FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
SEC Accession No. 0000950131-96-005823

FILER

EAGLE POINT SOFTWARE CORP
CIK:**945066**| IRS No.: **431204819** | State of Incorp.:**DE** | Fiscal Year End: **0630**
Type: **10-Q** | Act: **34** | File No.: **000-26170** | Film No.: **96663532**
SIC: **7372** Prepackaged software

Mailing Address
4131 WESTMARK RD
DUBUQUE IA 52002-2627

Business Address
4131 WESTMARK DR
DUBUQUE IA 52002-2627
3195568392

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
For the quarterly period ended September 30, 1996

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: 0-26170

EAGLE POINT SOFTWARE CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	42-1204819
or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

4131 WESTMARK DRIVE, DUBUQUE, IA 52002-2627
(address of principal executive offices)

(319) 556-8392
(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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest applicable date.

Common Stock, par value $.01 per share, outstanding as of November 14, 1996: 4,941,730 shares

---

EAGLE POINT SOFTWARE CORPORATION

FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 1996
INDEX

PART I. FINANCIAL INFORMATION

<TABLE>
<CAPTION>

</TABLE>

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

EAGLE POINT SOFTWARE CORPORATION
BALANCE SHEETS

	SEPTEMBER 30, 1996	JUNE 30, 1996
	(Unaudited)	(Audited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,509,034	$ 3,106,704
Short-term investments	4,997,265	7,508,561
Accounts receivable (net of allowances of $192,300 and $251,344, respectively)	2,495,225	3,857,170
Income tax receivable	90,966	

Interest receivable	106,831	255,290
Inventories	565,801	369,172
Prepaid expenses	325,607	150,081
Other assets	30,003	22,933
Total current assets	13,120,732	15,269,911
INVESTMENTS	2,471,724	2,466,032
PROPERTY & EQUIPMENT (net of accumulated depreciation of $2,398,487 and $2,178,552, respectively)	7,293,332	5,945,320
SOFTWARE DEVELOPMENT COSTS (net of accumulated amortization of $245,334 and $242,753, respectively)	401,808	213,417
GOODWILL (net of accumulated amortization of $66,191 and $52,600, respectively)	213,646	203,174
DEFERRED INCOME TAXES	497,945	497,945
TOTAL ASSETS	$23,999,187	$24,595,799
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 254,436	$ 288,523
Accounts payable	515,351	252,768
Accrued expenses	1,018,003	966,754
Income taxes payable	0	3,051
Deferred revenues	902,591	1,540,998
Deferred income taxes	2,590	2,590
Total current liabilities	2,692,971	3,054,684
LONG-TERM DEBT	450,017	502,187
CEBA FORGIVABLE LOAN	0	110,000
Total liabilities	$ 3,142,988	$ 3,666,871

</TABLE>

EAGLE POINT SOFTWARE CORPORATION
BALANCE SHEETS (CONTINUED)

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996 (Unaudited)	JUNE 30, 1996 (Audited)
STOCKHOLDERS' EQUITY:		
<S>	<C>	<C>
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued at September 30, 1996 and June 30, 1996		
Common stock, $.01 par value; 20,000,000 shares authorized; 4,941,730 shares issued and outstanding at		

September 30, 1996 and June 30, 1996	49,417	49,417
Additional paid-in capital	17,535,942	17,535,942
Retained earnings	3,270,840	3,343,569
Total stockholders' equity	20,856,199	20,928,928
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$23,999,187	$24,595,799

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

EAGLE POINT SOFTWARE CORPORATION
STATEMENTS OF INCOME

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,	
	1996 (Unaudited)	1995 (Unaudited)
<S>	<C>	<C>
Net revenues:		
Product sales	$3,071,748	$3,771,505
Training and support	1,080,687	1,034,713
Total net revenues	4,152,435	4,806,218
Cost of revenues:		
Product sales	1,076,348	1,099,354
Training and support	171,199	163,044
Total cost of revenues	1,247,547	1,262,398
Gross profit	2,904,888	3,543,820
Operating expenses:		
Selling and marketing	1,421,815	1,532,382
Research and development	911,904	837,716
General and administrative	509,248	367,451
Charge for purchased research and development and other acquisition related costs	475,393	
Total operating expenses	3,318,360	2,737,549
Operating income (loss)	(413,472)	806,271
Other income (expense):		
Interest income (expense)	158,700	204,168
Other income, net	119,662	2,337

