FORM 10-Q/A

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

Filing Date: **1996-08-26** | Period of Report: **1995-07-07**
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FILER

COMPUTONE CORPORATION

CIK:**819479**| IRS No.: **232472952** | State of Incorp.:**DE** | Fiscal Year End: **0331**
Type: **10-Q/A** | Act: **34** | File No.: **000-16172** | Film No.: **96620492**
SIC: **3576** Computer communications equipment

Mailing Address
1100 NORTHMEADOW PARKWAY SUITE 150
ROSWELL GA 30076

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1100 NORTHMEADOW PKWY STE 150
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4044752525

FORM 10-Q/A

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 7, 1995

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-16172

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

<TABLE>
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<S>	<C>
Delaware	23-2472952
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
1100 Northmeadow Parkway, Suite 150, Roswell, GA	30076
(Address of principal executive offices)	(Zip Code)

</TABLE>

Registrant's telephone number, including area code: (770)475-2725

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

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 by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes X No .

As of September 14, 1995, there were 6,207,188 shares of common stock outstanding.

INDEX

PART I - FINANCIAL INFORMATION

<TABLE>
<CAPTION>

</TABLE>

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

Computone Corporation
Interim Consolidated Balance Sheets
(in thousands except par value and shares)

<TABLE>
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<S>	July 7, 1995 (unaudited) <C>	April 7, 1995 (audited) <C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 39	$ 297
Receivables, net	1,947	3,253
Inventories, net	3,242	2,174
Prepaid expenses and other	91	110
Total current assets	5,319	5,834
Property, equipment and improvements, net	803	897
Intangible assets, net	613	891
Other	99	101
Total assets	$ 6,834	$ 7,723
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$ 2,189	$ 1,797
Accrued liabilities:		
Payroll	135	164

Disputed matter	230	230
Professional fees	80	96
Other	497	425
Current maturities of long term debt	217	230
Total current liabilities	3,348	2,942
Notes payable to stockholders	270	270
Long term debt, less current maturities	272	314
Total liabilities	3,890	3,526
Stockholders' Equity		
Convertible redeemable preferred stock, $.01 par value; 10,000,000 shares authorized; 200,000 share issued	2	2
Common stock, $.01 par value; 50,000,000 shares authorized; 6,207,184 and 6,207,184 shares outstanding	62	62
Additional paid in capital	41,517	41,517
Accumulated deficit	(38,637)	(37,384)
Total stockholders' equity	2,944	4,197
Total liabilities and stockholders' equity	$ 6,834	$ 7,723

</TABLE>

See accompanying notes to the consolidated financial statements.

ITEM 1. Financial Statements (continued)

Computone Corporation
Interim Consolidated Statements of Operations
(in thousands except per share amounts)
(unaudited)

<TABLE>
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	Three Months Ended July 7, 1995	Three Months Ended July 1, 1994
<S>	<C>	<C>
Revenues:		
Product sales	$ 1,856	$ 3,405
Expenses:		
Cost of products sold	1,275	2,091
Selling, general and administrative	1,273	980
Product development	556	293
	3,104	3,364
Operating income from continuing operations	(1,248)	41
Non-Operating income (expense):		
Other income (expense)	10	5
Interest expense	(15)	(4)
Income from continuing operations before taxes	(1,253)	42
Income tax expense (benefit):		
Current	- -	- -
Deferred	- -	- -
	- -	- -

Income from continuing operations	(1,253)	42
Discontinued operations:		
Income on disposal	- -	85
Income before extraordinary item	(1,253)	127
Extraordinary item:		
Debt foregiveness	- -	- -
Net income	$ (1,253)	$ 127
Net income per common share and common share equivalents:		
Income from continuing operations	(0.20)	0.01
Income from discontinued operations	- -	0.01
Income from extraordinary item	- -	- -
Net income per common share	$ (0.20)	$ 0.02
Weighted average common shares and common share equivalents outstanding	6,383	6,420

</TABLE>

See accompanying notes to the consolidated financial statements.

Computone Corporation
Consolidated Statements of Cash Flows
(in thousands)

<TABLE>
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<S>	For the three months ended July 7, 1995 (unaudited) <C>	July 1, 1994 (unaudited) <C>
Cash flows from operating activities:		
Income (loss) from continuing operations	$ (1,253)	$ 42
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) continuing operations:		
Depreciation and amortization	468	208
Provision for possible losses	119	92
Changes in current assets and current liabilities:		
Accounts receivables	1,188	97
Inventories	(1,068)	(62)
Prepaid expenses and other	18	(43)
Accounts payable and accrued liabilities	406	(123)
Net cash provided by (used in) continuing operations	(122)	211
Income (loss) from discontinued operations	- - -	85
Adjustments to reconcile income from discontinued operations to net cash used in discontinued operations:		
(Income) loss on disposal	- - -	(85)
Change in net assets of discontinued operations	- - -	(104)
Net cash used in discontinued operations	- - -	(104)

