ON SITE SOURCING INC
Form 10-Q
May 15, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2001
Commission File No. 0-20947

ON-SITE SOURCING, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**54 1648470**
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification Number)

1111 North 19th Street, Sixth Floor, Arlington, Virginia 22209

(Address of principal executive offices)

(703) 276-1123

(Registrant s telephone number)

NONE

(Former name, former address and former fiscal year, if changed since last report)

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 ¨.

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of May 15, 2001:

Common Stock, $.01 par value	4,943,625 shares

ON-SITE SOURCING, INC.

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ON-SITE SOURCING, INC.
BALANCE SHEETS

	Unaudited March 31, 2001	December 31, 2000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$3,837	$3,428
Accounts receivable, net	9,556,082	9,762,093
Prepaid supplies	678,672	677,771
Prepaid expenses	559,262	471,764
Prepaid income taxes	485,765	715,674
Notes receivable, current portion	144,691	131,355
Total current assets	11,428,308	11,762,085
Property and equipment, net	14,730,914	15,024,026
OTHER ASSETS		
Notes receivable, net of current portion	83,245	117,753
Goodwill, net	985,596	1,011,944

Other assets, net	211,087	163,423
	$27,439,150	$28,079,231
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	$2,229,295	$3,149,926
Accrued and other liabilities	1,078,489	853,986
Line of credit	5,969,151	5,809,598
Current portion of long-term debt	1,830,110	1,401,184
Provision for income taxes, current	286,485	286,485
Total current liabilities	11,393,531	11,501,179
NONCURRENT LIABILITIES		
Long-term debt net of current portion	7,323,200	8,097,810
Deferred rent	189,177	189,177
Deferred income taxes	438,076	438,076
Total liabilities	19,343,983	20,226,242
Commitments and contingencies	-	-
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value, 20,000,000 shares authorized 5,057,215 and 5,057,215 shares issued and outstanding	50,572	50,572
Preferred stock,$.01 par value, 1,000,000 shares authorized, no shares issued and outstanding	-	-
Subscription receivable	(50,400)	(50,400)
Additional paid in capital	6,786,244	6,786,244
Treasury stock (113,590 shares of common stock at cost)	(396,152)	(396,152)
Accumulated Earnings (Deficit)	1,704,905	1,462,725
	8,095,169	7,852,989
	$27,439,150	$28,079,231

See notes to financial statements

ON-SITE SOURCING, INC.
STATEMENTS OF OPERATIONS

	Unaudited Three Months Ended March 31, 2001	March 31, 2000
Revenue	$9,449,649	$9,772,365
Costs and expenses		
Cost of sales	6,362,965	5,999,605
	3,086,684	3,772,760
Selling expense	897,377	910,230
Administrative expense	1,422,004	1,080,301

	2,319,381	1,990,531
Earnings from operations	767,303	1,782,229
Other income (expense)		
Other income	72,690	2,335
Other expense	(397,813)	(147,644)
	(325,123)	(145,309)
Earnings (Loss) before income taxes	442,180	1,636,920
Income tax (benefit)expense	200,000	652,000
Net (Loss) Earnings	$242,180	$984,920
Basic Shares	4,943,625	4,881,440
Basic earnings (loss) per common share	$0.05	$0.20
Dilutive Shares	4,966,710	5,262,309
Diluted earnings per share	$0.05	$0.19

See notes to financial statements

ON-SITE SOURCING, INC.

STATEMENTS OF CASH FLOWS

	Unaudited Three Months Ended March 31,	
	2001	2000
Cash flows from operating activities		
Net earnings (loss)	$242,180	$984,920
Adjustments to reconcile net earnings (loss) to net cash (used in) provided by operations		
Depreciation and amortization	540,340	302,492
Loss (gain) on disposition of equipment	25,763	-
Changes in assets and liabilities		
(Increase) decrease in accounts receivable, net	206,011	(3,120,168)
(Increase) decrease in prepaid supplies	(901)	20,415
(Increase) decrease in prepaid expenses	(87,498)	(92,078)
(Increase) decrease in other assets	(47,664)	19,406
Increase (decrease) in accounts payable - trade	(920,631)	241,384
Increase in accrued and other liabilities	270,727	284,364
Increase (decrease) in deferred rent	-	15,000
Increase (decrease) in provison for income taxes	229,909	652,004
Increase (decrease) in deferred taxes	-	-
Total Adjustments	216,056	(1,677,181)

