

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

QUINTEK TECHNOLOGIES INC
Form 10QSB
May 21, 2004

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

FORM 10-QSB

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

For the Quarterly Period Ended March 31, 2004

or

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

Commission File Number 000-29719

QUINTEK TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

State of California

77-0505346

(State or other jurisdiction of
incorporation or organization)

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

537 Constitution Ave., Suite B
Camarillo, California 93012

(Address of principal executive office)

Registrant's telephone number: 805-383-3914

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 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

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Act). Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant has filed all documents and reports required to be
filed by Section 12,13, or 15(d) of the Securities Exchange Act of 1934 after
the distribution of securities under a plan confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

On May 11, 2004 a total of 48,749,994 shares of the registrant's common stock
were issued and outstanding.

Transitional Small Business Disclosure

Format: Yes No

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

TABLE OF CONTENTS

PART I	FINANCIAL INFORMATION
Item 1.	Financial Statements
	Balance Sheets
	Statement of Operations
	Statements of Cashflows
	Notes to Financial Statements
Item 2.	Management's Discussion and Analysis
Item 3.	Controls and Procedures
PART II	OTHER INFORMATION
Item 1.	Legal Proceedings
Item 2.	Changes in Securities
Item 3.	Defaults Upon Senior Securities
Item 4.	Submission of Matters to a Vote of Security Holders
Item 5.	Other Information
Item 6.	Exhibits and Reports on Form 8-K
	Signatures
	Exhibit 31.1
	Exhibit 31.2
	Exhibit 32.1
	Exhibit 32.2

2

Index

PART I	FINANCIAL INFORMATION	4
Item 1	Financial Statements	4
Item 2	Management's Discussion and Analysis	14
Item 3	Disclosure Controls and Procedures	15
PART II	OTHER INFORMATION	15
Item 1	Legal Proceedings	15
Item 2	Changes in Securities	15
Item 3	Defaults Upon Senior Securities	15
Item 4	Submission of Matters to a Vote of Security Holders	15
Item 5	Other Information	15
Item 6	Exhibits and Reports on Form 8-K	16
	Signatures	18

3

PART I - FINANCIAL INFORMATION

Item 1.	Financial Statements
---------	----------------------

QUINTEK TECHNOLOGIES, INC.
BALANCE SHEET
MARCH 31, 2004
(Unaudited)

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

ASSETS

CURRENT ASSETS:

Cash & cash equivalents	\$	50,135
Accounts receivable (net of allowance for doubtful accounts of \$17,684)		7,020
Inventory		13,038
Prepaid expenses		1,553

Total current assets		71,747

PROPERTY AND EQUIPMENT, net		26,184
-----------------------------	--	--------

OTHER ASSETS:

Deposits		2,395
Intangible assets, net		23,455
Investments		28,778
Other assets		889

	\$	153,447
		=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Accounts payable & accrued expenses	\$	315,026
Factoring Payables		20,000
Payroll and payroll taxes payable		210,175
Payroll taxes assumed in merger		96,661
Loans payable-stockholders		244,056
Note Payable - Other		19,484
Convertible Bonds		62,495
Convertible Notes		300,000
Unearned Revenue		100,184
Liabilities in process of conversion to stock		470,629

Total current liabilities		1,838,711

Long Term Debt , net of current portion		25,729
---	--	--------

COMMITMENT AND CONTINGENCIES

STOCKHOLDERS' DEFICIT

Common stock, .001 par value; Authorized shares 50,000,000		
Issued and outstanding shares 48,749,994		487,500
Additional paid in capital		20,471,680
Prepaid consulting fees		(39,442)
Accumulated deficit		(22,630,731)

Total stockholders' deficit		(1,710,992)

	\$	153,447
		=====

The accompanying notes are an integral part
of these unaudited financial statements.

