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KRONOS INC  
Form 10-Q  
May 11, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

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 0-20109

Kronos Incorporated

(Exact name of registrant as specified in its charter)

Massachusetts

04-2640942

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

297 Billerica Road, Chelmsford, MA 01824

(Address of principal executive offices) (Zip Code)

(978) 250-9800

(Registrant's telephone number, including area code)

(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

As of April 28, 2001, 12,492,652 shares of the registrant's Common  
Stock, \$.01 par value, were outstanding.

KRONOS INCORPORATED

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

KRONOS INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except share and per share amounts)  
UNAUDITED

|                | Three Months Ended |                  |               |
|----------------|--------------------|------------------|---------------|
|                | March 31,<br>2001  | April 1,<br>2000 | March<br>2000 |
|                | -----              | -----            | -----         |
| Net revenues:  |                    |                  |               |
| Product .....  | \$ 32,368          | \$ 32,091        | \$            |
| Service .....  | 34,705             | 29,735           |               |
|                | -----              | -----            | -----         |
|                | 67,073             | 61,826           | 1             |
|                | -----              | -----            | -----         |
| Cost of sales: |                    |                  |               |
| Product .....  | 8,024              | 7,566            |               |
| Service .....  | 19,746             | 17,000           |               |

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|  |            |            |      |
|--|------------|------------|------|
|  | 27,770     | 24,566     |      |
| Gross profit .....                                       | 39,303     | 37,260     |      |
| Operating expenses and other income:                     |            |            |      |
| Sales and marketing .....                                | 24,560     | 22,415     |      |
| Engineering, research and development .....              | 8,416      | 7,573      |      |
| General and administrative .....                         | 4,476      | 4,290      |      |
| Amortization of intangible assets .....                  | 1,853      | 1,587      |      |
| Other income, net .....                                  | (1,559)    | (1,708)    |      |
| Special charge .....                                     | 2,991      | --         |      |
|  | 40,737     | 34,157     |      |
| Income before income taxes .....                         | (1,434)    | 3,103      |      |
| Income tax (benefit)provision.....                       | (502)      | 1,148      |      |
| Net (loss) income .....                                  | \$ (932)   | \$ 1,955   | \$   |
| Net (loss) income per common share:                      |            |            |      |
| Basic .....  | \$ (0.07)  | \$ 0.16    | \$   |
| Diluted .....  | \$ (0.07)  | \$ 0.15    | \$   |
| Average common and common equivalent shares outstanding: |            |            |      |
| Basic .....  | 12,498,446 | 12,515,139 | 12,4 |
| Diluted .....  | 12,498,446 | 13,162,020 | 12,8 |

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except share and per share amounts)  
UNAUDITED

|  | March 31,<br>2001 | S     |
|--|-------------------|-------|
| ASSETS   |                   |       |
| Current assets:  |                   |       |
| Cash and equivalents .....   | \$ 11,989         | \$ 23 |
| Marketable securities .....  | 39,378            | 10    |
| Accounts receivable, less allowances of \$7,140<br>at March 31, 2001 and \$6,986 at September 30, 2000 ..... | 57,887            | 71    |
| Deferred income taxes .....  | 6,853             | 5     |
| Other current assets .....   | 15,742            | 13    |
| Total current assets .....   | 131,849           | 125   |
| Property, plant and equipment, net .....   | 36,278            | 37    |
| Marketable securities .....  | 14,700            | 17    |
| Excess of cost over net assets of businesses acquired, net .....   | 28,250            | 29    |

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|  |            |        |
|--|------------|--------|
| Deferred software development costs, net ..... | 15,199     | 13     |
| Other assets .....                             | 14,906     | 16     |
|  | -----      | -----  |
| Total assets .....                             | \$ 241,182 | \$ 239 |
|  | =====      | =====  |

