

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K/A

IMAGING TECHNOLOGIES CORP/CA
Form 10-K/A
July 03, 2003

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

FORM 10-K/A2

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

COMMISSION FILE NO. 0-12641

[GRAPHIC OMITTED]

IMAGING TECHNOLOGIES CORPORATION
(Exact Name of Registrant as Specified in its Charter)

DELAWARE 33-0021693
(State or Other Jurisdiction of Incorporation or Organization)
(IRS Employer ID No.)

17075 Via Del Campo
San Diego, California 92127
(858) 451-6120
(Address of Principal Executive Offices and Registrant's Telephone Number,
Including Area Code)

Securities registered under Section 12(b) of the Exchange Act: NONE
Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$0.005 par value

Indicate by a 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 by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

At November 15, 2002 the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$757,537 based on the last trade price as reported on the NASD Electronic Bulletin Board. For purposes of this calculation, shares owned by office rs, directors, and 10% shareholders known to the registrant have been excluded. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

At November 15, 2002, there were 92,838,396 shares of the registrant's Common

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K/A

Stock, \$0.005 par value, issued and outstanding.

NOTE: This amendment to the Registrant's Form 10-K/A includes adjustments related to revenue recognition for its professional employer organization (PEO) business segment. Accordingly, the document includes changes on its consolidated statements of operations, the applicable notes to the financial statements, and management's discussion and analysis of operations.

The effect of the reported changes is a reduction in PEO revenues and changes in the allocation of costs. Operating and net loss for the Company are not affected by these changes.

FORWARD-LOOKING STATEMENTS

This document contains some forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements can generally be identified by the use of forward-looking words like "may," "will," "expect," "anticipate," "intend," "estimate," "continue," "believe" or other similar words. Similarly, statements that describe our future expectations, objectives and goals or contain projections of our future results of operations or financial condition are also forward-looking statements. Our future results, performance or achievements could differ materially from those expressed or implied in these forward-looking statements as a result of certain factors, including those listed under the heading "Risk Factors" and in other cautionary statements in this document.

PART II =====

ITEM 1.

RISKS AND UNCERTAINTIES -----

IF OUR FOREIGN ACCOUNTS RECEIVABLE ARE NOT COLLECTIBLE, A NEGATIVE IMPACT ON OUR CONTINUED OPERATIONS AND OVERALL FINANCIAL PERFORMANCE COULD RESULT.

We conduct business globally. Accordingly, our future results could be adversely affected by a variety of uncontrollable and changing factors including: (1) foreign currency exchange fluctuations; (2) regulatory, political or economic conditions in a specific country or region; (3) the imposition of governmental controls; (4) export license requirements; (5) restrictions on the export of critical technology; (6) trade restrictions; (7) changes in tariffs; (8) government spending patterns; (9) natural disasters; (10) difficulties in staffing and managing international operations; and (11) difficulties in collecting accounts receivable.

In addition, the laws of certain countries do not protect our products and intellectual property rights to the same extent as the laws of the United States.

We intend to pursue international markets as key avenues for growth and to increase the percentage of sales generated in international markets. In our 2002, 2001 and 2000 fiscal years, product, software, and licensing sales outside the United States represented approximately 12%, 22%, and 4% of our net sales, respectively. We expect product sales outside the United States to continue to represent a significant portion of our sales. As we continue to expand our international sales and operations, our business and overall financial performance may be adversely affected by the factors stated above.

ITEM 6.

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K/A

SELECTED FINANCIAL DATA

The consolidated statement of operations data with respect to the five years ended June 30, 2002, and the consolidated balance sheet data for those five years at June 30, set forth below are derived from the consolidated financial statements of the Company included in Item 8 below, which have been audited by Boros & Farrington APC, independent accountants (except for the period ended June 30, 2002, which have been audited by Stonefield Josephson, Inc.). The selected consolidated financial data set forth (in thousands, except per share data) should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Item 7 below, and the Company's consolidated financial statements and the notes thereto contained in Item 8 below. Historical results are not necessarily indicative of future results of operations.

