

SIELOX INC
Form 10-Q/A
December 10, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q/A

(Amendment No.1)

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

For the quarterly period ended September 30, 2007

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

For the transition period from _____ to _____

Commission file number 000-29423

SIELOX, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-3351937
(I.R.S. Employer Identification No.)

170 East Ninth Ave., Rummelmede, NJ 08078

(Address of principal executive offices - zip code)

(856) 861-4579

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(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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12-b of the Exchange Act.

Large Accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the registrant's common stock as of December 4, 2007 was 35,982,295.

EXPLANATORY NOTE

Sielox, Inc. (the "Company") is filing this Amendment No.1 (this "Amendment") to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, originally filed with the Securities and Exchange Commission on November 19, 2007 (the "Original Report"), to correct (1) the number of outstanding shares listed on the cover page of the Original Report and in the Company's Condensed Consolidated Balance Sheet and (2) the "Net loss per share," and the "Weighted average number of common shares outstanding" in the Company's Condensed Consolidated Statement of Operations. Other than these changes, this Amendment does not amend, update or change any other disclosures contained in the Original Report.

ITEM 1. FINANCIAL STATEMENTS

SIELOX, INC. (formerly known as DYNABAZAAR, INC.) AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(\$ in thousands)

	September 30, 2007 (unaudited)	December 31, 2006 (audited)
ASSETS		

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Current assets:		
Cash and cash equivalents	\$ 2,826	\$ 2,938
Accounts receivable, net of allowance for doubtful accounts of \$34 and \$10 in 2007 and 2006, respectively	4,270	2,053
Inventory, net	5,531	3,738
Prepaid expenses	579	496
Total current assets	13,206	9,225
Fixed assets		
Trade Name	1,587	1,587
Other intangibles, net	2,659	2,933
Goodwill	2,029	
Deposits	48	4
	631	694
Long-term prepaid expenses		
Total assets	\$ 20,548	\$ 14,535
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,517	\$ 1,436
Accrued expenses and other current liabilities	356	185
Line of credit	1,387	729
Obligations under capital lease	12	
Total current liabilities	5,272	2,350
LONG TERM LIABILITIES		
Long term liability	1,683	2,225
Obligations under capital lease	37	
Total long term liabilities	1,720	2,225
Stockholders' equity:		
Common stock, \$0.001 par value, 90,000,000 shares authorized, and 42,016,924 and 29,726,385 shares issued as of September 30, 2007 and December 31, 2006, respectively	42	30
Additional paid-in capital	155,774	151,757
Accumulated other comprehensive income, net	260	260
Accumulated deficit	(138,050)	(137,617)
	18,026	14,430
Less: Common stock held in treasury, at cost; 6,034,629 shares at September 30, 2007 and December 31, 2006		
	(4,470)	(4,470)
Total stockholders' equity	13,556	9,960
Total liabilities and stockholders' equity	\$ 20,548	\$ 14,535

See accompanying notes to condensed consolidated financial statements.

SIELOX, INC. (formerly known as DYNABAZAAR, INC.) AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(\$ in thousands, except per share amounts, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues	\$ 6,431	\$ 3,614	\$ 14,614	\$ 3,614
Cost of goods sold	4,781	2,856	11,231	2,856
Gross profit	1,650	758	3,383	758
Operating expenses, general and administrative	1,874	615	3,861	1,099
Income (loss) from operations	(224)	143	(478)	(341)
Other Income (expense)				
Interest income	16	50	98	251
Interest expense	(22)		(53)	
	(6)	50	45	251
Net income (loss)	\$ (230)	\$ 193	\$ (433)	\$ (90)
Net income (loss) per share:				
Basic	\$ (0.01)	\$ 0.01	\$ (0.01)	\$ (0.00)
Diluted	\$ (0.01)	\$ 0.01	\$ (0.01)	\$ (0.00)
Weighted average number of common shares outstanding:				
Basic	35,982	23,414	35,982	23,412
Diluted	39,799	23,480	39,799	23,412

See accompanying notes to condensed consolidated financial statements.

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SIELOX, INC. (formerly known as DYNABAZAAR, INC.) AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in thousands, unaudited)

	Nine Months Ended September 30	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (433)	\$ (90)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	396	
Provision for doubtful accounts	25	
Change in cash attributable to changes in operating assets and liabilities		
Accounts receivable	(1,084)	(75)
Inventories	(994)	(555)
Prepaid expense	(67)	59
Long term prepaid expenses	63	156
Accounts payable	945	(465)
Accrued expense and other current liabilities	(103)	370
Net cash used in operating activities	(1,252)	(600)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Southern Imaging and Video Solutions net of cash acquired of \$240		(3,560)
Direct costs of merger	(140)	
Cash acquired through merger activity	1,368	
Purchase of fixed assets	(209)	
Payment of earn out provision	(542)	
Net cash provided (used in) investing activities	477	(3,560)
CASH FLOWS FROM FINANCING ACTIVITIES:		

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Proceeds from (payments for) line of credit, net	658	(1,863)
Principal payments on capital lease	(4)	
Refunded deposit	9	
Net cash provided by (used in) financing activities	663	(1,863)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(112)	(6,023)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,938	9,125
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,826	\$ 3,102
SUPPLEMENTAL DISCLOSURE CASH FLOW INFORMATION:		
Cash paid for interest	\$ 53	\$

See accompanying notes to condensed consolidated financial statements.

