

Edgar Filing: IMAGE SOFTWARE INC - Form 10-Q

IMAGE SOFTWARE INC
Form 10-Q
May 03, 2001

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

- (x) QUARTERLY REPORT PURSUANT TO SECTION 13 OF 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934. For the quarterly period ended 3/31/2001
OR
() TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934. For the transition period from ----- to -----

IMAGE SOFTWARE, INC.
(Exact name of Registrant as specific in its charter)

0-12535
(Commission File Number)

Colorado 84-0866294
(State of Incorporation) (IRS Employer Identification Number)

6025 S. Quebec St. Suite 300 Englewood CO 80111 (303) 694-9180
(Address of principal executive offices) (Registrant's telephone
number, including area code)

Indicate by 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 X No ---

As of April 20, 2001, there were 3,146,554 shares of the Registrant's
common stock outstanding.

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PART I - FINANCIAL INFORMATION

ITEM . FINANCIAL STATEMENTS

IMAGE SOFTWARE, INC. BALANCE SHEETS

ASSETS	Unaudited March 31, 2000 -----	December 31, 2001 -----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 147,693	\$ 150,457
Receivables:		
Trade (less allowance: 2001, \$10,000; 2000, \$10,000	613,639	407,251
Related parties	200	-
Inventory	40,379	38,654
Prepaid expenses and other current assets	18,425	21,233
	-----	-----
Total current assets	820,336	617,595
PROPERTY AND EQUIPMENT, at cost, net	55,075	55,177
OTHER ASSETS:		
Software development costs, net	745,841	754,734
Other	100	100
	-----	-----
TOTAL ASSETS	\$1,621,352 =====	\$1,427,606 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Line of credit	\$ 150,000	\$ 200,000
Current portion of capital lease obligations	1,785	1,785
Deferred revenue	204,127	213,494
Accounts payable	173,782	185,468
Accrued liabilities	152,898	109,450
	-----	-----
Total current liabilities	682,592	710,197
LONG-TERM OBLIGATIONS:		
Capital lease obligations	2,733	3,224
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, \$.004 par value - 10,000,000 shares authorized; shares outstanding: 2001 - 3,146,554; 2000 - 3,146,554	12,586	12,586
Additional paid-in capital	7,238,658	7,238,658
Accumulated deficit	(6,315,217)	(6,537,059)
	-----	-----

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Total shareholders' equity	936,027	714,185
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,621,352	\$1,427,606
	=====	=====

See Notes to Condensed Financial Statements

IMAGE SOFTWARE, INC. STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended March 31,	
	2001	2000
	-----	-----
REVENUE		
System sales and software licenses	\$ 329,209	\$ 222,348
Services and annual fees	503,188	401,845
	-----	-----
Total revenue	832,397	624,193
	-----	-----
COST OF REVENUE:		
System sales and software licenses	88,453	98,027
Services and annual fees	125,525	79,516
	-----	-----
Total cost of revenue	213,978	177,543
	-----	-----
GROSS PROFIT	618,419	446,650
% of Revenue	74%	72%
OPERATING EXPENSES:		
Selling, general & administrative	390,494	282,948
	-----	-----
INCOME FROM OPERATIONS	227,925	163,702
	-----	-----
OTHER INCOME/(EXPENSE):		
Interest income	1,755	2,300
Interest expense	(7,838)	(4,529)
	-----	-----
Total other income(expense)	(6,083)	(2,229)
	-----	-----
INCOME BEFORE INCOME TAXES	221,842	161,473
PROVISION FOR INCOME TAXES	-	-
	-----	-----
NET INCOME	\$ 221,842	\$ 161,473
	=====	=====
INCOME PER COMMON SHARE:		
Basic	\$.07	\$.06
	=====	=====

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Diluted	\$.07	\$.05
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic	3,146,554	2,787,194
	=====	=====
Diluted	3,414,077	3,158,115
	=====	=====

See Notes to Condensed Financial Statements

IMAGE SOFTWARE, INC. STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31, 2001	2000
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Earnings	\$ 221,842	\$ 161,473
Adjustments to reconcile earnings to net cash Provided by operating activities:		
Depreciation and amortization	82,269	89,643
Issuance of stock options for services	-	(18,046)
Changes in assets and liabilities:		
Receivables	(206,588)	(101,730)
Inventory	(1,725)	2,681
Prepaid expenses and other assets	2,808	(5,217)
Accounts payable	(11,686)	(34,960)
Accrued liabilities and deferred revenue	34,081	(13,339)
	-----	-----
Net cash provided by operating activities	121,001	80,505
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(6,867)	(5,730)
Additions to capitalized software	(66,407)	(77,950)
	-----	-----
Net cash used for investing activities	(73,274)	(83,680)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to line of credit	-	-
Repayment of line of credit	(50,000)	-
Proceeds from exercise of Common Stock options	-	66,872
Repayment of long-term obligations	(491)	(1,293)
	-----	-----
Net cash provided by (used for) financing activities	(50,491)	65,579
	-----	-----

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INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(2,764)	62,404
CASH AND CASH EQUIVALENTS, beginning of period	150,457	253,930
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 147,693	\$ 316,334
	=====	=====

See Notes to Condensed Financial Statements

IMAGE SOFTWARE, INC. NOTES TO INTERIM FINANCIAL STATEMENTS

GENERAL:

Management has elected to omit substantially all notes to the unaudited interim financial statements. Reference should be made to the Company's annual report on Form 10-K for the year ended December 31, 2000 as this report incorporates the Notes to the Company's year-end financial statements. The condensed balance sheet of the Company as of December 31, 2000 has been derived from the audited balance sheet of the Company as of that date.

