

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

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FILER

COMPUTONE CORPORATION

CIK: **819479** | IRS No.: **232472952** | State of Incorporation: **DE** | Fiscal Year End: **0331**
Type: **10QSB** | Act: **34** | File No.: **000-16172** | Film No.: **96620513**
SIC: **3576** Computer communications equipment

Mailing Address
1100 NORTHMEADOW
PARKWAY SUITE 150
ROSWELL GA 30076

Business Address
1100 NORTHMEADOW PKWY
STE 150
ROSWELL GA 30076
4044752525

FORM 10-QSB

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the quarterly period ended July 5, 1996

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)

Delaware

23-2472952

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification
Number)

1100 Northmeadow Parkway, Suite 150, Roswell, GA 30076

(Address of principal executive offices) (Zip Code)

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 July 5, 1996, there were 6,371,247 shares of common stock
outstanding.

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

<TABLE>
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	July 5, 1996 ----- (Unaudited) <C>	April 5, 1996 ----- (Audited) <C>
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ASSETS		
Current assets:		
Cash and cash equivalents	\$ 79	\$ 143
Receivables, net	1,637	1,564
Inventories, net	2,864	2,715
Prepaid expenses and other	91	83
	-----	-----
Total current assets	4,671	4,505
Property, equipment and improvements, net	434	523
Intangible assets, net	619	636
Other	105	99
	-----	-----
Total assets	\$ 5,829 =====	\$ 5,763 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	\$ 1,873	\$ 1,848
Accrued liabilities:		
Payroll	125	113
Prepaid sales	66	214
Professional fees	38	69
Other	499	465
Line of credit	749	599
Current maturities of long term debt	461	504
	-----	-----
Total current liabilities	3,811	3,812

Notes payable to stockholders	20	20
Long term debt, less current maturities	30	47
	-----	-----
Total liabilities	3,861	3,879
Stockholders' Equity		
Convertible redeemable preferred stock, \$.01 par value; 10,000,000 shares authorized; 0 shares issued	-	-
Common stock, \$.01 par value; 50,000,000 shares authorized; 6,371,247 and 6,357,184 shares outstanding	64	64
Additional paid in capital	41,559	41,543
Accumulated deficit	(39,655)	(39,723)
	-----	-----
Total stockholders' equity	1,968	1,884
	-----	-----
Total liabilities and stockholders' equity	\$ 5,829	\$ 5,763
	=====	=====

</TABLE>

See accompanying notes to the consolidated financial statements.

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

<TABLE>

<CAPTION>

	Three Months Ended	
	July 5, 1996	July 7, 1995
	-----	-----
<S>	<C>	<C>
Revenues:		
Product sales	\$ 3,025	\$ 1,856
Expenses:		
Cost of products sold	1,852	1,275
Selling, general and administrative	805	1,273
Product development	274	556
	-----	-----
	2,931	3,104
	-----	-----
Operating income (loss) from continuing operations	94	(1,248)
Non-Operating income (expense):		
Other income (expense)	4	10
Interest expense	(30)	(15)
	-----	-----
Income (loss) from continuing operations before taxes	68	(1,253)
Income tax expense (benefit):		
Current	--	--
Deferred	--	--
	-----	-----
	--	--
	-----	-----
Income (loss) from continuing operations	68	(1,253)
Discontinued operations:		
Income on disposal	--	--

Income (loss) before extraordinary item	68	(1,253)
Extraordinary item:		
Debt forgiveness	- -	- -
Net income (loss)	\$ 68	\$ (1,253)
Net income (loss) per common share and common share equivalents:		
Income from continuing operations	0.01	(0.20)
Income from discontinued operations	- -	- -
Income from extraordinary item	- -	- -
Net income (loss) per common share	\$ 0.01	\$ (0.20)
Weighted average common shares and common share equivalents outstanding	6,482	6,383

</TABLE>

See accompanying notes to the consolidated financial statements.

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Computone Corporation
Consolidated Statements of Cash Flows
(in thousands)

<TABLE>
<CAPTION>

	For the three months ended	
	July 5, 1996	July 7, 1995
	(unaudited)	(unaudited)
	-----	-----
	<C>	<C>
Cash flows from operating activities:		
Income (loss) from continuing operations	\$ 68	\$ (1,253)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) continuing operations:		
Depreciation and amortization	168	476
Provision for possible losses	51	172
Changes in current assets and current liabilities:		
Accounts receivables	(123)	1,166
Inventories	(149)	(1,100)
Prepaid expenses and other	(9)	19
Accounts payable and accrued liabilities	(108)	406
Net cash provided by (used in) continuing operations	(102)	(114)
Income (loss) from discontinued operations	- - -	- - -
Adjustments to reconcile income from discontinued operations to net cash used in discontinued operations:		
(Income) loss on disposal	- - -	- - -
Change in net assets of discontinued operations	- - -	- - -
Net cash used in discontinued operations	- - -	- - -
Net cash provided by (used in) operating activities	(102)	(114)
Cash flows from investing activities:		
(Increase) decrease in other assets	(5)	2
Capitalization of software costs	(45)	(80)
Capital expenditures	(18)	(24)

Net cash used in investing activities	(68)	(102)
	-----	-----
Cash flows from financing activities:		
Repayment of debt - net	(60)	(42)
Net borrowings under lines of credit	150	
Exercise of common stock options and warrants	16	- - -
	-----	-----
Net cash (used in) provided by financing activities	106	(42)
	-----	-----
Net decrease in cash and cash equivalents	(64)	(258)
Cash and cash equivalents, beginning of period	143	297
	-----	-----
Cash and cash equivalents, end of period	\$ 79	\$ 39
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 30	\$ 15

</TABLE>

See accompanying notes to the consolidated financial statements.