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SIELOX, INC. (formerly known as DYNABAZAAR, INC.) AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in thousands, unaudited)

SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITIES:

On July 31, 2007, the Company's wholly-owned subsidiary, L Q Merger Corp, merged with and into L Q Corporation, with L Q Corporation continuing as the surviving corporation and a wholly-owned subsidiary of the Company. In conjunction with this merger activity, initial consideration of \$4,029 plus direct costs of merger of \$140 was given in the form of common stock and stock options. The consideration given, assets acquired and liabilities assumed resulting from the merger are as follows:

Fair value of assets acquired resulting from the merger, net of cash acquired of \$1,368	\$ 2,235
Fair value of liabilities assumed resulting from the merger	\$ 1,463
Fair value of common stock issued resulting from the merger, including \$150 issued to Barington Capital Group, LP	\$ 3,688

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Fair value of stock options issued from the merger

\$ 341

On July 20, 2006, the Company purchased substantially all of the assets of Southern Imaging, Inc. and Video Solutions Technology Center, Inc. pursuant to the transactions contemplated by the Asset Purchase Agreement dated as of June 20, 2006 for initial consideration of \$3,766. In conjunction with the acquisition, common stock was issued and liabilities were assumed as follows, for the six months ended June 30, 2006:

Fair value of assets acquired	\$ 7,263	
Cash paid	(3,692)
Common stock issuable	(74)
Liabilities assumed *	\$ 3,497	

*Includes assumption of revolver facility of approximately \$ 1.8 million.

See accompanying notes to condensed consolidated financial statements.

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SIELOX, INC. (formerly known as DYNABAZAAR, INC.) AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(UNAUDITED)

NOTE 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

THE COMPANY

OVERVIEW

Sielox, Inc., formerly known as Dynabazaar, Inc. (the "Company"), was incorporated in the State of Delaware in February 1997 under the name "Fairmarket, Inc." The Company develops, designs and distributes a range of security solution products, comprising of a range of surveillance cameras, digital video recorders and access control systems and strategic security and business protection solutions and corporate investigations. Through September 3, 2003, the Company was an online auction and promotions technology service provider that enabled marketers to create results-oriented rewards programs and helped commerce companies automate the process of selling their excess inventory online to wholesale and retail buyers. On September 4, 2003, the Company sold substantially all of its operating assets to eBay, Inc. ("eBay") for consideration of \$4.5 million in cash under the terms and conditions of an asset purchase agreement the Company entered into with eBay on June 20, 2003. Following the closing of the asset sale, the Company changed its name from "Fairmarket, Inc." to "Dynabazaar, Inc."

In connection with the cessation of the Company's online auction business, the Company relocated its principal executive offices as of January 1, 2004 to 888 Seventh Avenue, 17th Floor, New York, New York 10019, an office maintained by Barington Capital Group, L.P. ("Barington"), a limited partnership whose general partner is a corporation of which James A. Mitarotonda is Chairman, President and Chief Executive Officer. Mr. Mitarotonda was previously the Company's President and Chief Executive Officer and served as a member of the Company's board of directors.

From January 2003 until June 20, 2006, the Company did not operate any business and was settling its remaining claims and liabilities while reviewing its alternatives for the use or disposition of its remaining assets.

On July 20, 2006, the Company purchased substantially all of the assets of Southern Imaging, Inc. and Video Solutions Technology Center, Inc. pursuant to the transactions contemplated by the asset purchase agreement dated as of June 20, 2006.

Effective July 31, 2007, pursuant to the Amended and Restated Agreement and Plan of Merger, dated as of February 26, 2007, as amended (the "Merger Agreement"), by and among the Company, L Q Corporation, Inc.

("L Q Corporation") and LQ Merger Corp ("LMC"), LMC was merged with and into L Q Corporation, with L Q Corporation continuing as the surviving corporation and a wholly-owned subsidiary of the Company (the "Merger"). Immediately following the Merger, the Company's name was changed from "Dynabazaar, Inc." to "Sielox, Inc."

By virtue of the Merger, L Q Corporation stockholders received 3.68 shares of the Company's common stock, par value \$0.001 per share, for each share of L Q Corporation common stock they owned as of the effective time of the Merger. Cash was paid in lieu of common stock to purchase 20.44 fractional shares of the Company's common stock. Additionally, each outstanding option to purchase L Q Corporation common stock was assumed by the Company and now represents an option to acquire shares of the Company's common stock, subject to the applicable conversion ratio, on the terms and conditions set forth in the Merger Agreement.

LQ Corporation owns two wholly owned subsidiaries, Seilox, LLC and SES Resources International, Inc. ("SES"). Sielox, LLC develops, designs, and distributes a complete line of access control software, programmable controllers and related accessories. SES provides strategic security and business protection solutions and corporate investigations. As of September 30, 2007, management has decided to shut down the operations of SES. As of September 30, 2007 SES's assets included accounts receivable of \$13 and fixed assets of \$4.

