

Edgar Filing: LQ CORP INC - Form 10-Q

LQ CORP INC  
Form 10-Q  
May 15, 2007

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

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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, 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 000-25977

L Q CORPORATION, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

77-0421089  
(I.R.S. Employer  
Identification No.)

888 Seventh Ave., 17TH floor, New York, NY  
(Address of principal executive offices)

10019  
(Zip Code)

Registrant's telephone number, including area code:  
(212) 974-5730

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 filler and large accelerated filer" in Rule 12b-2 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 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the registrant's common stock as of May 10, 2007 was 3,214,408.

L Q CORPORATION, INC. AND SUBSIDIARIES

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### ITEM 1. FINANCIAL STATEMENTS

#### L Q CORPORATION, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands)

##### ASSETS

###### Current assets:

Cash and cash equivalents

Accounts receivable, net of allowance for doubtful  
accounts of \$30 and \$35, respectively

Inventories, net

Other current assets

Total current assets

Fixed assets, net

Goodwill

Proprietary Technologies, net

Customer Relationships, net

Security deposit

Total assets

##### LIABILITIES AND STOCKHOLDERS' EQUITY

###### Current Liabilities:

Accounts payable

Accrued expenses and other current liabilities

Obligations under capital lease

Total current liabilities

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Long-term liabilities:

Obligations under capital lease  
 Commitments and Contingencies  
 Stockholders' equity:

Common stock, \$0.001 par value; 30,000,000 shares authorized; 3,214,408 shares  
 issued and outstanding at March 31, 2007 and December 31, 2006  
 Additional paid-in capital  
 Accumulated deficit  
 Accumulated other comprehensive loss

Total stockholders' equity

Total liabilities and stockholders' equity

See accompanying notes to condensed consolidated financial statements.

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L Q CORPORATION, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (in thousands, except per share amounts; unaudited)

	Three Months Ended March 31,	
	2007	2006
Revenues	\$ 1,574	\$ 1,533
Cost of goods sold	817	856
Gross profit	757	677
Operating expenses:		
Selling, general and administrative expenses	722	908
Technical and engineering expenses	276	312
Total operating expenses	998	1,220
Loss from operations	(241)	(543)
Other income (expense), net	12	27
Net loss	\$ (229)	\$ (516)
Net loss per share:		
Basic and diluted	\$ (0.07)	\$ (0.16)
Weighted average shares	3,214	3,214

See accompanying notes to condensed consolidated financial statements.

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### L Q CORPORATION, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands; unaudited)

#### CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss

Adjustments to reconcile net loss to net cash used in operating activities:

Depreciation and amortization

Provision for doubtful accounts

Stock-based compensation

Change in cash attributable to changes in operating assets and liabilities:

Accounts receivable

Inventories

Other current assets

Accounts payable

Accrued expenses and other current liabilities

Net cash used in operating activities

#### CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of fixed assets

Payment of security deposit

Acquisition of ACPG

Net cash used in investing activities

#### NET CASH USED IN FINANCING ACTIVITIES:

Principal payments on capital lease

#### NET DECREASE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD

CASH AND CASH EQUIVALENTS, END OF PERIOD

#### SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING

#### AND FINANCING ACTIVITIES:

Reduction in the estimated fair value of fixed assets acquired

Decrease in Goodwill due to the adjustment of the estimated fair value  
of fixed assets acquired

See accompanying notes to condensed consolidated financial statements.

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### L Q CORPORATION, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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### THE COMPANY

#### OVERVIEW

L Q Corporation, Inc. ("we" or the "Company") was incorporated in California as "Liquid Audio, Inc." in January 1996 and reincorporated in Delaware in April 1999. In July 1999, we completed our initial public offering of common stock. Our name was formally changed to "L Q Corporation, Inc." on January 7, 2004. Our principal executive offices are located at 888 Seventh Avenue, 17th Floor, New York, NY 10019 and our telephone number is (212) 974-5730.

Through January 2003, we provided an open platform that enabled the digital delivery of media over the Internet.

From January 2003 until December 30, 2005, we did not operate any business and were settling our remaining claims and liabilities while reviewing alternatives for the use or disposition of our remaining assets.

#### Checkpoint Acquisition

On January 6, 2006, the newly formed wholly-owned subsidiary of the Company, Sielox completed the acquisition from Checkpoint Systems, Inc. ("Checkpoint") of substantially all of the net assets of Checkpoint's Access Control Products Group ("ACPG") division, effective as of the close of business on December 30, 2005.

The ACPG business, which operates as Sielox(TM) under the Company's management, develops, designs and distributes open architecture access control software, programmable controllers (electronic circuit boards) and related accessories such as readers and ID cards, which can be configured to monitor, manage and control physical access to building perimeters and interior locations.

#### SES Resources, Ltd. Acquisition

On January 6, 2006, the Company's newly formed majority owned subsidiary, SES Resources International, Inc. ("SES"), completed the acquisition of substantially all of the assets of SES Resources, Ltd., a start up consulting venture, effective as of December 30, 2005. The assets of SES Resources, Ltd. consisted primarily of various trademarks. It was determined that these trademarks had a fair value of zero. Consideration given in exchange for these assets was a 19.5% ownership interest in SES. The newly formed business unit specializes in delivering critical strategic security and business protection solutions based on best practices developed by accomplished retired law enforcement agents and in association with an advisory panel comprised of senior executive service level government risk assessment and law enforcement professionals ("Advisory Panel"). SES's primary areas of specialization are expected to include: corporate investigations (e.g. know your customer, know your employee, know your vendor reviews), due diligence reviews, forensic accounting, anti-money laundering investigatory services consistent with the requirements of the Patriot Act, anti-counterfeiting and intellectual property protection, corporate health and wellness consultancy, emergency preparedness and contingency planning; executive staffing solutions; and education and government training services.

