

BARRISTER GLOBAL SERVICES NETWORK INC

Form 10-Q

August 08, 2001

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**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C.**

**FORM 10-Q**

**Quarterly Report Under Section 13 or 15(d)  
of the Securities Exchange Act of 1934**

For Quarter Ended June 30, 2001

Commission File Number 0-14063

**BARRISTER GLOBAL SERVICES NETWORK, INC.**

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation of organization)

290 Ellicott Street, Buffalo, New York  
(Address of principal executive offices)

16-1176561  
(I.R.S. Employer  
Identification No.)

14203  
(Zip Code)

Registrant's telephone number, including area code (716) 845-5010

Not Applicable

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Former name, former address and former fiscal year, if changed since last report.)

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     

| Class                  | Outstanding at July 27, 2001 |
|------------------------|------------------------------|
| Common \$.24 Par Value | 11,944,963 Shares            |

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**BARRISTER GLOBAL SERVICES NETWORK, INC.**

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(In thousands)

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respectively) Accounts  
payable462609Accrued  
compensation and  
benefits361484Customer  
advances and unearned  
revenue537732Other  
accrued expenses60148

Total current  
liabilities1,8582,397

**Long-term debt,  
excluding current  
installments**(\$169 and  
\$274 to a related party,  
respectively)238355**Stockholders  
equity** :Preferred  
stock Common stock,  
\$.24 par  
value2,8672,867Additional  
paid-in  
capital23,02823,028Accumulated  
deficit(20,475)(20,432)

Total stockholders  
equity5,4205,463

\$7,516\$8,215

*See accompanying notes to financial statements*

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### **BARRISTER GLOBAL SERVICES NETWORK, INC. STATEMENTS OF OPERATIONS** (unaudited) (In thousands, except per share amounts)

|                 | Three months ended |                 |
|-----------------|--------------------|-----------------|
|                 | June 30<br>2001    | June 30<br>2000 |
| <b>Revenues</b> | \$3,043            | \$2,400         |

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**Costs and expenses:**Cost of  
services2,2721,788Selling,  
general and administrative  
expenses889750

**Operating loss**(118)(138)

**Interest expense**  
**(income):**Related  
party1221Other(62)(37)

Total interest(50)(16)

**Net loss from continuing  
operations before income  
taxes**(68)(122)Income tax  
benefit(25)(45)

**Net loss from continuing  
operations**(43)(77)**Discontinued  
operations:**Gain on sale of  
discontinued operations, net  
of income taxes of  
\$1,697 1,778

**Net  
(loss) earnings**\$(43)\$1,701

**Basic and diluted earnings  
(loss) per common  
share:**Continuing  
operations\$.00\$(.01)Discontinued  
operations.00.15

Total\$.00\$.14

Weighted average number of  
common shares  
outstanding:Basic and  
diluted11,94511,875

*See accompanying notes to financial statements.*

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STATEMENT OF STOCKHOLDERS' EQUITY**

(unaudited)

(In thousands, except share data)

|                             | <b>Common<br/>stock</b> | <b>Additional<br/>paid-in<br/>capital</b> | <b>Accumulated<br/>deficit</b> | <b>Total</b> |
|-----------------------------|-------------------------|-------------------------------------------|--------------------------------|--------------|
| Balance at March 31, 2001   | \$ 2,867                | \$ 23,028                                 | \$(20,432)                     | \$ 5,463     |
| Net loss (43)(43)           |                         |                                           |                                |              |
|                             |                         |                                           |                                |              |
|                             |                         |                                           |                                |              |
|                             |                         |                                           |                                |              |
| Balance at June 30,<br>2001 | \$2,867                 | \$23,028                                  | \$(20,475)                     | \$5,420      |
|                             |                         |                                           |                                |              |
|                             |                         |                                           |                                |              |
|                             |                         |                                           |                                |              |
|                             |                         |                                           |                                |              |

Common stock 11,944,963 shares issued and outstanding at June 30, 2001 and March 31, 2001.