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

(Unaudited)

	Three months ended March 31, 2004		2003	Nine months ended March 31, 2004	
	-----	-----	-----	-----	-----
Net revenue	\$ 46,775	\$ 100,838	\$ 232,200	\$	
Cost of revenue	38,300	56,510	151,883		
Gross profit	8,475	44,328	80,317		
Operating expenses					
Selling, general and administrative	203,312	161,645	615,770		
Stock based compensation for services	--	151,000	15,000		
Total operating expenses	203,312	312,645	630,770		
Loss from operations	(194,837)	(268,317)	(550,453)		
Non-Operating Income (expense):					
Investment Income	16	--	16		
Other Income	(282)	(3,351)	5,564.17		
Interest expense	(5,696)	(13,440)	(22,524)		
Total non-operating income (expense)	(5,962)	(16,791)	(16,943)		
Loss before income tax	(200,799)	(285,108)	(567,397)		
Provision for income tax	800	--	800		
Net loss	\$ (201,599)	\$ (285,108)	\$ (568,197)	\$	
Basic and diluted net loss per share	\$ (0.004)	\$ (0.006)	\$ (0.012)	\$	
Basic and diluted weighted average shares outstanding	48,749,994	44,577,008	47,798,721		

* Weighted average number of shares used to compute basic and diluted loss per share is the same since the effect of dilutive securities is anti-dilutive.

The accompanying notes are an integral part
of these unaudited financial statements.

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$	(568,197)	\$
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization		35,755	
Stock based compensation for services		15,000	
Warrants used for services		41,572	
Liabilities in process of conversion		1,960	
(Increase) decrease in current assets:			
Receivables		66,098	
Inventory		(8,667)	
Other Assets		7,728	
Prepaid Expenses		(40,995)	
Investments		(16)	
Increase (decrease) in current liabilities:			
Payroll Payables		47,449	
Unearned Revenues		59,150	
Other liabilities and accrued expenses		(164,852)	
Accounts payable		133,911	
		-----	-----
Total Adjustments		194,093	
		-----	-----
Net cash used in operating activities		(374,104)	
		-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property & equipment		(13,412)	
Decrease in other assets		-	
Increase) decrease in employer receivables		3,599	
		-----	-----
Net cash used in investing activities		(9,813)	
		-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Factored Payables		(126,890)	
Proceeds from factor		-	
Loans Payable - Stockholders		211,756	
Notes Payable		8,224	
Convertible Bonds		(89,200)	
Convertible Notes		300,000	
Proceed from issuance of common stock		109,000	
		-----	-----
Net cash provided by financing activities		412,890	
		-----	-----
NET INCREASE IN CASH & CASH EQUIVALENTS		28,973	
CASH & CASH EQUIVALENTS, BEGINNING BALANCE		21,162	
		-----	-----
CASH & CASH EQUIVALENTS, ENDING BALANCE	\$	50,135	\$
		=====	=====

The accompanying notes are an integral part of these unaudited financial statements.

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1. Description of business

The Company was originally incorporated under the laws of the State of California on April 16, 1993, as Quintek Electronics, Inc. On January 14, 1999, the Company merged with Pacific Diagnostic Technologies, Inc. in a business combination accounted for as a purchase. The acquisition took place under a plan of reorganization. Quintek Electronics, Inc. ("QEI") became public when it was acquired by Pacific Diagnostic Technologies, Inc. ("PDX") through a reverse merger and Chapter 11 Plan of Reorganization. Under the plan, all assets of QEI were sold to PDX, all PDX management resigned once the Plan was confirmed, and QEI's management and operating plan were adopted by the new operating entity. Shortly after the confirmation of the plan, the name of the reorganized debtor was changed to Quintek Technologies, Inc. ("QTI"). QTI assumed the assets, liabilities, technology and public position of both QEI and PDX. At the time of the merger, PDX was a no operating public entity and QTI has no intention of carrying on the former operations of PDX.

The plan was structured to compensate all related parties with common stock and units. Each unit consisted of one share of common stock, one Class A warrant, one Class B warrant, one Class C warrant and one Class D warrant. PDX shareholders received unrestricted units at a ratio of one QTI unit for 25 shares of PDX stock, resulting in a distribution of 310,535 units. PDX creditors received unrestricted QTI units at a ratio of one QTI unit for \$3 of previous PDX debt, resulting in a net distribution of 885,549 units. Chapter 11 administrators and consultants received approximately 610,000 unrestricted QTI shares, attorneys received 220,000 unrestricted units and market-makers received 200,000 unrestricted units. QEI shareholders received 11,096,167 shares of restricted common stock.

On February 24, 2000, the Company acquired all of the outstanding common stock of Juniper Acquisition Corporation ("Juniper"). For accounting purposes, the acquisition has been treated as a capitalization of the Company with the Company as the acquirer (reverse acquisition).

