

# COMARCO INC

## FORM 10-Q (Quarterly Report)

Filed 06/05/96 for the Period Ending 04/30/96

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SIC Code 3663 - Radio and Television Broadcasting and Communications Equipment  
Industry Electrical Components & Equipment  
Sector Industrials  
Fiscal Year 01/31

# COMARCO INC

## FORM 10-Q (Quarterly Report)

Filed 6/5/1996 For Period Ending 4/30/1996

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Telephone	949-599-7400
CIK	0000022252
Industry	Software & Programming
Sector	Technology
Fiscal Year	01/31

# Form 10-Q

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended April 30, 1996

Commission File Number 0-5449

COMARCO, Inc.

-----  
(Exact name of registrant as specified in its charter)

CALIFORNIA

95-2088894

-----  
State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification Number)

22800 Savi Ranch Parkway, Suite 214, Yorba Linda, California

92808-1299

-----  
(Address of principal executive office)

-----  
(Zip Code)

Registrant's telephone number, including area code

(714) 282-3832  
-----

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 31, 1996.

Common Stock,  
\$.10 Par Value

4,746,459 Shares  
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**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

COMARCO, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets

	April 30, 1996 (Unaudited)	January 31, 1996 *
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,232,000	\$ 11,801,000
Short-term investments	2,124,000	2,657,000
Accounts receivable, net	7,719,000	7,335,000
Inventory	1,737,000	1,361,000
Other current assets	754,000	573,000
	-----	-----
Total current assets	23,566,000	23,727,000
Long-term investments	1,444,000	841,000
Property and equipment, net	1,254,000	1,174,000
Software development costs, net	1,421,000	1,401,000
Intangible assets, net	2,494,000	2,578,000
Other assets	248,000	268,000
	-----	-----
<b>TOTAL ASSETS</b>	<b>\$ 30,427,000</b>	<b>\$ 29,989,000</b>
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 192,000	\$ 547,000
Deferred revenue	1,443,000	1,410,000
Accrued liabilities	5,278,000	5,721,000
	-----	-----
Total current liabilities	6,913,000	7,678,000
Deferred income taxes	573,000	573,000
Stockholders' equity:		
Common stock, \$.10 par value, 33,705,000 shares authorized, 4,718,959 and 4,707,709 shares outstanding at April 30, 1996 and January 31, 1996, respectively	472,000	471,000
Capital contributed in excess of par value	3,983,000	3,883,000
Retained earnings	18,486,000	17,384,000
	-----	-----
Total stockholders' equity	22,941,000	21,738,000
	-----	-----
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 30,427,000</b>	<b>\$ 29,989,000</b>
	=====	=====

See accompanying notes to the condensed consolidated financial statements.

\*The condensed consolidated balance sheet as of January 31, 1996 has been summarized from the Company's audited consolidated balance sheet as of that date.

COMARCO, Inc. and Subsidiaries  
Condensed Consolidated Statements of Income  
(Unaudited)

	Quarter Ended	
	April 30, 1996	April 30, 1995
	-----	-----
Revenues:		
Contract revenues	\$ 11,952,000	\$ 13,842,000
Product sales	4,456,000	3,487,000
	-----	-----
	16,408,000	17,329,000
	-----	-----
Direct costs:		
Contract costs	8,385,000	9,266,000
Cost of product sales	1,550,000	1,437,000
	-----	-----
	9,935,000	10,703,000
Indirect costs	4,848,000	5,320,000
	-----	-----
	14,783,000	16,023,000
	-----	-----
Operating income	1,625,000	1,306,000
Net interest income	153,000	91,000
	-----	-----
Income before income taxes	1,778,000	1,397,000
Income taxes	676,000	559,000
	-----	-----
Net income	\$ 1,102,000	\$ 838,000
	=====	=====
Earnings per share		
Primary	\$ .21	\$ .17
	=====	=====

Fully diluted earnings per share has not been presented as the effect is immaterial.

See accompanying notes to the condensed consolidated financial statements.

