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IMAGING TECHNOLOGIES CORP/CA

Form 10-Q/A

December 05, 2001

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 September 30, 2001  
or

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

Commission file No. 0-12641

[OBJECT OMITTED]  
IMAGING TECHNOLOGIES CORPORATION  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

33-0021693  
(IRS Employer ID No.)

15175 Innovation Drive  
San Diego, California 92128  
(Address of principal executive offices)

Registrant's Telephone Number, Including Area Code: (858) 613-1300

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 ☒ No ☐

The number of shares outstanding of the registrant's common stock as of December 4, 2001 was 207,986,730.

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## IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### Note 5. RECENT ACCOUNTING PRONOUNCEMENTS

#### SFAS 141

In July 2001, FASB issued SFAS No. 141, "Business Combinations," which is effective for business combinations initiated after June 30, 2001. SFAS No. 141 eliminates the pooling of interest method of accounting for business combinations and requires that all business combinations occurring on or after July 1, 2001 be accounted for under the purchase method. The Company does not expect SFAS No. 141 to have a material impact on its financial statements.

#### SFAS 142

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which is effective for fiscal years beginning after December 15, 2001. Early adoption is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not been previously issued. SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets should be accounted for in the financial statements upon their acquisition and after they have been initially recognized in the financial statements. SFAS No. 142 requires that goodwill and intangible assets that have indefinite useful lives not be amortized but rather be tested at least annually for impairment, and intangible assets that have finite useful lives be amortized over their useful lives. SFAS No. 142 provides specific guidance for testing goodwill and intangible assets that will not be amortized for impairment. In addition, SFAS No. 142 expands the disclosure requirements about goodwill and other intangible assets in the years subsequent to their acquisition. Impairment losses for goodwill and indefinite-life intangible assets that arise due to the initial application of SFAS No. 142 are to be reported as resulting from a change in accounting principle. However, goodwill and intangible assets acquired after June 30, 2001 will be subject immediately to the provisions of SFAS No. 142. The Company does not expect SFAS No. 142 to have a material effect on its financial statements. Previously, the Company amortized \$118 thousand of goodwill.

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### PART II - OTHER INFORMATION

#### ITEM 5. OTHER INFORMATION

##### Acquisition of Shares

Subsequent to the period ended September 30, 2001, on November 12, 2001, the Company acquired all of the outstanding shares of SourceOne, Inc. from Neotactix, Inc. for 10,000,000 shares of ITEC common stock. These shares will be registered by the Company subsequent to filing of audited financial statements related to the acquisition on Form 8-K within 60 days of this filing.

The acquisition price also included the assumption of \$750,000 in payments due SourceOne from Neotactix. ITEC paid \$250,000 in cash at Closing. \$200,000 of these funds were provided by outside investors in the form of a promissory note convertible into shares of ITEC common stock, the number of which will be determined by a formula applied to the market price of the shares at the time

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that the promissory note is converted. The balance is payable in cash or stock on a quarterly payment schedule beginning in April 2002. The Company has agreed to register all shares subsequent to filing of audited financial statements related to the acquisition on Form 8-K within 60 days of this filing.

The purchase price was determined through analysis of SourceOne's recent, unaudited financial performance. SourceOne, through September 30, 2001, had losses of approximately \$220 thousand on 6-month revenues of approximately \$25 million. The total purchase price was arrived at through negotiations. The assets of SourceOne consist of cash, accounts receivable, and pre-paid insurance premiums.

SourceOne is a professional employer organization ("PEO") that provides comprehensive personnel management services, including benefits and payroll administration, health and workers' compensation insurance programs, personnel records management, and employer liability management.

Following are pro forma financial statements reflecting the acquisition of SourceOne. The information is derived from the audited financial statements of the Company for the year ended June 30, 2001, and the unaudited financial statements of SourceOne from inception in April 2001 through September 30, 2001.

The Company will report this transaction, including audited financial statements of SourceOne, on Form 8-K.

