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. 0000891618-94-000115

(HTML Version on secdatabase.com)

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PYRAMID TECHNOLOGY CORP

CIK:**714865**| IRS No.: **942781589** | State of Incorp.:**DE** | Fiscal Year End: **0930**
Type: **10-Q** | Act: **34** | File No.: **000-14686** | Film No.: **94528035**
SIC: **3571** Electronic computers

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

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 [NO FEE REQUIRED]

For the transition period from ________________ to _______________

Commission File Number 0-14686

PYRAMID TECHNOLOGY CORPORATION
(Exact name of registrant as specified in its charter)

<TABLE>

<S>	<C>
DELAWARE	94-2781589
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

</TABLE>

3860 N. FIRST STREET, SAN JOSE, CALIFORNIA 95134
(Address of principal executive offices)

Registrant's telephone number, including area code: (408) 428-9000.

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.

<TABLE>

<S> Class	<C> Shares Outstanding at April 29, 1994
Common Stock, $0.01 par value	13,432,626

</TABLE>

PYRAMID TECHNOLOGY CORPORATION

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PART 1. FINANCIAL INFORMATION

PYRAMID TECHNOLOGY CORPORATION
Consolidated Statement of Operations
(In thousands, except per share amounts)
(unaudited)

<TABLE>
<CAPTION>

	Three Months Ended		Six Months Ended	
	April 1 1994	April 2 1993	April 1 1994	April 2 1993
<S>	<C>	<C>	<C>	<C>
Revenues:				
Product revenues	$ 30,195	$43,373	$ 74,173	$ 84,512
Service revenues	16,353	14,651	32,393	28,615
	46,548	58,024	106,566	113,127
Cost of sales:				
Cost of products sold	20,900	21,479	44,066	42,952
Cost of services	13,049	11,703	24,931	22,633
	33,949	33,182	68,997	65,585
Gross profit	12,599	24,842	37,569	47,542
Operating expenses:				
Research and development	7,008	7,455	13,651	14,807
Sales, marketing, general & administrative	18,948	15,817	36,389	30,645
Total operating expenses	25,956	23,272	50,040	45,452
Operating income (loss)	(13,357)	1,570	(12,471)	2,090
Interest income	151	172	272	362
Interest expense	(196)	(142)	(355)	(332)
Income (loss) before income taxes	(13,402)	1,600	(12,554)	2,120
Provision for income taxes	2,571	160	2,783	212
Net income (loss)	$(15,973)	$ 1,440	$(15,337)	$ 1,908
Net income (loss) per common and common equivalent share	$ (1.19)	$ 0.12	$ (1.14)	$ 0.16

Shares used in computing net income (loss) per common and common equivalent share	13,403	12,258	13,494	12,203
	========	========	========	========

</TABLE>

See accompanying notes

PYRAMID TECHNOLOGY CORPORATION
Condensed Consolidated Balance Sheet
(In thousands)
(unaudited)

<TABLE>
<CAPTION>

<S>	April 1 1994 <C>	September 30 1993 <C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,256	$ 31,358
Accounts receivable, net	49,026	51,392
Inventories	37,681	35,712
Prepaid expenses and deposits	9,290	11,873
Total current assets	115,253	130,335
Property and equipment, at cost	100,936	95,273
Less accumulated depreciation and amortization	68,107	60,686
	32,829	34,587
Capitalized software development costs	16,955	15,959
Service spare parts and other assets	12,775	10,777
	$ 177,812	$ 191,658
	=========	=========
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 17,356	$ 20,312
Accrued payroll and related liabilities	6,113	7,043
Accrued commissions	1,346	2,419
Deferred revenue	9,907	7,197
Other accrued liabilities	9,966	8,764
Restructuring accruals	3,111	4,464
Income taxes payable	1,592	1,561
Current portion of long-term debt	2,023	1,795
Total current liabilities	51,414	53,555
Long-term debt	2,162	487
Shareholders' equity:		
Common stock	134	132
Additional paid-in capital	156,765	155,078
Accumulated deficit	(30,853)	(15,514)
Accumulated translation adjustment	(1,810)	(2,080)
Total shareholders' equity	124,236	137,616
	$ 177,812	$ 191,658
	=========	=========