Income (loss) before income taxes	(135,110)	1,012,776
Income tax expense (benefit)	(62,381)	330,636
	----------	----------
Net income (loss)	($72,729)	$ 682,140
	==========	==========
Weighted average common and common equivalent shares outstanding	4,941,730	4,968,544
	==========	==========
Net income (loss) per common and common equivalent share	($0.01)	$0.14
	==========	==========

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

EAGLE POINT SOFTWARE CORPORATION
STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,	
	1996 (Unaudited)	1995 (Unaudited)
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ (72,729)	$ 682,140
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	233,526	165,059
Amortization of software development costs	43,830	79,997
Charge for purchased research and development	475,393	
Forgiveness of CEBA Loan	(110,000)	
Changes in assets and liabilities:		
Accounts receivable	1,361,945	(440,844)
Interest receivable	148,459	
Income tax receivable	(90,966)	
Inventories	(196,629)	36,733
Prepaid expenses	(175,526)	(256,021)
Accounts payable	262,583	(203,395)
Income taxes payable	(3,051)	(280,765)
Deferred revenues	(638,407)	10,728
Accrued expenses	51,249	(359,684)
Other	(7,070)	(883)
	----------	-----------
Net cash provided by (used in) operating activities	1,282,607	(566,935)
	----------	-----------
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in short-term bills	2,505,603	

Purchases of property and equipment, net	(1,547,947)	(241,468)
Purchases of software	(200,000)	
Payments to acquire companies, net of cash acquired	(551,676)	
Net cash provided by (used in) investing activities	205,980	(241,468)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term debt	(86,257)	(3,064)
Net cash provided by (used in) financing activities	(86,257)	(3,064)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,402,330	(811,467)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,106,704	15,742,926
CASH AND CASH EQUIVALENTS, END OF PERIOD	$4,509,034	$14,931,459

</TABLE>

EAGLE POINT SOFTWARE CORPORATION
STATEMENTS OF CASH FLOWS (CONTINUED)

<TABLE>
<CAPTION>

<S>	THREE MONTHS ENDED SEPTEMBER 30, 1996 (Unaudited) <C>	1995 (Unaudited) <C>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid (received) for:		
Interest expense	$ 13,526	$ 5,295
Income taxes	$316,165	$617,248

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1996

1. INTERIM FINANCIAL STATEMENTS

The accompanying financial statements of Eagle Point Software Corporation (the "Company") are unaudited. In the opinion of the Company's management, the financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial position of the Company as of September 30, 1996 and June 30, 1996, and the results of operations and cash flows for the three-month period ended September 30, 1996 and 1995.

Certain notes and other information have been condensed or omitted from the interim financial statements presented in this quarterly report on Form 10-Q. Accordingly, these financial statements should be read in conjunction with the Company's annual report on Form 10-K for the year ended June 30, 1996.

2. INCOME TAXES

Income taxes differ from statutory rates principally due to research and development tax credits. The research and development tax credits expired and were not available for the period July 1, 1995 to June 30, 1996. Effective July 1, 1996 through June 30, 1997, the federal government has reinstated the research and development tax credits. No assurance can be given that this tax credit will continue beyond June 30, 1997.

3. BUSINESS COMBINATION

On July 29, 1996, the Company purchased substantially all of the assets of Computer Integrated Building Corporation, a California Corporation ("CIBC"). The purchase price was $551,676 cash. Additionally, the Company is obligated to make a contingent cash payment equal to (1) 75% of the revenues between $550,000 and $743,400 received by the Company in connection with the sale of CIBC's products during the 12 month period ending July 29, 1997, plus (2) 50% of such revenues exceeding $743,400 during the 12 month period ending July 29, 1997. As part of the acquisition, a three year non-compete agreement was entered into between the Company and the former owners of CIBC. CIBC, located in Sebastopol, California, is a software developer for the home builder marketplace.

4. STATEMENT OF FINANCIAL ACCOUNTING STANDARDS

During October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ('FAS123'). FAS123 encourages companies to adopt a fair value method of accounting for employee stock-based compensation and requires fair value accounting for equity instrument issued to non-employees. FAS123, which is effective for fiscal years beginning after December 15, 1995, also requires certain disclosures regarding the fair value of stock-based arrangements. Management has decided not to adopt the fair value method of accounting for employee stock-based compensation.

5. CEBA FORGIVABLE LOAN

The Company entered into an agreement with the Iowa Department of Economic Development, and the City of Dubuque, Iowa for the purpose of securing a forgivable loan in support of economic development. The proceeds from the loan were designated to purchase machinery, equipment, and furniture and fixtures.