COMARCO, Inc. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	Quarter Ended	
	April 30, 1996	April 30, 1995
Cash flows from operating activities:		
Net income	\$ 1,102,000	\$ 838,000
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	586,000	545,000
Provision for doubtful accounts receivable	9,000	8,000
Net purchases of trading securities	(555,000)	(262,000)
Increase in accounts receivable	(393,000)	(69,000)
Decrease (increase) in inventory	(376,000)	15,000
Decrease (increase) in other current assets	(181,000)	12,000
Decrease in other assets	20,000	17,000
Increase (decrease) in accounts payable	(355,000)	35,000
Increase in deferred revenue	33,000	9,000
Decrease in other current liabilities	(443,000)	(622,000)
Net cash provided (used) by operating activities	(553,000)	526,000
Cash flows from investing activities:		
Purchases of investments	(1,024,000)	(220,000)
Sales of investments	1,509,000	-
Purchases of property and equipment	(201,000)	(200,000)
Software development costs	(401,000)	(562,000)
Net cash used in investing activities	(117,000)	(982,000)
Cash flows from financing activities:		
Proceeds from issuance of common stock	101,000	6,000
Purchase of subordinated debentures	-	(844,000)
Net cash provided (used) by financing activities	101,000	(838,000)
Net decrease in cash and cash equivalents	\$ (569,000)	\$ (1,294,000)
Supplemental disclosures of cash flow information:		
Cash paid during the quarter for:		
Interest	\$ -	\$ 41,000
Income taxes	2,000	31,000

See accompanying notes to the condensed consolidated financial statements.

(Unaudited)

## 1. General

The financial statements have been prepared without audit. However, they reflect all adjustments which in the opinion of management are necessary to fairly state the Company's financial position at April 30, 1996 and April 30, 1995 and the results of its operations and cash flows for the quarters ended April 30, 1996 and January 31, 1996. The information has been prepared in accordance with Form 10-Q instructions, but does not necessarily include all information and footnotes required by generally accepted accounting principles for complete financial statements. The results of the quarter ended April 30, 1996 are not necessarily indicative of the results to be obtained for the full fiscal year.

## 2. Significant Accounting Policies - Per Share Information

The outstanding shares used for earnings per share calculations for all years presented include the weighted average effect of common shares and common share equivalents outstanding during the year. Common share equivalents include dilutive stock options computed using the treasury stock method. Convertible subordinated debentures are not considered common stock equivalents and are not considered in the computation of fully diluted earnings per share since the effect would be antidilutive. Consolidated net income of the Company used for earnings per share purposes is diluted as a result of stock options issued by the Company's subsidiaries which enable their holders to obtain the subsidiaries' common stock. Primary earnings per share is calculated as follows:

	April 30, 1996	Quarter Ended April 30, 1995
	-----	-----
Net income	\$ 1,102,000	\$ 838,000
less - net income allocated to subsidiary dilutive stock options outstanding	(53,000)	(13,000)
	-----	-----
Net income used in calculation of primary income per share	\$ 1,049,000	\$ 825,000
	=====	=====
Weighted average number of common shares used in calculation of primary income per share	5,081,000	4,929,000
	=====	=====
Primary income per common share	\$ .21	\$ .17
	=====	=====

## 3. Reclassifications

Certain reclassifications of prior year amounts have been made to conform with the current year presentation.

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

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Exchange Act of 1934. These are in paragraphs 12,14,15,17,18, 21, 25, 28, and 29 of Management's Discussion and Analysis of Results of Operations and Financial Condition. A more complete discussion of business risks is included in the Company's Annual Report on Form 10-K for the year ended January 31, 1996.

## (a) Results of Operations

During the first quarter of Fiscal Year 1997 (year ending January 31, 1997), the Company recorded total revenues of \$16.4 million, down 5.2% from the revenues of \$17.3 million for the comparable period of a year earlier. Decreased year-to-year revenues are primarily due to:

- o substantial completion as of September 30, 1995, of the Company's contract with the Naval Air Warfare Center ("NAWC") at China Lake, California, partially offset by:
- o increased sales of the Company's wireless communications products, including various field measurement and revenue assurance systems to

major cellular telephone carriers.

