

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**  
SEC Accession No. **0000950123-96-006629**

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### FILER

#### INTERNATIONAL IMAGING INC

CIK: **889662** | IRS No.: **133469649** | State of Incorpor.: **OK** | Fiscal Year End: **1231**  
Type: **10QSB** | Act: **34** | File No.: **000-26182** | Film No.: **96665110**  
SIC: **3861** Photographic equipment & supplies

Mailing Address  
*ONE ESECO RD  
CUSHING OK 74023*

Business Address  
*ONE ESECO ROAD  
CUSHING OK 74023  
9182251266*

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES ACT OF 1934

For the period ended September 30, 1996  
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934.

Commission File Number: 0-26182

INTERNATIONAL IMAGING, INC.  
(Exact name of registrant as specified in its charter)

Delaware	13-3469649
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Eseco Road, Cushing, Oklahoma	74023
(Address of principal executive offices)	(Zip Code)

(918) 225-1266  
(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 \_\_\_ No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November 8, 1996, 4,733,416 shares of common stock.

INTERNATIONAL IMAGING, INC.  
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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

## INTERNATIONAL IMAGING, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS

&lt;TABLE&gt;

&lt;CAPTION&gt;

	Sept. 30, 1996	March 31, 1996
	-----	-----
	(Unaudited)	
<S>	<C>	<C>
CURRENT ASSETS:		
Cash	\$ 37,789	\$ 12,790
Short-term investments	17,515	18,191
Accounts receivable - net	243,240	489,820
Inventories	1,420,415	1,608,226
Other current assets	60,388	19,203
	-----	-----
Total current assets	1,779,347	2,148,230
	-----	-----
PROPERTY AND EQUIPMENT:		
Building	663,848	663,848
Furniture, fixtures and equipment	556,226	520,701
Land	12,560	12,560
	-----	-----
Total property and equipment	1,232,634	1,197,109
Less-Accumulated depreciation	698,894	651,335
	-----	-----
Net property and equipment	533,740	545,774
	-----	-----
OTHER ASSETS:		
Intangible and other assets	11,771	11,324
	-----	-----
Total assets	\$2,324,858	\$2,705,328
	=====	=====

&lt;/TABLE&gt;

## INTERNATIONAL IMAGING, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS

&lt;TABLE&gt;

&lt;CAPTION&gt;

	Sept. 30, 1996	March 31, 1996
	-----	-----
	(Unaudited)	
<S>	<C>	<C>
CURRENT LIABILITIES:		
Accounts payable	\$ 520,230	\$ 667,751
Accrued expenses	152,641	165,228
Deferred compensation	20,000	20,000
Short-term debt	205,030	205,030
Current portion of long-term debt	27,471	27,471
	-----	-----
Total current liabilities	925,372	1,085,480

NONCURRENT LIABILITIES:

Long-term debt, net of current portion	1,041,472	1,032,512
Deferred compensation	50,112	60,112
	-----	-----
Total noncurrent liabilities	1,091,584	1,092,624
STOCKHOLDERS' EQUITY:		
Common stock	5,680	5,680
Additional paid in capital	2,615,540	2,615,540
Accumulated deficit	(2,313,318)	(2,093,996)
	-----	-----
Total stockholders' equity	\$ 307,902	\$ 527,224
	-----	-----
Total liabilities and stockholders' equity	\$ 2,324,858	\$ 2,705,328
	=====	=====

</TABLE>

See Notes to consolidated condensed financial statements.

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INTERNATIONAL IMAGING, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS  
(UNAUDITED)

<TABLE>  
<CAPTION>

	Three Months Ended September 30,		Six Months Ended September 30,	
	1996	1995	1996	1995
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
SALES	\$ 755,536	\$ 888,857	\$ 1,835,516	\$ 1,933,872
COST OF SALES	632,638	676,775	1,199,960	1,352,012
	-----	-----	-----	-----
GROSS PROFIT	122,898	212,082	635,556	581,860
OPERATING EXPENSES	388,991	358,707	808,291	640,050
	-----	-----	-----	-----
OPERATING PROFIT (LOSS)	(266,093)	(146,625)	(172,735)	(58,190)
OTHER INCOME (EXPENSES)				
Interest income	4,977	2,896	5,395	6,070
Interest expense	(36,410)	(17,429)	(55,358)	(31,590)
Other income (expense), net	1,536	(17,333)	3,376	(61,138)
	-----	-----	-----	-----
Total other income (expense)	(29,897)	(31,866)	(46,587)	(86,658)
	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	(295,990)	(178,491)	(219,322)	(144,848)
INCOME TAXES	0	0	0	0
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ (295,990)	\$ (178,491)	\$ (219,322)	\$ (144,848)
	=====	=====	=====	=====
NET INCOME (LOSS) PER COMMON SHARE	\$ (0.06)	\$ (0.04)	\$ (0.05)	\$ (0.03)
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	4,733,416	4,733,416	4,733,416	4,733,416
	=====	=====	=====	=====

