

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**
SEC Accession No. **0000950109-94-000843**

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FILER

EVANS & SUTHERLAND COMPUTER CORP

CIK: **276283** | IRS No.: **870278175** | State of Incorporation: **UT** | Fiscal Year End: **1228**

Type: **10-Q** | Act: **34** | File No.: **000-08771** | Film No.: **94528241**

SIC: **3690** Miscellaneous electrical machinery, equipment & supplies

Mailing Address

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SALT LAKE CITY UT 84108

Business Address

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SALT LAKE CITY UT 84108
8015825847

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

Form 10-Q

(Mark One)

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 0-8771

Evans & Sutherland Computer Corporation
(Exact name of registrant as specified in its charter)

UTAH
(State or other jurisdiction of
incorporation or organization)

87-0278175
(I.R.S. Employer
Identification No.)

600 Komas Drive, Salt Lake City, Utah
(Address of principal executive offices)

84108
(Zip Code)

Registrant's telephone number, including area code: (801) 582-5847

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
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.

| Class | Outstanding Shares at April 29, 1994 |
|--------------------------------|--------------------------------------|
| ----- | ----- |
| Common Stock, \$0.20 par value | 8,524,904 |

Form 10-Q

Evans & Sutherland Computer Corporation

QUARTER ENDED APRIL 1, 1994

<TABLE>
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Evans & Sutherland Computer Corporation

PART I - FINANCIAL INFORMATION

General Statement:

The following Consolidated Statements of Earnings, Consolidated Balance Sheets, and Consolidated Abbreviated Statements of Cash Flows have been prepared from the accounting records of Evans & Sutherland Computer Corporation without audit (except where presented data is specifically identified as audited) in accordance with Securities and Exchange Commission regulations.

The financial statements were prepared in conformity with generally accepted accounting principles applied on a basis consistent with prior periods. All adjustments reflected in the statements are of a normal recurring nature and are necessary for a fair statement of results for the interim periods presented. It is management's opinion that the information presented herein reflects a fair statement of the results of the interim period(s) in all material respects.

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EVANS & SUTHERLAND COMPUTER CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS
Three Months Ended
April 1, 1994 and April 2, 1993
(Dollars in Thousands, Except Per Share Amounts)

<TABLE>
<CAPTION>

| | Three Months Ended (Unaudited) | |
|---|-----------------------------------|------------------|
| | April 1, 1994 | April 2, 1993 |
| | ----- | ----- |
| <S> | <C> | <C> |
| Net sales | \$ 26,860 | \$ 29,916 |
| Cost of sales | 12,277 | 14,967 |
| Gross profit | 14,583 | 14,949 |
| Expenses: | | |
| Marketing, general and administrative | 8,336 | 9,391 |
| Research and development | 7,886 | 7,869 |
| | ----- | ----- |
| | 16,222 | 17,260 |
| Operating loss | -1,639 | -2,311 |
| Other income (expense), net | 1,504 | -38 |
| | ----- | ----- |
| Loss before income taxes, extraordinary gain, | | |

| | | |
|---|----------|----------|
| and cumulative effect of change in accounting principle | -135 | -2,349 |
| Income tax benefit (note 2) | -52 | -940 |
| | ----- | ----- |
| Loss before extraordinary gain and cumulative effect of change in accounting principle | -83 | -1,409 |
| Extraordinary gain from repurchase of convertible debentures, net of income taxes of \$56 | 91 | - |
| Cumulative effect at December 26, 1992 of change in accounting for income taxes | - | 2,267 |
| | ----- | ----- |
| Net earnings | \$ 8 | \$ 858 |
| | ===== | ===== |
| Earnings (loss) per common and common equivalent share: | | |
| Before extraordinary gain and cumulative effect of change in accounting for income taxes | \$ -0.01 | \$ -0.17 |
| Extraordinary gain from repurchase of convertible debentures | 0.01 | - |
| Cumulative effect of change in accounting principle | - | 0.27 |
| | ----- | ----- |
| Total earnings per share | \$ 0.00 | \$ 0.10 |
| | ===== | ===== |
| Weighted average number of shares used for per share earnings computation: | 8,474 | 8,224 |

</TABLE>

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EVANS & SUTHERLAND COMPUTER CORPORATION
CONSOLIDATED BALANCE SHEETS
April 1, 1994 and December 31, 1993
(Dollars in Thousands)