Net cash provided by (used in) operations	458,237	(692,261)
Cash flows from investing activities		
Capital Expenditure	(277,851)	(742,076)
Net cash used in investing activities	(277,851)	(742,076)
Cash flows from financing activities		
Proceeds from sale of common stock and exercise of warrants	-	127,960
Proceeds of long-term debt agreements	-	-
Payments under long-term debt agreements	(339,530)	(51,486)
Net borrowing (payments) under line of credit agreement	159,553	1,358,013
Net cash provided by financing activities	(179,977)	1,434,487
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	409	150
Cash and cash equivalents, beginning	3,428	22,682
Cash and cash equivalents, ending	$3,837	$22,832

See notes to financial statements

ON-SITE SOURCING, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2001
(Unaudited)

1. ORGANIZATION

Nature of Business

On-Site Sourcing, Inc. (the Company) was incorporated in Virginia on December 1992 and changed its state incorporation to Delaware in January 1996. The Company provides digital imaging, document management, litigation reprographics, color & digital printing services and facilities management to law firms, corporations, non-profit organizations, accounting firms, financial institutions and other organizations throughout the East Coast of the United States. Services are performed in the metropolitan areas of Philadelphia, Pennsylvania; Washington, D.C.; Atlanta, Georgia; and New York, New York, and Gaithersburg, Maryland.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Management estimates include the allowance for doubtful accounts on accounts receivable. Actual results could differ from those estimates. Significant estimates are made when accounting for the allowance for uncollectible accounts in connection with accounts receivable.

Revenue Recognition

Revenue from reprographic and imaging services is recognized on a per copy or document basis upon completion of the services. Facilities management revenue is recognized based on monthly fixed fees and, in certain cases, on a variable per copy fee basis, as defined in facilities management agreements. Printing revenues are recognized on a job-by-job basis.

Depreciation and Amortization

Property and equipment are stated at cost. Depreciation on property and equipment is computed on a straight-line basis over the estimated useful lives of the assets ranging from two to forty years for financial reporting purposes. Accelerated methods are used for tax purposes.

Effective January 1, 1999, management reevaluated the useful life of certain equipment and, as a result, increased its estimate of the useful life of certain equipment from five to fifteen years.

Goodwill

In connection with the two acquisitions the company made in the first nine months of 2000, Goodwill in the amount of $1,053,926 was recorded and is being amortized over a period of 10 years.

Earnings (Loss) Per Common Share

Basic earnings (loss) per share exclude dilution and are calculated using the average number of shares outstanding. Diluted earnings (loss) per share is computed on the basis of the average number of shares outstanding plus the effect of outstanding stock options using the treasury stock method.

	Unaudited Three months ended March 31, 2001	2000
Net earnings (loss) available for common shareholders (A)	$242,180	$984,920
Average outstanding:		
Common stock (B)	4,943,625	4,881,440
Employee stock options	23,085	380,869
Common stock and common stock equivalents (C)	4,966,710	5,262,309
Earnings (loss) per share:		
Basic (A/B)	$0.05	$0.20
Diluted (A/C)	$0.05	$0.19

Unexercised employee stock options to purchase 1,553,869 and 85,000 shares of the Company s common stock as of March 31, 2001 and 2000, respectively, were not included in the computations of diluted earnings per share because the options exercise prices were greater than the average market price of the Company s common stock during the respective period.

3. SALE OF INFORMATION TECHNOLOGY DIVISION

On September 30, 1999, the Company entered into a purchase and sale agreement with a former stockholder and employee to sell the rights and contracts to provide certain information technology services to customers previously serviced by the Company s Information Technology Division. The sale price of $270,000 is financed by a note agreement between the Company and the former shareholder. The note accrues interest at 8% per annum, is payable in interest-only installments through October 2000 and in principal and interest installments until maturity in September 2002. At March 31, 2001, $227,936 remains payable to the Company.

