

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-04-01**
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FILER

IKOS SYSTEMS INC

CIK: **756365** | IRS No.: **770100318** | State of Incorpor.: **DE** | Fiscal Year End: **0930**
Type: **10-Q** | Act: **34** | File No.: **000-18623** | Film No.: **95536189**
SIC: **7373** Computer integrated systems design

Business Address
*19050 PRUNERIDGE AVE
CUPERTINO CA 95014
4082554567*

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 quarter ended April 1, 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 0-18623

IKOS SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

77-0100318
(I.R.S. Employer
Identification No.)

19050 PRUNERIDGE AVE., CUPERTINO, CA
(Address of principal executive offices)

95014
(zip code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(408) 255-4567

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 practicable date.

COMMON STOCK \$.01 PAR VALUE

(Title of Class)

5,527,000
(Outstanding as of April 1, 1995)

IKOS SYSTEMS, INC.
FORM 10-Q
QUARTER ENDED APRIL 1, 1995

INDEX

Part I: Financial Information

Item 1: Financial Statements

<TABLE>
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	PAGE
<S>	<C>
Consolidated Balance Sheets at April 1, 1995 and October 1, 1994.....	3
Consolidated Statements of Operations for the three months ended April 1, 1995 and April 2, 1994.....	4
Consolidated Statement of Cash Flows for the three months ended April 1, 1995 and April 2, 1994.....	5
Notes to Consolidated Financial Statements.....	6
Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations.....	8

Part II: Other Information

Item 4: Submission of Matters to Date.....	10
Item 6: Exhibits and Reports on Form 8-K.....	11
Signatures.....	14

</TABLE>

IKOS SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

<TABLE>
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April 1, October 1,

<S>	ASSETS	1995 ----- (Unaudited) <C>	1994 ----- (Audited) <C>
Current assets:			
Cash and cash equivalents.....		\$ 2,960	\$ 3,422
Short-term investments.....		574	560
Accounts receivable (net of allowance for doubtful accounts of \$122).....		6,803	4,884
Inventories.....		1,159	1,050
Prepaid expenses and other current assets.....		260	222
		-----	-----
Total current assets.....		11,756	10,138
Equipment and leasehold improvements:			
Office and evaluation equipment.....		2,613	2,576
Machinery and equipment.....		4,727	4,664
Leasehold improvements.....		267	267
		-----	-----
		7,607	7,507
Less allowances for depreciation and amortization.....		(6,100)	(5,859)
		-----	-----
		1,507	1,648
Other assets.....		184	343
		-----	-----
		\$ 13,447	\$ 12,129
		=====	=====
	LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:			
Accounts payable.....		\$ 2,192	\$ 1,909
Accrued payroll and related expenses.....		799	786
Accrued commissions.....		322	650
Deferred maintenance revenues.....		2,416	1,979
Other accrued liabilities.....		295	373
Current portion of long-term debt.....		918	591
		-----	-----
Total current liabilities.....		6,942	6,288
Long-term debt, less current portion.....		1,574	2,151
Accrued rent.....		232	214
Stockholders' equity:			
Preferred stock, \$.01 par value; 10,000 shares authorized, none issued or outstanding.....		--	--
Common stock, \$.01 par value; 25,000 shares authorized, 5,527 and 5,504 issued and outstanding, respectively.....		55	55
Additional paid-in capital.....		26,020	25,960
Accumulated deficit.....		(21,376)	(22,539)
		-----	-----
Total stockholders' equity.....		4,699	3,476
		-----	-----
		\$ 13,447	\$ 12,129
		=====	=====

</TABLE>

See notes to consolidated financial statements

IKOS SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

<TABLE>
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	Three Months Ended		Six Months Ended	
	April 1, 1995	April 2, 1994	April 1, 1995	April 2, 1994
<S>	<C>	<C>	<C>	<C>
Net revenues				
Product.....	\$5,504	\$4,366	\$10,534	\$ 8,326
Maintenance.....	1,176	943	2,254	1,779
Total net revenues.....	6,680	5,309	12,788	10,105
Cost of revenues				
Product.....	1,447	1,242	2,761	2,436
Maintenance.....	216	239	546	405
Total cost of revenues.....	1,663	1,481	3,307	2,841
Gross profit.....	5,017	3,828	9,481	7,264
Operating expenses:				
Research and development.....	1,035	984	1,954	1,952
Sales and marketing.....	2,686	2,301	5,268	4,352
General and administrative.....	551	401	1,034	780
Total operating expenses.....	4,272	3,686	8,256	7,084
Income from operations.....	745	142	1,225	180
Other income (expense):				
Interest income.....	26	14	49	28
Interest expense.....	(25)	(11)	(63)	(11)
Other income.....	29	29	58	58
Total other income.....	30	32	44	75
Income before provision for income taxes...	775	174	1,269	255
Provision for income taxes.....	60	--	106	--
Net income.....	\$ 715	\$ 174	\$ 1,163	\$ 255

