

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-29**
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FILER

INMAC CORP

CIK: **801121** | IRS No.: **942358985** | State of Incorporation: **DE** | Fiscal Year End: **0726**
Type: **10-Q** | Act: **34** | File No.: **000-16394** | Film No.: **95546705**
SIC: **5045** Computers & peripheral equipment & software

Mailing Address

2465 AUGUSTINE DRIVE
2465 AUGUSTINE DRIVE
SANTA CLARA CA 95052-8031

Business Address

2465 AUGUSTINE DR
SANTA CLARA CA 95052-8031
4087271970

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended April 29, 1995, 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 0-16394

INMAC CORP.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-2358985
(I.R.S. Employer
Identification No.)

2465 AUGUSTINE DRIVE
SANTA CLARA, CA 95052-8031
(Address of principal executive offices)

Registrant's telephone number, including area code: (408) 727-1970

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 and 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 the Registrant's Common Stock on May 19, 1995 was 10,206,032.

This document consists of 11 pages of which this is Page 1.

INMAC CORP.
FORM 10-Q QUARTERLY REPORT

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Part 1
Item 1a

PART I -- FINANCIAL INFORMATION
INMAC CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS AS OF
APRIL 29, 1995 AND JULY 30, 1994

(IN THOUSANDS)

<TABLE>
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	April 29, 1995	July 30, 1994
	----- <C>	----- <C>
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ASSETS		

Current assets:		
Cash and cash equivalents	\$ 8,039	\$ 2,992
Receivables, net of allowances	54,454	47,395
Inventories	30,899	29,979
Prepaid expenses and other current assets	9,307	8,828
	-----	-----
Total current assets	102,699	89,194
Property, plant and equipment, net	9,057	10,412
Other assets	1,033	1,265
	-----	-----
Total assets	\$ 112,789	\$ 100,871
	=====	=====

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 24,163	\$ 20,472
------------------	-----------	-----------

Accrued liabilities	20,305	14,018
Bank debt and other liabilities	24,135	29,988
Income taxes	2,611	1,713
	-----	-----
Total current liabilities	71,214	66,191
Long-term debt and other liabilities	853	1,127
Stockholders' equity:		
Common stock	15,359	14,978
Retained earnings	26,658	22,653
Cumulative translation adjustments	(1,295)	(4,078)
	-----	-----
Total stockholders' equity	40,722	33,553
Total liabilities and stockholders' equity	\$ 112,789	\$ 100,871
	=====	=====

</TABLE>

See accompanying notes to condensed consolidated financial statements.

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Part I
Item 1b

INMAC CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED
APRIL 29, 1995 AND APRIL 30, 1994

(IN THOUSANDS, EXCEPT NET INCOME PER SHARE DATA)

<TABLE>
<CAPTION>

	Three Months Ended		Nine Months Ended	
	April 29, 1995	April 30, 1994	April 29, 1995	April 30, 1994
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Sales	\$ 101,326	\$ 98,592	\$ 274,914	\$ 266,644
Cost of sales	68,554	66,584	182,226	174,035
	-----	-----	-----	-----
Gross profit	32,772	32,008	92,688	92,609
Selling, general, and administrative expenses	29,274	29,777	84,271	87,578
	-----	-----	-----	-----
Operating income	3,498	2,231	8,417	5,031
Interest expense, net	380	579	1,085	1,167
	-----	-----	-----	-----
Income before income taxes	3,118	1,652	7,332	3,864
Income taxes	1,197	612	3,327	1,464
	-----	-----	-----	-----
Net income	\$ 1,921	\$ 1,040	\$ 4,005	\$ 2,400
	=====	=====	=====	=====
Net income per common and common equivalent share	\$.18	\$.10	\$.37	\$.22
Weighted average common and common equivalent shares outstanding	10,801	10,839	10,762	10,927

See accompanying notes to condensed consolidated financial statements.

INMAC CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED
APRIL 29, 1995 AND APRIL 30, 1994

(IN THOUSANDS)

<TABLE>
<CAPTION>

	Nine Months Ended	
	April 29, 1995	April 30, 1994
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 4,005	\$ 2,400
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Allowance for returns and doubtful receivables	(245)	(779)
Depreciation and amortization	2,529	2,594
Loss on disposal of fixed assets	153	142
Translation adjustment	2,306	1,241
Change in operating assets and liabilities:		
Receivables	(6,814)	(13,190)
Inventories	(920)	(7,757)
Prepaid expenses and other current assets	(479)	(4,523)
Accounts payable and accrued liabilities	9,978	4,366
Income taxes	898	(793)
Other assets	232	139
Net cash provided (used) by operating activities	11,643	(16,160)
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(1,468)	(4,817)
Proceeds from sales of property and equipment	183	60
Net cash used in investing activities	(1,285)	(4,757)
Cash flows from financing activities:		
Short -term bank borrowings and repayments	(5,815)	10,822
Principal payments under capital lease obligations	(354)	(225)
Proceeds from sale of common stock	381	1,780
Net cash provided (used) by financing activities	(5,788)	12,377
Effect of exchange rate changes on cash	477	(92)
Net increase (decrease) in cash and cash equivalents	5,047	(8,632)
Cash and cash equivalents at beginning of year	2,992	10,786
Cash and cash equivalents at year-to-date	\$ 8,039	\$ 2,154
Supplemental disclosures of cash flow information:		
Cash paid year-to-date for:		
Interest	\$ 1,156	\$ 1,333
Income taxes	\$ 1,875	\$ 1,095
Supplemental schedule of non-cash investing and financing activities:		
Capital lease obligations incurred on leases for new equipment	\$ 42	\$ 199

