

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-30**
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FILER

MAXWELL LABORATORIES INC /DE/

CIK: **319815** | IRS No.: **952390133** | State of Incorpor.: **DE** | Fiscal Year End: **0731**
Type: **10-Q** | Act: **34** | File No.: **000-10964** | Film No.: **95546808**
SIC: **8731** Commercial physical & biological research

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended April 30, 1995 Commission File Number 0-10964

MAXWELL LABORATORIES, INC.

Delaware IRS ID# 95-2390133
 8888 Balboa Avenue,
 San Diego, California 92123
 Telephone (619) 279-5100

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 NO

As of May 31, 1995 Registrant had only one class of common stock of which there were 2,676,060 shares outstanding.

<TABLE>
 PART I - FINANCIAL STATEMENTS

Maxwell Laboratories, Inc.

Consolidated Condensed Balance Sheet
 (in thousands)

Assets

<CAPTION>

	April 30, 1995	July 31, 1994
	(Unaudited)	(Note)
	<C> <C>	<C> <C>
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Current Assets:		
Cash and cash equivalents	\$ 2,442	\$ 4,579
Accounts receivable - net	12,701	16,023
Inventories:		
Finished products	1,244	1,052
Work in process	3,670	2,438
Parts and raw materials	4,584	4,118
	<u>9,498</u>	<u>7,608</u>
Recoverable income taxes	401	64
Prepaid expenses	739	512
Deferred income taxes	3,135	3,135
	<u>28,916</u>	<u>31,921</u>
Total current assets	28,916	31,921

Property, plant and equipment - net	20,489	20,981
Deposits and other assets	1,139	1,420
	<u>\$ 50,544</u>	<u>\$ 54,322</u>
	=====	=====

</TABLE>

<TABLE>

<CAPTION>

Liabilities and Shareholders' Equity

<S>	<C>	<C>	<C>	<C>
Current Liabilities:				
Accounts payable	\$	7,331	\$	9,925
Accrued employee compensation		2,715		2,936
Current portion of long-term debt		908		969
		<u>10,954</u>		<u>13,830</u>
Long-term debt		2,114		2,797
Deferred income taxes		1,030		1,030
Minority interest and additional amounts contributed		1,390		1,705
Shareholders' equity:				
Common stock		267		267
Additional paid-in capital		18,802		18,802
Retained earnings		15,987		15,891
		<u>35,056</u>		<u>34,960</u>
		<u>\$ 50,544</u>		<u>\$ 54,322</u>
		=====		=====

<FN>

Note: The Balance Sheet at July 31, 1994 has been derived from the audited financial statements at that date.

See notes to consolidated condensed financial statements.

</TABLE>

<TABLE>

PART I - FINANCIAL STATEMENTS, continued

Maxwell Laboratories, Inc.

Consolidated Condensed Statement of Income - (Unaudited)
(in thousands except per share data)

<CAPTION>

	Three Months Ended April 30,	
	1995	1994
<S>	<C>	<C>
Sales	\$ 17,468	\$ 22,480
Costs and expenses:		
Cost of sales	13,683	17,289
Research and development expenses	1,375	1,085
Selling, administrative and general expenses	3,531	3,482
Other - net	(324)	142
	<u>18,265</u>	<u>21,998</u>
Income (loss) before income taxes and minority interest	(797)	482
Income taxes (credit)	(354)	155
	<u>(443)</u>	<u>327</u>
Minority interest in net income of subsidiary	21	7
	<u>21</u>	<u>7</u>

Net income (loss)	\$ (464)	\$ 320
	=====	=====
Primary earnings (loss) per share of common stock	\$ (.17)	\$.12
	=====	=====
Weighted average number of shares	2,675,000	2,681,000
	=====	=====

<FN>
Note: Primary earnings per share is based upon weighted average number of shares of common stock outstanding and all dilutive stock options. Per share amounts are unchanged on a fully dilutive basis.

See notes to consolidated condensed financial statements.
</TABLE>

<TABLE>

PART I - FINANCIAL STATEMENTS, continued

Maxwell Laboratories, Inc.

Consolidated Condensed Statement of Income - (Unaudited)
(in thousands except per share data)

<CAPTION>

	Nine Months Ended April 30,	
	1995	1994
<S>	<C>	<C>
Sales	\$ 53,016	\$ 63,215
Costs and expenses:		
Cost of sales	39,675	49,378
Research and development expenses	3,665	3,475
Selling, administrative and general expenses	10,091	10,264
Loss on closing of Brobeck division	--	1,018
Other - net	(507)	(254)
	-----	-----
	52,924	63,881
	-----	-----
Income (loss) before income taxes and minority interest	92	(666)
Income tax credit	(70)	(359)
	-----	-----
	162	(307)
Minority interest in net income of subsidiary	66	56
	-----	-----
Net income (loss)	\$ 96	\$ (363)
	=====	=====
Primary earnings (loss) per share of common stock	\$.04	\$ (.14)
	=====	=====
Weighted average number of shares	2,677,000	2,685,000
	=====	=====

<FN>
Note: Primary earnings per share is based upon weighted average number of shares of common stock outstanding and all dilutive stock options. Per share amounts are unchanged on a fully dilutive basis.