In connection with the sale, the Company entered into an additional note agreement with the former shareholder in the amount of $50,000. The note accrues interest at 8% per annum and is payable in monthly principal and interest installments until maturity in October 2000 At March 31, 2001, there was no balance owed to the Company.

ACQUSITIONS

On April 12, 2000, the Company purchased certain assets and assumed certain liabilities of Legend Lithographics, Inc. and Pseudon Communications, Inc. (collectively, "Legend"), a digital printing and copying company, for $438,172 in cash. The purchase price has been allocated to the fair value of the assets acquired and liabilities assumed.

On September 6, 2000, the Company entered into a Stock Purchase Agreement with Duplicating and Design, Inc. ("D&D") a digital printing and graphic design company. Under the agreement, the Company purchased the capital stock of D&D for an aggregate purchase price of $741,078 in cash, payable in three installments through 2002. The Company has recognized the acquisition as a purchase for accounting purposes. The purchase price has been allocated to the fair value of the assets acquired and liabilities assumed. The operations of D&D are included in the operations of the Company as of the acquisition date. In connection with the Legend and D&D acquisitions, the assets acquired and liabilities assumed are as follows:

Tangible assets acquired at fair value	$356,785
Goodwill	1,053,926
Liabilities assumed at fair value	(231,461)
	$1,179,250

4. SEGMENT INFORMATION

The current services that we provide include the following segments: reprographics, imaging services, facilities management, and printing services.

Reprographics involves the copying and management of large amounts of documents extracted in their original format, from the offices and files of our customers. Our reprographic services include copying, binding, drilling, "Bates" stamping, labeling, collating, assembling and quality review. Our reprographic centers, currently located in Virginia, New York, Pennsylvania, and Georgia, are open 24 hours a day, seven days a week to handle the prompt turn around time often requested by our customers. A typical job ranges in size from single documents with a small number of pages to multiple sets of documents, which can exceed a million pages. A job is typically picked up by our in-house dispatch service and brought back to our production center. The jobs are then processed per the customer's instructions and reviewed by our quality control staff. Documents are then returned to the client via our dispatch service. Reprographic jobs are generally billed on a job-by-job basis, based on the number of copies and the level of difficulty in copying the original documents. Each of our reprographic centers are staffed with in-house technicians which service our copiers in event they need repairs.

Imaging services involves the conversion or transfer of traditional paper based and electronic based documents into electronic media or vice versa. Services provided in our Imaging Services Division primarily cater to law firms and their clients. A typical job involves a law firm that is representing a client in a litigation matter. In order for the law firm to prepare for its case it often must review a large number of documents, emails, and email attachments. As a result, the law firms often have a need to search and retrieve appropriate documents in a timely and efficient matter. In order to help meet this need, our Imaging Services Division offers case management consulting, electronic scanning of documents converting email and attachments to images, indexing/coding, optical character recognition (OCR), electronic discovery, blowback printing, training, technical support and electronic document search and retrieval services. Imaging services are typically billed on a job-by-job basis, based on the number of images and complexity of the retrieval applications.

Facilities management services allow companies to out-source certain, non-core business, back-office functions. Our target clients include companies that require a large amount of people, equipment and other resources to manage their back office requirements. Based on an analysis of our client's needs, we place our employees and equipment at the customer's premises. The particular customer's internal processes dictate the services we provide. Services we currently provide include copy room management, mailroom administration, facsimile management, supply room management, and maintenance of office equipment. At each of our facilities management locations we utilize SiteTrax, our proprietary software. SiteTrax tracks information related to copy, mail, fax, shipping and courier, materials usage, and hours worked. It also provides integrated cost accounting and invoicing information for our customers and helps them allocate expenses accordingly. Facilities management contracts, which are billed on a monthly basis, include a monthly base charge plus fees for any additional services provided.

Printing services include both black and white and color digital production of catalogs, brochures, postcards, stationary, direct mail, newsletters, and exhibit materials. Our target customers, for these services include our existing customers and other organizations requiring print media. In addition, we also provide ancillary services, which include graphic design, mailing, special finishing, storage, fulfillment, and delivery services. Printing jobs are typically billed on a job-by-job basis depending on several factors, including quantity, number of colors, quality of paper, and graphic design time.