</TABLE>

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INTERNATIONAL IMAGING, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS  
(UNAUDITED)

<TABLE>  
<CAPTION>

	Six Months Ended September 30	
	1996	1995
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (219,322)	\$ (144,848)
Adjustments to reconcile net income (loss) to net cash from operating activities		
Depreciation and amortization	48,006	23,522
Gain on sale of property & investments	--	(7,463)
Deferred compensation	(10,000)	(10,001)
Changes in current assets and liabilities -		
Decrease (increase) in accounts receivable	246,580	(179,063)
Decrease (increase) in inventories	187,811	18,745
Decrease (increase) in other assets	(41,185)	(35,387)
Increase (decrease) in accounts payable	(147,521)	165,030
Increase (decrease) in accrued liabilities	(12,587)	29,667
Other	458	(446)
NET CASH USED BY OPERATING ACTIVITIES	52,240	(140,244)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of property and equipment	--	11,519
Capital expenditures	(35,525)	(63,366)
Purchase (sale) of short-term investments	(676)	301
NET CASH USED BY INVESTING ACTIVITIES	(36,201)	(51,546)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	--	87,500
Proceeds from long-term debt	8,960	120,000
Repayment of debt	--	(31,370)
NET CASH PROVIDED BY FINANCING ACTIVITIES	8,960	176,130
NET INCREASE (DECREASE) IN CASH	24,999	(15,660)
CASH, beginning of period	12,790	51,648
CASH, end of period	\$ 37,789	\$ 35,988
Cash paid during period for -		
Interest	\$ 55,358	\$ 31,590

</TABLE>

See notes to consolidated condensed financial statements.

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INTERNATIONAL IMAGING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated condensed financial statements included herein have been prepared by International Imaging, Inc. (the "Company"), and subsidiaries, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and, in the opinion of management, include all adjustments, consisting only of normal recurring accruals, necessary to present fairly the resulting operations for the indicated periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these consolidated condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report on Form 10-KSB.

## 2. COMMON STOCK AND OPTIONS:

During the six months ended September 30, 1996, no options were exercised under the Company's stock option plan.

## 3. INCOME TAXES:

The income tax expense from continuing operations for the six month period ended September 30, 1996, varied from the statutory federal income tax rate primarily due to adjustments of a valuation allowance related to the realizability of net operating loss carryforwards. The Company's net tax operating loss carryforwards expire at specific future dates and utilization of certain carryforwards is limited to specific amounts each year. Due to past performance and the expiration dates, the ultimate realization of such tax benefits is uncertain. The Company has established a valuation allowance against these carryforward benefits and will recognize the benefits only as reassessment demonstrates they are realizable. Realization is primarily dependent upon future earnings.

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

In December 1995, the Company reorganized its marketing operations and changed its method of distribution from dealers with protected territories to field marketing representatives. The decision was made because sales by the dealer network had been declining for several quarters and the dealers were not carrying the inventory the Company felt was appropriate for maximum market penetration. The nine field representatives with whom the Company has entered into contracts are experienced in the photographic and x-ray fields and it is anticipated they will produce greater sales than were forthcoming under the dealer system.

### A. CONSOLIDATED RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 1996 VS. THREE MONTHS ENDED SEPTEMBER 30, 1995

Sales decreased to \$755,536 for the quarter ended September 30, 1996 compared to \$888,857 for the quarter ended September 30, 1995. Processor sales for the second quarter of fiscal 1996 were \$198,000 compared to \$254,000 during the same period in 1995. A price increase was implemented on the smaller processors resulting in reduced demand for the machines priced between \$10,000 and \$23,000. This decrease accounted for approximately 40% of the total decrease in sales for the quarter in 1996 over the comparable period in 1995. Cost of goods sold increased to 83.7% of sales for the second quarter ended September 30, 1996 compared to 76.1% of sales for the same period in 1995. The more profitable product lines also decreased by approximately \$78,000 due to slack demand which management thinks is merely a delay in new orders and not a loss of production. Photographic processors have a lower gross profit margin than proprietary manufactured product lines such as enlargers and densitometers resulting in the reduced profitability for the quarter.