LIABILITIES AND SHAREHOLDERS' EQUITY

|   |            |        |
|---|------------|--------|
| Current liabilities:  |            |        |
| Accounts payable .....  | \$ 6,838   | \$ 8   |
| Accrued compensation .....  | 20,523     | 19     |
| Accrued expenses and other current liabilities .....  | 12,692     | 14     |
| Deferred professional service revenues .....  | 24,224     | 23     |
| Deferred maintenance revenues .....   | 50,844     | 48     |
|   | -----      | -----  |
| Total current liabilities .....   | 115,121    | 114    |
| Deferred maintenance revenues .....   | 13,158     | 15     |
| Other liabilities .....   | 1,612      | 1      |
| Shareholders' equity:   |            |        |
| Preferred Stock, par value \$1.00 per share: authorized 1,000,000 shares,<br>no shares issued and outstanding .....                               | --         |        |
| Common Stock, par value \$.01 per share: authorized 20,000,000 shares,<br>12,634,728 shares issued at March 31, 2001 and September 30, 2000 ..... | 126        |        |
| Additional paid-in capital .....  | 18,415     | 23     |
| Retained earnings .....   | 99,700     | 97     |
| Accumulated other comprehensive loss .....  | (1,501)    | (1     |
| Cost of Treasury Stock (146,028 shares and 310,038<br>shares at March 31, 2001 and September 30, 2000, respectively) .....                        | (5,449)    | (12    |
|   | -----      | -----  |
| Total shareholders' equity .....  | 111,291    | 107    |
|   | -----      | -----  |
| Total liabilities and shareholders' equity .....  | \$ 241,182 | \$ 239 |
|   | =====      | =====  |

See accompanying notes to condensed consolidated financial statements.

KRONOS INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
UNAUDITED

|  |            |
|--|------------|
|  | Six Months |
|  | -----      |
|  | March 31,  |
|  | 2001       |
|  | -----      |
| Operating activities:  |            |
| Net income .....   | \$ 1,856   |
| Adjustments to reconcile net income to net cash and equivalents<br>provided by operating activities: |            |
| Depreciation .....   | 3,862      |
| Amortization of excess of cost over net assets of businesses acquired                                | 3,587      |
| Amortization of deferred software development costs .....  | 4,071      |
| Provision for deferred income taxes .....  | (1,051)    |
| Changes in certain operating assets and liabilities:   |            |
| Accounts receivable, net .....   | 13,077     |

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|   |           |
|---|-----------|
| Deferred maintenance revenue .....  | (1,540)   |
| Accounts payable, accrued compensation<br>and other liabilities .....                 | (1,388)   |
| Long term investment in leases .....  | 2,214     |
| Non cash portion of special charge .....  | 1,253     |
| Other .....   | (1,734)   |
| Tax benefit from exercise of stock options .....                                      | 2,304     |
|   | -----     |
| Net cash and equivalents provided by operating activities ....                        | 26,511    |
| <br>Investing activities:   |           |
| Purchase of property, plant and equipment .....                                       | (3,045)   |
| Capitalization of software development costs .....                                    | (5,838)   |
| (Increase)decrease in marketable securities .....                                     | (25,838)  |
| Acquisitions of businesses, net of cash acquired .....                                | (2,056)   |
|   | -----     |
| Net cash and equivalents used in investing activities .....                           | (36,777)  |
| <br>Financing activities:   |           |
| Net proceeds from exercise of stock option and employee stock<br>purchase plans ..... | 5,964     |
| Purchase of treasury stock .....  | (6,453)   |
| Proceeds from sale of put options .....   | --        |
|   | -----     |
| Net cash and equivalents used in financing activities .....                           | (489)     |
| <br>Effect of exchange rate changes on cash and equivalents .....                     | (457)     |
|   | -----     |
| Decrease in cash and equivalents .....  | (11,212)  |
| Cash and equivalents at the beginning of the period .....                             | 23,201    |
|   | -----     |
| Cash and equivalents at the end of the period .....                                   | \$ 11,989 |
|   | =====     |

See accompanying notes to condensed consolidated financial statements.

### KRONOS INCORPORATED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### NOTE A - General

The accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring accruals, that management considers necessary for a fair presentation of the Company's financial position and results of operations as of and for the interim periods presented pursuant to the rules and regulations of the Securities and Exchange Commission. Certain footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures in these financial statements are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the fiscal year ended September 30, 2000. The results of operations for the three and six months ended March 31, 2001 are not necessarily indicative of the results for a full fiscal year. Certain reclassifications have been made in the accompanying consolidated financial statements in order to

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conform to the fiscal 2001 presentation.

