

IMAGE SYSTEMS CORPORATION
Form 10QSB
September 12, 2002

U. S. SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-QSB

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended July 31,2002

OR

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

For the transition prior from to

Commission File No. 021245

Image Systems Corporation

(Exact Name of Small Business Issuer as Specified in its Charter)

Minnesota

(State or Other Jurisdiction
of Incorporation or Organization)

41-1620497

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

6103 Blue Circle Drive, Minnetonka, Minnesota 55343

(Address of Principal Executive Offices)

(952) 935-1171

(Issuer's Telephone Number, Including Area Code)

Edgar Filing: IMAGE SYSTEMS CORPORATION - Form 10QSB

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 No

As of July 15, 2002 there were 4,452,597 shares of Common Stock, no par value per share, outstanding.

Part 1. FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS****IMAGE SYSTEMS CORPORATION****BALANCE SHEETS**

	July 31, 2002		April 30, 2002
	(Unaudited)		(Audited)
ASSETS			
CURRENT ASSETS:			
Cash	\$ 4,856	\$	44,876
Accounts Receivable, Net	259,432		460,337
Inventory	1,408,619		1,496,101
Prepaid Expenses	42,261		18,049
Income Tax Receivable	274,000		274,000
Total Current Assets	1,989,168		2,293,363
PROPERTY AND EQUIPMENT			
Land	396,043		396,043
Building	1,310,062		1,310,062
Furniture and Fixtures	263,567		260,198
Production Equipment	344,036		344,036
Less Accumulated Depreciation	(719,620)		(703,470)
Net Property and equipment	1,594,088		1,606,869
Total Assets	\$ 3,583,256	\$	3,900,232
LIABILITIES AND STOCKHOLDERS INVESTMENT			
CURRENT LIABILITIES			
Note Payable-Bank	\$ 280,000	\$	280,000
Accounts Payable	156,908		229,406
Accrued Liabilities	319,711		355,264
Total Current Liabilities	756,619		864,670
STOCKHOLDERS INVESTMENT:			
Undesignated Stock, 5,000,000 shares			
Authorized: No shares issued or outstanding			
Common Stock, No Par Value, 5,000,000 shares			
Authorized; 4,452,597 Issued and Outstanding	1,104,289		1,104,289
Retained Earnings	1,722,348		1,931,273
Total Stockholders Investment	2,826,637		3,035,562
Total Liabilities and Stockholders Investment	\$ 3,583,256	\$	3,900,232

See Accompanying Notes To Financial Statements

IMAGE SYSTEMS CORPORATION**STATEMENTS OF OPERATIONS****(Unaudited)**

	For the Three Months Ended	
	July 31,2002	July 31,2001
NET SALES	\$ 638,202	\$ 1,015,826
COST OF PRODUCTS SOLD	493,213	731,849
Gross Profit	144,989	283,977
OPERATING EXPENSES		
Product development	122,705	123,538
Selling	111,265	121,947
Administrative	115,730	97,925
Total Operating Expenses	349,700	343,410
Operating(Loss)	(204,711)	(59,433)
INTEREST INCOME	0	10
INTEREST EXPENSE	(4,214)	(5,571)
Net(Loss) Before Income Taxes	(208,925)	(64,994)
(PROVISION FOR) INCOME TAXES	0	(1,000)
 NET(LOSS)	 \$ (208,925)	 \$ (65,994)
NET(LOSS)PER SHARES		
Basic	\$ (0.05)	\$ (0.01)
Diluted	\$ (0.05)	\$ (0.01)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	4,452,597	4,452,597
Diluted	4,452,597	4,452,597

IMAGE SYSTEMS CORPORATION

STATEMENT OF CASH FLOWS

(Unaudited)

	For the Three Months Ended	
	July 31, 2002	July 31, 2001
OPERATING ACTIVITIES		
Net (Loss)	\$ (208,925)	\$ (65,994)
Adjustments to Reconcile Net (Loss) to Net Cash (Used) by Operating Activities:		
Depreciation	16,152	20,629
Change in Operating Items:		
Accounts Receivable	200,905	131,590
Inventory	87,482	(153,202)
Prepaid Expenses	(24,212)	17,829
Accounts Payable	(72,498)	(96,956)
Accrued Liabilities	(33,046)	(22,263)
Deferred Income	(2,507)	7,280
Net Cash Used by Operating Activities	\$ (36,649)	\$ (161,087)
INVESTING ACTIVITIES:		
Furniture and Equipment Additions	\$ (3,371)	\$ (2,004)
FINANCING ACTIVITIES		
Borrowed from Line of Credit	470,000	790,000
Repayment to Line of credit	(470,000)	(685,000)
Net Cash Provided by Financing Activities		105,000
Net Decrease in Cash	(40,020)	(58,091)
CASH AT BEGINNING OF PERIOD	44,876	63,423
CASH AT END OF PERIOD	\$ 4,856	\$ 5,332
SUPPLEMENTAL DISCLOSURES		
Interest Paid	\$ 3,844	\$ 4,757
Taxes Paid	\$ 1,000	\$ 1,000

See Accompanying Notes to Financial Statements

Item 1. FINANCIAL STATEMENTS

IMAGE SYSTEMS CORPORATION

NOTES TO FINANCIAL STATEMENTS

July 31, 2002 and July 31, 2001

(Unaudited)