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### PRO FORMA CONSOLIDATED BALANCE SHEETS

| in thousands                         | Sept. 30, 2001    |                            |              |
|--------------------------------------|-------------------|----------------------------|--------------|
|                                      | ITEC<br>Unaudited | SourceOne<br>Unaudited (2) | Pro<br>Adjus |
| <b>ASSETS</b>                        |                   |                            |              |
| Current assets                       |                   |                            |              |
| Cash                                 | 36                | 431                        | --           |
| Accounts receivable                  | 574               | 234                        | --           |
| Inventories                          | 140               | --                         | --           |
| Prepaid expenses and other           | 273               | 195                        | --           |
|                                      | -----             | ---                        | ---          |
| Total current assets                 | 1,023             | 860                        | --           |
| Goodwill, net                        | 569               | --                         | 53           |
| Deposits and allowances              | --                | 83                         | --           |
| Property and equipment, net          | 152               | 22                         | --           |
|                                      | -----             | ---                        | ---          |
| Total assets                         | 1,744             | 965                        | 53           |
|                                      | =====             | =====                      | ==           |
| <b>LIABILITIES AND SHAREHOLDERS'</b> |                   |                            |              |
| <b>NET CAPITAL DEFICIENCY</b>        |                   |                            |              |
| Current liabilities                  |                   |                            |              |
| Borrowings under bank notes payable  | 4,018             | --                         | --           |
| Short term debt                      | 4,606             | --                         | --           |
| Accounts payable                     | 5,498             | 30                         | --           |
| Accrued expenses                     | 4,914             | 956                        | --           |
|                                      | -----             | ---                        | ---          |
| Total current liabilities            | 19,036            | 986                        | --           |

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|  |          |       |       |
|--|----------|-------|-------|
| Notes payable                              | --       | --    | 50    |
|  | -----    | ----  | ----  |
| Total liabilities                          | 19,036   | 986   | 50    |
|  | -----    | ----  | ----  |
| Stockholders' net capital deficiency       |          |       |       |
| Series A preferred stock                   | 420      | --    | --    |
| Common stock                               | 865      | --    | 1     |
| Common stock warrants                      | 541      | --    | --    |
| Paid-in capital                            | 69,479   | --    | --    |
| Shareholder loans                          | (105)    | 200   | (20)  |
| Accumulated deficit                        | (88,492) | (221) | 22    |
|  | -----    | ----  | ----  |
| Total shareholders' net capital deficiency | (17,292) | (21)  | 3     |
|  |          | --    | --    |
|  | 1,744    | 965   | 53    |
|  | =====    | ===== | ===== |

(1) Adjusted to reflect the consolidated balance sheets of ITEC and SourceOne

(2) SourceOne Group's inception occurred at the beginning of April 2001

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## PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS

in thousands, except per share data

|                                     | Three months ended<br>September 30, 2001 |              |             |           |
|-------------------------------------|--|--------------|-------------|-----------|
|                                     | -----                                    | -----        | Pro forma   | Pro forma |
|                                     | ITEC                                     | SourceOne    | Adjustments | ITEC (1)  |
|                                     | -----                                    | -----        | -----       | -----     |
|                                     | Unaudited                                | Unaudited(2) |             |           |
| Revenues                            |  |              |             |           |
| Sales of products                   | 1,057                                    | --           | --          | 1,057     |
| Licenses and royalties              | 21                                       | --           | --          | 21        |
| PEO services                        | --                                       | 13,412       | --          | 13,412    |
|                                     | -----                                    | -----        | -----       | -----     |
|                                     | 1,078                                    | 13,412       | --          | 14,490    |
|                                     | -----                                    | -----        | -----       | -----     |
| Costs and expenses                  |  |              |             |           |
| Cost of products sold               | 598                                      | --           | --          | 598       |
| Cost of PEO services                | --                                       | 13,155       | --          | 13,155    |
| Selling, general and administrative | 1,413                                    | 345          | --          | 1,758     |
| Research and development            | 72                                       | --           | --          | 72        |
|                                     | -----                                    | -----        | -----       | -----     |
|                                     | 2,083                                    | 13,500       | --          | 15,583    |
|                                     | -----                                    | -----        | -----       | -----     |
| Loss from operations                | (1,005)                                  | (88)         | --          | (1,093)   |
|                                     | -----                                    | -----        | -----       | -----     |
| Other income (expense)              |  |              |             |           |
| Interest and finance costs          | (177)                                    | --           | --          | (177)     |
| Other                               | --                                       | --           | --          | --        |
|                                     | -----                                    | -----        | -----       | -----     |