As the Company has met all the necessary requirements outlined in the agreement for waiver of the principal and interest as of September 30, 1996, the Company has recognized the $110,000 principal as other income.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net revenues decreased by $654,000, or 13.6%, to $4.2 million for the three months ended September 30, 1996 (the "1996 Period"), from $4.8 million for the three months ended September 30, 1995 (the "1995 Period"). While the Company experienced a decrease in product sales, the Company experienced growth in training and support revenues. The decrease in product sales was primarily attributable to a soft AutoCAD and AutoCAD-related market as well as the negative impact from customers delaying purchases of Eagle Point products as they invest in upgrading their hardware and software as they move from DOS to Windows. These market conditions have negatively effected the Company's results of operations over the past four quarters and there can be no assurance that such conditions will not continue to adversely effect the Company's net revenues or results of operations. Training and support revenues during the 1996 Period were favorably affected by the Company's larger installed base of customers and an increased emphasis by the Company on customer training.

Gross profit decreased $639,000, or 18.0%, to $2.9 million for the 1996 Period from $3.5 million for the 1995 Period as a result of the decrease in net revenues. Gross profit as a percentage of net revenues decreased to 70.0% in the 1996 Period from 73.7% in the 1995 Period. Gross profit as a percentage of corresponding net revenues relating to product sales decreased to 65.0% in the 1996 Period from 70.9% in the 1995 Period primarily due to a reduced percentage of sales of Eagle Point's software products and an increased percentage of resales of AutoCAD in the sales mix. The sales of Eagle Point products, which carry with them a higher gross profit margin, decreased to 80% of product sales in the 1996 Period from 81.4% in the 1995 Period. The resales of AutoCAD, which carry with them a lower gross profit margin, increased to 20.0% of product sales in the 1996 Period from 18.4% in the 1995 Period. Gross profit as a percentage of corresponding net revenues relating to training and support in the 1996 Period remained the same as in the 1995 Period at 84.2%.

Selling and marketing expense decreased $111,000, or 7.2%, to $1.4 million in the 1996 Period from $1.5 million in the 1995 Period. As a percentage of net revenues, selling and marketing expenses increased to 34.2% in the 1996 Period from 31.9% in the 1995 Period. The decrease in expenses was primarily attributable to lower personnel costs associated with a reduced selling and marketing staff size.

Research and development expense increased $74,000, or 8.9%, to $912,000 in the 1996 Period from $838,000 in the 1995 Period. As a percentage of net revenues, research and development expenses increased to 22.0% in the 1996 Period from 17.4% in the 1995 Period. The increase is primarily attributable to higher personnel costs associated with an expanded research and development staff.

General and administrative expense increased $142,000, or 38.6%, to $509,000 in the 1996 Period from $367,000 in the 1995 Period. As a percentage of net revenues, general and administrative expense increased to 12.3% in the 1996 Period from 7.6% in the 1995 Period. This increase is due to increased costs relating to the Company's expansion of the facilities, risk management costs, and higher personnel costs associated with increased general and administrative staff.

Operating income from continuing operations decreased to a net loss of $413,000 in the 1996 Period from $806,000 in the 1995 Period. Excluding the $475,000 charge for purchased research and development incurred in the 1996 Period in connection with the CIBC acquisition, operating income from continuing operations decreased $744,000 to $62,000 in the 1996 Period from $806,000 in the 1995 Period, and as a percentage of revenues decreased to 1.5% in the 1996 Period from 16.8% in the 1995 Period, as a result of the factors described above.

Interest expense increased $8,000 to $14,000 in the 1996 Period from $6,000 in the 1995 Period. Interest income decreased $37,000 to $173,000 in the 1996 Period from $210,000 in the 1995 Period. The decrease in interest income was due to a reduction in the Company's cash and cash investment primarily relating to the funding of the expansion of the Company's headquarters and principal operating facilities located in Dubuque, Iowa.

The Company received a non-recurring one-time gain of $110,000 in other income in the 1996 Period. The gain resulted from the scheduled forgiveness of debt relating to an economic development loan the Company received from the State of Iowa (See Note 5 of "Notes to Financial Statements"). None of the Company's current indebtedness are forgivable loans nor does the company expect to receive any additional forgivable loans in the future.

LIQUIDITY AND CAPITAL RESOURCES

Since November 1995, the Company has been in the process of expanding the Dubuque Facility. The Company estimates the cost of the expansion project including related data systems, furniture and equipment to be between $3.5 million and $4.0 million. As of September 30, 1996, the Company had expended $2.7 million toward this expansion project.

On July 29, 1996, the Company completed the CIBC acquisition. The purchase price was $551,676 cash. Additionally, the Company is obligated to make a contingent cash payment equal to (1) 75% of the revenues between $550,000 and $743,400 received by the Company in connection with the sale of CIBC's products during the 12 month period ending July 29, 1997, plus (2) 50% of such revenues exceeding $743,400 during the 12 month period ending July 29, 1997.

