

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-03-16** | Period of Report: **1994-01-31**
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FILER

INTELOGIC TRACE INC

CIK: **771993** | IRS No.: **742368260** | State of Incorporation: **NY** | Fiscal Year End: **0731**
Type: **10-Q** | Act: **34** | File No.: **001-08948** | Film No.: **94516269**
SIC: **7370** Computer programming, data processing, etc.

Mailing Address

*P.O. BOX 400044
TURTLE CREEK TOWER I
SAN ANTONIO TX 78229-8480*

Business Address

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5125935700*

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

For the quarterly period ended January 31, 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 1-8948

INTELOGIC TRACE, INC.

(Exact name of registrant as specified in its charter)

New York	74-2368260
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)

Turtle Creek Tower I	
P. O. Box 400044, San Antonio, Tx.	78229-8415
(Address of principal executive offices)	(Zip Code)

210-593-5700

(Registrant's telephone number, including area code)

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 ()

The number of shares outstanding of registrant's common stock, par value \$.01 per share, as of March 1, 1994 was 12,452,621 shares.

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

<TABLE>

<CAPTION>

INTELOGIC TRACE, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	January 31, 1994 (Unaudited)	July 31, 1993
<S>	<C>	<C>
ASSETS		
Current Assets:		
Cash and temporary investments	\$ 507	\$ 1,626
Accounts receivable, net	9,818	8,728
Net assets of discontinued operations	858	320
Prepaid expenses and other current assets	1,878	2,070
TOTAL CURRENT ASSETS	13,061	12,744
Leasehold Improvements and Equipment, net	1,762	2,076
Field Support Spares, net	24,248	26,788
Intangible Assets, net	1,898	2,213
Other Assets	513	640
	\$ 41,482	\$ 44,461
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 3,432	\$ 3,689
Accrued expenses	4,933	5,900
Short-term borrowings	7,713	4,377
Deferred revenue	11,346	12,170
Other current liabilities	141	254
TOTAL CURRENT LIABILITIES	27,565	26,390
11.99% Subordinated Debentures Due 1996	49,924	49,924
Deferred Income Taxes and Other Liabilities	435	1,632
Deferred Pension Liability	1,703	1,861
\$10.00 Redeemable Preferred Stock; 65,000 Shares Authorized, 44,305 Shares Issued and Outstanding; \$100 Mandatory Redemption Value	4,274	3,903

Shareholders' Equity (Deficit)	(42,419)	(39,249)
	\$ 41,482	\$ 44,461

</TABLE>

See accompanying notes to consolidated financial statements

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<TABLE>
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INTELOGIC TRACE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months	
	January	January
	31,	31,
	1994	1993
<S>	<C>	<C>
Revenue:		
Service	\$18,655	\$22,112
Sales	143	352
TOTAL REVENUE	18,798	22,464
Cost of Revenue:		
Service	14,964	16,858
Sales	114	156
TOTAL COST OF REVENUE	15,078	17,014
GROSS PROFIT	3,720	5,450
Selling, General and Administrative Expenses	4,367	4,379
EARNINGS (LOSS) FROM OPERATIONS	(647)	1,071
Other Income (Expense):		
Interest expense	(1,683)	(1,751)
Investment income (loss)	-	(19)
Other, net	(163)	(76)
LOSS FROM CONTINUING OPERATIONS BEFORE	(2,493)	(775)
Income Tax	-	141
LOSS FROM CONTINUING OPERATIONS	(2,493)	(916)
Extraordinary gain from purchases of subordinated debentures, net of taxes	-	550
Extraordinary gain from net operating loss	-	141
NET LOSS	(2,493)	(255)

Net Loss, Less Preferred Stock Dividends	\$ (2,685)	\$ (382)
Earnings (Loss) Per Common Share:		
Loss from continuing operations	\$ (.21)	\$ (.08)
Extraordinary items	-	.05
Preferred stock dividends		-
NET LOSS PER COMMON SHARE	\$ (.22)	
Weighted Average Common Shares Outstanding	12,074	12,052

