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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

or

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

Commission file No. 0-12641

[GRAPHIC OMITED]

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
(Address of principal executive offices)

Registrant's Telephone Number, Including Area Code: (858) 451-6120

Check 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 past 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 [ ]

The number of shares outstanding of the registrant's common stock as of November 22, 2002 was 93,777,896.

This amendment to the Registrant's Form 10-Q 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.

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001

(in thousands, except share data)
(unaudited)

	2002	2001
Revenues		
Sales of products.	$ 486	$ 1,057
Software, licenses and royalties	138	21
PEO services (gross billings of $2,822, less worksite employee payroll costs of $2,430).	392	-
	1,016	1,078
Costs and expenses		
Cost of products sold.	235	598
Cost of licenses and royalties	21	-
Cost of PEO services	142	-
Total cost of revenues	398	598
Operating expenses:		
Selling, general, and administrative	2,053	1,413
Research and development.	-	72
	2,053	1,485
Loss from operations.	(1,435)	(1,005)
Other income (expense):		
Interest and finance costs, net.	(621)	(177)
Other.	4	-
	(617)	(177)
Loss before income taxes.	(2,052)	(1,182)
Income tax benefit (expense).	-	-
Net loss.	$ (2,052)	$ (1,182)
Earnings (loss) per common share		
Basic.	$ (0.08)	$ (0.14)
Diluted.	$ (0.08)	$ (0.14)
Weighted average common shares.	24,662	8,549
Weighted average common shares - assuming dilution.	24,662	8,549

See Notes to Consolidated Financial Statements.

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002
(unaudited)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements of Imaging Technologies Corporation and Subsidiaries (the "Company" or "ITEC") have been prepared pursuant to the rules of the Securities and Exchange Commission (the "SEC") for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles. These financial statements and notes herein are unaudited, but in the opinion of management, include all the adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for the periods presented. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the years ended June 30, 2002, 2001, and 2000 included in the Company's Annual Report on Form 10-K filed with the SEC. Interim operating results are not necessarily indicative of operating results for any future interim period or for the full year.

NOTE 8. SEGMENT INFORMATION

During the period ended September 30, 2002, the Company managed and internally reported the Company's business as four (4) reportable segments: (1) imaging products and accessories; (2) imaging software; (3) e-commerce; and (4) professional employer organization

PERIOD ENDED. . . . . . SEPT. 30, 2002.	PEO BUSINESS	IMAGING PRODUCTS	IMAGING SOFTWARE	E-COMMERCE	TOTAL
Revenues.	$ 392,000	$ 486,000	$ 138,000	$ -	$ 1,016,000
Cost of revenues. .	142,000	235,000	21,000	-	398,000
Operating expenses.	588,000	1,141,000	324,000	2,053,000	
Operating (loss). .	(338,000)	(890,000)	(207,000)	-	(1,435,000)

Additional information regarding revenue by products and service groups is not presented for the prior fiscal year period ended September 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 period ended September 30, 2002, no customer accounted for more than 10% of consolidated accounts receivable or total consolidated revenues.

NOTE 10 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, the Company reclassified worksite employee payroll costs of $2.43 million for the three months ended September 30, 2002 from direct costs to revenues. This reclassification had no effect on gross profit, operating loss, or net loss.

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q. The discussion of the Company's business contained in this Quarterly Report on Form 10-Q may contain certain projections, estimates and other forward-looking statements that involve a number of risks and uncertainties, including those discussed below at "Risks and Uncertainties." While this outlook represents management's current judgment on the future direction of the business, such risks and uncertainties could cause actual results to differ materially from any future performance suggested below. The Company undertakes no obligation to release publicly the results of any revisions to these forward-looking statements to reflect events or circumstances arising after the date hereof.

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 of $2.43 million for the three months ended September 30, 2002 from direct costs to revenues. This reclassification had no effect on gross profit, operating loss, or net loss.

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

Revenues were $1.0 million and $1.1 million for the quarters ended September 30, 2002 and 2001, respectively. The (10%) decrease in sales was due primarily substantial reduction in product sales.

PEO Services

PEO revenues were $392 thousand (derived from gross billings of $2.8 million less employee payroll costs of $2.4 million) for the quarter ended September 30, 2002. The Company entered this business segment through acquisitions in November 2001. Consequently, there were no reported PEO revenues in the prior year period.

COST OF PRODUCTS SOLD

PEO Services

Costs of PEO services were $142 thousand (36% of PEO revenues) for the period ended September 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 $2.1 million (202% of total revenues) and $ 1.4 million (131% of total revenues) for the quarters ended September 30, 2002 and 2001, respectively. While such expenses increased by $700,000 (50%) for the period ended September 30, 2002 as compared to the previous year, they have decreased as a percentage of total revenues. Selling, general and administrative expenses consisted primarily of general corporation functions, salaries, facilities, and fees for professional services, including legal expenses. The increase in selling, general and administrative expenses in the period ended September 30, 2002 as compared to the year-earlier period was due primarily to costs associated with the Company's PEO business, including promotional costs and salaries. However, management continues to pare its overall operating expenses, including reductions in personnel and facilities.

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.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS

(a) Exhibits:

99.1 - Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

99.2 - Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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.

Dated: July1, 2003

IMAGING TECHNOLOGIES CORPORATION (Registrant)

By: /s/

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Brian Bonar
Chairman and Chief Executive Officer,
and Chief Accounting Officer

By: /s/

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James R. Downey, Jr.
Chief Accounting Officer