The Company's financial position remains strong, with working capital of $10.4 million and long-term debt of only $450,000. Cash, short-term, and long-term investments aggregated approximately $11.9 million at September 30, 1996. The Company also has available a $2.0 million unsecured line of credit from its principal commercial bank. The Company believes that existing cash balances, together with funds generated from operations and borrowings available under its line of credit, will be sufficient to fund its operations through fiscal 1997.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On July 29, 1996, the Company purchased substantially all of the assets of Computer Integrated Building Corporation, a California Corporation ("CIBC"). The purchase price was $551,676 cash. Additionally, the Company is obligated to make a contingent cash payment equal to (1) 75% of the revenues between $550,000 and $743,400 received by the Company in connection with the sale of CIBC's products during the 12 month period ending July 29, 1997, plus (2) 50% of such revenues exceeding $743,400 during the 12 month period ending July 29, 1997. As part of the acquisition, a three year non-compete agreement was entered into between the Company and the former owners of CIBC. CIBC, located in Sebastopol, California, is a software developer for the home builder marketplace.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

11 Statement Regarding Computation of Net Earnings Per Share
27 Financial Data Schedule

(b) Reports on Form 8-K:

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed by the undersigned, thereunto duly authorized.

EAGLE POINT SOFTWARE CORPORATION
(Registrant)

Date: November 14, 1996 BY: /s/ Rodney L. Blum

Rodney L. Blum
Chairman, President and Chief Executive Officer

Date: November 14, 1996 BY: /s/ Dennis J. George

Dennis J. George
Vice President, Chief Financial Officer, Treasurer and Secretary
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

<TABLE>
<CAPTION>

Exhibit No.		Description	Page No.
<S>	<C>		<C>
11	---	Statement re: computation of net earnings per share	

27 --- Financial Data Schedule

</TABLE>

EXHIBIT 11

<TABLE>
<CAPTION>

EAGLE POINT SOFTWARE CORPORATION

STATEMENT REGARDING COMPUTATION OF NET EARNINGS PER SHARE

	THREE MONTHS ENDED SEPTEMBER 30,	
	1996	1995
<S>	<C>	<C>
SHARES USED IN DETERMINING PRIMARY EARNINGS PER SHARE:		
Weighted average common shares outstanding	4,941,730	4,912,000
Net effect of stock options based on the treasury stock method using the average market price during the period	0	56,544
Total weighted average common and common equivalent shares outstanding	4,941,730	4,968,544
SHARES USED IN DETERMINING FULLY DILUTED EARNINGS PER SHARE:		
Weighted average common shares outstanding	4,941,730	4,912,000
Net effect of stock options based on the treasury stock method using the average market price or market price at the end of the period, whichever is higher	0	56,544
Total weighted average common and common equivalent shares outstanding	4,941,730	4,968,544

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5
<MULTIPLIER> 1

<S>   <C>
<PERIOD-TYPE>   3-MOS
<FISCAL-YEAR-END>   JUN-30-1997
<PERIOD-START>   JUL-01-1996
<PERIOD-END>   SEP-30-1996
<CASH>   4,509,034
<SECURITIES>   4,997,263
<RECEIVABLES>   2,672,783
<ALLOWANCES>   192,300
<INVENTORY>   565,801
<CURRENT-ASSETS>   13,109,346
<PP&E>   9,691,819
<DEPRECIATION>   2,398,487
<TOTAL-ASSETS>   23,999,187
<CURRENT-LIABILITIES>   2,692,971
<BONDS>   704,453
<COMMON>   49,417
<PREFERRED-MANDATORY>   0
<PREFERRED>   0
<OTHER-SE>   20,806,782
<TOTAL-LIABILITY-AND-EQUITY>   23,999,187
<SALES>   4,152,435
<TOTAL-REVENUES>   4,152,435
<CGS>   1,102,790
<TOTAL-COSTS>   1,102,790
<OTHER-EXPENSES>   0
<LOSS-PROVISION>   104,868
<INTEREST-EXPENSE>   14,103
<INCOME-PRETAX>   (135,111)
<INCOME-TAX>   (62,381)
<INCOME-CONTINUING>   (72,729)
<DISCONTINUED>   0
<EXTRAORDINARY>   0
<CHANGES>   0
<NET-INCOME>   (72,729)
<EPS-PRIMARY>   (.01)
<EPS-DILUTED>   (.01)

</TABLE>