Total direct costs of \$9.9 million for the first quarter of Fiscal Year 1997 are down \$.8 million, or 7.5%, from \$10.7 million for the first quarter of Fiscal Year 1996. The decrease is due to the completion of the China Lake contract, offset by increased sales of wireless communications products, as discussed above. The decrease in the amount of direct costs is greater than the decrease in revenues since the Company's wireless communications products business requires a smaller component of direct costs than the government services business.

Total indirect costs of \$4.8 million for the first quarter of Fiscal Year 1997 are down \$.5 million, or 9.4%, from \$5.3 million for the first quarter of Fiscal Year 1996. The decrease is due to the completion of the China Lake contract, offset by increased sales of wireless communications products, as discussed above. The decrease in the amount of indirect costs is greater than the decrease in revenues because the Company's wireless communications products business has been able to increase sales without increasing its indirect costs by the same extent.

Net interest income (interest income, less amortization of offering costs and interest expense) for the first quarter of Fiscal Year 1997 amounted to \$153,000, as compared to \$91,000 for the comparable period of the prior fiscal year. The increase is principally due to the repurchase of the Company's convertible subordinated debentures outstanding and the accelerated amortization of offering costs related to the Company's purchase of its convertible subordinated debentures during the first quarter of Fiscal Year 1996, as well as an increase in the amount of the Company's invested funds. The Company recorded accelerated offering cost amortization of \$23,000 in the first quarter of Fiscal Year 1996, when the Company retired the remaining \$844,000 of its convertible subordinated debentures on April 15, 1995.

The Company's effective tax rate for the first quarter of Fiscal Year 1997 is 38% versus an effective tax rate of 40% for the comparable period of the prior fiscal year.

The overall increase in net income from the prior fiscal year is primarily due to the significant increase in the sales of wireless communications products at higher operating income margins, as well as increased net interest income.

### Wireless Communications Products

Wireless communications products revenues increased 36.7% to \$4.1 million for the first quarter of Fiscal Year 1997 from \$3.0 million for the comparable period of the prior fiscal year. This increase is due to increased sales of the Company's field measurement systems and revenue assurance systems for major cellular telephone carriers. The Company has broadened its product line with the introduction of its second generation of field measurement equipment, including products supporting the AMPS, TDMA, NAMPS, ETACS and GSM air interfaces. Summary operating results for Comarco Wireless Technologies, Inc., the Company's wireless communications products subsidiary, are as follows:

	Quarter Ended April 30, 1996	Quarter Ended April 30, 1995
	-----	-----
Revenues	\$4,058,000	\$2,977,000
Cost of product sales	1,504,000	1,240,000
	-----	-----
Gross income	2,554,000	1,737,000
Gross income percentage	62.9%	58.3%
Indirect costs*	1,452,000	1,099,000
	-----	-----
Operating income	\$1,102,000	\$ 638,000
	=====	=====

\*Indirect costs include selling, general, and administrative expenses as well as research and development expenses.

The increased gross income percentage is due to the incremental benefit of spreading the fixed costs of operations over a larger activity base. In the first quarter of Fiscal Year 1997, the gross income percentage increased to 62.9% of revenues from 58.3% of revenues for the comparable period of the prior fiscal year.

The increase in indirect costs of 32.1% for the first quarter of Fiscal Year 1997 over the comparable period of the prior fiscal year is a result of the increase in revenues as well as an increase in research and development expenses. Selling, general and administrative expenses increased 31% from the first quarter of Fiscal Year 1996 to the first quarter of Fiscal Year 1997, while research and development expenses increased 38% to \$295,000 from the first quarter of Fiscal Year 1996 to the first quarter of Fiscal Year 1997.

Operating income as a percentage of revenues is 27.2% for the first quarter of Fiscal Year 1997, compared to 21.4% for the comparable period of the prior fiscal year. This increase is primarily due to the increased gross income percentage, as discussed above.