</TABLE>

See accompanying notes

PYRAMID TECHNOLOGY CORPORATION
Condensed Consolidated Statement of Cash Flows
(In thousands)
(unaudited)

<TABLE>
<CAPTION>

	Six Months Ended	
	April 1 1994	April 2 1993
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	$ (15,337)	$ 1,908
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	15,531	16,785
Changes in:		
Accounts receivable, net	2,366	(10,942)
Inventories	(1,969)	(1,670)
Prepaid expenses and deposits and income tax receivable	2,583	3,705
Accounts payable, accrued liabilities, and other	(1,953)	(1,215)
Net cash provided by operating activities	1,221	8,571
Cash flows from investing activities:		
Investment in property and equipment	(8,018)	(7,246)
Increase in capitalized software development costs	(5,178)	(3,764)
(Increase) decrease in other assets	(3,719)	2,013
Net cash used for investing activities	(16,915)	(8,997)
Cash flows from financing activities:		
Principal payments on long-term debt	(1,247)	(736)
Borrowings under loan agreement	3,150	--
Issuance of common stock, net of repurchases	1,689	1,855
Net cash provided by financing activities	3,592	1,119
Increase (decrease) in cash and cash equivalents	(12,102)	693
Cash and cash equivalents, at the beginning of the period	31,358	26,458
Cash and cash equivalents, at the end of the period	$ 19,256	$ 27,151
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 355	$ 332
Cash paid for income taxes	$ 560	$ 65

</TABLE>

See accompanying notes

PYRAMID TECHNOLOGY CORPORATION
Notes to Consolidated Financial Statements
(unaudited)

Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after elimination of all significant intercompany transactions.

While the financial information furnished is unaudited, the statements in this report reflect all adjustments, consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair statement of the results of operations for the interim periods covered and of the financial condition of the Company at the dates of the balance sheets. The operating results for the interim periods presented are not necessarily indicative of the results to be expected for the entire year.

Certain footnotes normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the fiscal year ended

September 30, 1993.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and consist of the following (in thousands):
<TABLE>
<CAPTION>

	April 1 1994	September 30 1993
<S>	<C>	<C>
Raw materials	$16,703	$12,236
Work-in-process	12,451	14,517
Finished goods	8,527	8,959
	$37,681	$35,712

</TABLE>

Related Party Transactions

During the second quarter of fiscal 1994, a senior executive of a major customer and vendor of the Company was elected to the Company's board of directors. The related party accounted for approximately 11% of the Company's revenue during the second quarter of fiscal 1994. Additionally, the Company has contracted with the related party to perform consulting services totaling a minimum of $7,000,000 per year over a nine year period. At April 1, 1994, the Company had an account receivable balance of $9,100,000 from the related party and owed the related party $550,000 for consulting services rendered.

Line of Credit

In July 1993, the Company obtained a $20,000,000 line of credit. To date, there have been no borrowings under the line of credit. At April 1, 1994, the Company was in violation of certain financial requirements of the line of credit and obtained a waiver from the bank. The waiver provides the Company the ability to borrow the lesser of $10,000,000 or an amount computed based on a borrowing base formula. Amounts borrowed under the line of credit are secured by the Company's accounts receivable. The line of credit, which expires on October 31, 1994, requires the maintenance of certain financial ratios and sets limitations on the Company in regards to other indebtedness, guarantees, encumbrances, mergers, consolidations, sale and leaseback of assets, equity distributions, annual capital expenditures and capital software levels.

PYRAMID TECHNOLOGY CORPORATION
Notes to Consolidated Financial Statements
(unaudited)

Net income (loss) per common and common equivalent share

Net income (loss) per common and common equivalent share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares consist of the dilutive shares issuable upon the exercise of stock options using the treasury stock or modified treasury stock method (whichever applies). For the three and six month periods ended April 1, 1994, no common equivalent shares were included in the computation of net loss per share as their effect would be anti-dilutive. For the three and six month periods ended April 2, 1993, no common equivalent shares were included in the computation as the modified treasury stock method applied and the effect would be anti-dilutive.