NOTE B - Fiscal Quarters

The Company utilizes a system of fiscal quarters. Under this system, the first three quarters of each fiscal year end on a Saturday. However, the fourth quarter of each fiscal year will always end on September 30. Because of this, the number of days in the first quarter (91 days in fiscal 2001 and 93 days in fiscal 2000) and fourth quarter (92 days in fiscal 2001 and 91 days in fiscal 2000) of each fiscal year varies from year to year. The second and third quarters of each fiscal year will be exactly thirteen weeks long. This policy does not have a material effect on the comparability of results of operations between quarters.

NOTE C - Comprehensive Income

For the three and six months ended March 31, 2001 and April 1, 2000 comprehensive income consisted of the following (in thousands):

|   | Three Months Ended |                  | Six Months Ended  |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | March 31,<br>2001  | April 1,<br>2000 | March 31,<br>2001 | April 1,<br>2000 |
| Comprehensive income:   |                    |                  |                   |                  |
| Net (loss) income .....                                       | \$ (932)           | \$ 1,955         | \$ 1,856          | \$ 6,205         |
| Cumulative translation adjustment                             | (666)              | (309)            | (540)             | (309)            |
| Unrealized gains<br>on .....<br>available-for-sale securities | 200                | --               | 405               | --               |
| Total comprehensive (loss) income ...                         | <u>\$ (1,398)</u>  | <u>\$ 1,646</u>  | <u>\$ 1,721</u>   | <u>\$ 5,896</u>  |

Note D - Special Charge

During this fiscal quarter, the Company commenced the shut down of its Crosswinds Technology Group operations located in Santa Cruz, California, which resulted in a \$3.0 million charge to operating income. The charge included \$1.6 million in termination costs, \$1.3 million for the write off of intangible assets and \$.1 million in other costs. At March 31, 2001, the Company recorded a liability associated with the Crosswinds closing of \$1.7 million. The components of this liability are listed below and are expected to be settled within the next twelve months. Approximately 19 employees were effected by this action.

Accrual for special charge (in thousands):

| Description       | Balance at<br>March 31, 2001 |
|-------------------|------------------------------|
| Termination costs | \$1,600                      |
| Other costs ....  | 100                          |

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Total accrual ..       -----  
                               \$1,700  
                               =====

NOTE E - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

|   | Three Months Ended |                  | Six Months Ended  |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | March 31,<br>2001  | April 1,<br>2000 | March 31,<br>2001 | April 1,<br>2000 |
| Net income (in thousands) .....                                   | \$ (932)           | \$ 1,955         | \$ 1,856          | \$ 6,205         |
| Weighted-average shares .....                                     | 12,498,446         | 12,515,139       | 12,433,581        | 12,488,805       |
| Effect of dilutive securities:                                    |                    |                  |                   |                  |
| Put options .....   | --                 | 30,802           | --                | 15,401           |
| Employee stock options .....                                      | --                 | 616,079          | 402,912           | 653,258          |
| Adjusted weighted-average shares<br>and assumed conversions ..... | 12,498,446         | 13,162,020       | 12,836,493        | 13,157,464       |
| Basic earnings per share .....                                    | \$ (0.07)          | \$ 0.16          | \$ 0.15           | \$ 0.50          |
| Diluted earnings per share .....                                  | \$ (0.07)          | \$ 0.15          | \$ 0.14           | \$ 0.47          |

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

Forward Looking Statements

This discussion includes certain forward-looking statements about Kronos' business and its expectations, including statements relating to demand for products and services, revenue growth rates and gross margin, management of dealer channels, future acquisitions and available cash, investments and operating cash flow. Any such statements are subject to risk that could cause the actual results to vary materially from expectations. For a further discussion of the various risks that may affect Kronos' business and expectations, see "Certain Factors That May Affect Future Operating Results" at the end of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Revenues. Revenues for the three and six months ended March 31, 2001 were

