hereby ratified and confirmed in all respects and shall continue in full force and effect. The Credit Agreement or the Stock Pledge Agreement, as the case may be, and this Amendment shall be read and construed as a single agreement. All references in the Credit Agreement or the Stock Pledge Agreement, as the case may be, or any related agreement or instrument to the Credit Agreement or Stock Pledge Agreement, as the case may be, shall hereafter refer to the Credit Agreement or Stock Pledge Agreement, as the case may be, as amended hereby.

Section 11. NO WAIVER. Nothing contained herein shall constitute a waiver of, impair or otherwise affect any Obligations, any other obligation of the Borrower, Recognition Australia, Recognition Ltd. or any rights of the Banks and the Agent consequent thereon.

Section 12. COUNTERPARTS. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

Section 13. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY,

AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS  
(WITHOUT REFERENCE TO CONFLICT OF LAWS).

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as  
a document under seal as of the date first above written.

RECOGNITION INTERNATIONAL INC.

By: /s/ ROBERT M. SWARTZ  
Title: Senior Vice President

RECOGNITION AUSTRALIA PTY. LTD.

By: /s/ ROBERT M. SWARTZ  
Title: Director

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RECOGNITION HOLDING LIMITED

By: /s/ THOMAS A. LOOSE  
Title: Director

THE FIRST NATIONAL BANK OF  
BOSTON, INDIVIDUALLY AND AS AGENT

By: /s/ GEORGE HIBBARD  
Title: Vice President

FIRST INTERSTATE BANK OF  
TEXAS, N.A.

By: /s/ STEVE WOOD  
Title: Vice President

NATIONAL BANK OF CANADA,  
NEW YORK BRANCH

By: /s/ LARRY L. SEARS  
Title: Group Vice President

By: /s/ ANGELA M. KLOCK  
Title: Assistant Vice President

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RATIFICATION OF GUARANTY

Each of Guarantors under the Guaranty and the Canadian Guaranty hereby acknowledges and consents to the foregoing Amendment as of January 31, 1994 and confirms and ratifies all of its obligations under the Guaranty and the Canadian Guaranty.

RECOGNITION JAPAN INC.

By: /s/ ROBERT M. SWARTZ  
Title: Vice President

RECOGNITION CANADA INC.

By: /s/ ROBERT M. SWARTZ  
Title: Vice President

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RECOGNITION INTERNATIONAL INC. AND SUBSIDIARIES  
 COMPUTATION OF EARNINGS PER SHARE  
 (Unaudited)  
 (thousands, except per share)

<TABLE>  
 <CAPTION>

	Three months ended January 31,	
	1994	1993
<S>	<C>	<C>
Primary		
-----		
Net income	\$ 656 =====	\$ 616 =====
Shares:		
Weighted average shares outstanding, net of treasury shares	14,916	12,020
Net shares issuable on exercise of certain stock options	968 -----	1,121 -----
Weighted average shares outstanding, as adjusted	15,884 =====	13,141 =====
Earnings per share - primary	\$ .04 =====	\$ .05 =====
Fully Diluted:		
-----		
Earnings:		
Net income	\$ 656	\$ 616
Add after tax interest expense applicable to 7 1/4% convertible subordinated debentures	919 -----	919 -----
Net income, as adjusted	\$ 1,575 =====	\$ 1,535 =====
Shares:		
Weighted average shares outstanding, net of treasury shares	14,916	12,020
Shares issuable assuming conversion of 7 1/4% convertible subordinated debentures	3,088	3,088
Net shares issuable on exercise of certain stock options	999 -----	1,180 -----
Weighted average shares outstanding, as adjusted	19,003 =====	16,288 =====
Earnings per share - fully diluted	\$ .08 =====	\$ .09 =====

</TABLE>

Note: This calculation is submitted in accordance with Regulation S-K item 601 (b) (11) although it is contrary to paragraph 40 of APB Opinion No. 15 because it produces an anti-dilutive result.