(in thousands, except per share amounts)
<TABLE>
<CAPTION>

	Three Months Ended	
	April 1 1994	April 2 1993
<S>	<C>	<C>
Average shares outstanding	13,403	12,258
Net effect of dilutive stock options	--	--

Shares used in computing net income (loss) per common and common equivalent share	13,403	12,258
Net income (loss)	$ (15,973)	$ 1,440
Net income (loss) per common and common equivalent share	$ (1.19)	$ 0.12

	Six Months Ended	
	April 1 1994	April 2 1993
Average shares outstanding	13,494	12,203
Net effect of dilutive stock options	--	--
Shares used in computing net income (loss) per common and common equivalent share	13,494	12,203
Net income (loss)	$ (15,337)	$ 1,908
Net income (loss) per common and common equivalent share	$ (1.14)	$ 0.16

PYRAMID TECHNOLOGY CORPORATION
Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the attached consolidated financial statements and notes thereto, and with the Company's audited financial statements and notes thereto for the year ended September 30, 1993.

Results of Operations

Total revenues for the second quarter and first six months of fiscal 1994 decreased 20% and 6% to $46,548,000 and $106,566,000 from the second quarter and first six months of fiscal 1993 levels of $58,024,000 and $113,127,000.

The decrease in product revenues for the second quarter and first six months of fiscal 1994 as compared to the second quarter and first six months of fiscal 1993 was primarily attributable to the decline in business with traditional OEM partners as well as decreases in direct product revenues from that of a year ago. Also contributing to the decrease in product revenues was the lengthening of sales cycles experienced in selling larger, more sophisticated systems to Fortune 1000 class companies. Direct product revenues were $21,103,000 or 70% of total product revenues for the second quarter of fiscal 1994 compared to $24,683,000 or 57% in the second quarter of fiscal 1993, and $46,104,000 or 62% of total product revenues for the first six months of fiscal 1994 compared to $44,184,000 or 52% in the first six months of fiscal 1993.

Total revenues from AT&T were $6,539,000 or 14% of total revenues for the second quarter of fiscal 1994 compared to $12,689,000 or 22% in the second quarter of fiscal 1993, and $20,272,000 or 19% of total revenues for the first six months of fiscal 1994 compared to $20,169,000 or 18% in the first six months of fiscal 1993. The decrease for the quarter was attributable to decreased shipments in connection with the Treasury Multiuser Acquisition Contract "TMAC", which was awarded to AT&T with Pyramid as the major subcontractor. The Company believes that revenues from AT&T will continue to fluctuate as purchase quantities vary in connection with "TMAC".

International product revenues were $11,989,000 or 40% of total product revenues for the second quarter of fiscal 1994 compared to $18,925,000 or 44% in the second quarter of fiscal 1993, and $28,068,000 or 38% of total product revenues for the first six months of fiscal 1994 compared to $38,736,000 or 46% in the first six months of fiscal 1993. The dollar value of international product revenues decreased 37% from the second quarter of fiscal 1993 to the second quarter of fiscal 1994, as increases in Australian sales were more than offset by sizeable decreases in sales to Olivetti, Siemens Nixdorf, Hyundai, and Sharp. Included in international revenues were nonrecurring software license fees of $1,400,000 and $4,900,000 in the second quarter and first six months of fiscal 1994 and $1,800,000 and $3,200,000 in the second quarter and first six months of fiscal 1993. Due to continued weak economies in many parts of the world, the Company believes that international revenues for the last half of fiscal 1994 will be lower than international revenues for the last half of fiscal 1993, which may affect the Company's overall operating results.

Service revenues for the second quarter and first six months of fiscal 1994 continued to benefit from the increasing base of installed Pyramid systems. In June 1992, the Company announced a North American service agreement with Bull HN Information Systems, Inc., which has increased the number of support personnel available for on-site service to Pyramid customers in North America. In March 1993, the Company entered into a European service agreement with Siemens Nixdorf, which increased the number of support personnel available for on-site service to Pyramid customers in Europe. In December 1993, the Company modified an existing service agreement with Fujitsu Australia, Ltd., which increased the number of support personnel available for on-site service to Pyramid customers in all of Australia.