The Company was established for the primary purpose of developing, manufacturing, and distributing the 4300 Aperture Card Imaging System technologies, used for recording digital images on aperture card media ("the 4300 system"). Aperture cards are small, rectangular cards each of which contains a 35mm strip of microfilm, which is used for storing visual information. The 4300 system is intended to eliminate the problems of conventional aperture card manufacturing by producing aperture card media with a chemical free process. The chemistry and fumes involved with conventional photographic film development may be hazardous and the waste material resulting from the chemical process may be considered hazardous material. The Company's 4300 system does not use a chemical process and does not produce any hazardous material.

2. Basis of Presentation

In the opinion of management, the accompanying unaudited financial statements of Quintek Technologies, Inc. (the "Company") include all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly its financial position as of March 31, 2004, the results of operations for the nine months ended March 31, 2004 and 2003, and cash flows for the nine months ended March 31, 2004 and 2003. The results of operations for the nine months ended March 31, 2004 and 2003, are not necessarily indicative of the results to be expected for the full year or for any future period. The information included in this Form 10-QSB should be read in conjunction with Management's Discussion and Analysis and financial statements and notes thereto included in the Company's 2003 Form 10-KSB.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Major Customers

The Company had one customer that accounted for 54% of revenue for the nine month period ended March 31, 2004. Accounts receivable from this major customer was \$-0- at March 31, 2004.

The Company had two customers that accounted for more than 67% of revenue for the nine months ended March 31, 2003. Accounts receivable from these major customers was approximately \$137,649 at March 31, 2003.

Major Suppliers

There are currently only two known suppliers of aperture cards that use dry silver film. A continued supply of aperture card media is crucial to the success of the Company because without cards, customers have no use for the Company's equipment, services and software.

Payroll Taxes-Assumed in Merger

The Company assumed \$205,618 of payroll tax liabilities in the merger with Pacific Diagnostic Technologies, Inc. The balance at March 31, 2004 is \$96,661.

Research and Development

Research and development costs are charged to operations when incurred and are included in operating expenses. The amount charged to operations for the nine month period ended March 31, 2004 was \$5,022. The amount charged to operations for research and development for the nine month period ended March 31, 2003 was \$42,375.

Advertising

The Company expenses advertising costs as they are incurred. Advertising expense was \$143 and \$11,572 for the nine month periods ended March 31, 2004 and 2003, respectively.

Income Taxes

The Company accounts for income taxes using the liability approach to financial accounting and reporting. Current income taxes are based on the year's income taxable for federal and state reporting purposes.

The Company has a deferred tax asset due to net operating loss carry forwards and temporary taxable differences due to stock-based compensation for income tax purposes. The deferred tax asset is \$2,560,000 as of March 31, 2004. However, due to the ongoing nature of the losses and the potential inability of the Company to ever realize the benefit, a valuation allowance has been established for 100% of the deferred tax asset. Net operating loss carry forwards expire at various times through the year 2021.

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments:

8

Cash and Cash Equivalents. The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts Receivable and Accounts Payable. The carrying amount of accounts receivable and accounts payable in the balance sheet approximates fair value.

Short-Term and Long-Term Debt (including factoring payable). The carrying amount of the revolving credit facility approximates fair value.

The carrying amounts of the Company's financial instruments at March 31, 2004, approximate fair value.

3. Going Concern

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern; however, the Company has sustained substantial operating losses. In view of this matter, realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements, and the success of its future operations.

The Company's management is unable to determine how long its cash flow will sustain its operations or whether certain creditors will initiate actions to collect amounts due. Accordingly, the Company will require an additional capital infusion or revenues from additional sales to continue operations. Management is not certain if additional capital or sales proceeds will become available and is considering other strategic alternatives, which may include a merger, asset sale, or another comparable transaction, or financial restructuring. If unsuccessful in completing a strategic transaction, the Company may be required to cease operations.

4. Net Loss Per Share

Basic net loss per share is based on the weighted average number of common shares outstanding of 47,595,959 and 44,577,008 for the nine month periods ended March 31, 2004 and 2003, respectively. The basic and diluted net loss per share calculations are the same because potential dilutive securities would have had an antidilutive or immaterial effect.

9

5. Convertible Bonds

Bonds payable with interest at 9%, due on various dates in 2001 and 2002, convertible to shares of common stock in increments of \$1,000 or more.	\$ 21,354
Bonds payable with interest at 12%, due July 2002, convertible to shares of common stock in increments of \$500 or more.	41,141
	\$ 62,495

Certain of the outstanding convertible bonds have matured as of December 31, 2002. The holders of the matured bonds do not wish to renew the bonds and have asked for payment; however, the Company does not have the cash to repay these bonds.