STATEMENT OF OPERATIONS DATA:

In thousands (except per share data)

	2002	2001	2000	1999	1998
NET REVENUES					
Sales of products	\$ 3,574	\$ 2,897	\$ 1,634	\$ 16,417	\$ 30,740
Engineering Fees	-	-	-	-	2,327
License fees and royalties	580	555	788	730	1,350
PEO services	3,254	-	-	-	-
Net total revenues	7,408	3,452	2,422	17,147	34,417
COSTS AND EXPENSES					
Cost of products sold	2,868	2,742	5,197	18,015	22,536
Cost of licenses and royalties	99	-	-	-	-
Cost of PEO services	2,389	-	-	-	-
Selling, general, and administrative	12,442	8,720	7,780	13,707	10,269
Research and development	-	250	1,929	2,033	2,475
Special charges	-	-	-	5,181	8,941
	17,778	11,712	14,906	38,936	44,221
INCOME (LOSS) FROM OPERATIONS	(10,390)	(8,260)	(12,484)	(21,789)	(9,804)
NET LOSS	\$ (13,688)	\$ (9,888)	\$ (14,198)	\$ (25,129)	\$ (10,163)
LOSS PER COMMON SHARE					
Basic	\$ (1.12)	\$ (1.51)	\$ (4.05)	\$ (37.60)	\$ (18.00)
Diluted	\$ (1.12)	\$ (1.51)	\$ (4.05)	\$ (37.60)	\$ (18.00)

BALANCE SHEET DATA:

In thousands

	2002	2001	2000	1999	1998
Cash and cash equivalents	\$ 43	\$ 35	\$ 291	\$ 75	\$ 3,023

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K/A

Working Capital	(20,751)	(16,920)	(14,532)	(16,519)	315
Total assets.	1,180	1,212	1,683	7,250	20,961
Long-term obligations	-	-	-	-	1,828
Preferred stock	420	420	420	6,875	420
Total shareholders' deficit	(20,427)	(16,110)	(13,854)	(12,432)	4,604

ITEM 7

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

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We believe the following accounting policies are critical and/or require significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue and direct cost recognition - We account for our revenues in accordance with EITF 99-19. Our PEO segment revenues are derived from our gross billings, which are based on (i) the payroll cost of our worksite employees; and (ii) a markup computed as a percentage of the payroll cost. The gross billings are invoiced concurrently with each periodic payroll of our worksite employees. Revenues are recognized ratably over the payroll period as worksite employees perform their service at the client worksite. Revenues that have been recognized but not invoiced are included in unbilled accounts receivable on our Consolidated Balance Sheets.

Previously, we included both components of our gross PEO billings in revenues (gross method) due primarily to the assumption of significant contractual rights and obligations associated with being an employer, including the obligation for the payment of the payroll costs of our worksite employees. We assume our employer obligations regardless of whether we collect our gross billings. After discussions with the Securities and Exchange Commission staff, we have changed our presentation of revenues from the gross method to an approach that presents our revenues net of worksite employee payroll costs (net method) primarily because we are not generally responsible for the output and quality of work performed by the worksite employees.

In determining the pricing of the markup component of the gross billings, we take into consideration estimates of the costs directly associated with our worksite employees, including payroll taxes, benefits and workers' compensation costs, plus an acceptable gross profit margin. As a result, our operating results are significantly impacted by our ability to accurately estimate, control and manage our direct costs relative to the revenues derived from the markup component of our gross billings.

To conform to the net method, we reclassified worksite employee payroll costs by reducing PEO service revenue and cost of PEO services by \$17.8 million for the year ended June 30, 2002. This reclassification had no effect on gross profit, operating loss, or net loss previously reported.

Consistent with our revenue recognition policy, our direct costs do not include the payroll cost of our worksite employees. Our direct costs associated with our PEO revenue generating activities are comprised of all other costs related to our worksite employees, such as the employer portion of payroll-related taxes, employee benefit plan premiums and workers' compensation insurance premiums.

RESULTS OF OPERATIONS

NET REVENUES

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K/A

Revenues were \$7.4 million, \$3.5 million, and \$2.4 million for the fiscal years ended June 30, 2002, 2001, and 2000, respectively. The increase in total revenues in fiscal 2002 as compared with the prior years was due primarily to revenues associated with the Company's PEO operations.

PEO Services

PEO revenues were \$3.3 million for the year ended June 30, 2002. The Company entered this business segment through acquisitions in November 2001. Consequently, there were no reported PEO revenues in the prior year.