As part of its product development program, the Company is continuing its software product development program in its wireless communications products business. In accordance with Financial Accounting Standard No. 86, Accounting for the Costs of Computer Software

to be Sold, Leased, or Otherwise Marketed, the Company capitalized \$400,000 and \$300,000, respectively, during the first quarters of Fiscal Years 1997 and 1996, respectively. Corresponding amounts amortized were \$325,000 and \$275,000, respectively. The Company's future product prospects will depend in part on its ability to enhance the functionality of its existing products in a timely and cost-effective manner and to identify, develop, and achieve market acceptance of new products. There can be no assurance that the Company will be able to respond to technological advances, changes in customer requirements, or changes in regulatory requirements or industry standards, and any significant delays in development, introduction or shipment of products, or achievement of acceptable product costs, could have a material adverse effect on the Company's business, operating results and financial condition.

The Company's orders for wireless communications products totalled \$1.9 million for the first quarter of Fiscal Year 1997, down from \$3.5 million from the comparable prior period. For the twelve month periods ended April 30, 1996 and 1995, orders received were \$14.9 million and \$12.3 million, respectively. Because of the long sales cycle involved in selling these products and the high unit sales price, the Company believes that orders are best analyzed by looking at a twelve month time period, as orders can fluctuate significantly from quarter to quarter. The value of unfilled orders at April 30, 1996 totalled \$1.4 million. An additional \$1.4 million of deferred revenue has been recorded for anticipated customer warranty obligations.

The Company has experienced fluctuations in wireless communications products activity in each of the past three years, with greater sales in the second half of its fiscal year and lesser amounts in the first half. This trend may or may not continue as the Company broadens its product offerings. The nature of the wireless communications products business is inherently less predictable (than the Company's traditional Government contracting business) as the Company will normally not have a significant amount of unfilled orders at the end of a period. Therefore, the amount of orders, sales levels, and profits are more difficult to predict and may fluctuate significantly from quarter to quarter.

The Company faces additional risk factors in developing its wireless communications products business, including: foreign marketing, capital requirements, technical requirements, employees, competition, and proprietary information. A negative impact to any of these risk factors could have a material adverse effect on the Company's business, operating results, and financial condition. Foreign marketing risks include: the need for export licenses; tariffs and other potential trade restrictions (including the need to be ISO 9000 certified); and changes in laws governing the imposition of duties, quotas, taxes, or other charges relating to the import or export of its products. Other companies having a presence or doing business overseas may have advantages over the Company in these areas. Certain components used by the Company in its existing products are only available from single or a limited number of suppliers, and the inability by any of these suppliers to fulfill Company requirements may result in an interruption in production. Access to technical design of air interface devices is essential for the Company to anticipate and develop compatible wireless communications products, therefore, the inability to obtain such technical designs on a timely basis would have a direct impact on product design and schedule. The Company's future success also depends in large part on the continued service of its key personnel, and on its ability to continue to attract and retain qualified employees, especially highly skilled engineers, for whom competition in the industry is intense. In addition, the ability of the Company to compete successfully depends upon a number of factors, including the rate at which customers accept the Company's products in overseas markets, product quality and performance, experienced sales and marketing personnel, rapid development of new products and features, evolving industry standards, and the number and nature of the Company's competitors. There can be no assurance that the Company will be able to compete successfully in the future. The Company relies on a combination of trade secrets, copyrights, trademarks, and contractual rights to protect its intellectual property. There can be no assurance that the steps taken by the Company will be adequate to protect of its technology; in addition, the laws of certain foreign countries in which the Company's products may be sold do not protect the Company's intellectual property rights to the same extent as do the laws of the United States.

### **Government Contracting and Other Revenue**

Revenues provided by the Company's traditional Government contracting services business area decreased 14.0%, from \$14.3 million in the first quarter of Fiscal Year 1996 to \$12.3 million in the first quarter of Fiscal Year 1997. Revenues in this business area decreased from 82.7% of the Company's total revenues in the first quarter of Fiscal Year 1996 to 75.0% of the Company's total revenues in the first quarter of Fiscal Year 1997. These decreases are due to the completion of the Company's contract with the Naval Air Warfare Center at China Lake, California, on September 30, 1995. The China Lake contract accounted for approximately 12% of the Company's total operating income and approximately 15% of the Company's total revenue in the first quarter of Fiscal Year 1996. The loss of this contract required the Company to reduce the indirect organization supporting this business in line with the reduced revenue base. The Company's remaining Government contracting revenue increased 6% in the first quarter of Fiscal Year 1997 over the comparable period of the prior fiscal year.