Bondholders have been asked to exchange their bonds for Series B preferred stock. As of March 31, 2004, holders of \$198,000 of the bonds including accrued interest had acted on this. The \$198,000 is included in the liability section of the financials under "Liabilities in Process of Conversion to Stock," since the preferred stock has not been issued.

6. Convertible Notes

The company issued \$ 200,000 convertible notes during the quarter ending March 31, 2004. Each note shall bear a simple interest rate of 10%. Notes will be convertible at six cents into the common stock of the company. The total convertible notes at March 31, 2004 amounted to \$ 300,000.

7. Loans Payable - Stockholder

The Company has borrowed monies from the stockholders. The company borrowed \$111,756 from the stockholders during the quarter ending March 31, 2004. The total loans payable to the stockholder at 03/31/2004 amounts to \$ 244,056.

8. Commitments and Contingencies

a) Operating Leases

The Company leases its California office facility under a non-cancelable operating lease that requires total monthly rental payments of \$2,846. The lease expired on March 31, 2002 and the Company has exercised the option to extend the lease an additional 24 months. The lease contains a rental payment escalation clause. The Company leases its Idaho office facility under a month-to-month rental agreement at \$1,384 per month. For the nine months ended March 31, 2004, rent expense for these operating leases totaled \$ 38,070.

b) Purchase Obligation

The Company has established a licensing agreement with Qtek Aperture Card AB. Under the agreement, the Company is required to purchase at least 25 of the Q4305 units at approximately \$18,000 each before June 30, 2004. As of March 31, 2004, the Company had purchased 15 units under the agreement.

c) Income Tax Return Filings

The Company has not filed income tax returns for several years. Due to operating losses, income tax liability and penalties would not be substantial. However, the State of California could potentially revoke the Company's charter if the Company does not become current on its income tax return filings.

10

d) Securities and Exchange Commission Inquiry

On September 17, 2002, the Company was advised by the staff of the U.S. Securities and Exchange Commission that they will recommend that the Commission file civil injunctive lawsuits against the Company and its president, Thomas W. Sims. The suits would allege that the Company violated Section 17(a) of the Securities Act of 1933 and Sections 10(b) and 13(a) of the Securities Exchange

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

Act of 1934 and Rules 10b-5, 13a-1, and 13a-13, based on false and misleading statements in press releases disseminated by the Company on October 22, 2001 and October 25, 2001, regarding the Company's investment in PanaMed Corp. and the press releases disseminated on January 8, 2002 and March 20, 2002, and failure to timely file annual and quarterly reports with the Commission. On March 25, 2003, the Company signed, without admitting or denying the allegations, a proposed settlement agreement with the U.S. Securities and Exchange Commission, which permanently restrains and enjoins the Company from engaging in acts which would constitute violations of these regulations in the future. On August 6, 2003, a final judgment was entered by the U.S. District Court, Central District of California, against the Company which permanently enjoined the Company from violating Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by using any means or instrumentality of interstate commerce, or of the mails, or of any national securities exchange: (A) to employ any device, scheme or artifice to defraud; (B) to make any untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (C) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security. Further, the final judgment permanently enjoined the Company from violating Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 promulgated thereunder, by failing to file with the Commission in accordance with Commission rules and regulations, information and documents required by the Commission to keep current information and documents required in or with an application or registration statement filed pursuant to Section 12 of the Exchange Act or annual or quarterly reports as the Commission has prescribed.

9. Stockholders' Deficit

a. Common Stock and Warrants

The Company has authorized 50 million shares of common stock with a par value of \$0.01 per share. Each share entitles the holder to one vote. There are no dividend or liquidation preferences, participation rights, call prices or rates, sinking fund requirements, or unusual voting rights associated with these shares. At March 31, 2003, there were 47,027,008 shares of common stock issued and outstanding. During the three months ended March 31, 2003, the Company established the Class L warrants and initiated the process of establishing the Class A Preferred stock which underlies these warrants.

Upon surrender of either a Class J or L warrant, the holder is entitled to purchase one share of the Company's stock at the designated exercise price. For each warrant class, the number of warrants outstanding, the exercise price, the type of underlying stock, and the expiration dates are defined as follows:

Class J - 6,458,384 warrants to purchase common restricted stock with an exercise price of \$1.00 per share expired on January 14, 2004.