PYRAMID TECHNOLOGY CORPORATION
Management's Discussion and Analysis of Financial
Condition and Results of Operations

Gross profit as a percentage of revenues in the second quarter and first six months of fiscal 1994 was 27% and 35% compared to 43% and 42% in the second quarter and first six months of fiscal 1993. The decrease in gross profit was due to the decrease in revenues experienced during the second quarter of fiscal 1994 in relation to fixed costs. In the future, gross profit as a percentage of revenues may be adversely affected by a higher mix of indirect revenues, which historically have higher discounts, a decrease in nonrecurring software license fees, which historically have yielded higher margins, significant fluctuations in currency exchange rates, and intensified competitive pressures. The Company believes that gross profit as a percentage of revenue for the last half of fiscal 1994 will be lower than the percentage for the last half of fiscal 1993, which may affect the Company's overall operating results.

Research and development expenses as a percentage of revenues were 15% and 13% in the second quarter and first six months of fiscal 1994 compared to 13% in both the second quarter and first six months of fiscal 1993. The percentage increase was principally due to lower revenues in the second quarter of fiscal 1994 which was somewhat offset by an increase in capitalized software development costs. In accordance with Statement of Financial Accounting Standards No. 86, the Company capitalized $2,775,000 and $5,178,000 of software development costs in the second quarter and first six months of fiscal 1994 compared to $1,993,000 and $3,764,000 in the second quarter and first six months of fiscal 1993. The Company believes the enhancement of existing products and the development of new products is essential to maintaining a competitive marketing position. Accordingly, the Company is committed to a high level of research and development expenditures. However, because of the inherent uncertainties of product development projects in the Company's technology-intensive industry, there can be no assurance that research and development efforts will result in successful product enhancements or introductions, or, ultimately in increased revenues.

Sales, marketing, and general and administrative expenses as a percentage of revenues were 41% and 34% in the second quarter and first six months of fiscal 1994 compared to 27% in both the second quarter and first six months of fiscal 1993. In absolute dollars, these expenses increased $3,131,000 and $5,744,000 from the second quarter and first six months of fiscal 1993 to the second quarter and first six months of fiscal 1994 due primarily to increases in sales and marketing personnel and to termination costs for reducing the number of general and administrative personnel in the second quarter of fiscal 1994. The Company expects total sales, marketing, general and administrative expenses to increase during the remainder of fiscal 1994 as commission expenses increase with the increase in cumulative revenue and as the Company increases the number of revenue-producing direct sales people and marketing personnel to enhance the Company's direct sales capacity.

The amount of interest income for the second quarter and first six months of fiscal 1994 was $151,000 and $272,000 compared to $172,000 and $362,000 in the second quarter and first six months of fiscal 1993. The decrease was primarily a result of lower average daily cash balances in the second quarter and first six months of fiscal 1994 as compared to the year-ago periods. The Company intends to continue investing its available funds in short-term, highly-liquid income producing obligations. The amount of interest expense for the second quarter and first six months of fiscal 1994 was $196,000 and $355,000 compared to $142,000 and $332,000 in the second quarter and first six months of fiscal

1993. The increase was due to a higher level of capital lease and loan obligations. The Company expects interest expense to increase during the remainder of fiscal 1994.

PYRAMID TECHNOLOGY CORPORATION
Management's Discussion and Analysis of Financial
Condition and Results of Operations

The income tax provision for the second quarter and first six months of fiscal 1994 includes a $2,523,000 charge for a write-off of the Company's deferred tax assets. For the remainder of fiscal 1994, it is anticipated that the Company will be reporting minimal amounts of income tax liability and the effective tax rate is expected to be less than 10%. Effective October 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109), which establishes a new method of accounting for income taxes. The effect of the adoption of FAS 109 on net income in fiscal 1994 was not material.