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|   |         |        |        |         |
|---|---------|--------|--------|---------|
|   | (177)   | --     | --     | (177)   |
|   | -----   | -----  | -----  | -----   |
| Loss before income taxes                    | (1,182) | (88)   | --     | (1,270) |
| Income tax benefit (expense)                | --      | --     | --     | --      |
|   | -----   | -----  | -----  | -----   |
| Net loss                                    | (1,182) | (88)   | --     | (1,270) |
| Preferred stock dividends                   | --      | --     | --     | --      |
|   | -----   | -----  | -----  | -----   |
| Net loss                                    | (1,182) | (88)   | --     | (1,270) |
|   | =====   | =====  | =====  | =====   |
| Earnings (loss) per common share            |         |        |        |         |
| Basic                                       | (0.01)  | (1.76) | --     | (0.01)  |
|   | =====   | =====  | =====  | =====   |
| Diluted                                     | (0.01)  | (1.76) | --     | (0.01)  |
|   | =====   | =====  | =====  | =====   |
| Weighted average of common shares           | 170,984 | 50     | 10,000 | 180,984 |
|   | =====   | =====  | =====  | =====   |
| Weighted average of common shares - diluted | 170,984 | 50     | 10,000 | 180,984 |
|   | =====   | =====  | =====  | =====   |

(1) Adjusted to reflect the consolidated statements of operations of ITEC and SourceOne

(2) SourceOne Group's inception occurred at the beginning of April 2001

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PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS, CONTINUED

| in thousands, except per share data | Six months    |                |             |           |
|-------------------------------------|---------------|----------------|-------------|-----------|
|                                     | Year ended    | ended          |             |           |
|                                     | June 30, 2001 | Sept. 30, 2001 |             |           |
|                                     | -----         | -----          | Pro forma   | Pro forma |
|                                     | ITEC          | SourceOne      | Adjustments | ITEC (1)  |
|                                     | -----         | -----          | -----       | -----     |
|                                     | Audited       | Unaudited (2)  |             |           |
| Revenues                            |               |                |             |           |
| Sales of products                   | 2,897         | --             | --          | 2,897     |
| Licenses and royalties              | 555           | --             | --          | 555       |
| PEO services                        | --            | 25,083         | --          | 25,083    |
|                                     | -----         | -----          | -----       | -----     |
|                                     | 3,452         | 25,083         | --          | 28,535    |
|                                     | -----         | -----          | -----       | -----     |
| Costs and expenses                  |               |                |             |           |
| Cost of products sold               | 2,742         | --             | --          | 2,742     |
| Cost of PEO services                | --            | 24,605         | --          | 24,605    |
| Selling, general and administrative | 8,720         | 694            | --          | 9,414     |
| Research and development            | 250           | --             | --          | 250       |
|                                     | -----         | -----          | -----       | -----     |
|                                     | 11,712        | 25,299         | --          | 37,011    |
|                                     | -----         | -----          | -----       | -----     |
| Loss from operations                | (8,260)       | (216)          | --          | (8,476)   |

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|  |         |        |        |          |
|--|---------|--------|--------|----------|
| Other income (expense)                         | -----   | -----  | -----  | -----    |
| Interest and finance costs                     | (1,628) | (1)    | --     | (1,629)  |
| Other  | --      | 4      | --     | 4        |
|  | -----   | -----  | -----  | -----    |
|  | (1,628) | 3      | --     | (1,635)  |
|  | -----   | -----  | -----  | -----    |
| Loss before income taxes                       | (9,888) | (213)  | --     | (10,101) |
|  | -----   | -----  | -----  | -----    |
| Income tax benefit (expense)                   | --      | --     | --     | --       |
|  | -----   | -----  | -----  | -----    |
| Net loss                                       | (9,888) | (213)  | --     | (10,101) |
| Preferred stock dividends                      | (21)    | --     | --     | (21)     |
|  | -----   | -----  | -----  | -----    |
| Net loss                                       | (9,909) | (213)  | --     | (10,122) |
|  | =====   | =====  | =====  | =====    |
| Earnings (loss) per common share               |         |        |        |          |
| Basic  | (0.08)  | (4.26) | --     | (0.07)   |
|  | =====   | =====  | =====  | =====    |
| Diluted  | (0.08)  | (4.26) | --     | (0.07)   |
|  | =====   | =====  | =====  | =====    |
| Weighted average of common shares              | 131,488 | 50     | 10,000 | 141,488  |
|  | =====   | =====  | =====  | =====    |
| Weighted average of common shares -<br>diluted | 131,488 | 50     | 10,000 | 141,488  |
|  | =====   | =====  | =====  | =====    |

- (1) Adjusted to reflect the consolidated statements of operations of ITEC and SourceOne  
(2) SourceOne Group's inception occurred at the beginning of April 2001

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## 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: December 5, 2001

IMAGING TECHNOLOGIES CORPORATION (Registrant)

By: /s/ Brian Bonar

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

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