</TABLE>

See accompanying notes to consolidated financial statements

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<TABLE>

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INTELOGIC TRACE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Six Months Ended	
	January 31,	January 31,
	1994	1993
<S> <C>	<C>	<C>
Revenue:		
Service	\$38,331	\$45,546
Sales	569	680
TOTAL REVENUE	38,900	46,226
Cost of Revenue:		
Service	31,139	34,816
Sales	200	389
TOTAL COST OF REVENUE	31,339	35,205
GROSS PROFIT	7,561	11,021
Operating Expenses:		
Selling, general and admin. expenses	9,058	9,675
EARNINGS (LOSS) FROM OPERATIONS	(1,497)	1,346
Other Income (Expense):		
Interest expense	(3,319)	(3,613)
Investment income	54	45
Equity in loss of affiliate	-	-

Other, net	(317)	(239)
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	(5,079)	(2,461)
Income Taxes (Benefit)	(1,193)	141
LOSS FROM CONTINUING OPERATIONS	(3,886)	(2,602)
Earnings From Discontinued Operations	828	-
LOSS BEFORE EXTRAORDINARY ITEMS	(3,058)	(2,602)
Extraordinary gains from purchases of subordinated debentures, net of taxes	-	2,547
Extraordinary gain from net operating loss carry forward	-	141
NET LOSS	\$ (3,058)	\$ (86)
Net Loss, Less Preferred Stock Dividends	\$ (3,429)	\$ (222)
Earnings (Loss) Per Common Share:		
Loss from continuing operations	\$ (.32)	\$ (.23)
Earnings from discontinued operations	.07	-
Extraordinary items	-	.21
Preferred stock dividends	(.03)	-
NET LOSS PER COMMON SHARE	\$ (.28)	\$ (.02)
Weighted Average Common Shares Outstanding	12,074	11,970

</TABLE>

See accompanying notes to consolidated financial statements

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INTELOGIC TRACE, . INC.
CONSOLIDATED STATEMENT OF COMMON SHAREHOLDERS' EQUITY (DEFICIT)
(In thousands)

(Unaudited)

	Common Stock	Add. Paid-in Capital	Retained Earn. (Deficit)	Foreign Currency Transl. Adj.	Treas. Stock	Retire- ment Valuat. Reserve	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at July 31, 1993	\$199	\$55,003	\$(35,024)	\$54	\$(56,919)	\$(2,562)	\$(39,249)
Redeemable preferred stock dividends (in kind)			(371)				(371)
Foreign currency translation adjustment				4			4
Shares issued - 401(k) Plan		(17)			105		88
Employee Stock Option Plan		167					167
Net loss			(3,058)				(3,058)
Balance at January 31, 1994	\$199	\$55,153	\$(38,453)	\$58	\$(56,814)	\$(2,562)	\$(42,419)

</TABLE>

See accompanying notes to consolidated financial statements

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<TABLE>
<CAPTION>

INTELOGIC TRACE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	Six Months Ended	
<S>	January 31, 1994	January 31, 1993
	<C>	<C>

Operating Activities:		
Net earnings (loss)	\$ (3,058)	\$ 86
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,442	7,268
Gain on repurchase of subordinated debentures	-	(2,547)
Adjustments to net assets of discontinued operations	(828)	-
Other	972	1,242
Changes in operating working capital, net	(4,509)	(5,351)
NET CASH PROVIDED (USED) BY OPERATING	(981)	698
Investing Activities:		
Purchase of spares and other fixed assets	(3,525)	(4,179)
Proceeds from sale of discontinued	-	4,999
NET CASH PROVIDED (USED) IN INVESTING	(3,525)	820
Financing Activities:		
Short-term borrowings, net	3,336	2,817
Repurchase of subordinated debentures	-	(4,459)
Other	-	(19)
NET CASH PROVIDED BY (USED) IN FINANCING ACTIVITIES	3,336	(1,661)
Effect of Exchange Rate Changes on Cash	51	(46)
NET DECREASE IN CASH AND TEMPORARY INVESTMENTS	\$ (1,119)	\$ (189)
Interest Paid	\$ 3,286	\$ 3,462
Income Taxes Paid, net	\$ 8	\$ 59

</TABLE>

See accompanying notes to consolidated financial statements.