	=====	=====	=====	=====
Net income per share.....	\$ 0.12	\$ 0.03	\$ 0.20	\$ 0.04
	=====	=====	=====	=====
Common and common equivalent shares used in computing per share amounts.....	6,011	5,697	5,897	5,682
	=====	=====	=====	=====

</TABLE>

See notes to consolidated financial statements

4

IKOS SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Increase (decrease) in cash and cash equivalents in thousands
(Unaudited)

<TABLE>

<CAPTION>

	Six Months Ended	
	April 1, 1995	April 2, 1994
	-----	-----
	<C>	<C>
<S>		
Operating activities:		
Net income.....	\$ 1,163	\$ 255
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization.....	684	1,097
Loss on retirement of equipment.....	2	6
Deferred rent.....	18	1
License delivery and technology transfer in exchange for debt obligation.....	--	(324)
Changes in operating assets and liabilities:		
Accounts receivable.....	(1,919)	(1,440)
Inventories.....	(65)	74
Prepaid expenses and other assets.....	(38)	(254)
Other assets.....	(12)	(1)
Accounts payable.....	283	(1,243)
Accrued payroll and other expenses.....	13	70
Accrued commissions.....	(328)	(21)
Deferred maintenance revenues.....	437	186
Income taxes payable.....	(20)	(3)
Other accrued liabilities.....	(58)	(50)
	-----	-----
Net cash provided by (used in) operating activities....	160	(1,647)
Investing activities:		
Purchases of equipment and leasehold improvements.....	(418)	(454)
Purchase of short-term investments.....	(14)	(10)
	-----	-----
Net cash used in investing activities.....	(432)	(464)
Financing activities:		
Principal payments on line of credit and long-term borrowings.....	(250)	(525)
Promissory note.....	--	750

Sale of common stock.....	60	50
	-----	-----
Net cash provided by (used in) financing activities...	(190)	275
	-----	-----
Decrease in cash and cash equivalents.....	(462)	(1,836)
Cash and cash equivalents at beginning of period.....	3,422	2,867
	-----	-----
Cash and cash equivalents at end of period.....	\$ 2,960	\$ 1,031
	=====	=====

</TABLE>

See notes to consolidated financial Statements

5

IKOS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

The accompanying consolidated financial statements for the three months ended April 1, 1995, have been prepared in conformity with generally accepted accounting principles, consistent with those applied in, and should be read in conjunction with, the audited consolidated financial statements for the year ended October 1, 1994 included in the Form 10-K as filed with the Securities and Exchange Commission on December 28, 1994. The interim financial information is unaudited, but reflects all normal recurring adjustments which are, in the opinion of management, necessary for a fair statement of results for the interim periods presented. The results for the three month period ended April 1, 1995 are not necessarily indicative of results expected for the full year.

2. Short-Term Investments

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 115 (FAS 115), "Accounting for Certain Investments in Debt and Equity Securities," effective for fiscal years beginning after December 15, 1993. Under the new rules, debt securities that the Company has both positive intent and ability to hold to maturity are carried at amortized cost. Debt securities that the Company does not have the positive intent and ability to hold to maturity and all marketable equity securities are classified as available-for-sale or trading and carried at fair value. Unrealized holding gains and losses on securities classified as available-for-sale are reported as part of equity while unrealized holding gains and losses on securities classified as trading are reported in earnings.

The Company adopted FAS 115 on October 2, 1994 and all debt securities are classified as held-to-maturity. The adoption of FAS 115 had no material impact on the Company's financial position or its operating results during fiscal 1995.

3. Revenue Recognition

Product revenues, which include licensing and software revenues, are generally recognized on shipment provided that no significant vendor or post-contract support obligations remain outstanding and collection of the resulting receivable is deemed probable. Insignificant vendor and post-support obligations are accrued upon shipment. Revenue under maintenance contracts is recognized ratably over the term of the related contract, generally twelve months.

4. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and consisted of (in thousands):

<TABLE>
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	April 1, 1995	October 1, 1994
<S>	<C>	<C>
Purchase parts	\$ 248	\$ 259
Work-in-process	633	502
Finished goods	278	289
	-----	-----
Total inventory	\$1,159	\$1,050
	=====	=====

</TABLE>

5. Net Income Per Share

Net income per share is based on the weighted average number of common shares outstanding during the period. Common equivalent shares from options have been included in the computation when dilutive.

6. Stock Split

On October 20, 1994 the Board of Directors approved a one-for-two reverse stock split of the outstanding shares of Common Stock of the Company. This reverse stock split did not alter the number of authorized shares of the Company's stock or any other provision of the Company's Certificate of Incorporation and was approved by the Stockholders of the Company on January 26, 1995 at the Company's 1995 Annual meeting. The reverse stock split effects a conversion of each two outstanding shares of Common Stock held of record as of the close of business on April 21, 1995 into one share of Common Stock. The reverse stock split was effected on April 24, 1995 and has been presented retroactively within these financial statements.

On a pre-split basis the earnings would have been as follows:

<TABLE>
<CAPTION>

Three Months Ended		Six Months Ended	
-----		-----	
April 1, 1995	April 2, 1994	April 1, 1995	April 2, 1994
-----	-----	-----	-----

<S>	<C>	<C>	<C>	<C>
Net income per share.....	\$ 0.06	\$ 0.02	\$ 0.10	\$ 0.02
	-----	-----	-----	-----
Common and common equivalent shares used in computing per share amounts...	12,021	11,394	11,793	11,363
	-----	-----	-----	-----

</TABLE>

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

NET REVENUES

Second quarter revenue totaled \$6.7 million, an increase of 26% over the same quarter in fiscal 1994. For the six month period revenue totaled \$12.8 million, an increase of 27% over the same period in fiscal 1994. The reasons for the increase were increased sales of the Voyager product line plus some initial sales of the new Gemini product line. The new Gemini software product allows the Company's hardware accelerator (NSim) to accelerate simulations in a mixed level verilog environment. Excluding maintenance, the Voyager and Gemini product lines contributed approximately 90% of product revenues in both the three and six month period ending April 1, 1995 compared to approximately 54% and 60% for the same periods in fiscal 1994.

International sales remained strong, accounting for 32% of total revenue for both the first half and the second fiscal quarter of 1995 compared to 23% and 24% for the same periods in fiscal 1994. International sales are expected to continue to improve as a percentage of total sales by year end.

GROSS PROFIT MARGINS

Gross profit margins improved to 74% of revenue in the first half of fiscal 1995 and 75% of revenue in the second quarter of fiscal 1995, compared to 72% for the same periods in fiscal 1994. The increase was primarily the result of a change in the product mix to more sales of the Voyager product line and to a lesser extent the amortization of fixed manufacturing costs over a broader revenue base.

Gross profit margins are expected to remain approximately unchanged in subsequent quarters.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses in the second quarter of fiscal 1995 totaled \$1,035,000, compared to \$984,000 for the same period in fiscal 1994. This increase was the result of higher consulting fees. The expenses in the first half of fiscal 1995 were \$1,954,000 and were essentially unchanged from the same period in fiscal 1994.

Research and development expenses are expected to increase throughout fiscal 1995 primarily due to increased headcount and associated recruiting expenses. Headcount is expected to increase as the Company continues to improve and expand on the features of the Voyager product line.

SALES AND MARKETING EXPENSES

Sales and marketing expenses increased by \$385,000 to \$2,686,000 for the second fiscal quarter of 1995 and increased by \$916,000 to \$5,268,000 for the first half of fiscal 1995, when compared to the same periods in fiscal 1994. These increases were primarily the result of increased expenses for the international operations. Sales and marketing expenses are expected to increase in absolute dollars over the course of the fiscal year reflecting increased headcount, commission expense and marketing expense. Sales and marketing expenses as a percentage of total revenues, however, are expected to remain approximately unchanged.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were \$551,000 in the second quarter of fiscal 1995 and \$1,034,000 for the first half of fiscal 1995. This compares to \$401,000 and \$780,000 for the same periods in fiscal 1994. These increases were due to several factors including additional headcount,

8

increased investor relations expense, profit sharing, and increased coverage for director's and officer's insurance. General and administrative expenses are expected to increase slightly in absolute dollars throughout the remainder of fiscal 1995.