</TABLE>

INMAC CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General

The condensed consolidated financial statements include the accounts of Inmac Corp. and its wholly owned subsidiaries (the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated financial statements reflect all adjustments (which include only normal, recurring adjustments) which, in the opinion of management, are necessary for the fair presentation of the results of the Company at the dates of the respective balance sheets.

The condensed consolidated financial statements have been prepared by the Company without audit and are subject to year-end adjustment. 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 the rules and regulations of the Securities and Exchange Commission.

It is suggested that these interim statements be read in conjunction with the audited financial statements and notes thereto included in the registrant's Annual Report (Commission File Number 0-16394) filed on Form 10-K for the fiscal year ended July 30, 1994.

Results of operations for the nine months ended April 29, 1995 are not necessarily indicative of results to be achieved for the full fiscal year.

2. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market (net realizable value).

Inventories are summarized as follows (in thousands):

<TABLE>
<CAPTION>

	April 29, 1995	July 30, 1994
	-----	-----
<S>	<C>	<C>
Raw materials and manufacturing supplies	\$ 1,716	\$ 2,868
Finished goods	29,183	27,111
	-----	-----
	\$ 30,899	\$ 29,979
	=====	=====

</TABLE>

3. Net Income Per Share

Net income per share has been computed using the weighted average number of common and common equivalent shares outstanding when dilutive.

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

FINANCIAL CONDITION

Cash and cash equivalent balances increased by \$5.0 million since July 30, 1994 and are \$5.9 million greater than the same quarter-end last year. Operating activities since July 30, 1994 provided \$11.6 million in cash, of which \$5.8 million was used by financing activities (primarily for reduction of bank borrowings) and \$1.3 million was used in investing activities (primarily for purchase of fixed assets).

Receivables, net of allowances, increased by \$7.1 million since July 30, 1994 and are \$2.5 million less than the same quarter-end last year. This increase since last fiscal year-end is due to seasonally higher sales this quarter-end relative to the quarter-ended July 30, 1994 and increases in European currency rates as compared to the U.S. dollar. Accounts receivable days of sales outstanding at April 29, 1995 improved from July 30, 1994 by 3.8 days, and improved from the third quarter of last year by 4.0 days.

Inventories increased by \$0.9 million since fiscal year-end, reflecting the seasonality of the business. Inventories are \$3.6 million lower than at the third quarter-end last year, reflecting improved inventory turns due to the new inventory management software installed in all countries during last fiscal year, the consolidation of U.S. distribution and better return to vendor privileges for slower moving products.

Prepaid expenses and other current assets have increased by \$0.5 million since fiscal year-end and have nominally decreased since the third quarter-end last year. The increase since year-end principally relates to amounts receivable from vendors for catalog vendor funding activity.

Property, plant and equipment, net decreased from fiscal 1994 year-end by \$1.4 million as depreciation recorded on existing fixed assets exceeded new fixed asset investment activity.

Accounts payable and accrued liabilities increased by \$3.7 million and \$6.3 million, respectively, since July 30, 1994 (total increase of \$10 million), however on a combined basis they decreased from the third quarter-end last year by \$2.6 million. The increase since fiscal 1994 year-end results from more appropriate utilization of vendor trade payables to fund related operating purchases and efficiently reduce bank debt net of cash. The reduction from the balance at third quarter-end last year relates to lower inventory purchasing activity than in the third quarter of fiscal 1994.

Bank debt and other liabilities at the end of the quarter decreased by \$5.9 million from July 30, 1994, and \$7.7 million from the third quarter-end last year. The decrease since year-end results from cash generated by operating activities being effectively used to reduce bank borrowings.

Assets and liabilities of foreign subsidiaries are translated at the rates of exchange at balance sheet dates. Gains and losses resulting from translation are accumulated as a separate component of stockholders' equity. From fiscal 1994 year-end through the end of the third quarter of fiscal 1995, the change in the translation adjustment increased net equity by \$2.8 million as a result of increases in European currencies against the U.S. dollar. The translation adjustment is \$(1.3) million as of April 29, 1995.

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RESULTS OF OPERATIONS

Sales for the quarter increased by \$2.7 million or 2.8% to \$101.3 million compared to \$98.6 million for the third quarter last year. Sales for the first nine months increased by \$8.3 million or 3.1% to \$274.9 million compared to \$266.6 million for the first nine months of last year. North American sales decreased by 19.6% for the quarter and 14.2% year to date, reflecting the planned strategic downsizing of the U.S. business initiated in May 1994 to improve U.S. profitability.