The Company's agreements with its OEMs and distributors, including its TMAC agreement through AT&T, do not require minimum purchase quantities and therefore there can be no assurance that the Company will receive future revenues under these agreements. A substantial portion of the Company's revenues in each quarter generally results from shipments during the last month of that quarter, and principally for that reason, the Company's revenues are subject to quarterly fluctuations. In addition, the Company establishes its expenditure-level targets based on expected revenues. If anticipated orders and shipments in any quarter do not occur when expected, expenditure levels could be disproportionately high and the Company's operating results for that quarter could be adversely affected. The Company's operating results may also be subject to quarterly fluctuations as a result of a number of factors, including the timing of orders from and shipments to major customers, product mix, variations in product costs, the mix of revenues, nonrecurring operating system and manufacturing license fees, increased competition, the ability to introduce new products on a timely basis, and general economic conditions.

Liquidity and Capital Resources

The Company has financed its operating expenses and working capital needs primarily through a combination of internally generated cash and cash balances. Cash and cash equivalents decreased during the quarter from $25,874,000 at December 31, 1993 to $19,256,000 at April 1, 1994. Net cash provided by operating activities during the first six months of fiscal 1994 was $1,221,000 as compared to $8,571,000 during the same period of fiscal 1993. The Company's investing activities used $16,915,000 in cash during the first six months of fiscal 1994 as compared to $8,997,000 during the same period of fiscal 1993. Financing activities provided $3,592,000 in cash during the first six months of fiscal 1994 as compared to $1,119,000 during the same period of fiscal 1993.

In July 1993, the Company obtained a $20,000,000 line of credit. To date, there have been no borrowings under the line of credit. At April 1, 1994, the Company was in violation of certain financial requirements of the line of credit and obtained a waiver from the bank. The waiver provides the Company the ability to borrow the lesser of $10,000,000 or an amount computed based on a borrowing base formula. Amounts borrowed under the line of credit are secured by the Company's accounts receivable. The line of credit, which expires on October 31, 1994, requires the maintenance of certain financial ratios and sets limitations on the Company in regards to other indebtedness, guarantees, encumbrances, mergers, consolidations, sale and leaseback of assets, equity distributions, annual capital expenditures and capital software levels. During October 1993, the Company entered into a borrowing agreement with a lending company. The agreement provides for up to $10,500,000 of three year eligible capital equipment financing at interest rates based on three year treasury notes for the week preceding each funding date. All fundings must occur on or before September 30, 1994. At April 1, 1994, $3,150,000 of equipment had been financed under this agreement. Failure to negotiate revisions and/or extensions of these facilities or to obtain new bank agreements on terms favorable to the Company could have an adverse impact on its operations and financial results.

PYRAMID TECHNOLOGY CORPORATION
Management's Discussion and Analysis of Financial
Condition and Results of Operations

Based upon its current operating plan, the Company anticipates that internally generated funds and cash balances, together with existing financing arrangements, will be sufficient to satisfy capital requirements through fiscal 1994. However, the Company may raise additional capital through debt or equity financing to take advantage of market opportunities.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

During the first quarter of fiscal 1994, two shareholder class action complaints were filed naming as defendants the Company and certain of its officers and directors, and alleging violations of federal securities laws as well as a state law fraud claim. The complaints allege that the Company made false and misleading statements in press releases and other public statements and that some of the individual defendants traded the Company's common stock on inside information. The complaints seek an unspecified amount of damages. The motion for consolidation of the two actions has been continued, to be heard on June 24, 1994. The Company denies the allegations in the complaints and intends to present a vigorous defense to the actions. Although the Company cannot predict the outcome of the lawsuits at this time, management believes that there are meritorious defenses to each of the claims made in the complaints.

Item 6. Exhibits and Reports on Form 8-K

a. There are no exhibits required to be filed with this report.

b. There were no reports on Form 8-K filed during the quarter ended April 1, 1994.

SIGNATURE

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.

PYRAMID TECHNOLOGY CORPORATION

Dated: May 12, 1994

By /s/ Kent L. Robertson

Kent L. Robertson
Senior Vice President,
Chief Financial Officer
(Principal Financial Officer)

Dated: May 12, 1994

By /s/ James J. Nelson

James J. Nelson
Vice President,
Corporate Controller
(Principal Accounting Officer)