INCOME TAXES

The provision for income taxes consists primarily of federal alternative minimum tax, state taxes and Japanese withholding taxes. The tax rate is substantially below the federal statutory rate due to the utilization of net operating loss carryovers.

LIQUIDITY AND CAPITAL RESOURCES

As of April 1, 1995, the Company had \$3,534,000 in cash, cash equivalents and short term investments which compares to \$3,982,000 as of October 1, 1994. This decrease was mainly due to the increases in accounts receivables due to higher sales, purchases of equipment and payment of long term debt.

The Company's primary unused sources of funds at April 1, 1995, consisted of \$3,534,000 of cash, cash equivalents and short term investments. The Company expects capital expenditures to increase from first half levels for the remainder of the year as the expected headcount additions will require additional workstations. The Company believes that its present cash position and cash generated from operations will be sufficient to meet its capital needs for at least the next twelve months.

9

PART II. OTHER INFORMATION

ITEMS 1-3. Not applicable.

ITEM 4. Submission of Matters to Date.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Stockholders of the Company was held on January 26, 1995. The following matters were submitted to a vote of stockholders:

a. Election of Directors (all terms expire as of the date of the 1996 annual meeting):

<TABLE>
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Nominee -----	In Favor -----	Withheld -----
<S>	<C>	<C>
Gerald S. Casilli	9,591,788	9,196
William B. Fazakerly	9,591,788	9,196
Lutz P. Henckels	9,593,979	7,005
Ramon A. Nunez	9,592,779	8,205
Glenn E. Penisten	9,593,979	7,005
James R. Oyler	9,593,979	7,005

</TABLE>

b. To approve an amendment to the Company's Certificate of Incorporation to provide for a 2:1 reverse stock split:

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In Favor -----	Opposed -----	Withheld -----
<S>	<C>	<C>
9,315,565	259,527	25,892

</TABLE>

c. To ratify the appointment of Ernst & Young as the independent auditors of the Company for the fiscal year ending September 30, 1995:

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In Favor -----	Opposed -----	Withheld -----
<S>	<C>	<C>
9,578,528	3,078	19,378

</TABLE>

ITEM 5. Not Applicable

10

ITEM 6. Exhibits and Reports on Form 8-K.

INDEX TO EXHIBITS

<TABLE>
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Exh. No. -----	Documentation Description -----	Page -----
<C>	<S>	<C>
4.1	Amended and Restated Registration Rights Agreement between the Company and certain investors dated April 3, 1990. (Incorporated by reference to Exhibit 4.2 of the Company's registration statement on Form S-1 effective July 25, 1990).	

- 4.2 Rights agreement dated as of January 27, 1992. (Incorporated by reference to Exhibit (C)1, in the Company's current report on Form 8-K filed February 10, 1992.)
- 10.1 Lease Agreement for the Company's principal facility dated March 20, 1992, between Ames Avenue Associates and the Company, as amended. (Incorporated by reference to Exhibit 10.1 of the Company's annual report on 10-K for the year ending September 26, 1992.)
- 10.2 Form of Director and Officer Indemnity Agreement. (Incorporated by reference to Exhibit 10.6 of the Company's registration statement on Form S-1 effective July 25, 1990.)
- 10.3 Amended and Restated Non-Qualified Stock Option Agreement dated August 17, 1989, between the Company and Mr. Casilli. (Incorporated by reference to Exhibit 10.7 of the Company's registration statement on Form S-1 effective July 25, 1990.)
- 10.4 Amended and Restated Non-Qualified Stock Option Agreement dated August 17, 1989, between the Company and Mr. Casilli. (Incorporated by reference to Exhibit 10.8 of the Company's registration statement on Form S-1 effective July 25, 1990.)
- 10.5 Amended and Restated Non-Qualified Stock Option Agreement dated August 17, 1989, between the Company and Mr. Fazakerly. (Incorporated by reference to Exhibit 10.9 of the Company's registration statement on Form S-1 effective July 25, 1990.)
- 10.6 Amended and Restated Non-Qualified Stock Option Agreement dated August 17, 1989, between the Company and Mr. Fazakerly. (Incorporated by reference to Exhibit 10.10 of the Company's registration statement on Form S-1 effective July 25, 1990.)
- 10.7 1988 Stock Option Plan. (Incorporated by reference to Exhibit 10.14 of the Company's registration statement on Form S-1 effective July 25, 1990.)