*See accompanying notes to financial statements.***Table of Contents****BARRISTER GLOBAL SERVICES NETWORK, INC.  
STATEMENTS OF CASH FLOWS**

(unaudited)

(In thousands)

|                                       | <b>Three months<br/>ended</b> |                             |
|---------------------------------------|-------------------------------|-----------------------------|
|                                       | <b>June<br/>30<br/>2001</b>   | <b>June<br/>30<br/>2000</b> |
| Cash flows from operating activities: |                               |                             |

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Net  
 (loss) earnings\$(43)\$1,701Adjustments  
 to reconcile net  
 earnings (loss) to net  
 cash used by  
 operating  
 activities:Gain on sale  
 of discontinued  
 operations (3,475)Deferred  
 income  
 taxes 812Depreciation4131Changes  
 in current assets and  
 liabilities:Accounts  
 receivable446(309)Service  
 parts  
 inventories7460Prepaid  
 expenses(17)(27)Accounts  
 payable(147)(625)Accrued  
 compensation and  
 benefits(123)(336)Customer  
 advances and  
 unearned  
 revenues(195)(33)Other  
 accrued  
 expenses(88)825

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Net cash used by  
 operating  
 activities(52)(1,376)

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### **Cash flows from investing**

**activities:**Additions to  
 equipment and  
 leasehold  
 Improvements(36)(26)Proceeds  
 from sale of  
 discontinued  
 operations 6,623Maturity  
 of  
 investments2,784 Purchases  
 of investments and  
 marketable  
 securities(1,263)(3,013)Other  
 assets(3)1

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Net cash provided by  
 investing  
 activities1,4823,585

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### **Cash flows from financing**

**activities:**Repayment  
 of  
 debt(103)(633)Proceeds  
 from sale of common

stock 14

Net cash used by  
financing  
activities(103)(619)

Net increase in cash  
and equivalents from  
continuing  
operations1,3271,590Net  
increase in cash from  
discontinued  
operations 40

**Net increase in cash  
and  
equivalents1,3271,630Cash  
and equivalents at  
beginning of  
period1,104161**

**Cash and  
equivalents at end of  
period\$2,431\$1,791**

**Supplemental  
disclosure of cash  
flow  
information:Interest  
paid\$16\$43**

*See accompanying notes to financial statements.*

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### **BARRISTER GLOBAL SERVICES NETWORK, INC. NOTES TO FINANCIAL STATEMENTS**

1. In the opinion of Management, the accompanying financial statements present fairly the financial position, results of operations and cash flows for the periods shown. The first quarter results for each year represent operations for the quarters ended June 30, 2001 and June 30, 2000. The financial data included herein was compiled in accordance with the same accounting policies applied to the Company's audited annual financial statements. Any adjustments made were of a normal recurring nature.



The results of operations for the three month period ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year.

2. Cash and equivalents consist of cash and liquid debt instruments with maturity of three months or less from the date of purchase. Cash and equivalents are stated at cost plus accrued interest, which approximates market value. Short-term investments and marketable securities are classified as held-to-maturity securities based on the Company's ability and intent to hold the securities until maturity. The securities are recorded at amortized cost adjusted for the accretion of discounts or cost plus accrued interest. Short-term investments consist of certificates of deposits and corporate debt instruments. Marketable securities consist of mortgage-backed securities and are expected to mature in less than two years.

3. On May 5, 2000, the Company sold substantially all of the assets of the Company's software business to Keystone Solutions US, Inc. ( "Keystone" ), a wholly owned subsidiary of Keystone Software PLC. The Company has agreed to indemnify Keystone with respect to any breach of its representations and warranties (subject to a \$50,000 basket and a cap of the purchase price paid) or any breach of any covenant of the Company contained in the Asset Purchase Agreement. The Company has also agreed to indemnify Keystone with respect to claims or actions pending at or arising after the closing date (May 5, 2000) that relate to the operation of the software business prior to that date.

The pre-tax net gain on the sale of the software business recorded in the first quarter of the prior year was \$3,475,000. The net gain less applicable income taxes (see note 4) is shown in the statements of operations under the caption discontinued operations.

4. The income tax benefit recorded in each of the comparable quarters on the net loss from continuing operations approximated the statutory tax rate. No additional tax benefits were established in the statements of operations for the comparable first quarters, since the Company has fully reserved for the tax effect of net deductible temporary differences and loss carryforwards. These benefits will be recorded in future periods as they are realized or as their realization becomes predictable.

The income tax provision associated with the gain from the sale of the software business (see note 3) is higher than the statutory tax rate since goodwill valued at \$986,000 on the books had a zero basis for tax purposes. The provision includes current taxes of \$897,000 and deferred taxes of \$800,000. The deferred taxes resulted from the use of tax loss

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carryforwards from prior years, the reversal of temporary differences between book and tax on the assets sold, and the temporary difference created by the treatment of a portion of the proceeds which were held in escrow.