<TABLE>
<CAPTION>

| | April 1, 1994 (Unaudited) | December 31, 1993 (Audited) |
|--|---------------------------------|-----------------------------------|
| | ----- | ----- |
| | <C> | <C> |
| Assets | | |
| ----- | | |
| <S> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 11,610 | \$ 3,250 |
| Temporary cash investments | 70,659 | 75,286 |
| Receivables: | | |
| Trade accounts, less allowance for doubtful receivables of \$389 in 1994 and \$406 in 1993 | 29,721 | 30,667 |
| Interest | 1,076 | 1,076 |
| Employees and other | 1,953 | 399 |
| | ----- | ----- |
| Total receivables | 32,750 | 32,142 |
| Inventories, net (note 1) | 32,403 | 32,839 |
| Costs and estimated earnings in excess of billings on uncompleted contracts, net | 9,797 | 10,048 |
| Deferred income tax | 4,885 | 6,050 |
| Prepaid expenses and deposits | 3,154 | 1,573 |
| | ----- | ----- |
| Total current assets | 165,258 | 161,188 |
| | ----- | ----- |
| Property, plant, and equipment, at cost | 109,750 | 113,366 |
| Less accumulated depreciation and amortization | 64,583 | 65,119 |
| | ----- | ----- |
| Net property, plant, and equipment | 45,167 | 48,247 |
| Long-term investments: | | |
| Marketable equity securities at cost | - | 3,178 |
| Marketable equity securities available-for-sale, at fair value (note 2) | 14,018 | - |
| Other, at cost | 35 | 35 |
| | ----- | ----- |
| Total long-term investments | 14,053 | 3,213 |
| Other assets, at cost, less accumulated amortization | 2,819 | 3,539 |

| | |
|------------------------------|------------------------------|
| ----- \$ 227,297 ===== | ----- \$ 216,187 ===== |
|------------------------------|------------------------------|

</TABLE>

Certain 1993 amounts have been reclassified to conform with 1994 presentation.

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EVANS & SUTHERLAND COMPUTER CORPORATION
CONSOLIDATED BALANCE SHEETS
April 1, 1994 and December 31, 1993
(Dollars in Thousands)

<TABLE>
<CAPTION>

| | April 1, 1994 (Unaudited) | December 31, 1993 (Audited) |
|--|---------------------------------|-----------------------------------|
| Liabilities and Stockholders' Equity | | |
| <S> | <C> | <C> |
| Current liabilities: | | |
| Notes payable to banks | \$ 2,918 | \$ 2,685 |
| Accounts payable | 1,573 | 5,095 |
| Accrued expenses | 15,864 | 19,321 |
| Customer deposits | 17,756 | 11,303 |
| Income taxes payable | 977 | 2,112 |
| | ----- | ----- |
| Total current liabilities | 39,088 | 40,516 |
| | ----- | ----- |
| Convertible subordinated debentures | 35,956 | 37,066 |
| Deferred income taxes | 5,767 | 1,575 |
| Stockholders' equity: | | |
| Common stock, \$.20 par value; authorized 30,000,000 shares; issued and outstanding 8,520,757 shares at April 1, 1994 and 8,352,525 shares at December 31, 1993 | 1,704 | 1,671 |
| Additional paid-in capital | 14,571 | 11,899 |
| Retained earnings | 122,959 | 122,951 |
| Net unrealized gain on marketable equity securities (note 2) | 6,825 | - |
| Equity adjustment from foreign currency translation | 427 | 509 |
| | ----- | ----- |
| Total stockholders' equity | 146,486 | 137,030 |
| | ----- | ----- |
| | \$ 227,297 | \$ 216,187 |
| | ===== | ===== |

</TABLE>

Certain 1993 amounts have been reclassified to conform with 1994 presentation.

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EVANS & SUTHERLAND COMPUTER CORPORATION
CONSOLIDATED ABBREVIATED STATEMENTS OF CASH FLOWS
Three Months Ended
April 1, 1994 and April 2, 1993
(Dollars in Thousands)

<TABLE>
<CAPTION>

| | Three Months Ended (Unaudited) | |
|---|-----------------------------------|------------------|
| | April 1, 1994 | April 2, 1993 |
| <S> | <C> | <C> |
| Net cash provided by operating activities | \$ 1,567 | \$ 8,405 |
| Cash flows from investing activities: | | |
| Capital expenditures | -883 | -3,522 |
| Proceeds from sale of marketable securities | 1,575 | - |
| Proceeds from temporary cash investments | 4,627 | 51 |
| Other | -372 | -262 |
| Net cash provided by (used in) investing activities | 4,947 | -3,733 |
| Cash flows from financing activities: | | |
| Payments for repurchase of convertible debentures | -945 | - |
| Net proceeds from issuance of common stock | 2,732 | 184 |
| Net borrowings under line of credit agreements | 165 | 335 |
| Other | -27 | - |
| Net cash provided by financing activities | 1,925 | 519 |
| Effect of foreign exchange rate changes on cash | -79 | 13 |
| Net increase in cash and cash equivalents | 8,360 | 5,204 |
| Cash and cash equivalents at beginning of year | 3,250 | 1,494 |
| Cash and cash equivalents at end of period | \$ 11,610 | \$ 6,698 |
| Supplemental disclosures of cash flow information | | |
| Cash paid during the period for: | | |
| Interest | \$ 1,188 | \$ 1,177 |
| Income taxes | \$ 205 | \$ 4,035 |