</TABLE>

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Exh. No.	Documentation Description	Page
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<C>	<S>	<C>
10.8	Non-Qualified Stock Option Agreement dated August 17, 1989, between the Company and Mr. Casilli. (Incorporated by reference to Exhibit 10.19 of the Company's registration statement on Form S-1 effective July 25, 1990.)	
10.9	Patent Cross License Agreement dated May 17, 1989 with Zycad Corporation. (Incorporated by reference from Zycad Corporation's Annual Report on Form 10-K filed April 2, 1990.) (Incorporated by reference to Exhibit 10.20 of the Company's registration statement on Form S-1 effective July 25, 1990.)	

- 10.10 International Distributorship Agreement dated April 11, 1988, with C. Itoh & Co., Ltd. (with certain confidential portions excised). (Incorporated by reference to Exhibit 10.24 of the Company's registration statement on Form S-1 effective July 25, 1990.)
- 10.11 OEM Software License Agreement between CAD Language Systems, Inc. and IKOS Systems, Inc. dated June 22, 1989 and amendment dated September 1991. (Incorporated by reference to Exhibit 10.18 of the Company's Annual Report for the year ended September 28, 1991.)
- 10.12 Technology Transfer and Joint Development Agreement with Racal-Redac, Inc. dated July 1, 1993 (with certain portions excised). (Incorporated by reference to Exhibit 10.19 of the Company's quarterly report on Form 10-Q for the quarter ended July 3, 1993.)
- 10.13 Software License Agreement with Compass Design Automation dated December 31, 1993. (Incorporated by reference to Exhibit 10.17 of the Company's quarterly report on Form 10-Q for the quarter ended January 1, 1994.)
- 10.14 Agreement dated June 2, 1994, between the Company and Gerald S. Casilli. (Incorporated by reference to Exhibit 10.17 of the Company's quarterly report on Form 10-Q for the quarter ended July 2, 1994.)
- 10.15 Agreement dated June 2, 1994, between the Company and William B. Fazakerly. (Incorporated by reference to Exhibit 10.18 of the Company's quarterly report on Form 10-Q for the quarter ended July 2, 1994.)
- 10.16 Agreement dated June 2, 1994, between the Company and Daniel R. Hafeman. (Incorporated by reference to Exhibit 10.19 of the Company's quarterly report on Form 10-Q for the quarter ended July 2, 1994.)
- 10.17 Agreement dated June 2, 1994, between the Company and Stephen M. McLaughlin. (Incorporated by reference to Exhibit 10.20 of the Company's quarterly report on Form 10-Q for the quarter ended July 2, 1994.)
- 10.18 Agreement dated June 2, 1994, between the Company and Lawrence A. Melling. (Incorporated by reference to Exhibit 10.21 of the Company's quarterly report on Form 10-Q for the quarter ended July 2, 1994.)

</TABLE>

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Exh. No.	Documentation Description	Page
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10.19	Agreement dated June 2, 1994, between the Company and Ramon A. Nunez. (Incorporated by reference to Exhibit 10.22 of the	

Company's quarterly report on Form 10-Q for the quarter ended July 2, 1994.)

10.20 Agreement dated June 2, 1994, between the Company and Joseph W. Rockom. (Incorporated by reference to Exhibit 10.23 of the Company's quarterly report on Form 10-Q for the quarter ended July 2, 1994.)

11.1 Statements of Computation of Earnings Per Share

27.1 Financial Data Schedule

</TABLE>

13

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.

IKOS SYSTEMS, INC.

Registrant

Date: May 10, 1995

/s/ Joseph W. Rockom

(JOSEPH W. ROCKOM, CFO)
Principal Financial Officer,
Duly Authorized Officer

14

IKOS SYSTEMS, INC.
 STATEMENTS OF COMPUTATION OF EARNINGS PER SHARE
 (In thousands, except per share data)

<TABLE>
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	Three Months Ended		Six Months Ended	
	April 1, 1995	April 2, 1994	April 1, 1995	April 2, 1994
<S>	<C>	<C>	<C>	<C>
Net income	\$ 715	\$ 174	\$1,163	\$ 255
Number of shares used in computing per share amounts:				
Weighted average common stock outstanding..	5,521	5,446	5,515	5,442
Common equivalent shares attributable to stock options (treasury stock method)....	490	251	382	240
Total weighed average common shares outstanding.....	6,011	5,697	5,897	5,682
Net income per share.....	\$ 0.12	\$ 0.03	\$ 0.20	\$ 0.04

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