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COMPUTONE CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The financial statements included in this Form 10-QSB 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 1996 Form 10-K.

The financial statements presented herein, as of July 5, 1996 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 5, 1996 and April 5, 1996 (in thousands):

	July 5, 1996	April 5, 1996
	-----	-----
Finished goods	\$ 563	\$ 830
Work in progress	595	516
Raw materials	1,706	1,369
	-----	-----
	\$2,864	\$2,715
	-----	-----

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 .

COMPUTONE CORPORATION
 NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

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 5, 1996.

The Company estimates that no current provision for income taxes is required for the three months ended July 5, 1996.

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"). On April 7, 1995, the Company refinanced the note in the amount of \$402,823 and reduced the monthly payments from \$16,666.67 to \$13,427.44. The note bears interest at a rate of floating prime plus 2%. On July 31, 1995, the Company has a line of credit facility with the bank which provides for \$750,000 in advances at a rate of prime plus 1% and matures in August 1996.

As of July 31, 1996, the Company has borrowed the full amount available under its line of credit and, further, is not in compliance with certain financial covenants under the credit agreement. The Company is engaged in negotiations with its lender with respect to the note payable and line of credit to (i) extend the maturity date of the line of credit, (ii) restructure the payment terms of both the note payable and the line of credit and, (iii) obtain waivers with respect to the loan covenant violations. The Company has classified all borrowings due to this lender as current obligations, pending the satisfactory resolution of these matters. However, there can be no assurances that the Company will be able to satisfactorily resolve these matters.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS
 FOR THE THREE MONTHS ENDED JULY 5, 1996.

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 \$102,000 for the three months ended July 5, 1996 compared to cash used in continuing operations of \$114,000 for the comparable three months ended July 7, 1995. The increase in cash used continuing operations as compared to the prior year fiscal period primarily reflects the increase in product sales.

Cash used in investing activities amounted to \$68,000 for the three months ended July 5, 1996 compared with \$102,000 used in financing activities for the comparable three months of the prior fiscal year. This decrease from the same period of the prior fiscal year can be attributable to the Company capitalizing a lesser amount of software development costs as a result of a smaller development headcount and a lesser amount of expenditures related to capital purchases.

Cash provided by financing activities during the three months ended July 5, 1996 was \$106,000 from the three months ended July 5, 1996 versus \$42,000 of cash used in financing activities for the same three months of the prior fiscal year. This change can be attributed to the Company borrowing against its revolving credit agreement.

Working capital amounted to \$860,000 at July 5, 1996, an increase of \$167,000, since April 5, 1996. The ratio of current assets to current liabilities at July 5, 1996 was 1.23 to 1.00 compared to 1.18 to 1.00 at April 5, 1996.

RESULTS OF OPERATIONS

Product sales revenue from continuing operations for the quarter ended July 5, 1996 totaled approximately \$3,025,000 compared to \$1,856,000 for the comparable quarter of the prior fiscal year, an increase of 63%. This increase in product sales revenue can be attributed to the Company's decision to increase its sales directly to VAR's and major accounts.

Cost of products sold for the quarter amounted to \$1,852,000 or 61% of product sales revenues versus \$1,275,000 or 69% for the comparable quarter of the prior year. The decrease in cost of products sold as a percentage of product sales revenues during the three months ended July 5, 1996, when compared to the same period of the prior fiscal year, can be attributed to the Company's inability to reduce its fixed manufacturing costs during a period of decreased sales in the prior year as well as the continuing reduction of its cost of products sold through outsourcing in the current year.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS FOR THE THREE MONTHS ENDED JULY 5, 1996 (CONTINUED).

RESULTS OF OPERATIONS (CONTINUED)

Selling, general and administrative expenses amounted to \$805,000 or 27% of product sales revenue for the three months ended July 5, 1996 versus \$1,273,000 or 69% of product sales revenue for the comparable three months of the prior fiscal year. The decrease in expenses during the quarter ended July 5, 1996 versus the same period of the prior fiscal year can be attributed to the Company's ability to reduce its headcount while providing a greater level of service to its customers, a reduction in professional fees resulting from the settlement of various lawsuits, and the Company's successful efforts in reducing its day-to-day operating expenses. Also, the Company continues to review its alternatives with respect to relocating to a new facility in the same general area which will result in a significant reduction in the Company's overall monthly occupancy costs.

Product development expenses amounted to \$274,000 or 9% of product sales revenue for the three months ended July 5, 1996 versus \$556,000 or 30% of product sales revenue for the comparable three month period of the prior fiscal year. The decrease during the three months ended July

5, 1996, as compared to the same three month period of the prior fiscal year can be attributed to a decision made in the prior fiscal year to take a one-time charge to accelerate the amortization of product development expenses related to costs capitalized prior to April 1, 1994.

The Company reported income from continuing operations for the quarter ended July 5, 1996 of \$94,000 compared to loss from continuing operations of \$1,248,000 for the comparable quarter of the prior fiscal year. The increase in income is due primarily to increased product sales revenue. The Company also continues to benefit from the major reductions in day-to-day operating expenses and the continuing reduction of its cost of products sold through outsourcing.

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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 5, 1996.

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.

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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 26, 1996

By: /s/Gregory A. Alba

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

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