Net cash provided by (used in) operating activities	(122)	107
Cash flows from investing activities:		
(Increase) decrease in other assets	(2)	- - -
Capitalization of software costs	(80)	(40)
Capital expenditures	(12)	(85)
Net cash used in investing activities	(94)	(125)
Cash flows from financing activities:		
Repayment of debt - net	(42)	(64)
Exercise of common stock options and warrants	- - -	12
Net cash (used in) provided by financing activities	(42)	(52)
Net decrease in cash and cash equivalents	(258)	(70)
Cash and cash equivalents, beginning of period	297	215
Cash and cash equivalents, end of period	$ 39	$ 145
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 15	$ 1

</TABLE>

See accompanying notes to the consolidated financial statements.

COMPUTONE CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The financial statements included in this Form 10-Q\A have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. 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 financial statements should be read in conjunction with the financial statements and related notes included in the Company's Fiscal 1995 Form 10-K.

The financial statements presented herein, as of July 7, 1995 and for the three months then ended, reflect in the opinion of management, all adjustments necessary for a fair presentation of financial position and the results of operations for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for the full year.

2. INVENTORIES

Inventories, net of a reserve for obsolete, excess and non-salable items, consisted of the following at July 7, 1995 and April 7, 1995 (in thousands):
<TABLE>
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	July 7, 1995	April 7, 1995
<S>	<C>	<C>
Finished goods	$ 1,244	$ 544
Work in progress	489	584
Raw materials	1,509	1,046
	$ 3,242	$ 2,174

</TABLE>

3. INCOME PER SHARE

Income per common share is computed by dividing net income applicable to common stock by the weighted average number of shares of common stock and common share equivalents outstanding during each period.

4. INCOME TAXES

On April 3, 1993, the Company adopted the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". Such adoption had no cumulative effect on the Company's consolidated financial statements. Prior years' financial statements have not been restated.

The Company has available net operating and capital loss carryforwards, including preacquisition operating loss carryforwards which relate to a predecessor company, which expire during the period 2003-2008. The Company's possible use of the loss carryforwards will be limited as a result of several different changes in ownership which have occurred since the carryforwards started to accumulate. The use of the net operating loss carryforwards are limited due to statutory provisions which apply after certain changes in control occur.

For financial reporting purposes, a valuation allowance has been established to reflect a net deferred tax balance of $0 as of the date of adoption of FAS 109 as well as at July 7, 1995.

The Company estimates that no current provision for income taxes is required for the three months ended July 7, 1995.

5. DEBT

On August 12, 1994, the Company secured financing from a bank in the form of a $300,000 note payable and a $500,000 revolving credit agreement ("Agreement"). The note bears interest at a rate of floating prime plus 2% and is due in monthly installments of $16,666.67 plus accrued interest. The Agreement also bears interest at a rate of floating prime plus 2% on any proceeds and .25% on any unused portion of the line. The prime rate was 8.75% at July 7, 1995. The Agreement also calls for collateral consisting of accounts receivable, inventory and equipment and is guaranteed by an officer of the Company.

6. RESTATEMENT

The Company made adjustments to these interim financial statements, as originally filed, to correct certain errors which increased the loss from continuing operations by $611,795 or $.10 per share. These adjustments were primarily comprised of two components: 1) the reversal of a $544,000 Bill and Hold order, and 2) the increase of the inventory and receivable reserves. With respect to the $544,000 order that was a Bill & Hold order, at the time the sale was recorded, the Company did not adequately identify certain contingencies regarding the ultimate delivery of product. These contingencies related in part to funding that was to be received by the customer from the federal government which has not been funded to date.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE THREE ENDED JULY 7, 1995.

INTRODUCTION

The comparative information contained herein includes results of operations for the Company's continuing businesses. Certain previous components of the Company are presented as discontinued operations in the accompanying Consolidated Financial Statements.

LIQUIDITY

Cash used in continuing operations amounted to $114,000 for the three months ended July 7, 1995 compared to cash provided by continuing operations of $211,000 for the comparable three months ended July 1, 1994. The reduction in cash provided by continuing operations as compared to the prior year fiscal period primarily reflects the decrease in product sales and resulting $1,253,000 loss from continuing operations. This loss was partially offset by the effects of $468,000 in non-cash depreciation and amortization. Accounts receivable decreased by $1,166,000 and inventories increased by $1,100,000. Accounts payable increased by $406,000.