5. The Company has adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" beginning April 1, 2001. SFAS No. 133 requires all derivatives to be recorded on the balance sheet at fair value and establishes new accounting rules for hedging instruments. The Company does not enter into hedging transactions or acquire derivative instruments, accordingly, SFAS No. 133 had no impact on the financial statements.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Financial Condition**

Cash and equivalents, short-term investments and marketable securities totaled \$4,163,000 at June 30 2001 and \$4,357,000 at March 31, 2001. The net decrease of \$194,000 was primarily a result of debt repayments of \$103,000, net cash used by operating activities of \$52,000 and additions to equipment and leasehold improvements of \$36,000.

The principal cash requirements expected for fiscal 2002 are additions to equipment and leasehold improvements which are expected to increase over amounts spent in prior years if an anticipated move of the Company's headquarters takes place. The Company has entered into a lease agreement to move in the second half of fiscal 2002. The agreement is subject to a number of contingencies which could result in a delay of the move or the Company seeking alternative sites. Debt repayments for fiscal 2002 should approximate \$424,000. The Company's cash and short term investments will be sufficient to cover working capital, capital expenditure requirements and debt repayments in fiscal 2002.

**Results of Operations**

For the quarter ended June 30, 2001, revenues increased approximately 26.8% from the same quarter in 2000. This increase resulted from growth in revenues from hardware maintenance contracts and from services provided on a time and materials basis. Revenues from hardware maintenance contracts grew to \$2,283,000, an increase of 25.4% from the first quarter of the prior year, based on the capture of new business during the prior year, primarily through the Company's reseller channel. However, non-renewals of contracts in the first quarter of the current year, particularly one large contract, exceeded new contracts sold in that quarter. Management expects that new business will exceed non-renewals in future quarters. For the comparative first quarters, time and material services increased by 36.2% to a total of \$745,000. The principal reason for the increase was business generated from a new customer obtained from a reseller that started in April, 2001 and the continuation of services outsourced by a direct customer which commenced in the second half of the previous year.

The cost of services as a percentage of revenues remained approximately the same for the comparable first quarters, amounting to 74.7% for the first quarter of the current year compared to 74.5% for the first quarter of the prior year.

Selling, general and administrative expenses were 29.2% of revenues for the first quarter of this year compared to 31.3% for the comparative quarter last year. This decrease resulted from the growth in revenues for the comparable first quarters without a commensurate growth in general and administrative expenses. Certain of these expenses that were incurred in the first quarter of the prior year, prior to the sale of the software business of the Company to Keystone Solutions US, Inc. in May 2000, were reduced after the sale.

Interest income was earned in the first quarter of the prior year based on income received on the investment of the net proceeds from the sale of the software business in May, 2000. These proceeds were also used to pay certain outstanding interest bearing debt of the Company. The increase in interest income for the first quarter of the current year resulted from the investment earnings on the proceeds from the sale of the software business for the full

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quarter. The Company expects lower amounts of interest income in future quarters since interest rates have dropped and the majority of the Company's investments are short term.

The income tax benefit recorded in each of the comparable quarters on the net loss from continuing operations approximated the statutory tax rate. No additional tax benefits were established in the statements of operations for the comparable first quarters, since the Company has fully reserved for the tax effect of net deductible temporary differences and loss carryforwards. These benefits will be recorded in future periods as they are realized or as their realization becomes predictable.

The pre-tax net gain on discontinued operations recognized in the first quarter of the prior year is based on the sale of the Company's software business to Keystone on May 5, 2000. The income tax provision associated with the gain from the sale of the software business is higher than the statutory tax rate since goodwill valued at \$986,000 on the books had a zero basis for tax purposes. The provision includes current taxes of \$897,000 and deferred taxes of \$800,000. The deferred taxes resulted from the use of tax loss carryforwards from prior years, the reversal of temporary differences between book and tax on the assets sold and the temporary difference created by the treatment of a portion of the proceeds which were held in escrow.

**Forward-Looking Statement**

When used in this report, the words "expects", "believes" and "intends" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrences of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company which attempt to advise interested parties of the factors which affect the Company's business in the Company's periodic reports on Form 10K and 10Q filed with the Securities and Exchange Commission.

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**PART II. OTHER INFORMATION**

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

- (a) Exhibits: None
- (b) Reports on Form 8-K: None

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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.

**BARRISTER GLOBAL SERVICES NETWORK, INC.**

Date: August 7, 2001

By: /s/ Henry P. Semmelhack

Henry P. Semmelhack  
President  
and  
Chief Executive Officer

Date: August 7, 2001

By: /s/ Richard P. Beyer

Richard P. Beyer  
Vice President, Finance  
(Principal Financial Officer)