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\$67.1 million and \$131.8 million, respectively, as compared to \$61.8 million and \$126.4 million for the comparable periods in the prior year. Revenue growth in the three and six months ended March 31, 2001 were 9% and 4%, respectively, as compared to flat and 10% growth in the comparable periods of the prior year. Beginning in the second quarter of fiscal 2000 Kronos experienced revenue growth rates that were lower than those historically experienced due to a combination of factors including the transitory impact on demand for Kronos products and services as a result of Year 2000 compliance efforts and the elongation of Kronos' sales cycle. The revenue growth rate experienced in the second quarter of fiscal 2001 exceeded the growth rate experienced in the comparable period of the prior year, but continues to be less than growth rates historically experienced. The revenue growth rate experienced in the second quarter of fiscal 2001 compares favorably to the comparable quarter of the prior year principally due to the unusually low growth rate experienced in the second quarter of fiscal 2000. Management believes that demand for Kronos' products and services continues to exist, however, revenue growth rates for the remainder of the year are uncertain given the broad economic downturn and the possibility of companies postponing technology spending.

Product revenues for the quarter increased 1% to \$32.4 million as compared to \$32.1 million and product revenue decline of 21% in the second quarter of fiscal 2000. Product revenues for the first six months of fiscal 2001 declined 3% to \$66.1 million compared to \$68.2 million and product revenue decline of 8% in the first six months of fiscal 2000. The product revenue growth experienced in the second quarter was principally driven by the Kronos' direct sales channel. Product revenues from Kronos' independent dealer channel decreased slightly during the second quarter of fiscal 2001 in comparison to the same quarter of the prior year. Management continues to believe that given the increased sophistication of Kronos' products and the related heightened need for pre-sales technological support and other sales support, the dealer channel's sales cycle requires greater management and participation by Kronos. To address this trend, management anticipates expending greater resources to assist the dealer channel in the short term and increasing Kronos' emphasis on direct sales in the longer term.

Service revenues for the second quarter of fiscal 2001 increased to \$34.7 million as compared to \$29.7 million in the second quarter of fiscal 2000. Service revenues for the first six months of fiscal 2001 were \$65.7 million as compared to \$58.2 million for the first six months of the prior year. Service revenues grew at a rate of 17% and 13% during the three and six month periods ended March 31, 2001, respectively. The growth in service revenues in these periods reflect an increase in maintenance revenue from expansion of the installed base, increased level of services sold to the installed base and, to a lesser extent, incremental maintenance revenues resulting from Kronos' acquisitions of various dealer territories over the past four quarters. The growth in service revenues in the second quarter of fiscal 2001 also reflects an increase in the level of professional services delivered due to more effective management of resources as compared to the same period in the prior year. Service revenues grew at a rate of 41% and 42% in the three and six month periods ended April 1, 2000, respectively. The unusually high service revenue growth rate experienced in these periods is attributable to an increase in maintenance revenue from expansion of the installed base due to the accelerated product revenue growth experienced in fiscal 1999 because of demand for new products and upgrades resulting from customers' Year 2000 compliance efforts. Also contributing to the growth in service revenues in these periods were an increase in the level of maintenance contracts and professional services accompanying new and upgrade sales as well as maintenance and professional service revenues resulting from Kronos' acquisitions, including its largest dealer territory in June 1999.

Gross Profit. Gross profit as a percentage of revenues was 59% and 60% in the three and six month periods ended March 31, 2001, respectively, decreasing



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from 60% and 61% for the comparable periods of the prior year. The decrease in margin was directly attributable to lower product revenues as a percentage of total sales. Service revenue, which generates lower gross margin, has grown faster than product revenue and represents a greater proportion of total revenue in fiscal 2001 than in the comparable period of the prior year. Product gross profit as a percentage of product revenues was 75% and 76% in the three and six month periods ended March 31, 2001, respectively, compared to 76% and 77% in each of the comparable periods in the prior year. Software, which typically generates higher gross profit, was a greater proportion of product revenues in the three and six month periods ended March 31, 2001 as compared to the same periods in prior year. However, higher software development amortization and production costs due to lower sales volume offset the effect of this favorable mix. Service gross profit as a percentage of service revenues was 43% in the three and six month periods ended March 31, 2001 and April 1, 2000. Management anticipates that service gross margin for the remainder of the fiscal year to exceed the gross margin experienced in the second quarter due to its on-going efforts to streamline operations and more effectively utilize its service resources.