Class L - warrants were established in March 2003, with an exercise price of \$.25 per share, an expiration date of January 14, 2005 and Series A Preferred as underlying stock. As of March 31, 2003, holders of Class J warrants to purchase 5,686,861 shares of common stock have agreed to exchange their warrants for 2,843,431 Class L Warrants (i.e. a two for one exchange ratio).

11

At March 31, 2003, the outstanding warrants of classes A, B, C, D, E, F, G, H, and I have expired.

No shares were issued for the quarter ended March 31, 2004.

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

b. Common Stock Reserved

At March 31, 2003, common stock was reserved for the following reasons:

Conversion of bonds	1,763,585 shares
Exercise of Class J warrants classified as stock options	195,000 shares
Exercise of Class J warrants	576,523 shares

c. Stock Option Agreements

The Company previously had granted stock options to employees through Class J warrants. As of March 31, 2004 no options were outstanding to employees; however, 195,000 Class J warrants remain outstanding to former employees. The Company did not issue any option in the three month period ended March 31, 2004 and 2003.

The Company applies APB Opinion 25 in accounting for its fixed stock compensation. Compensation cost charged to operations for the nine months ended March 31, 2004 and 2003 was \$-0-.

The company issued 200,000 warrants during the quarter for consulting services to be provided over the period of three years beginning February 2004. The fair value of the warrants is estimated on the grant date using the Black-Scholes Model. The following assumptions were made in estimating fair value.

Annual rate of quarterly dividends	0.00%
Discount rate - Bond Equivalent Yield	3.50%
Expected life	3 years
Expected volatility	294%

Pending stock transactions needing shareholder approval:

Series A Preferred Stock

During the third quarter of the fiscal year ended June 30, 2003, the board of directors allocated 7,000,000 shares out of an authorized 10,000,000 shares of Preferred stock to be used to establish Series A Preferred stock with general terms as defined below: Par value - \$0.00; Liquidation Preference - \$0.25 per share plus any unpaid accumulated dividends; Dividends - cumulative annual rate of \$0.005 per share; Conversion Rights - convertible to common stock at a 1:1 ratio if and when a majority of the Company's shareholders vote to approve an increase in authorized common shares from 50,000,000 to 200,000,000; Redemption Rights - the Company has the right to redeem part or all of the stock upon 30 days written notice at a rate of \$0.25 per share plus all accumulated and unpaid dividends; Voting Rights - one vote per share on all matters requiring shareholder vote.

Prior to issuing the Series A Preferred stock, the Company will need to modify its articles of incorporation and obtain approval on such changes from a majority of the shareholders. A shareholder meeting is scheduled for later this year to vote on this and other corporate matters.

12

Series B Preferred Stock

During the third quarter of fiscal year ended June 30, 2003, the board of directors allocated 1,613,680 shares out of a remaining authorized 3,000,000 shares of Preferred stock to be used to establish Series B Preferred stock with

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

the following terms: Par Value - \$0.00; Liquidation Preference - \$0.25 per share plus any unpaid accumulated dividends; Dividends - cumulative annual rate of \$0.0005 per share when and as declared by our Board of Directors; Conversion Rights - convertible to common stock at a 1:5 ratio (i.e. 1 share of Preferred Series B stock is convertible to 5 shares of common stock) if and when a majority of the Company's shareholders vote to approve an increase in authorized common shares from 50,000,000 to 200,000,000; Redemption Rights - the Company has the right to redeem part or all of the stock upon 30 days written notice at a rate of \$0.25 per share plus all accumulated and unpaid dividends; Voting Rights - one vote per share on all matters requiring shareholder vote.

Prior to issuing the Series B Preferred stock, the Company will need to modify its articles of incorporation and obtain approval on such changes from a majority of the shareholders. A shareholder meeting is scheduled for later this year to vote on this and other corporate matters.

Liabilities in process of conversion to stock:

The Company has entered into agreements with various vendors and employees to convert their liabilities into the above, two preferred series of stock pending approval of same. The conversion rate varies.

10. Related Party Transactions

There are no related party transactions during the quarter ending March 31, 2004 and March 31, 2003.

Factoring payable at March 31, 2004 comprises of \$20,000 due to a stockholder. There has been no change in Factoring Payable during the quarter ending March 31, 2004.