INTELOGIC TRACE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 31, 1994
(Dollars in thousands, except share data)

1. BASIS OF PRESENTATION

The consolidated financial statements of Intelogic Trace, Inc. (the "Company") include the financial statements of the parent and its wholly-owned subsidiaries. The interim consolidated financial statements and notes are unaudited. Investments in affiliated companies owned 20% or more are accounted for on the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included and such adjustments consist only of normal recurring items.

2. DISCONTINUED OPERATIONS

In 1992, the Company sold substantially all of the assets of its computer hardware sales and leasing and application software businesses. These businesses represented the entire operations of Intelogic Trace Systems Group.

During the first quarter of fiscal 1994, the Company received lease payments on certain lease receivables not transferred to the buyer and reduced certain remaining unclaimed liabilities which resulted in a combined \$828 reduction to the previously recorded loss from discontinued operations. The net amount due at January 31, 1994 includes a \$750 note receivable due July 25, 1994 bearing interest at 8%.

3. INVESTMENT IN AFFILIATE

For the fiscal year 1992, the Company's share of Datapoint Corporation's ("Datapoint") losses exceeded its recorded investment. No earnings were recorded for the 1993 fiscal year. The Company's pro rata share of Datapoint's second quarter results for fiscal 1994 are shown for information purposes only. The carrying value of the Company's investment in Datapoint at January 31, 1994 remains at zero. The Company's share of Datapoint's future earnings will have to exceed \$2,789 before the Company can reflect income on this investment.

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The Company's pro rata share of Datapoint's second quarter results, applicable to common stockholders, are as follows:

Three Months Ended	Six Months Ended
--------------------	------------------

	January 31, 1994	January 31, 1993	January 31, 1994	January 31, 1993
Income (loss) before extraordinary items	\$ 185	\$329	(189)	\$352
Extraordinary items	-	142	263	236
Net earnings (loss) from affiliate	\$ 185	\$471	\$ 74	\$588

Datapoint's results of operations are summarized below:

	Three Month Ended		Six Months Ended	
	January 31, 1994	January 31, 1993	January 31, 1994	January 31, 1993
Total revenue	\$44,786	\$54,296	\$86,434	\$114,839
Gross profit	19,229	25,891	36,343	51,627
Earnings (Loss) before extraordinary item	532	1,233	(1,794)	856
Net earnings (loss)	532	1,955	(454)	2,051

4. DEBT

During the third quarter of fiscal 1992 the amount of borrowings available under the Company's revolving financing agreement was increased to \$12,000. Under a subsequent amendment to the agreement, the Company's borrowings under this facility are limited to the lesser of: (1) fifteen percent of annualized service maintenance revenue, (2) cash collections for the prior 50-day period, or (3) an amount equal to the sum of 80% of eligible accounts receivable. Commencing in November 1993, eligible borrowings related to field spares began to be phased out ratably over the following 5-month period. At January 31, 1994 eligible borrowings were limited to 12.0% of net field support spares.

5. TAXES

Based on further discussions with taxing authorities during the first quarter of fiscal 1994, the Company has recorded a tax benefit of \$1,193 related to a tax refund received in a prior year. Recognition was deferred previously based, in part, upon ongoing Federal income tax examinations.