</TABLE>

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EVANS & SUTHERLAND COMPUTER CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Dollars in Thousands)

(1) Inventories are summarized as follows:

<TABLE>

<CAPTION>

| | April 1, 1994 (Unaudited) | December 25, 1993 (Audited) |
|----------------------------|---------------------------------|-----------------------------------|
| <S> | <C> | <C> |
| Raw materials and supplies | \$ 13,382 | \$ 15,035 |
| Work-in-process | 13,894 | 14,470 |
| Finished Goods | 6,013 | 4,738 |
| Inventory reserve | -886 | -1,404 |
| | \$ 32,403 | \$ 32,839 |

</TABLE>

(2) Marketable equity securities available-for-sale

During the quarter ended April 1, 1994, the Company adopted the provisions of Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities. Under Statement 115, available-for-sale securities are recorded at fair value. Unrealized holding gains & losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders' equity until realized.

Realized gains and losses for securities classified as available-for-sale are included in earnings and are calculated using the specific identification method for determining the cost of securities sold.

Marketable equity securities at December 31, 1993, are stated at the lower of cost or market.

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EVANS & SUTHERLAND COMPUTER CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollars in Thousands)

The following table summarizes changes in operations for the periods indicated and presents the percentage of increase (decrease) by listed items compared to the indicated prior period:

<TABLE>
<CAPTION>

| | (Unaudited) | |
|---|---------------------|---------|
| | Quarters | |
| | Ended April 1, 1994 | |
| | And April 2, 1993 | |
| <S> | <C> | <C> |
| Net sales | \$ -3,056 | -10.2% |
| Cost of sales | -2,690 | -18.0% |
| Gross profit | -366 | -2.4% |
| Expenses: | | |
| Marketing, general and administrative | -1,055 | -11.2% |
| Research and development | 17 | 0.2% |
| | -1,038 | -6.0% |
| Operating earnings (loss) | 672 | 29.1% |
| Other income (expense), net | 1,542 | 4057.9% |
| Earnings (loss) before income taxes, extraordinary gain, and cumulative effect of change in accounting principle | 2,214 | 94.3% |
| Income tax expense (benefit) | 888 | 94.5% |
| Earnings (loss) before extraordinary gain and cumulative effect of change in accounting principle | 1,326 | 94.1% |
| Extraordinary gain from repurchase of convertible debentures, net of income taxes | 91 | 100.0% |
| Cumulative effect at December 26, 1992 of change in accounting for income taxes | -2,267 | -100.0% |
| Net earnings | \$ -850 | -99.1% |

</TABLE>

RESULTS OF OPERATIONS

Sales

The following table summarizes sales for the first three months of 1994 and 1993 in the five market sectors served by the Company. Sales for the first three months of 1994 were 10% below those of the corresponding 1993 period.

<TABLE>

<CAPTION>

| | S A L E S | | % Change Increase (Decrease) |
|---|----------------------------|-----------|------------------------------------|
| | First Three Months 1994 | 1993 | |
| <S> | <C> | <C> | <C> |
| U.S. government and engineering | \$ 10,130 | \$ 13,977 | -28% |
| International government and engineering | 8,250 | 4,979 | 66% |
| Design systems | 7,518 | 8,058 | -7% |
| World civil pilot training | 640 | 2,158 | -70% |
| Education and entertainment | 322 | 744 | -57% |
| | ----- | ----- | |
| | \$ 26,860 | \$ 29,916 | -10% |
| | ===== | ===== | |

</TABLE>

U.S. government and engineering sales are lower in the first quarter of 1994 compared to the corresponding 1993 period, however, orders during the period were strong and backlog increased. The Evans & Sutherland ESIG/(R)/1/ 2000 is proving to be an ideal product for ground combat simulation and sales growth is expected to continue in this area. The U.S. military services and intelligence agencies are becoming increasingly interested in mission planning and rehearsal where very rapid production of complex, mission-specific databases are a critical requirement. The Company's ESIG 4000 is a well positioned product to meet this need.

International government and engineering sales increased 66% during the first quarter of 1994 over the same period of 1993. Continued growth is expected, with increases possible if worldwide economic conditions improve. In Europe, lower priced product offerings by the Company have spurred interest in the commercial market.

Design systems first quarter sales were below those of the same period of 1993.