COST OF PRODUCTS SOLD

PEO Services

Cost of PEO services were \$2.4 million (73% of PEO revenues) for the year ended June 30, 2002. The Company began providing these services pursuant to acquisitions in the current fiscal year. Accordingly, there are no comparative results for the prior year periods. (Also see "Risk Factors" related to the Company's PEO business.)

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were \$12.4 million or 168% of total revenues, \$8.7 million or 253% of total revenues, and \$7.8 million or 321% of total revenues, for the fiscal years ended June 30, 2002, 2001, and 2000, respectively. Selling, general and administrative expenses consisted primarily of salaries and commissions of sales and marketing personnel, salaries and related costs for general corporate functions, including finance, accounting, facilities, advertising, and other marketing related expenses. During the year ended June 30, 2002, we took a charge of \$1.9 million related to the write off of goodwill associated with our acquisition of EduAdvantage.com in December 2000 and SourceOne Group in November 2001. The decrease in selling, general and administrative expenses as a percentage of revenues in fiscal 2002 as compared to fiscal 2001 is due primarily to the additional revenues associated with the Company's PEO business. The increase in selling, general and administrative expenses over the past three years was due primarily to increased costs associated with financing the Company, larger write-offs for bad debt, and penalties associated with servicing the Company's debt. Expenses as a percentage of total revenues decreased due primarily to increased sales. The Company was under the management of the court-appointed operational receiver who controlled the operations of the Company for nearly all of fiscal 2000. During this period, the Company vastly cut its overall activities, including manufacturing, engineering, and sales and marketing.

ITEM 8.

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share data)

FOR THE

Revenues

Sales of products	\$
Software sales, licenses and royalties	

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K/A

PEO services	-----
Total revenue.	-----
Costs of revenues	
Cost of products sold.	
Cost of software sales, licenses and royalties	
Cost of PEO services	-----
Total cost of revenues	-----
Operating expenses	
Selling, general, and administrative	
Research and development	-----
Loss from operations.	-----
Other income (expense):	
Interest and finance costs, net.	
Other.	-----
Loss before provision for income taxes.	-----
Provision for income taxes.	-----
Net loss.	
Preferred stock dividends	
Net loss attributed to common shareholders.	\$
	=====
Loss per common shares	
Basic and diluted.	\$
	=====
Weighted average common shares -	
Basic and diluted.	=====

The accompanying notes are an integral part of these consolidated financial statements.

Revenues	
Sales of products.	\$
Software sales, licenses and royalties	
PEO services	-----
Total revenue.	

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K/A

Costs of revenues
 Cost of products sold.
 Cost of software sales, licenses and royalties
 Cost of PEO services
 Total cost of revenues

Operating expenses
 Selling, general, and administrative
 Research and development

Loss from operations.

Other income (expense):
 Interest and finance costs, net.
 Other.

Loss before provision for income taxes.

Provision for income taxes.

Net loss.
 Preferred stock dividends

Net loss attributed to common shareholders. \$

Loss per common shares
 Basic and diluted. \$

Weighted average common shares -
 Basic and diluted.

The accompanying notes are an integral part of these consolidated financial statements.

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2002, 2001, AND 2000

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

 The Company recognizes its revenues associated with its PEO business pursuant to EITF 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent." Previously, the Company reported its worksite employees as a component of direct costs. The Company's revenues are now reported net of worksite employee payroll

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K/A

cost (net method). To conform to the net method, we reclassified worksite employee payroll costs by reducing PEO service revenue and cost of PEO services by \$17.8 million for the year ended June 30, 2002. This reclassification had no effect on gross profit, operating loss, or net loss previously reported.

NOTE 6 ACQUISITIONS/INTANGIBLE ASSETS

The following table presents the unaudited pro forma condensed statement of operations for the years ended June 30, 2002 and 2001 and reflects the results of operations of the Company as if the acquisition of SourceOne had been effective February 1, 2001 (the inception date of SourceOne). The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisition been effective as of that date, or of the anticipated results of operations, due to cost reductions and operating efficiencies that are expected as a result of the acquisition.