Sales for the Desktop Hardware/Software Division increased by 13.4% over the same quarter last year. Sales for the Systems and Networking Products Division decreased 2.7% and sales from the Consumable and Complementary Products Division decreased 1.6%, both primarily due to the intentional reduction of catalog mailings into low average order customer sites in the United States.

Gross margin for the quarter decreased to 32.3% from 32.5% in the same quarter

a year ago. This margin decrease is primarily due to the product mix. This quarter's gross margin percentage is also down from the fourth quarter of fiscal 1994, which was 32.8%. The Company expects the increasingly competitive nature of the Company's business in each of its markets as well as the rapid growth of its lower gross margin computer hardware, peripherals and software business to gradually erode gross profit margins over time.

The Company produced a further reduction in selling, general and administrative expenses both as a percentage of sales and in absolute values. Selling, general and administrative expenses were cut by \$0.5 million compared to the third quarter last year to 28.9% of sales for the third quarter of fiscal 1995 compared to 30.2% for the third quarter last year. Similarly, selling, general and administrative expenses were cut by \$3.3 million compared to the first nine months of last year to 30.7% of sales for the first nine months of fiscal 1995 compared to 32.8% for the first nine months of last year. The savings reflect the continued effect of the Company's restructuring efforts and cost reduction programs including the U.S. restructuring initiated in May 1994.

Net interest expense was \$0.4 million for the third quarter of this fiscal year and \$0.6 million for the third quarter of last fiscal year. Net interest expense for the first nine months of this fiscal year was \$1.1 million compared to \$1.2 million for the first nine months of last fiscal year. The reduction in year-to-date interest expense reflects lower average bank debt balances.

LIQUIDITY AND CAPITAL RESOURCES

As of April 29, 1995, the Company had \$22 million in unused lines of credit and \$8.0 million in cash and cash equivalents. The Company believes that its existing cash balances, cash generated from future operations, borrowings under existing lines of credit, and its ability to obtain additional credit will be sufficient to meet its working capital needs through the end of fiscal 1995. In order to fund continued growth, the Company is seeking to raise additional working capital through expansion of its existing credit lines and alternative financing options, including debt financing.

FUTURE RESULTS

The fourth quarter has historically been a seasonally weak quarter for Inmac and for the industry in general, in large part due to the traditional European and North American vacation months. During the fourth quarter, the Company plans to increase substantially its mailings in the U.S. in order to expand the U.S. revenue base. Depending on the timing and level of response to these incremental mailings, the U.S. profitability may be reduced; however, the overall size of the active customer base should be positively effected. The Company expects downward pressure on prices and continued growth rates in the lower margin Desktop Products Division to erode overall gross margin percentages over time. The

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restructuring efforts have resulted in more cost efficient operations. The Company will continue its efforts to further reduce expenses, especially in the area of facilities costs by looking to consolidate space as efficiencies improve and as the related market demand for space becomes more robust.

The Company's operating results for the rest of fiscal 1995 will also be affected by worldwide economic conditions including the economic conditions in its markets. Although the Company seeks to protect itself from exchange rate fluctuations, as international sales account for more than 70% of the Company's sales, operating results may be affected by exchange rates from quarter to quarter. Other factors which impact sales and operating results from quarter to quarter include ongoing competitive pressures, sales seasonality, the timing of catalog mailings, and the effectiveness of the Company's low price strategy. Operating results in fiscal 1995 may not be comparable to the same quarters in fiscal 1994.

PART II -- OTHER INFORMATION

Items 1 through 5 are not applicable with respect to the current reporting period.

Item 6. - Exhibits and Reports on Form 8-K:

(a) The following exhibits are filed as part of this report:

Exhibit 11.0 Statement of Computation of Net Income Per Share
is attached as page 11.

- (b) No reports on Form 8-K were filed during the quarter for which
this report is filed.

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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.

INMAC CORP.

Dated: June 9, 1995

By: /s/ Michael J. Waide
Michael J. Waide
(Vice President, Finance and Chief
Financial Officer)

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EXHIBIT INDEX

Exhibit -----	Page No. -----
11 Computation of Net Income per Share	
27 Financial Data Schedule	

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INMAC CORP. AND SUBSIDIARIES
STATEMENT OF COMPUTATION OF NET INCOME PER SHARE

(IN THOUSANDS, EXCEPT NET INCOME PER SHARE DATA)

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	Three Months Ended		Nine Months Ended	
	April 29, 1995	April 30, 1994	April 29, 1995	April 30 1994
<S>	<C>	<C>	<C>	<C>
Net Income	\$ 1,921	\$ 1,040	\$ 4,005	\$ 2,400
Weighted average number of common shares outstanding	10,178	10,056	10,143	9,913
Weighted average common equivalent shares - stock options	623	783	619	1,014
Weighted average common and common equivalent shares outstanding	10,801	10,839	10,762	10,927
Net income per common and common equivalent share	\$ 0.18	\$ 0.10	\$ 0.37	\$ 0.22

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