11. Factoring Payable

The Company has entered into an agreement with a factoring company ("the Factor") to factor purchase orders with recourse. The Factor funds 97% or 90% based upon the status of the purchase order. The Factor has agreed to purchase up to \$4,800,000 of qualified purchase orders over the term of the agreement; however, the Factor does not have to purchase more than \$200,000 in any given month. The agreement term is from June 2, 2003 to June 2, 2005. The Company will pay a late fee of 3% for payments not made within 30 days and 5% for those not made in 60 days. At the option of the Factor, the late fees may be paid with Company stock. If paid by Company stock, the stock bid price will be discounted 50% in computing the shares to be issued in payment of the late fee.

The Company has agreed to issue the Factor 1,500,000 warrants purchasing the Company's stock as a fee for the factoring agreement. The stock issued under the warrants can be purchased at the average closing price of the Company's stock for the 90 days prior to the factoring agreement.

The Company has also issued the Factor bonus warrants. The Factor will receive two (2) bonus warrants for each dollar of purchase orders purchased. The bonus warrants will be exercisable at the average closing price of the Company's common stock for the 90 days prior to the purchase order transactions they represent or a 50% discount to the closing price of the Company's stock at the time exercised at the option of the Factor. Both warrants are for a five year period.

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

2.1 Results of Operations

Our revenues totaled \$232,200 and \$323,449 for the 9 months ended March 31, 2004 and 2003, respectively, a decrease of \$91,249 (39%) in 2004, primarily due to a decrease in machine sales. Revenues in 2003 resulted primarily from sales of equipment, aperture card media, and maintenance services.

For the nine months ended March 31, 2004 and 2003, cost of sales was \$151,883 and 169,463, respectively, an decrease of \$17,580 (10%) in 2003. The cost of sales for both periods consisted primarily of labor and production costs.

Operating expenses totaled \$ 630,770 for the nine month period ended March 31, 2004 as compared to \$ 616,290 for the six month period ended March 31, 2003, a \$14,480(2%) increase in 2004, primarily due to a increase in overhead expenses.

During the three months ended March 31, 2004, we sold 14,000 aperture cards, and renewed 1 maintenance contracts completed 3 network upgrades and sold 1 software upgrade.

2.2 Liquidity and capital resources

We have historically financed operations from the issuance of debt, the sale of common stock and the conversion of common stock warrants. On March 31, 2004, we had cash on hand of \$50,135 and working capital of (\$1,766,964) as compared to cash on hand of \$5,850 and working capital of (\$1,230,506) at period-ending March 31, 2003.

Net cash used in operating activities of (\$374,104) and (\$216,441) for the nine months ended March 31, 2004 and 2003, respectively, is attributed primarily to payroll, payables and accounts receivable.

Net cash used for investing activities of (\$9,813) for the nine months ended March 31, 2004 and (\$9,411) for the nine months ended March 31, 2003.

Net cash provided by financing activities of \$412,890 for the nine months ended March 31, 2004 is based primarily on proceeds from convertible notes. Net cash provided by financing activities of \$229,100 for the Nine months ended March 31, 2003 is based primarily on proceeds from common stock and convertible bonds

We assumed certain payroll tax liabilities as the result of the merger with Pacific Diagnostic Technologies, Inc., on January 14, 1999. We have negotiated a payment plan with the Internal Revenue Service to pay the payroll taxes assumed in the merger.

We believe that the receipt of net proceeds from the issuance of debt, the sale of the common stock and the exercise of common stock warrants plus cash generated internally from sales will be sufficient to satisfy our future operations, working capital and other cash requirements for the remainder of the fiscal year. However, if we are unable to raise sufficient capital, we may need to sell certain assets, enter into new strategic partnerships, reorganize the Company, or merge with another company to effectively maintain operations. Our audit for the years ended June 30, 2003 and 2002 contained a going concern qualification.