SIX MONTHS ENDED SEPTEMBER 30, 1996 VS. SIX MONTHS ENDED SEPTEMBER 30, 1995

During the six month period ending September 30, 1996 as compared to the same period in 1995, sales decreased by 5.1% percent during the period, while cost of sales decreased by 11.3%. Gross profit margins increased from 30.1% of sales in 1995 to 34.6% of sales in 1996. This was primarily due to a small relative decrease in sales of photographic processors which have lower sales margins than the products manufactured by the Company and reductions from the cost cutting programs.

Operating expenses as a percentage of sales increased from 33.1% in 1995 to 44.0% in 1996. This was caused primarily by the additional legal and accounting costs required due to SEC filings and commissions paid to the contract field marketing representatives.

### B. LIQUIDITY AND CAPITAL RESOURCES

Net working capital decreased by approximately \$209,000 compared to March 31, 1996. The working capital ratio was approximately two to one at September 30, 1996. This decrease was a reflection of the reduction in accounts receivable, inventory, and accounts payable.

The ability of the Company to continue to expand its operations through the expansion of existing facilities, introduction of new products, or the acquisition of new facilities or businesses, may require additional funding beyond the Company's current working capital. Such additional funding may come from public or private financial sources, bank financing or a combination thereof. However, there are no assurances that any such additional funds may be obtained.

Net cash provided by operating activities was \$52,240 for the six months ended September 30, 1996, as compared to \$140,244 used by operations for the same period in 1995. The change was due primarily to the decrease in accounts receivable and inventories, and an increase in accounts payable as a result of decreased sales levels.

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The Company's liquidity may be adversely affected by three market factors. First, liquidity could be adversely affected if the Company were not able to pass along to its customers any increases in the cost of importing equipment should exchange rates deteriorate. Second, the introduction of a product by a competitor company could negatively impact the profit margins of the Company. Third, liquidity could be impacted negatively if the Company is not able to effectively contain its internal costs.

#### TRENDS

The Company anticipates that by mid-1997 nearly one-half of its sales volume will consist of processors imported from Germany. These machines are priced in U.S. dollars, but weakness in the U.S. dollar relative to the Deutsche Mark ("DM") results in higher costs to the Company. This results because the Company absorbs all exchange rate declines below 1.50 DM to the U.S. dollar under an agreement entered into April 1, 1995. This agreement calls for the Company to adjust its payments to Colenta so that Colenta will not receive less than 1.50 DM to the U.S. dollar on purchases from Colenta by the Company. This same agreement sets a ceiling of 1.67 DM to the dollar so that if the dollar should strengthen against the Deutsche Mark the Company will enjoy a benefit should the exchange rate exceed 1.67 Marks. On November 1, 1996 the exchange rate was 1.5145 DM to the U.S. dollar. The cost of this agreement has not been material to the Company.

Sales have declined substantially relative to the prior quarter and to the quarter ended one year previously. Because management is concerned that the overall sales trend is flat or declining for conventional photographic products, the Company is developing a digital imaging system that it is anticipated will strengthen the Company's marketing and financial position. At this time, the Company expects to have the product ready to sell by March 1997, but there can be no assurances the Company will in fact be able to develop such a product prior to various competitors introducing similar equipment. Further, even if the Company does develop such a product, there can be no assurances that the Company will have the financial capability to manufacture and market such a product.

#### PART II - OTHER INFORMATION

##### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits:
  - Exhibit 27-Financial Data Schedule
- (b) Reports on Form 8-K:

The following reports on Form 8-K were prepared and filed during the quarter ended September 30, 1996:

None

SIGNATURES

Pursuant to the regulations of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed in its behalf by the undersigned thereunto duly authorized.

INTERNATIONAL IMAGING, INC.

Date: November \_13\_, 1996

/s/ Arthur A. Kaminshine  
-----  
Arthur A. Kaminshine, President

Date: November \_13\_, 1996

/s/ Edward L. Handlin  
-----  
Edward L. Handlin,  
Chief Financial Officer



<TABLE> <S> <C>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONDESED CONSOLIDATED FINANCIAL STATEMENTS OF INTERNATIONAL IMAGING, INC. AND SUBSIDIARIES FOR THE PERIOD ENDED SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-QSB QUARTERLY REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 1996 OF INTERNATIONAL IMAGING, INC.

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