1. **ORGANIZATION AND ACCOUNTING POLICIES:**

The unaudited interim financial statements furnished herein reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. The operating results for the three months ended July 31, 2002 are not necessarily indicative of the operating results to be expected for the full fiscal year. These statements should be read in conjunction with the Company's most recent audited financial statements dated April 30, 2002

2. **EARNINGS PER SHARE**

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share is similar to the computation of basic earnings per share, except that the denominator is increased for the assumed exercise of dilutive options using the treasury stock method. The denominator is not affected if there is a loss during the period. The components of the earnings per share denominator are as follows:

	For the First Quarter Ending	
	July 31, 2002	July 31, 2001
Weighted Average Common Shares Outstanding for Basic Earnings Per Share	4,452,597	4,452,597
Weighted Average Common Shares Issuable Under the Exercise of Options		
Shares Used in Diluted Earnings Per Share	4,452,597	4,452,597

3. **INVENTORY**

Breakdown of inventory is as follows:

Edgar Filing: IMAGE SYSTEMS CORPORATION - Form 10QSB

	July 31, 2002 (Unaudited)	April 30, 2002 (Audited)
Finished Goods	\$ 285,483	\$ 370,311
Work in Process	45,574	18,715
Components	1,235,562	1,293,075
Inventory Reserve	(158,000)	(186,000)
Total Inventory	\$ 1,408,619	\$ 1,496,101

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

Certain statements contained herein are forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934 that involve a number of risks and uncertainties. Such forward-looking information may be indicated by words such as will, may be, expects or anticipates. In addition to the factors discussed herein, among the other factors that could cause actual results to differ materially are the following: business conditions and growth in the personal computer industry and the general economy; competitive factors such as rival computer and peripheral product sellers and price pressures; availability of vendor products at reasonable prices; inventory risks due to shifts in market demand; and risks presented from time to time in reports filed by the Company with the Securities and Exchange Commission, including but not limited to the annual report on Form 10KSB for the year ended April 30, 2002.

The Company was formed on September 1, 1988 to design, assemble and market high resolution monitors for use with computers.

RESULTS OF OPERATIONS

Three Months Ended July 31, 2002 Versus July 31, 2001

Net sales for the three months ended July 31, 2002 decreased \$377,624 or 37.2% compared to the three months ended July 31, 2001. The primary reason for the decrease is selling lesser quantity of monitors.

Gross profit decreased from \$283,977 for the three months ended July 31, 2001 to \$144,989 for the three months ended July 31, 2002. The decrease is due to the fixed effect of overhead expenses and less effective production levels.

For the three months ended July 31, 2002 development and research expenses decreased a modest \$833 compared to the three months ended July 31, 2001. The primary reason for the decrease is decreased personnel expenses.

Selling expenses decreased from \$121,947 for the three months ended July 31, 2001 to \$111,265 for the three months ended July 31, 2002. The decrease of \$10,682 or 8.8% is due to a reduction of personnel expenses.

Administrative expenses increased from \$97,925 for the three months ended July 31, 2001 to \$115,730 for the three months ended July 31, 2002. An increase of personnel and professional fee expenses are the primary reasons for the \$17,805 or 18.2% increase

Edgar Filing: IMAGE SYSTEMS CORPORATION - Form 10QSB

Interest expense decreased \$1,357 or 24.4% for the three months ended July 31, 2002 compared to the three months ended July 31, 2001. The decrease in the usage of the bank line of credit is the primary reason for the decrease.

The provision for income taxes decreased from \$1,000 for the three months ended July 31, 2001 to no provision for income taxes for the three months ended July 31, 2002. No benefits from income taxes will be recorded until the Company determines that the recoverability of additional tax benefits is more likely than not.

Liquidity and Capital Resources

Cash used by operations totaled \$36,649 for the three months ended July 31, 2002 compared to \$161,087 used for operations for the three months ended July 31, 2001. The decrease of \$124,438 in cash used is due primarily to increased cash flow from accounts receivable and inventory offset by decreased cash flow from net loss.

Cash used for investing activities totaled \$3,371 for the three months ended July 31, 2002 compared to \$2,004 used for the three months ended July 31, 2001.

Cash used for financing activities totaled \$105,000 for the three months ended July 31, 2001 compared to zero dollars for the three months ended July 31, 2002. Additional funds provided by operations reduced the need to use the Company's bank line of credit.

The Company's primary source of liquidity on July 31, 2002 is the bank line of credit of \$1,000,000. The Company obtained a bank revolving line of credit of \$1,000,000 effective December 1, 2000 for two years. The revolving line of credit balance on July 31, 2002 is \$280,000. The Company believes that cash available from the revolving line of credit is adequate to meet the anticipated short term liquidity and capital resource requirements of its business.

Part. 2.

OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None.

Item 2. CHANGES IN SECURITIES

None

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

Edgar Filing: IMAGE SYSTEMS CORPORATION - Form 10QSB

Form 8-K filed on December 7, 2001 for change in Board positions and membership.

SIGNATURE

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Image Systems Corporation

Registrant

By: /s/ David Sorensen
David Sorensen, President
and Chief Financial Officer
(Principal Executive Officer and
Principal Financial Officer)

Dated September 11, 2002

**CERTIFICATION UNDER SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to section 906 of the Sarbanes-Oxley act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of section 13(a) or 15(d) of the Security Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Image Systems Corporation.

Image Systems Corporation

Date : September 11, 2002

/s/ David Sorensen
David Sorensen, President
And Chief Financial Officer
(Principal Executive Officer and
Principal Officer)