See notes to consolidated condensed financial statements.
</TABLE>

<TABLE>

PART I - FINANCIAL STATEMENTS, continued

Maxwell Laboratories, Inc.

Consolidated Condensed Statement of Cash Flows - (Unaudited)
(in thousands)

<CAPTION>

	Nine Months Ended April 30,	
	1995	1994
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net income (loss)	\$ 96	\$ (363)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,149	2,591
Minority interest in net income of subsidiary	66	56
Changes in operating assets and liabilities - net	(1,666)	(2,022)
NET CASH PROVIDED BY OPERATING ACTIVITIES	645	262
INVESTING ACTIVITIES		
Purchases of property and equipment	(2,038)	(3,555)
NET CASH USED IN INVESTING ACTIVITIES	(2,038)	(3,555)
FINANCING ACTIVITIES		
Principal payments on long-term debt	(744)	(1,013)
Proceeds from long-term borrowing	--	2,500
Proceeds from issuance of Company stock	--	2
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(744)	1,489
DECREASE IN CASH AND CASH EQUIVALENTS	(2,137)	(1,804)
Cash and cash equivalents at beginning of period	4,579	4,651
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,442	\$ 2,847
	=====	=====

<FN>

See notes to consolidated condensed financial statements.

</TABLE>

PART I - continued

NOTES TO FINANCIAL STATEMENTS

The preceding interim consolidated condensed financial statements contain all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary for a fair and accurate presentation of financial position at April 30, 1995 and the results of operations for the three and nine month periods then ended. These interim financial statements should be read in conjunction with the Company's July 31, 1994 audited financial statements included in its Proxy Statement for the 1994 Annual Meeting of Shareholders. Interim results are not necessarily indicative of those to be expected for the full year.

The consolidated financial statements include the accounts of Maxwell Laboratories, Inc., and its majority-owned subsidiary, PurePulse Technologies,

Inc. (formerly Foodco Corporation). All significant intercompany transactions and account balances are eliminated in consolidation.

In January 1991, the California Department of Toxic Substances Control, or DTSC, notified the Company that it had been identified as one of a number of "potentially responsible parties" with respect to alleged hazardous substances released into the environment at a recycling facility in San Diego County. Although the Company was not involved in the transport or disposal of the substances, Maxwell remains a potentially responsible party under California and Federal "Superfund" laws. In 1992, the Company and approximately 40 other potentially responsible parties signed a consent order which had been negotiated with the DTSC, agreeing to pay \$4 million of the \$7.9 million response costs previously incurred, and to pay for certain future site investigations and interim response actions outlined in the consent order. The currently estimated cost of such activities is \$9.1 million, and the Company's share of the cost, as allocated by the parties to the consent order, is currently estimated at approximately 7.0%. The eventual cost of all removal and remediation activities, for which the Company and the other potentially responsible parties will share in additional reimbursements to the State, is currently estimated to be in the range of \$15 - \$20 million. On the basis of amounts accrued by the Company, it is management's opinion that any additional liability resulting from this situation will not have a material effect on the Company's financial statements. There have been no material developments on this matter since the date of issuance of the Company's audited financial statements for the year ended July 31, 1994.

Backlog of unfilled orders at April 30, 1995 was \$77.8 million, of which \$41.1 million is fully funded.

PART I - continued

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION

Results of Operations

- -----

Sales for the quarter ended April 30, 1995 were \$17,468,000, a 22% decrease compared to the \$22,480,000 for the same period one year ago. Nine-month sales were \$53,016,000, a 16% decrease compared to the \$63,215,000 for last year's first nine months. These decreases occurred primarily in the Company's technology programs and services (TPS) business segment. Sales of commercial, industrial and scientific products (CIS) also decreased, to a lesser extent, in this year's third quarter, as described in the paragraphs below.