Item 3. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

disclosure controls and procedures for the Company. Such officers have concluded (based on their evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in this report is accumulated and communicated to the Company's management, including its principal executive officers as appropriate, to allow timely decisions regarding required disclosure. The Certifying Officers also have indicated that there were no significant changes in the Company's internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

During the three month period ended March 31, 2003, we made offers to all holders of our promissory notes and convertible bonds to convert their bond principal and accrued interest into Preferred stock. As of March 31, 2004, we received commitments to convert \$198,268 of debt (\$159,000 in principal + \$39,268 in accumulated interest) into 724,077 shares of Series A Preferred stock and 648,256 shares of Series B Preferred stock. During October 2003, a convertible bond with a principal amount of \$89,200 and accumulated interest of \$17,222 was converted into 1,773,695 shares of common stock. The balance of related debt, consisting of \$82,495 in principal and \$26,768 in accrued interest, still remains outstanding. Interest continues to accrue against the principal of all outstanding bonds. The convertible bonds are unsecured, general obligations of the Company which are convertible into common stock at the option of the holders. The holders of the bonds that are in default have indicated that they do not want to convert their debt to stock and wish to be repaid in cash. At present we do not have funds to repay the indebtedness. We do not know whether we will be able to repay or renegotiate the debt. If we are unable to cure the default or renegotiate our debt, we may not be able to continue as a going concern.

Item 4. Submission of Matters to a Vote of Security Holders

During the three month period ending March 31, 2004, no matters were submitted to a vote of security holders.

Item 5. Other Information

The Company, through its wholly owned subsidiary, Quintek Services, Inc. (QSI), has entered the multi-billion dollar Business Process Outsourcing (BPO) services industry. This space is estimated to be growing significantly faster than the overall IT market and is currently valued anywhere from \$100-\$200 billion annually by a number of independent research firms.

The Company has been in the document management space for over ten years as a manufacturer and distributor of patented hardware, software and related services. The Company has many Fortune 1000 customers, and the new expansion is expected to bring rapid and substantial revenue growth,

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

The Company has drafted a business plan to expand nationally and grow to 38 sales representatives and 20 facilities nationwide. The Company has recently signed a number of business development deals to grow and expand this line of business. The Company expects to continue to execute business developments and grow operations along the lines of this plan.

The Company has recently added a number of key employees to facilitate this business expansion. The Company executed an employment agreement as of March 12, 2004 with Bob Brownell, an industry veteran, to serve as President of Quintek Technologies, Inc. Mr. Brownell has 25 years sales experience and helped to build operations start business in the same and related industries from the ground up. Mr. Brownell has served in management level positions with companies generating over \$400 million from the sales of related services. The Company executed an employment agreement with Chris deLapp as Senior Sales Executive. Mr. deLapp has worked with Affiliated Computer Systems (NYSE:ACS), a multi-billion dollar provider of related products and services, for more than 9 years. The Company has executed an employment agreement with Sam Contreras, to serve as Senior Operations Manager. Mr. Contreras has significant relevant experience in setting up and maintaining operations for various companies providing related services nationwide. The Company has executed an employment agreement with other administrative personnel with experience in efficiency evaluations for companies providing related services nationwide.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 31.1 Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer
- 31.2 Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer

(b) Reports on Form 8-K -

On January 14, 2004 we filed a Report on Form 8-K that described our Board of Directors decision to repeal our existing corporate Bylaws and adopt an entire set of new Bylaws which are better suited for use by a public company.

On February 9, 2004 we filed a Report on Form 8-K that described a recent presentation to the Southern California Investors Association in which we disclosed future plans for expanding the business, which includes; positioning our company as a mass storage vendor, acquiring an experienced mass storage sales force, integrating our product line with other products, forming new partnerships, and acquiring existing service bureau operations.

On March 25, 2004 we filed a Report on Form 8-K that described the resignation

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

of Heard, McElroy & Vestal ("HMV") as the Company's its independent public accountants. The decision to resign by HMV did not involve a dispute with the Company over accounting policies or practices. On March 24, 2004, the Company appointed Kabani & Company, Inc., Certified Public Accountants("Kabani") as its new independent public accountants. The decision to retain Kabani was made by the Company's Board of Dirctors.

On March 31, 2004 we filed a Report on Form 8-K that described a letter to shareholders and customers that announced the Company's expansion, through its subsidiary, Quintek Services, Inc. ("QSI"), into the service industry as a 'Business Process Outsourcing' (BPO) services provider. The letter announced employment of a new President of QSI and also disclosed a Company strategy to develop a complete information lifecycle management (ILM) solution for cradle-to-grave document storage.

17

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.

QUINTEK TECHNOLOGIES, INC.

Date: May 20, 2004

/s/ ROBERT STEELE

Robert Steele, Chairman
and Chief Executive Officer

Date: May 20, 2004

/s/ ANDREW HAAG

Andrew Haag, Chief Financial Officer

18