UNAUDITED INTERIM INFORMATION:

The unaudited interim financial statements contain all necessary adjustments (consisting of only normal recurring adjustments) which, in the opinion of Management, are necessary for a fair statement of the results for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of those expected for the year.

REVENUE RECOGNITION - Revenue from the sale of software licenses, computer equipment, and existing application software packages is recognized when the software and computer equipment are shipped to the customer, remaining vendor obligations are insignificant, there are no significant uncertainties about customer acceptance and collectibility is probable. Revenue from related services, including installation and software modifications, is recognized upon performance of services. Maintenance revenue is recognized ratably over the maintenance period.

INCOME TAXES - The Company follows the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the underlying assets or liabilities are received or settled. The Company has recorded a full valuation allowance against all deferred tax assets due to the uncertainty of ultimate realizability.

INCOME PER SHARE - Income per share is computed by dividing net income by the weighted average number of common and equivalent shares outstanding during the period. Outstanding stock options are treated as common stock equivalents for purposes of computing diluted earnings per share.

Item 2. Management's Discussion and Analysis of Financial Condition

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and Results of Operations

RESULTS OF OPERATIONS FOR THREE MONTHS ENDED MARCH 31, 2001 VERSUS MARCH 31, 2000

Image Software, Inc. (the "Company") reported revenue of \$832,397 for the first quarter of 2001, an increase of 33% over \$624,193 posted for the same period a year ago. System sales, which are comprised almost entirely of software licenses, increased \$106,861, or 48%, to \$329,209 for the comparable quarters. Services and recurring annual fees increased \$101,343, or 25%, to \$503,188 when comparing the first quarter of 2001 to the same quarter in 2000. Gross profit was 74% of revenue in 2001, versus 72% in 2000, due to the increases in high-margin software revenue and recurring fees. Revenue from indirect channels increased 21% for the comparable periods. SG&A expenses of \$390,094 increased \$107,546 over the two comparable periods, primarily due to sales and marketing costs associated with increased revenue levels. The Company posted first quarter 2001 net earnings of \$221,842 or \$.07 per share, as compared to net earnings of \$161,473, or \$.06 per share, for the same quarter last year. The Company added an international distributor in the U.K. during first quarter of 2001 in an ongoing effort to expand international sales and support.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2001, cash on hand decreased \$2,764 from \$147,693 at December 31, 2000, primarily due to timing of collections on accounts receivable. The Company continues to add new features to its software product offerings and used cash of \$66,407 for additions to capitalized software.

On February 24, 2001, the Company renewed its \$200,000 line of credit agreement with a bank for another year. There were no borrowings against the line of credit at April 20, 2001.

The Company's financial resources include cash on hand, revenues from operations, and management of funds available on its revolving line of credit. In the Company's judgment, sufficient financial resources are available to meet current working capital needs. The Company's line of credit expires February 24, 2002 and bears interest at prime plus 1.5% and is secured by the Company's accounts and general intangibles.

FORWARD LOOKING STATEMENTS

Some of the statements made herein are not historical facts and may be considered "forward looking statements." All forward-looking statements are, of course, subject to varying levels of uncertainty. In particular, statements which suggest or predict future events or state the Company's expectations or assumptions as to future events may prove to be partially or entirely inaccurate, depending on any of a variety of factors, such as adverse economic conditions, new technological developments, competitive developments, competitive pressures, changes in the management, personnel, financial condition or business objectives of one or more of the Company's customers, increased governmental regulation or other actions affecting the Company or its customers as well as other factors.

PART II: OTHER INFORMATION

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Item 1.	Legal Proceedings	Inapplicable
Item 2.	Changes in Securities	Inapplicable
Item 3.	Defaults Upon Senior Securities	Inapplicable
Item 4.	Submission of Matters to a Vote of Security Holders	Inapplicable
Item 5.	Other Information	Inapplicable
Item 6.	Exhibits and Reports on Form 10-K	

(A)	Exhibit Table	Inapplicable
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(B) Reports on Form 8-K

There were no reports filed on Form 8-K for the quarter ended March 31, 2001.

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.

IMAGE SOFTWARE, INC.
(Registrant)

Date: 5/3/2001

/s/ Mary Anne DeYoung
Mary Anne DeYoung
Chief Financial Officer