CIS sales for the third quarter were \$10,367,000, a decrease of approximately \$1,200,000, or 11%, compared to last year's third quarter. Nine-month CIS sales were \$29,581,000, a decrease of approximately \$500,000, or 2%, compared to the same period last year. A major factor for both the quarter and year-to-date decrease is the completion early this year of a large, turnkey capacitor bank system, which substantially boosted CIS sales during most of fiscal 1994, including last year's first nine months. The Company does not have a similar large project in the first nine months of this fiscal year, resulting in a revenue difference of over \$4,000,000 for the nine months, and \$1,300,000 for the third quarter. For the nine month period, the reduction described above has nearly been offset by increased sales at the I-Bus division, along with higher sales volumes at the PurePulse Technologies subsidiary and the new networked information solutions group at the S-Cubed division. This new S-Cubed group, called MINDS, for Maxwell Integrators of Networked Distributed Solutions, currently has two long-term fixed-price contracts, one of which should be completed in the first quarter of next fiscal year, and the other one scheduled for completion in fiscal 1997. It should be noted when making such comparisons that fluctuations upward or downward occur from time to time in several of the Company's product groups.

TPS sales for the third quarter were \$7,101,000, a decrease of approximately \$3,800,000, or 35%, compared to the prior year. Nine-month TPS sales were \$23,435,000, a decrease of approximately \$9,700,000, or 29%, compared to last year's first nine months. These decreases reflect continuing declines in the Company's Defense business base, and the declines are negatively impacting operations at both the Balboa and S-Cubed divisions. In addition, at Balboa, several large technology system programs substantially completed in the prior year have not been replaced with similarly sized additional projects. Also, at S-Cubed, the third quarter was impacted by a reduced flow of samples into the chemical analytical services laboratory. The sample flow has picked-up again as of the beginning of the fourth quarter.

Cost of sales for the third quarter was \$13,683,000, or 78.3% of sales, as

compared to \$17,289,000, or 76.9% of sales, for the same period last year. For the nine-months, cost of sales was \$39,675,000, or 74.8% of sales, as compared to the prior year's \$49,378,000, or 78.1% of sales. In March of 1994, the Company took cost reduction measures which reduced overhead costs. This is the primary factor contributing to the decrease in cost of sales as a percent of sales for the year-to-date as compared to last year's first nine months. Since the reduction occurred last March, there is not as significant an impact on this year's third quarter as compared to the same three months last year. In addition, there was a shift in the sales mix in this year's third quarter compared to the first two quarters of the year. That is, certain product and chemical analytical services sales, with their typically higher gross profit margins, declined, as described above. Combined with the reduced overall sales level in the quarter, this resulted in an increase in the cost of sales percentage for the three months as compared to both the first two quarters of this year and the same period in the prior year.

Research and development expenses were \$1,375,000 for the third quarter, compared to \$1,085,000 for last year's third quarter. For the nine months these expenses were \$3,665,000 as compared to \$3,475,000 for the same period last year. These increases are primarily attributable to the increased expenditures at the S-Cubed division for commercialization efforts with respect to technologies and software know-how originally developed for Defense applications.

Selling, administrative and general expenses in the third quarter were \$3,531,000, or 20.2% of sales, compared to \$3,482,000, or 15.5% of sales, in the prior year's third quarter. For the nine months, these expenses were \$10,091,000, or 19.0% of sales, compared to \$10,264,000, or 16.2% of sales, one year ago. Aggressive marketing efforts for commercial products at the PurePulse subsidiary and I-Bus division maintained the expenditures for these efforts at similar dollar levels as in 1994. The increase in selling, administrative and general expenses as a percentage of sales is primarily attributable to the sales decline discussed in the TPS paragraph above.

Other-net for the three and nine months ended April 30, 1995 was income of \$324,000 and \$507,000, respectively, compared to expense of \$142,000 and income of \$254,000 for the comparable periods last year. The greater amount of income is primarily attributable to the completion of accruals last year for payments under a covenant-not-to-compete with the former owners of I-Bus, and due to interest earned this year on various tax recoveries.

As a result of the above factors, the net loss for the three months ended April 30, 1995 was \$464,000, as compared to net income of \$320,000 for the same period one year ago. For the nine months, the current year income of \$96,000 compares to a net loss of \$363,000 in the prior year. In January of 1994, the Company recorded a pre-tax write-off of \$1,018,000 to recognize the costs of terminating the Brobeck division and its operations, which contributed substantially to year-to-date losses last year.

Liquidity and Capital Resources

The ratio of current assets to current liabilities was 2.6 to 1 at April 30, 1995, compared to 2.3 to 1 at the end of fiscal year 1994. Management believes that funds on hand and those generated by future operations and available through its bank line of credit of \$7.5 million will be sufficient to finance working capital and currently projected capital expenditure requirements.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 27 - Financial Data Schedule.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended April 30, 1995.

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.

MAXWELL LABORATORIES, INC.

June 13, 1995
Date

Gary J. Davidson
Gary Davidson, Chief Financial Officer
and Authorized Officer

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