Sales to the U.S. Government as well as to government prime contractors were 53% and 43% of the Company's total revenue during the first quarters of Fiscal Years 1996 and 1997, respectively. In the course of the Company's business, its government contracts are periodically opened for competition. Approximately 26% of the Company's current Government contracting services revenues will either end or will be open for competition during the remainder of Fiscal Year 1997. The Company plans to aggressively compete for all work opened for competition to the extent possible and selectively pursue certain high value Government procurements. As of June 1996, the Company has outstanding proposals valued at approximately \$100 million for recompetition or new efforts with Government agencies. There can be no assurance that the Company will be selected and awarded the work associated with these outstanding proposals. In addition, government agencies may terminate their contracts in whole or in part at their convenience. Government agencies may remove funding previously provided or may not exercise option periods. Therefore, there can be no assurance that the Government will fund the portions of existing contracts that are unfunded, or that the Governmental agencies will exercise any options.

Operating income (revenues less direct costs, indirect costs, and depreciation and amortization) for Government contracting services is down 20.9% from \$676,000 in the first quarter of Fiscal Year 1996 to \$535,000 in the first quarter of Fiscal Year 1997. The reduced operating income is due to the operating loss incurred by the Company's software products line in the first quarter of Fiscal Year 1997, and the impact of the completion of the China Lake contract. The operating loss for the Company's software products line is due to a concerted effort on the

Company's part to complete a comprehensive repositioning of the CASE tool products. The upgraded product was released on February 29, 1996. Because of the long sales cycle involved in selling the Company's software products, the Company believes that the receipt of orders for the upgraded product will occur over an extended period of time. In addition to completing the software tooling project, the Company took other steps to reorganize this product line during the latter part of Fiscal Year 1996, including having this software products group report to the government business organization.

### New Accounting Standards

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of ("Statement 121"). Statement 121 requires that the Company review its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. To the extent that the future undiscounted net cash flows expected to be generated from an asset are less than the carrying amount of the asset, an impairment loss is recognized based on the difference between the asset's carrying amount and its fair market value. The Company adopted Statement 121 as of February 1, 1996. The adoption of Statement 121 did not have a material impact on the Company's financial condition or results of operations.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-based Compensation ("Statement 123"). Statement 123 recommends, but does not require, the adoption of a fair value based method of accounting for stock-based compensation of employees, including common stock options. Statement 123 requires a fair value based method of accounting for stock-based compensation to individuals other than employees. The Company currently intends to continue recording stock-based compensation to employees under the intrinsic value method and does not intend to adopt the fair value based method of accounting for stock-based compensation to employees as permitted by Statement 123. Certain pro forma disclosures will be required in the Company's financial statements for the year ending January 31, 1997 as if the fair value based method had been adopted.

#### (b) Financial Condition

The Company signed a loan agreement with a bank effective September 26, 1994, which was amended effective September 26, 1995. The loan agreement consists of (1) an \$8 million revolving credit facility, which expires June 30, 1997, and (2) a \$5 million guidance line of credit, which expires June 30, 1996. The revolving credit facility and the guidance line of credit are unsecured provided that the Company maintains certain covenants. Currently, management anticipates that cash flow will remain at a level which will enable the Company to avoid utilizing the credit facility except to support letters of credit and acquisition financing, and that the Company will be able to purchase investments on a regular basis. The Company's cash and investment balances averaged \$15 million (includes highly liquid long-term investments with maturities of 12 to 36 months) during the first quarter of Fiscal Year 1997. However, maintaining such cash balances is predicated on the Company maintaining its business base and is subject to the cost of financing new contracts, acquisitions, and software product development costs.

During the first quarter of Fiscal Year 1997, the Company's average days' sales in accounts receivable have remained steady from the prior fiscal year's levels, at approximately 41 days.

Several additional key factors indicating the Company's financial condition include:

	April 30, 1996 -----	January 31, 1996 -----
Current ratio	3.41	3.09
Working capital	\$ 16,653,000	\$ 16,049,000
Debt to equity	0	0
Book value per share	\$4.86	\$4.62

The Company continues to demonstrate improvements in the above financial factors during the first quarter of Fiscal Year 1997, primarily due to increased operating margins from increased sales of wireless communications products.