**Net Operating Expenses.** Net operating expenses as a percentage of revenues were 61% and 57% for the three and six month periods ended March 31, 2001, respectively, as compared to 55% and 53% for the comparable periods in the prior year. The increase in operating expenses in fiscal 2001, as compared to fiscal 2000, is attributable to increased program and infrastructure costs incurred to support increases in business volume and product development efforts as well as increased amortization of intangible assets related to acquisitions. Sales and marketing expenses as a percentage of revenues were 37% and 36% in the three and six month periods ended March 31, 2001, respectively, as compared to 36% and 35% in the comparable periods of the prior year. Engineering, research and development expenses as a percentage of revenues were 13% and 12% in the three and six month periods ended March 31, 2001 as compared to 12% in the comparable periods of the prior year. Engineering expenses of \$8.4 million and \$7.6 million in the second quarter of fiscal 2001 and 2000, respectively, are net of capitalized software development costs of \$2.8 million and \$2.5 million, respectively. Engineering expenses of \$16.3 million and \$14.6 million in the first six months of fiscal 2001 and 2000, respectively, are net of capitalized software development costs of \$5.5 million and \$4.8 million, respectively. The growth in engineering, research and development expenses this year resulted principally from the continuing research, design and development of software and hardware technology. General and administrative expenses as a percentage of revenues were 7% in the three and six month periods ended March 31, 2001 and April 1, 2000. Amortization of intangible assets as a percentage of revenues was 3% in the three and six month periods ended March 31, 2001 as compared to 3% and 2% in the comparable periods of the prior year. The increase in amortization expense is principally related to various dealer territory acquisitions completed in the past four quarters. Kronos amortizes these costs over the assets estimated remaining economic lives. Other income, net is principally attributable to interest income earned from Kronos' cash as well as investments in its marketable securities and lease portfolio.

**Special Charge.** A special charge in the amount of \$3.0 million related to the termination of Kronos' Crosswinds Technology operations was recorded in the second quarter of fiscal 2001. The Crosswinds Technology Group, which was purchased in May 1999, was responsible for the product development, marketing and sales support of time and attendance applications that operated as a Microsoft Outlook plug in product. Lower than anticipated sales of these applications, redundant infrastructure and ongoing operating losses has resulted in the termination of the stand-alone operating unit. Revenues in the first six months of fiscal 2001 generated by the Crosswinds Technology Group approximated \$0.5 million. The \$3.0 million charge consists of \$1.6 million in termination costs, \$1.3 million for the write off of intangible assets and \$0.1 million in other costs. Cash outlays of approximately \$1.7 million relating to this action

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are anticipated to be paid over the next twelve months. The anticipated pre-tax financial benefit resulting from this action is a cost reduction of approximately \$0.3 million in fiscal 2001 and \$1.2 million annually thereafter, excluding amortization of \$1.3 million over the next three years. In addition, to better align costs with expected revenues for the remainder of fiscal 2001; Kronos anticipates reducing its workforce in the third quarter of this year by 75 to 125 employees or approximately 5%. This is anticipated to result in a third quarter special charge of less than \$1.0 million. As a result of these additional headcount reductions, pre-tax savings attributable to salary and fringe benefits, but excluding other indirect costs, are expected to be \$2.0 million to \$3.0 million for the remainder of fiscal 2001 and \$6.0 million to \$8.0 million annually thereafter.

**Income Taxes.** The income tax benefit and tax provision as a percentage of pretax results were 35% in the three and six month periods ended March 31, 2001, respectively, as compared to a tax provision as a percentage of pretax income of 37% in the comparable periods of the prior year. The lower effective income tax rate experienced in fiscal 2001 was principally attributable to tax benefits resulting from Kronos' investment tax credits. Management anticipates the effective income tax rate for the remainder of the fiscal year will be 35%.