	2002	2001
(unaudited)	(unaudited)	
Revenues	\$ 9,462,000	\$ 6,050,000
Cost of revenues	7,149,000	4,983,000
Selling, general, and administrative expenses.	12,830,000	9,206,000
Net loss	13,819,000	10,052,000
Basic loss per share	1.12	1.48

NOTE 10 SEGMENT AND GEOGRAPHIC INFORMATION

During fiscal 2002, the Company managed and internally reported the Company's business as four (4) reportable segments as follows: (1) imaging products and accessories; (2) imaging software; (3) e-commerce; and (4) professional employer organization

During fiscal 2001 the Company only had three reported segments since it acquired the PEO business during fiscal 2002 and during fiscal 2000 it is not practicable to discern revenues and operating results by segment due to the prior organizational structure and accounting systems.

Segment information for the fiscal year ended June 30, 2002 and 2001 was as follows:

	IMAGING PEO BUSINESS	PRODUCTS & ACCESSORIES	IMAGING SOFTWARE	E- COMMERCE	TOTAL
FISCAL YEAR ENDED JUNE 30,	2002				

Selected statement of operations activity:					
Revenues	\$3,254,000	\$ 3,574,000	\$ 580,000	\$ -	\$ 7,408,000
Cost of revenues	2,389,000	2,868,000	99,000	-	5,356,000
Operating income (loss)	194,000	(9,114,000)	(1,470,000)	-	(10,390,000)
Segment assets	\$ 493,000	\$ 591,000	\$ 96,000	\$ -	\$ 1,180,000

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K/A

	2001					

Revenues	\$	-	\$ 1,973,000	\$ 559,000	\$ 920,000	\$ 3,452,000
Operating income (loss)		-	(8,341,000)	387,000	(306,000)	(8,260,000)

Additional information regarding revenue by products and service groups is not presented for the fiscal year ended June 30, 2001 because it is currently impracticable to do so due to various reorganizations of the Company's accounting systems. A comprehensive accounting system was implemented during fiscal 2002 that enables the Company to report such information in the future.

As of and during the years ended June 30, 2002, 2001, and 2000 no customer accounted for more than 10% of consolidated accounts receivable or total consolidated revenues.

Net sales from principal geographic areas were as follows:

	2002	2001	2000
	-----	-----	-----
Europe	\$ 299,000	\$ 82,000	\$ 28,000
Asia	328,000	633,000	23,000
Others	295,000	34,000	41,000
	-----	-----	-----
Total export sales	922,000	749,000	92,000
Domestic sales	6,486,000	2,703,000	2,330,000
	-----	-----	-----
Total sales	\$ 7,408,000	\$ 3,452,000	\$ 2,422,000
	=====	=====	=====

NOTE 14 REVENUE RECOGNITION - PEO SEGMENT

The Company recognizes its revenues associated with its PEO business pursuant to EITF 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent." Previously, the Company reported its worksite employees as a component of direct costs, The Company's revenues are now reported net of worksite employee payroll cost (net method). To conform to the net method, we reclassified worksite employee payroll costs by reducing PEO service revenue and cost of PEO services by \$17.8 million for the year ended June 30, 2002. This reclassification had no effect on gross profit, operating loss, or net loss previously reported.

PART IV
=====

ITEM 14.

EXHIBITS

- 99.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.2 Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K/A

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this amended Annual Report on Form 10-K/A2 to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: July 1, 2003

IMAGING TECHNOLOGIES CORPORATION

By: /s/ BRIAN BONAR

 Brian Bonar
 Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints, Brian Bonar as his attorney-in-fact, each with full power of substitution and resubstitution, for him or her in any and all capacities, to sign any and all amendments to this amended Annual Report on Form 10-K/A2 (including post-effective amendments), and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming that said attorney-in-fact, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this amended Annual Report on Form 10-K/A2 has been signed below by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
-----	-----	-----
/s/ Brian Bonar		

Brian Bonar	Chairman of the Board of Directors and	June 9, 2003
Chief Executive Officer		
/s/ Robert A. Dietrich		

Robert A. Dietrich. . . .	June 9, 2003	
Director		
/s/ Eric W. Gaer		

Eric W. Gaer.	June 9, 2003	
Director		
/s/ Stephen J. Fryer		

Stephen J. Fryer.	June 9, 2003	
Director		
/s/ Richard H. Green. . .	June 9, 2003	

Richard H. Green.	Director	