The Company has a significant commitments for capital expenditures at April 30, 1996 for Comarco Wireless Technologies, Inc. The Company has developed and intends to continue to develop new product line extensions for the wireless communications industry. This product development program is expected to be funded from the Company's current working capital. Under the software development portion of the Company's product development program, the Company capitalized and amortized in accordance with Financial Accounting Standard No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed, \$400,000 and \$325,000, respectively, in the first quarter of Fiscal Year 1997.

The Company's Board of Directors has authorized a stock re-purchase program of up to 1,000,000 shares. As of April 30, 1996, the Company has re-purchased and retired approximately 796,000 shares. The average price paid per share re-purchased under the program was \$4.75.

The Company redeemed the remaining \$844,000 of outstanding convertible subordinated debentures in accordance with the provisions of the debenture agreement on April 15, 1995.

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the

amount of ultimate liability with respect to these actions will not materially affect the financial condition of the Company.

The Company believes that its cash flow from operations and available bank borrowings will be sufficient to satisfy the current and anticipated capital requirements for operations. The Company anticipates that it will be able to renew each of the credit facilities under its loan agreement for an additional one year period during June 1996.

**PART II - OTHER INFORMATION**

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits

The following exhibits are included herewith:

II. Schedule of Computation of Net Income Per Share

(b) Reports on Form 8-K

None.

**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.

**COMARCO, Inc.**  
(Registrant)

June 5, 1996

**THOMAS P. BAIRD**

Thomas P. Baird Chief Financial Officer

(Authorized Officer and Principal Financial Officer)

Exhibit 11  
SCHEDULE OF COMPUTATION OF NET INCOME PER SHARE

	Quarter Ended	
	April 30, 1996	April 30, 1995
PRIMARY		
Net income	\$ 1,102,000	\$ 838,000
Less - net income allocated to subsidiary dilutive stock options outstanding	(53,000)	(13,000)
	-----	-----
Net income used in calculation of primary income per share	\$ 1,049,000	\$ 825,000
	=====	=====
Weighted average number of common shares outstanding during the period	4,715,000	4,603,000
Add - common equivalent shares (determined using the "treasury stock" method) representing shares issuable upon exercise of stock options	366,000	326,000
	-----	-----
Weighted average number of shares used in calculation of primary income per share	5,081,000	4,929,000
	=====	=====
Primary income per common share	\$ .21	\$ .17
	=====	=====
FULLY DILUTED		
Net income used in calculation of primary income per share	\$ 1,049,000	\$ 825,000
	=====	=====
Weighted average number of common shares outstanding during the period	4,715,000	4,603,000
Add - common equivalent shares (determined using the "treasury stock" method) representing shares issuable upon exercise of stock options	368,000	368,000
	-----	-----
Weighted average number of shares used in calculation of fully diluted income per share	5,083,000	4,971,000
	=====	=====
Fully diluted income per common share	\$ .21	\$ .17
	=====	=====

## ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	JAN 31 1997
PERIOD END	APR 30 1996
CASH	11,232
SECURITIES	3,568
RECEIVABLES	7,719
ALLOWANCES	0
INVENTORY	1,737
CURRENT ASSETS	23,566
PP&E	1,254
DEPRECIATION	0
TOTAL ASSETS	30,427
CURRENT LIABILITIES	6,913
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	472
OTHER SE	22,469
TOTAL LIABILITY AND EQUITY	30,427
SALES	4,456
TOTAL REVENUES	16,408
CGS	2,375
TOTAL COSTS	14,783
OTHER EXPENSES	4,023
LOSS PROVISION	0
INTEREST EXPENSE	(153)
INCOME PRETAX	1,778
INCOME TAX	676
INCOME CONTINUING	1,102
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,102
EPS PRIMARY	.21
EPS DILUTED	.21

NOTE-RECEIVABLES AND PP&E VALUES REPORTED REPRESENT NET AMOUNTS.

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**End of Filing**

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