### Liquidity and Capital Resources

Working capital as of March 31, 2001, amounted to \$16.7 million as compared to \$10.7 million at September 30, 2000. During fiscal 2000, working capital was reduced as Kronos funded its investment in its corporate headquarters facility and other property, plant and equipment, as well as the repurchase of common shares under Kronos' stock repurchase program and, to a lesser extent, payments related to acquisitions of dealer territories. Cash and equivalents and marketable securities amounted to \$66.1 million as of March 31, 2001 and \$51.4 million as of September 30, 2000.

Cash generated from operations amounted to \$26.5 million in the first six months of fiscal 2001 as compared to \$23.2 million in the first six months of fiscal 2000. The increase in cash generated from operations is principally attributable to increased collection of accounts receivable from trade customers and the lease portfolio, increased deferred professional services and a smaller decline in accrued compensation partially offset by lower earnings and a reduction in the tax benefit from exercise of stock options as compared to the prior year. Cash used for property, plant and equipment was \$3.0 million in the first six months of fiscal 2001 compared to \$14.2 million in the same period of fiscal 2000. Fiscal 2000 investments in property, plant and equipment were principally related to the construction of Kronos' corporate headquarters campus as well as investments in information systems and infrastructure to improve and support expanded operations. Excess cash reserves not required for operations, investments in property, plant and equipment or acquisitions are invested in marketable securities. Marketable securities increased by \$25.8 million in fiscal 2001 compared to a decrease of \$3.4 million in the first six months of fiscal 2000. Kronos' use of cash for acquisition of businesses in the first six months of fiscal year 2001 was principally related to the acquisition of a dealer territory in November 2000. Kronos is assessing several acquisition opportunities that may be completed over the next six months, although there can be no assurance that these acquisitions will be completed.

Under Kronos' stock repurchase program, Kronos repurchased 135,000 common shares in the first six months of fiscal 2001 at a cost of \$4.9 million compared to 328,500 common shares at a cost of \$15.6 million for the same period in the prior year. The common shares repurchased under the program are used for Kronos' employee stock option plans and employee stock purchase plan. Cash provided by operations was more than sufficient to fund investments in capitalized software development costs, property, plant and equipment and stock repurchases. Kronos believes it has available adequate cash and investments and operating cash flow

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to fund its investments in property, plant and equipment, software development costs, cash payments related to acquisitions, if any, and any additional stock repurchases for the foreseeable future.

### Certain Factors That May Affect Future Operating Results

Except for historical matters, the matters discussed in this Quarterly Report on Form 10-Q are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). Kronos desires to take advantage of the safe harbor provisions of the Act and is including this statement for the express purpose of availing itself of the protection of the safe harbor with respect to all forward looking statements that involve risks and uncertainties.

Kronos' actual operating results may differ from those indicated by forward looking statements made in this Quarterly Report on Form 10-Q and presented elsewhere by management from time to time because of a number of factors including the potential fluctuations in quarterly results, timing and acceptance of new product introductions by Kronos and its competitors, the ability to attract and retain sufficient technical personnel, competitive pricing pressure, the dependence on Kronos' time and attendance product line, and the dependence on alternate distribution channels and on key vendors, as further described below and in Kronos' Annual Report on Form 10-K for the fiscal year ended September 30, 2000, which are specifically incorporated by reference herein.

**Potential Fluctuations in Quarterly Results.** Kronos' quarterly operating results may fluctuate as a result of a variety of factors, including the purchasing patterns of its customers, mix of products and services sold, the timing of the introduction of new products and product enhancements by Kronos and its competitors, market acceptance of new products, competitive pricing pressure and general economic conditions. Kronos historically has realized a relatively larger percentage of its annual revenues and profits in the fourth quarter and a relatively smaller percentage in the first quarter of each fiscal year, although there can be no assurance that this pattern will continue. In addition, while Kronos has contracts to supply systems to certain customers over an extended period of time, substantially all of Kronos' product revenue and profits in each quarter result from orders received in that quarter. If near-term demand for Kronos' products weakens or if significant anticipated sales in any quarter do not close when expected, Kronos' revenues for that quarter will be adversely affected. Kronos believes that its operating results for any one period are not necessarily indicative of results for any future period.