Cash used in investing activities amounted to $102,000 for the three months ended July 7, 1995 compared with $125,000 used in financing activities for the comparable three months of the prior fiscal year. The company capitalized $80,000 in software development costs during the period versus $40,000 during the same period of the prior fiscal year. This increase was offset by a reduction in capital expenditures form $85,000 in fiscal 1995 versus $24,000 in fiscal 1996.

Cash used in financing activities during the three months ended July 7, 1995 decreased from $52,000 during fiscal 1995 to $42,000 during fiscal 1996. This reduction can be primarily attributed to a reduction in repayments of debt.

Working capital amounted to $1,971,000 at July 7, 1995, a decrease of $921,000, since April 7, 1995. The ratio of current assets to current liabilities at July 7, 1995 was 1.59 to 1.00 compared to 1.98 to 1.00 at April 1, 1994. The decrease in working capital is primarily attributable to the decrease in product sales resulting from the loss of a major international OEM and the Company's decision to strategically reduce its number of domestic distributors and increase its sales directly to VAR's and major accounts.

The Company is currently negotiating with a lending institution to increase its current revolving credit agreement to better assist it in meeting the demand for its intelligent controller and server products.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE THREE MONTHS ENDED JULY 7, 1995 (CONTINUED).

RESULTS OF OPERATIONS

The Company reported a loss from continuing operations for the quarter ended July 7, 1995 of $1,253,000 compared to income from continuing operations of $42,000 for the comparable quarter of the prior fiscal year. This loss can be attributed to the decrease in product sales of $1,549,000 along with the one-time charges for accelerated product development amortization, $277,000, a moving expense accrual, $75,000 and a $200,000 accrual for potential product returns. Excluding these one-time charges, the loss from continuing operations would have been approximately $700,000.

Product sales revenue from continuing operations for the quarter ended July 7, 1995 totaled approximately $1,856,000 compared to $3,405,000 for the comparable quarter of the prior fiscal year, a decrease of 45%. The decrease in product sales revenue can be attributed to the Company's reduction in sales to a major international OEM and the carryforward resulting from large sales to the domestic distributors at the end of the prior fiscal year combined with the Company's decision to strategically reduce its number of domestic distributors and increase its sales directly to VAR's and major accounts.

Cost of products sold for the quarter amounted to $1,275,000 or 69% of product sales revenues versus $2,091,000 or 61% for the comparable quarter of the prior year. This increase in cost of products sold as a percentage of product sales revenues can be attributed to the fact that the Company was unable to reduce its fixed manufacturing costs while there was a significant decrease in product sales. Also, the Company's efforts to move into the direct VAR and major account sales channels caused the Company to reduce its selling price on certain products and which subsequently increased the cost of products sold as a percentage of product revenues.

Selling, general and administrative expenses amounted to $1,273,000 or 69% of product sales revenue for the three months ended July 7, 1995 versus $980,000 or 29% of product sales revenue for the comparable three months of the prior fiscal year. The Company, while experiencing a significant reduction in net product sales, maintained an administrative support infrastructure that was required while the Company had a higher level of monthly sales. As a result, the Company was forced to implemented a reduction in staff of approximately 20%. During the three months ended July 7, 1995, the Company aggressively promoted its highly successful and recently released products- the IntelliServer and PCI bus multi-port adapters. The Company is in the process of negotiating to relocate to a new facility in the same general area which will result in a significant reduction in the Company's overall monthly occupancy costs. As a result, the Company recorded an expense accrual related to the relocation of approximately $75,000 during the quarter which will eliminate the requirement to record, in future quarters, any additional expenses related to the relocation.

RESULTS OF OPERATIONS (CONTINUED)

Product development expenses amounted to $556,000 or 30% of product sales revenue for the three months ended July 7, 1995. This compares to $293,000 or 9% of product sales revenue for the comparable three period of the prior fiscal year. This increase can be attributed to the accelerated amortization of $277,000 in product development expenses related to costs capitalized prior to April 1, 1994. This one-time charge will result in an annual savings of over $100,000 during this fiscal year and $144,000 during the next fiscal year.

Income from discontinued operations totaled $85,000 for the three months ended July 1, 1994 whereas the Company recorded no income from discontinued operations for the three months ended July 7, 1995. The $85,000 related to the fact that the loss on disposal of Princeton and Denison was less than originally provided for and, therefore, the estimated disposal costs were reduced.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None, other than those matters described in Item 3 to the Company's Annual Report on Form 10-K for the year ended April 7, 1995.

ITEM 2. CHANGES IN SECURITIES

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Not Applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

COMPUTONE CORPORATION

Date: August 23, 1996

By: /s/Thomas J. Anderson

Thomas J. Anderson
President & Chief Executive Officer
(duly authorized officer and
Principal Executive Officer)

By: /s/ Gregory B Alba

Gregory A. Alba
Vice President of Finance & Administration
and Chief Financial Officer
(Principal Accounting Officer)

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