The Company evaluates performance based on profit and loss from operations before income taxes and does not review information regarding the allocation of assets to each segment. In addition, corporate administrative costs are not allocated to each segment. There are no intersegment sales or transfers

Revenue and profit by reportable segment for the quarters ended March 31, 2001, and 2000 are as follows:

	Unaudited Three months ended March 31, 2001			
	Reprographics	**Imaging**	**FM**	**Digital Printing**
Revenue	$5,322,869	$2,698,202	$685,318	$743,260
Segment profit	$800,766	$911,396	$108,251	$(259,782)

	Unaudited Three months ended March 31, 2000			
	Reprographics	**Imaging**	**FM**	**Digital Printing**
Revenue	$6,002,699	$2,974,736	$794,930	$0.00
Segment profit	$670,511	$1,745,737	$109,393	$0.00

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

FORWARD LOOKING DISCLOSURE

Certain information included herein contains statements that are forward-looking, such as statements relating to plans for future expansion and other business development activities as well as operating costs, capital spending, financial sources and the effects of competition. Such forward-looking information is subject to changes and variations which are not reasonably predictable and which could significantly affect future results. Accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. These changes and variations which could significantly affect future results include, but are not limited to, those relating to the adequacy of operating and management controls, operating in a competitive environment and a changing environment, including new technology and processes, existing and future vendor relationships, the Company s ability to access capital and meet its debt service requirements, dependence on existing management, general economic conditions, and changes in federal or state laws or regulations.

GENERAL

On-Site Sourcing, Inc. (On-Site , Company , We or Us) provides digital imaging, document management, litigation reprographics, color & digita printing services and facilities management to law firms, corporations, non-profit organizations, accounting firms, financial institutions and other organizations throughout the East Coast of the United States. In order to meet the highly specialized requirements of each client, we offer a variety of customized reprographic and facilities management services. We provide reprographic and imaging services 24 hours-per-day, seven days-per-week including copying, binding, labeling, collating and indexing in support of complex document-intensive litigation as well as higher volume production of manuals, brochures and other materials for corporations and non-profit organizations. We also provide on-premises management of customers support services including mailroom operations, facsimile transmission, records, and supply room management and copying services.

On–Site Sourcing, Inc. was founded in 1992 and currently has locations in Virginia, Maryland, Pennsylvania, New York and Georgia.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2001 Compared With Three Months Ended March 31, 2000

Revenue for the three months ended March 31, 2001 decreased by 3% or $322,716 to $9,449,649 over the comparable period in 2000. The decrease in revenues is primarily due to a large reprographics and imaging job, approximately $2,800,000, processed during the first quarter of

2000. Revenues, for the quarter ended March 2001, also included $743,260 of digital printing revenue related to the two acquisitions completed in the second and third quarter of 2000.

As a percentage of sales, Cost of Sales for the three months ended March 31, 2001 increased to 67% from 61% over the comparable period in 2000. The increase is primarily due to our digital printing operations not operating at full capacity. Cost of Sales for our digital printing operation, was $786,555, compared to revenue of $743,260 for the quarter ending March 2001. Additional factors contributing to the increase in Cost of Sales include the growth of our imaging services division.

During the year 2000 the company invested heavily in imaging technology and personal. The company has also expanded its imaging operations to New York and Georgia. The Company expects Cost of Sales margins to improve as sufficient revenues are generated to absorb certain fixed costs associated with Cost of Sales. Cost of sales include expenses related to compensation and benefits to employees, occupancy costs, equipment costs, supplies, and other costs which are directly related to providing goods and services to our clients.

As a percentage of sales, Selling Expenses for the three months ended March 31, 2001 remained consistent at 9%, as compared to the comparable period in 2000. Selling expenses include compensation and related benefits, travel & entertainment expenditures, marketing, and other costs related to our sales staff.

Administrative Expense for the three months ended March 31, 2001 increased $341,703 to $1,422,004. The increase is primarily due to increased administrative staffing related to the two acquisitions completed during the second and third quarter of 2000 (approximately $140,000), growth and the expansion of our imaging services division to Georgia and New York (approximately $88,000), and increases in corporate administrative expenses to handle the revenue growth experienced by the company (approximately $112,000).