In a Company-wide restructuring announcement January 12, 1994, it was announced that the Design Systems Division was reorganized to serve the graphics accelerator market entirely as an OEM supplier. On October 19, 1993 the Company announced an important OEM agreement with IBM, where IBM will market selected E&S high-end graphics accelerators that support IBM's RISC System/6000/TM/2/ workstations. The Company anticipates improved sales performance when IBM begins marketing this product later this year. The Company expects that its current agreement with SUN will be renegotiated as an OEM agreement.

Design Software (CDRS) sales were significantly higher in the first quarter of 1994 over 1993. On April 12, 1994 the Design Software Group announced a significant upgrade to its software design setting new standards for curvature continuity which is essential for accurate surface modeling.

/1/ ESIG/(R)/ is a registered trademark of the Company.

/2/ RISC System/6000/TM/ is a trademark of IBM.

Molecular Design (TRIPOS) sales were slightly lower in the first quarter of 1994 than the corresponding period in 1993. Sales of third party hardware are down from the 1993 level, and higher margin software sales are slightly ahead of 1993. The SEC is currently reviewing a FORM 10 filing made March

16, 1994 for the proposed spin-off of Tripos in the form of a tax free dividend to shareholders.

The sales decline in the world civil training business in the first quarter of 1994 compared to the corresponding 1993 period continues to reflect the general weak condition of the world's airlines and the uncertainty caused by the purchase of Hughes Rediffusion Simulation Limited, the Company's long term marketing outlet, by Thomson CSF, a large French simulation company. Discussions between Thomson and the Company continue as both parties seek a solution to Thomson's desire to cancel the marketing agreement that existed with Rediffusion prior to Thomson's acquisition. Based on the orders for new equipment in the civil airlines industry, the market should experience some recovery, but not in 1994.

Education and entertainment sales are down, but are expected to respond positively as jointly developed installations with Iwerks Entertainment begin operating near mid-year.

Cost of Sales
- - - - -

Cost of sales, as a percentage of sales, were 45.7% for the three months of 1994 compared to the 50.0% rate experienced during the corresponding 1993 period. Costs were lower during the quarter due to: 1) percentage of completion type contracts in the Simulation business coming in with lower than estimated costs; 2) a larger number of higher-margin CDRS shipments during the quarter; 3) cost reductions resulting from the Company restructuring that took place in January.

Expenses
- - - - -

Total expenses for the three months of 1994 decreased \$1,039,000 (6%) below the corresponding 1993 period.

Marketing, General, and Administrative: Marketing, general, and

administrative expense decreased \$1,055,000 (11%) in 1994, however, as a percent of sales, the costs remained constant at 31%. The overall cost decrease was primarily due to the restructuring efforts that took place in January of 1994.

Research and Development: Company-funded research and development

increased \$17,000 in 1994 and was 29% as a percentage of sales, compared to 26% in 1993. A \$251,000 cost increase in the Design systems group was mostly offset by a Tripos cost decrease of \$239,000.

Other Income (Expense), Net
- - - - -

Other income increased from a \$38,000 loss in the first quarter of 1993 to a \$1,504,000 gain in 1994, due primarily to a gain of \$1,408,000 from the sale of marketable securities. Interest income increased by \$48,000 as the amount of temporary cash investments increased. The Company repurchased some of its interest-bearing convertible debentures resulting in an interest expense decrease of \$25,000. There was also an increase in the gain from foreign currency exchange from \$4,000 in 1993 to \$41,000 in 1994.

Income Taxes
- - - - -

A tax rate of 38% was utilized for income tax transactions in both the first quarter of 1993 and 1994.

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LIQUIDITY & CAPITAL COMMITMENTS
- - - - -

Funds to support the Company's operations come mainly from: net cash provided by operating activities, sales of marketable securities, and proceeds from employee stock purchase and option plans. The Company also has cash equivalents and temporary cash investments which can be used as needed for operating funds.

Cash and cash equivalents and temporary cash investments increased \$3,733,000 to \$82,269,000 during the first quarter of 1994 principally due to the increase in customer deposits, the sale of stock to employees, and the sale of marketable securities. The value of company-owned marketable securities declined \$189,000 to \$14,018,000 during the same period.

There were no material capital commitments as the fiscal year 1994 began, and no major commitments were extended during the first quarter of 1994.

The Company believes that, through internal cash generation plus the cash

investments and marketable securities identified above, it has sufficient resources to cover its cash needs during fiscal year 1994.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (b) There were no reports on Form 8-K filed for the three-month period ended April 1, 1994.

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Evans & Sutherland Computer Corporation

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.

EVANS & SUTHERLAND COMPUTER CORPORATION

Registrant

Date May 13, 1994

/s/ Gary E. Meredith

Gary E. Meredith, Vice President, Secretary,
and Chief Financial Officer

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