**Product Development and Technological Change.** Continual change and improvement in computer software and hardware technology characterize the markets for frontline labor management systems. Kronos' future success will depend largely on its ability to enhance the capabilities and increase the performance of its existing products and to develop new products and interfaces to third party products on a timely basis to meet the increasingly sophisticated needs of its customers. Although Kronos is continually seeking to further enhance its product offerings and to develop new products and interfaces, there can be no assurance that these efforts will succeed, or that, if successful, such product enhancements or new products will achieve widespread market acceptance, or that Kronos' competitors will not develop and market products which are superior to Kronos' products or achieve greater market acceptance.

**Dependence on Time and Attendance Product Line.** To date, more than 90% of the Kronos' revenues have been attributable to sales of time and attendance systems and related services and Kronos expects that to continue in the next fiscal year. Competitive pressures or other factors could cause Kronos' time and attendance products to lose market acceptance or experience significant price erosion, adversely affecting the results of Kronos' operations.

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Dependence on Alternate Distribution Channels. Kronos markets and sells its products through its direct sales organization, independent dealers and OEMs. In the first six months of fiscal 2001, approximately 13% of Kronos' revenue was generated through sales to dealers and OEMs. A reduction in the sales efforts of Kronos' major dealers and/or OEMs, the termination or changes in their relationships with Kronos, or the failure of Kronos to monitor and incent its independent dealers and OEMs, could have a material adverse affect on the results of Kronos' operations.

Attracting and Retaining Sufficient Technical Personnel for Product Development, Support and Sales. Kronos has encountered intense competition for experienced technical personnel for product development, technical support and sales and expects such competition to continue in the future. Any inability to attract and retain a sufficient number of qualified technical personnel could adversely affect Kronos' ability to produce, support and sell products in a timely manner.

Competition. The frontline labor management industry is highly competitive. Technological changes such as those allowing for increased use of the Internet may also create the potential for new entrants. Although Kronos believes it has core competencies that are not easily obtainable by competitors, maintaining Kronos' technological and other advantages over competitors will require continued investment by Kronos in research and development and marketing and sales programs. There can be no assurance that Kronos will have sufficient resources to make such investments or be able to achieve the technological advances necessary to maintain its competitive advantages. Increased competition could adversely affect Kronos' operating results through price reductions and/or loss of market share.

### PART II. OTHER INFORMATION

#### Item 4. Submission of Matters to a Vote of Security Holders

- (a) The 2001 Annual Meeting of Stockholders of Kronos Incorporated was held on February 8, 2001.
- (b) At the Annual Meeting, Messrs. Richard J. Dumler and Samuel Rubinovitz were elected as Class III Directors for three-year terms expiring in 2004. In addition, the Directors whose terms of office continue after the meeting are two Class I Directors: Messrs. D. Bradley McWilliams and Lawrence Portner and two Class II Directors: Messrs. Mark S. Ain and W. Patrick Decker. The tabulation was as follows:

|                   | FOR        | WITHHELD |
|-------------------|------------|----------|
|                   | ---        | -----    |
| Richard J. Dumler | 11,036,521 | 237,322  |
| Samuel Rubinovitz | 11,035,393 | 238,450  |

- (c) Amendments to the Company's 1992 Equity Incentive Plan and an increase in the number of shares available under the Plan from 3,356,250 to 4,356,250, were approved as follows:

|  | FOR       | AGAINST   | ABSTAIN | BROKER<br>NON VOTES |
|--|-----------|-----------|---------|---------------------|
|  | ---       | -----     | -----   | -----               |
|  | 7,090,296 | 2,505,462 | 161,368 | 1,516,717           |

- (d) The other item voted upon at the meeting was the ratification of the selection of Ernst & Young LLP as the Company's independent auditors

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for the 2001 fiscal year.

| FOR        | AGAINST | ABSTAIN |
|------------|---------|---------|
| ---        | -----   | -----   |
| 11,256,789 | 4,550   | 12,504  |

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the fiscal quarter ended March 31, 2001.

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.

KRONOS INCORPORATED

By /s/ Paul A. Lacy  
Paul A. Lacy  
Vice President of Finance  
and Administration  
(Duly Authorized Officer and  
Principal Financial Officer)

May 11, 2001