6. CONTINGENCIES

Two shareholders of the Company have filed lawsuits against the Company and its Board of Directors demanding that the Company seek damages from its Board of Directors with respect to the Company's 1990 purchases of the stock of the Company and Datapoint Corporation. A committee of the Board of Directors was appointed to consider the demands raised in each case. The committee retained independent counsel to review the matters raised in the lawsuits. The committee determined that it was not in the best interest of either the Company or its shareholders to accept either demand and, accordingly, instructed counsel to seek the dismissal of both lawsuits. In January 1992 a motion for summary judgment on behalf of the Company and its Board of directors was denied in the lawsuit pending in the New York State Court and is currently on appeal. A similar motion, involving only the Company's purchase of its own stock, was denied, with leave to renew after the appeal in the New York State Court action is decided. The second case is pending in the United States District Court for the Southern District of New York. This action charges a violation of the proxy laws and breach of fiduciary duties with respect to several actions by the Board, including the purchase of the Company's own stock. In June 1993, another shareholder commenced a derivative action against certain members of the Company's Board of Directors and Datapoint Corporation. Because this latest action is substantially similar to one of the previously filed suits, the plaintiffs in the latest action have filed a motion to dismiss their complaint without prejudice. The Company believes that these issues will ultimately be resolved in its favor; however, the ultimate outcome cannot presently be determined.

The Internal Revenue Service ("IRS") has issued assessment letters relating to the consolidated Federal Income Tax Returns of the Company for the years 1986 through 1992. The IRS letters propose assessments of approximately \$31,000 in additional taxes plus interest. The assessments primarily involve the industry-wide issue of the appropriate method for cost recovery of spare parts. A recent case on the same issue was decided in the taxpayer's favor by the U. S. Tax Court, but is being appealed by the IRS. If the decision was followed by courts with jurisdiction over the Company, the remaining proposed assessment would be approximately \$2,500 in additional taxes plus interest. The Company strongly disagrees with the proposed adjustments and has filed a protest, appealing each of the adjustments in the IRS report. The Company believes that these issues will ultimately be resolved in its favor; however, the ultimate outcome cannot presently be determined. No provision has been made for any possible liability.

Item 2 - Management's Discussion and Analysis of Results of
Operations and Financial Condition

(Years referred to are fiscal years) (In thousands)

Results of Operations

Three Months Ended January 31, 1994 versus Three Months Ended
January 31, 1993:

Revenue

Service revenue in the second quarter of 1994, \$18,655, declined \$3,457 (15.6%) from the year-ago period as domestic revenue from servicing Datapoint-manufactured products decreased \$1,755 while domestic revenue from servicing all other products decreased \$1,702. Cancellations and expirations continue to exceed new sales activity, while revenue from installation of telephone devices in the second quarter was not significant. Service revenue from Datapoint products totaled \$1,833 for the quarter, or 9.8% of total revenue. In the second quarter of 1993, domestic revenue from servicing Datapoint products totaled \$3,588, or 16.0% of the revenue total. This decline can be attributed to customers who are converting to new platforms.

Canadian service revenues also declined in 1994 as compared to 1993, decreasing \$327 (37.4%) to a 1994 second quarter total of \$547. Canada operations are currently in transition from providing service solely to Datapoint system customers to a more balanced and diversified customer equipment base. In an effort to improve service delivery systems and enhance Canadian offerings, the Company announced a new Canadian service alliance with DataTech

Systems, Ltd., effective March 1, 1994, which will provide for expanded service coverage and technical resources.

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Gross Profit

Gross profit of \$3,720 (19.8%) for the second quarter compared to \$5,450 (24.3%) for the same period one year ago. This decline resulted directly from the decrease in revenue as costs of service have declined \$1,936 (11.4%) quarter over quarter.

Selling, General and Administrative Expenses

Selling, General and Administrative (SG&A) expenses of \$4,367 for the second quarter were substantially unchanged from the year-ago period, despite a substantial increase in the Company's sales force during the first half of this year. Total selling costs were \$3,160 for the three months ended January 31, 1994, up \$498 (18.7%) from the second quarter of 1993.

Interest Expense

Second quarter interest expense decreased \$68 from the same period in 1993 due to a decrease of \$2,017 in the outstanding credit facility with Foothill Capital Corporation from the same period in 1993.

Federal and State Income Taxes

Effective August 1, 1993, the Company changed its method of accounting for income taxes in accordance with the provisions of FASB Statement No. 109, "Accounting for Income Taxes" ("FAS 109"). As permitted under the new rules, prior years' financial statements

have not been restated. FAS 109 provides for recognition of deferred tax assets when realization of the deferred tax assets is more likely than not. Because of continued losses, no tax benefit has been recorded in the period with respect to the loss carry forwards.

