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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 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, CA 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 February 12, 2003 was 144,073,122.

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.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED DECEMBER 31, 2002 AND 2001
(IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

	2002	2001
Revenues		
Sales of products	$ 94	$ 891
Software sales, licenses and royalties	41	145
PEO services (gross billings of $2,139 and $7,074, respectively; less worksite employee payroll costs of $1,877 and $5,988, respectively)	262	1,086
	397	2,122
Cost of revenues		
Cost of products sold	82	646
Cost of software sales, licenses and royalties	29	24
Cost of PEO services	1	807
	112	1,477
Gross profit	285	645
Operating		
Selling, general, and administrative	1,124	2,137
Research and development	-	64
	1,124	2,201
Loss from operations	(839)	(1,556)
Other income (expense):		
Interest and financing costs, net	(490)	(298)
Extinguishment of debt	656	-
Other	21	-
	187	(298)
Loss before income taxes	(652)	(1,854)
Income tax expense	-	-
Net loss	$ (652)	$ (1,854)
Loss per common share		
Basic	$ (0.01)	$ (0.19)
Diluted	$ (0.01)	$ (0.19)

Weighted average common shares	66,284	9,952
Weighted average common shares - assuming dilution	66,284	9,952

See Notes to Consolidated Financial Statements.

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
SIX MONTHS ENDED DECEMBER 31, 2002 AND 2001
(IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

	2002	2001
Revenues		
Sales of imaging products	$ 580	$ 1,764
Sales of software, licenses and royalties	179	350
PEO services (gross billings of $4,961 and $7,074, respectively; less worksite employee payroll costs of $4,307 and $5,988, respectively)	654	1,086
	1,413	3,200
Costs and expenses		
Cost of products sold	317	1,214
Cost of software, licenses and royalties	62	54
Cost of PEO services	143	807
	522	2,075
Gross profit	891	1,125
Operating		
Selling, general, and administrative	3,165	3,586
Research and development	-	136
	3,165	3,722
Loss from operations	(2,274)	(2,597)
Other income (expense):		
Interest and financing costs, net	(1,111)	(1,018)
Extinguishment of debt	656	-
Other	25	-
	(430)	(1,018)
Loss before income taxes	(2,704)	(3,615)
Income tax expense	-	-

Net loss	$ (2,704)	$ (3,615)
Loss per common share		
Basic	$ (0.06)	$ (0.39)
Diluted	$ (0.06)	$ (0.39)
Weighted average common shares	45,473	9,251
Weighted average common shares - assuming dilution	45,473	9,251

See Notes to Consolidated Financial Statements.

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2002

(IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated 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 accounting principles generally accepted in the United States of America. These consolidated 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 consolidated financial statements should be read in conjunction with the Company's audited consolidated 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 December 31, 2002, the Company managed and internally reported the Company's business as three (3) reportable segments: (1) imaging products and accessories; (2) imaging software; and (3) professional employer organization

(in thousands)	PEO BUSINESS 2002	IMAGING PRODUCTS 2001	IMAGING SOFTWARE 2002	TOTAL 2001	2002
Three months:					
Revenues	$ 262	$ 1,086	$ 94	$ 891	$ 41
Cost of revenues	1	807	82	646	29
Operating expenses	253	116	780	2,061	91

Operating profit (loss)	8	163	(768)	(1,816)	(79
Six months :					
Revenues.	$ 654	$ 1,086	$ 580	$ 1,764	$ 179
Cost of revenues. . . .	143	807	317	1,214	62
Operating expenses. . .	1,337	116	1,625	3,546	203
Operating profit (loss)	(826)	163	(1,362)	(2,996)	(86

As of and during the period ended December 31, 2002, no customer accounted for more than 10% of consolidated accounts receivable or total consolidated revenues.

NOTE 12 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 $4.3 and 6.0 million for the six months ended December 31, 2002 and 2001, respectively. This reclassification had no effect on gross profit, operating loss, or net loss previously reported.

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/A. The statements contained in this Report on Form 10-Q/A that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, hopes, intentions or strategies regarding the future. Forward-looking statements include statements regarding: future product or product development; future research and development spending and our product development strategies, and are generally identifiable by the use of the words "may", "should", "expect", "anticipate", "estimates", "believe", "intend", or "project" or the negative thereof or other variations thereon or comparable terminology. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements (or industry results, performance or achievements) expressed or implied by these forward-looking statements to be materially different from those predicted. The factors that could affect our actual results include, but are not limited to, the following: general economic and business conditions, both nationally and in the regions in which we operate; competition; changes in business strategy or development plans; our inability to retain key employees; our inability to obtain sufficient financing to continue to expand operations; and changes in demand for products by our customers.

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 $4.3 and 6.0 million for the six months ended December 31, 2002 and 2001, respectively. 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

Revenues were $397 thousand and $2.1 million for the three-month period ended December 31, 2002 and 2001, respectively, a decrease of $1.7 million or 81%. Revenues were $1.4 million and $3.2 million for the six-month period ended December 31, 2002 and 2001, respectively, a decrease of $1.8 million or 56%. The decrease in revenues was due primarily to changes in the customer structure of the Company's PEO activities in SourceOne Group (SOG). Since the acquisition of SOG, the Company has lost several customers due to changes in rates for services, particularly workers' compensation insurance. Additionally, management elected to terminate certain customers due to profitability concerns. New customers are anticipated pursuant to signed agreements, which will begin to produce revenues in the third quarter of the current fiscal year. Additional PEO contracts are being negotiated by ExpertHR, a wholly-owned subsidiary of Greenland Corporation, controlling interest of which was acquired by the Company in January 2003.

For the three-month period ended December 31, 2002 and 2001, PEO segment revenues were $262 thousand and $1.1 million, respectively (derived from gross billings of $2.1 million and $7.1 million, respectively; less worksite payroll costs of $1.9 million and $6.0 million, respectively). For the six-month period ended December 31, 2002 and 2001, PEO segment revenues were $654 thousand and $1.1 million, respectively (derived from gross billings of $5.0 million and $7.1 million, respectively; less worksite payroll costs of $4.3 million and $6.0

million, respectively).

On a comparative basis, for the three month period ended December 31, PEO segment revenues decreased $824 thousand (76%) in 2002 from 2001; and PEO segment revenues for the six month period ended December 31 decreased $432 thousand (40%). The primarily reason for this decrease is described above.

COST OF PRODUCTS SOLD

For the three-month period ended December 31, 2002 and 2001, cost of PEO services were $1 thousand (less than 1%) and $807 thousand (74%), respectively. The increase in margin is primarily due to our election to self-insure PEO clients related to workers' compensation for the three-month period ended December 31, 2002. We no longer self-insure clients' workers compensation insurance and use third-party insurance companies to provide such coverage.

For the six-month period ended December 31, 2002 and 2001, cost of PEO services were $143 thousand (22%) and $807 thousand (74%), respectively.

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: July 1, 2003

IMAGING TECHNOLOGIES CORPORATION (Registrant)

By: /s/

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

By: /s/

James R. Downey, Jr.
Chief Accounting Officer