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SIELOX, INC. (formerly known as DYNABAZAAR, INC.) AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(UNAUDITED)

NOTE 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Effective upon the closing of the Merger and in accordance with the terms of the Merger Agreement, as of July 31, 2007, Raymond L. Steele and Mr. Mitarotonda each resigned from the Company's board of directors and the following three members of the board of directors of L Q Corporation were appointed to the Company's board of directors: Sebastian E. Cassetta, Dianne K. McKeever and Steven Berns.

Additionally, in connection with the completion of the Merger, the Company relocated its principal executive offices to 170 East Ninth Avenue, Runnemede, New Jersey 08078, which is an office and warehouse facility leased by the Company.

Sebastian E. Cassetta, who serves as the Company's President, CEO and a member of the Company's board of directors, is a Senior Managing Director and the Chief Operating Officer of Barington. He also serves as the Chief Executive Officer of Costar. Dianne K. McKeever, a research analyst at Barington, serves as one of the Company's directors. Barington and certain of its affiliates which have joined with Barington in the filing of a statement on Schedule 13D, collectively beneficially own greater than 10% of the Company's outstanding common stock.

The Company is party to a services agreement dated as of December 17, 2004 (as amended, the "Services Agreement"), under which Barington performs certain administrative, legal and financial advisory services on the Company's behalf. The Company entered into an amendment dated as of May 18, 2007 to the Services Agreement providing that the administrative services provided by Barington on behalf of the Company under the Services Agreement (as well as the monthly payments made by the Company to Barington for such services) terminated immediately following the closing of the Merger.

Notwithstanding the termination of the administrative services provided by Barington following the closing of the Merger, the Services Agreement continues to run until December 31, 2007, thereby permitting the Company to continue to have access to legal and financial advisory services from Barington on an "as requested" basis. There is no requirement under the Services Agreement, however, for the Company to utilize such services of Barington. Additional information concerning the Services Agreement may be found under Part III, Item 13 of Amendment No. 1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 17, 2007, which disclosure is incorporated herein by reference.

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SIELOX, INC. (formerly known as DYNABAZAAR, INC.) AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As disclosed in the Form S-4/A filed by the Company with the SEC on June 20, 2007, both Dynabazaar and L Q Corporation entered into separate letter agreements with Barington on January 5, 2007 providing for the engagement of Barington by each of the Dynabazaar Special Committee and the L Q Corporation Special Committee to provide assistance as such special committees may reasonably request with respect to the Merger. Pursuant to such letter agreements, each of Dynabazaar and L Q Corporation agreed to pay Barington a fee of \$100,000 as compensation for its services. At the request of the Company after the closing of the Merger, Barington agreed to reduce its fee from \$200,000 to \$150,000 and to accept payment in unregistered common stock in lieu of cash.

On September 24, 2007, the Company issued \$150,000 of the Company's common stock, par value \$0.001, to Barington at a price of \$0.325 per share, the closing price of the Company's common stock on the Over-The-Counter Bulletin Board on such date, or an aggregate of 461,538 shares of common stock in consideration of services rendered by Barington to the Company and L Q Corporation, Inc. ("LQ Corporation") in connection with the Merger.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION (\$ IN THOUSANDS)

The accompanying condensed consolidated financial statements of the Company for the three and nine months ended September 30, 2007 and 2006 are unaudited and have been prepared on a basis substantially consistent with the Company's audited consolidated financial statements for the year ended December 31, 2006. The condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Consequently, these statements do not include all disclosures normally required by generally accepted accounting principles for annual

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SIELOX, INC. (formerly known as DYNABAZAAR, INC.) AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

financial statements. These condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2006, which are contained in the Company's Annual Report on Form 10-K filed with the SEC on April 4, 2007 and the Company's amended Annual Report on Form 10-K filed on April 17, 2007. The condensed consolidated interim financial statements, in the opinion of management, reflect all adjustments (including all normal recurring accruals) necessary to present fairly the Company's financial position, results of operations and cash flows for the interim periods ended September 30, 2007 and 2006. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the fiscal year.

CASH AND CASH EQUIVALENTS

The Company considers all highly-liquid debt instruments with original maturities of three months or less to be cash equivalents, including highly rated money market funds with daily liquidity. At September 30, 2007, and throughout the three month period, balances of cash at financial institutions exceeded the federally insured limit. The Company has not experienced any losses in such accounts and believes it is not subject to any significant credit risk on cash and cash equivalents. The following schedule summarizes the estimated fair value of the Company's cash and cash equivalents (in thousands):

	September 30, 2007 (unaudited)	December 31, 2006
Cash and cash equivalents:		
Cash	\$ 175	\$ 72
Money market funds	2,651	2,866
	\$ 2,826	\$ 2,938

INVENTORIES, NET

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The components of inventories are as follows (in thousands):

	September 30, 2007	December 31, 2006
Finished goods	\$ 5,301	\$ 3,738
Raw materials	230	