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Six Months Ended January 31, 1994 versus Six Months Ended January 31, 1993:

Revenue

Service revenue in the first six months of 1994, \$38,331, declined \$7,215 (15.8%) from the year-ago period. Domestic revenue from servicing Datapoint-manufactured products decreased \$3,397 while domestic revenue from servicing all other products decreased \$3,818. Cancellations exceeded new sales activity throughout the first six months of 1994. Service revenue from Datapoint products totaled \$3,995 for the first six months, or 10.3% of total revenue. In the first six months of 1993, domestic revenue from servicing Datapoint products totaled \$7,392, or 16.0% of the revenue total. Datapoint products continue to be replaced with new platforms.

Gross Profit

Gross profit of \$7,561 (19.4%) for the first six months of 1994 compared to \$11,021 (23.8%) for the same period one year ago. This decline resulted directly from the decrease in revenue as costs of service have declined \$3,866 (11.0%) from the same period one year ago.

Selling, General and Administrative Expenses

Selling, General and Administrative (SG&A) expenses of \$9,058

for the first six months decreased \$617 (6.4%) from the year-ago period. Much of this reduction can be attributed to elimination of marketing management layers in the first six months of 1993 to achieve greater operational efficiencies.

Interest Expense

Interest expense for the first six months of 1994 decreased \$294 from the same period in 1993 due to a decrease in the

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outstanding credit facility with Foothill Capital Corporation from the year-ago period and debenture repurchases which took place during the first six months of 1993.

Federal and State Income Taxes

During the first six months of 1994 tax benefits of \$1,193 were recorded related to a tax refund received in 1993.

Recognition was deferred previously based in part upon ongoing Federal income tax examinations. Although a final resolution has not been reached with respect to the Company's Federal income tax contingency, management believes its current estimate of tax liabilities is appropriate, given continuing discussions with taxing authorities which took place during the first six months. During the first six months of 1993 the Company recorded \$141 of taxes related to book/tax timing differences. This tax was offset by utilization of net operating loss carry forwards.

Capital Resources and Liquidity

Through the first six months of 1994, cash and temporary

investments decreased \$1,119, as compared to a decrease of \$189 from the same period one year ago. Net cash provided by operating activities was lower than in the prior year by \$1,679; however, investments in spares and other fixed assets decreased by \$654 as the Company continued to shorten the necessary parts pipeline and short-term borrowings under the Foothill facility increased. Financing activities in the first six months of 1993 consisted of \$2,817 in short-term borrowings and disbursements of \$4,459 for subordinated debenture repurchases.

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At January 31, 1994, the Company's current liabilities exceeded current assets by \$14,504. Current liabilities include \$7,713 of borrowings under the Company's revolving financing agreement. No periodic principal payments are required under this agreement as long as the Company is in compliance with the financial covenants and the borrowing base exceeds the amount outstanding.

Management believes that internally generated cash flow, existing cash and temporary investments and borrowings available under the Company's revolving financing agreement will be sufficient to fund the Company's obligations and any capital expenditures.

PART II - OTHER INFORMATION

Item 8. Exhibits and Reports on Form 8-K

B. Reports on Form 8-K:

On November 24, 1993, the Company announced an agreement in principle with a major company to install and maintain certain devices beginning in January 1994. The Company anticipates revenue of approximately \$8 million from the initial order. The agreement will have an initial term of three years.

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.

INTELOGIC TRACE, INC.
(Registrant)

Date: March 16, 1994

By

Martin J. Landon

PART II - OTHER INFORMATION

Item 8. Exhibits and Reports on Form 8-K

B. Reports on Form 8-K:

On November 24, 1993, the Company announced an agreement in principle with a major company to install and maintain certain devices beginning in January 1994. The Company anticipates revenue of approximately \$8 million from the initial order. The agreement will have an initial term of three years.

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.

INTELOGIC TRACE, INC.
(Registrant)

Date: March 16, 1994

By /Martin J. Landon

Martin J. Landon
Vice President and
Chief Financial Officer