Other Income for the three months ended March 31, 2001 increased by $70,355 to $72,690 over the comparable periods in 2000. Rental income in the amount of $71,523, as a result of subletting the property in Alexandria, Virginia was included in other income. The Company purchased the property in 2000 for its future headquarters and Virginia production center. The Company anticipates moving into the building during the fourth quarter of 2001.

Other expense for the three months ended March 31, 2001 increased by $250,169 to $397,813 over the comparable periods in 2000. Other expense is composed of interest expense, loss on disposal of assets, and expenses related to the Alexandria, VA property, purchased by the Company for its future headquarters.

Interest expense increased from $38,530, for the three months ended March 31, 2000 to $195,517, for the three months ended March 31, 2001, representing an increase of $156,987. The increase is due to higher utilization of the Company s line of credit and also additional financing arrangements entered into by the Company, due to the acquisition of digital printing equipment. The Company s line of credit balance as of March 31, 2000 was $1,827,488 compared to $5,969,151 as of March 31, 2001.

Loss on disposal of assets totaled $87,003 for the three months ended March 31, 2000 due to the company relocating its Atlanta, Georgia facility to a less expensive facility within Atlanta, Georgia. As a result, certain leasehold improvements were written off. During the three months ended March 31, 2001 the Company wrote off approximately $25,763 of certain non-performing fixed assets.

During the three months ended March 31, 2001 the Company incurred $176,530 in expenses related to the Alexandria, VA property. Of this amount, $138,377 was interest expense incurred with the mortgage on the property. The remainder of expenses, $38,153, was expenses related to owning and maintaining the property. The Company incurred a net loss in the amount of $105,007 ($58,783 after the effect of income taxes) in connection with the Alexandria, Virginia property. The Company expects a loss of approximately $35,000 (before the effect of income taxes) per month, until the Company moves into the Alexandria, Virginia property.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our expansion and growth by utilizing internally generated cash flow, long term financing, and a commercial line of credit. We anticipate that the cash flow from operations and credit facilities will be sufficient to meet the expected cash requirements for the next twelve months. There can be no assurances that unforeseen events may not require more working capital than we have at our disposal.

In order to assure additional working capital is available to us to fund our growth and expansion, we had available a $7,000,000 working capital line of credit as of March 31, 2001. The line of credit is subject to eligible accounts receivable. The Company has available to borrow, at any given time, the lessor of the established line of credit or eligible accounts receivable. Eligible accounts receivable are 75% of accounts less than 120 days old. The working capital line of credit bears interest at the bank s prime rate of interest or the 30-day LIBOR rate plus 2.25%. The line of credit, which expires April 30, 2002, is subject to certain financial covenants; the most significant requires the company to maintain a minimum net worth of $6,000,000. At March 31, 2001 net advances totaling $5,969,151 were made under the agreement. Net worth, as defined under the agreement, as of March 31, 2001 was at $7,063,347.

In addition, we have obtained financing for certain equipment and vehicles. The notes are secured by the equipment and vehicles, at rates ranging from 5% to 12% and mature at various times between 2000 and 2008.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We believe our market risk exposure with regard to our financial instruments is limited to changes in interest rates. Based upon the composition of our variable rate debt outstanding at March 31, 2001 which is primarily borrowings under the working capital line of credit, we do not believe that a hypothetical increase in the bank s prime rate of interest or the 30 day LIBOR rate would be material to net income.

Part II. Other Information

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

In July 2000, the Company signed a definitive merger agreement with U.S. Technologies Inc. pursuant to which U.S. Technologies will acquire the Company. On April 2, 2001 the Company terminated the agreement with U.S. Technologies pursuant to its right to terminate the agreement if the average stock price of U.S. Technologies Common Stock during the twenty trading-day period ending three full trading-days before the close of the merger is below $0.67.

Item 6. Exhibits and Reports

(A) EXHIBITS

None.

(B) REPORTS ON FORM 8-K
The Company filed Form 8-K on April 4, 2001

SIGNATURE

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.

ON-SITE SOURCING, INC.

(Registrant)

May 15, 2001 /s/ Jason Parikh

Date	Jason Parikh Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)