The Advisory Panel will provide SES with strategic and operational advice, identify expert talent throughout the United States and internationally, and manage and staff client assignments. The Advisory Panel is in the process of being formed and currently includes Michael J. Thomas, a senior executive service level agent from the U.S. Internal Revenue Service, the former Chief of Police of Boca Raton, Florida and David Edelson MD, FACP, a medical doctor who is presently Assistant Clinical Professor at Albert Einstein College of

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Medicine. The Advisory Panel is chaired by one of the owners/founders of SES Resources Ltd. and vice chaired by one of the owners/founders of SES Resources Ltd. and by Sebastian Cassetta, the President and Chief Executive officer of the Company. Mr. Cassetta is the former Vice President and Director of Brinks, Inc. SES is in the process of adding additional members to the Advisory Panel from various law enforcement agencies.

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

Our common stock is reported currently on the Over-the-Counter Bulletin Board. Our common stock was traded on the NASDAQ National Market, but was delisted on June 5, 2003. The market price of our common stock as of May 10, 2007 was \$1.03 per share. The market price of our common stock as of December 31, 2006 was \$1.13 per share.

Please see our audited consolidated financial statements and the accompanying notes for information regarding our revenues, net profits or losses and total assets for each of the last three years.

### RECENT DEVELOPMENTS

On January 5, 2007, we entered into an agreement and plan of merger (the "Merger Agreement") with Dynabazaar, Inc., a Delaware corporation ("Dynabazaar") and LQ Merger Corp., a Delaware corporation and a wholly-owned subsidiary of Dynabazaar ("LMC"). On February 26, 2007, we entered into an amended and restated agreement and plan of merger (the "Amended and Restated Merger Agreement") with Dynabazaar and LMC, which amended and restated the Merger Agreement. The Amended and Restated Merger Agreement provides that, upon the terms and subject to the conditions set forth in such agreement, LMC will merge with and into the Company with the Company continuing as the surviving corporation and a wholly-owned subsidiary of Dynabazaar.

Under the terms of the Amended and Restated Merger Agreement, our stockholders will receive 3.68 shares of Dynabazaar common stock for each share of our common stock they hold. Upon completion of the merger, our stockholders will own approximately 34% of the combined company and Dynabazaar stockholders will own approximately 66% of the combined company on a fully-diluted basis. It is anticipated that the combined company's shares will continue to trade on the Over-The-Counter Bulletin Board.

The Boards of Directors of both Dynabazaar and the Company approved the Amended and Restated Merger Agreement in accordance with the recommendation of the special committees of independent directors formed by the Boards of Directors of each company to evaluate the transaction.

The transaction is subject to stockholder approval and other customary conditions and is expected to be completed during the second half of 2007. A special meeting of stockholders of the Company will be announced in the near future to obtain stockholder approval of the transaction.

### LIQUIDITY (\$ IN THOUSANDS)

The Company has incurred losses and negative cash flows from operations every year since inception. For the three months ended March 31, 2007, the Company incurred a net loss of \$229 and negative cash flows from operations of \$267. As of March 31, 2007, the Company had an accumulated deficit of approximately \$142,000. The Company feels its existing cash and cash equivalents are sufficient to fund the Company's current operations and satisfy its other

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obligations for at least the next twelve months. The Company believes these other obligations will primarily relate to costs associated with the satisfaction of any potential legal judgments or settlements, investments in software development and engineering related to the operations of Sielox and other expenses related to the operations of SES. Such operational related expenses are expected to require the use of the Company's liquidity.

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### L Q CORPORATION, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of the Company for the three months ended March 31, 2007 (unaudited) and March 31, 2006 (unaudited) have been prepared on a basis consistent with our 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 financial statements. These condensed consolidated interim financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2006, which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on April 2, 2007 and the amended 10-K that was filed on April 30, 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 March 31, 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.

##### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries Sielox and SES, respectively. Significant intercompany transactions and balances have been eliminated.

##### CASH AND CASH EQUIVALENTS (\$ IN THOUSANDS)

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 March 31, 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:

	March 31, 2007 (unaudited)	December 31, 2006
Cash and cash equivalents:	-----	-----

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Cash	\$ 27	\$ 46
Money market funds	1,644	1,904
	-----	-----
	\$1,671	\$1,950
	=====	=====

### CONCENTRATION OF CREDIT RISK (\$ IN THOUSANDS)

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, short term investments and accounts receivable. Substantially all of the Company's cash and cash equivalents are invested in a highly liquid money market fund.

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### L Q CORPORATION, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

##### FAIR VALUE OF FINANCIAL INSTRUMENTS (\$ IN THOUSANDS)

The Company's financial instruments, including cash and cash equivalents, accounts receivable and accrued expenses payable are carried at cost. The Company's financial instruments approximate fair value due to their relatively short maturities. The Company does not hold or issue financial instruments for trading purposes.

##### INCOME TAXES

Effective January 1, 2007, the Company adopted the provisions of the Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). There were no unrecognized tax benefits as of January 1, 2007 and as of March 31, 2007. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at January 1, 2007. There was no change to this balance at March 31, 2007. Management is currently unaware of any issues under review that could result in significant payments, accruals or material deviations from its position. The adoption of the provisions of FIN 48 did not have a material impact on the Company's financial position, results of operations and cash flows.

##### STOCK-BASED COMPENSATION (\$ IN THOUSANDS)

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Accounting for Stock-Based Compensation (Revised)." This statement requires companies to record compensation expense for share-based awards issued to employees and directors in exchange for services provided. The amount of compensation expense is based on the estimated fair value of the awards on their grant dates and is recognized, on a straight line basis, over the applicable vesting period. In addition, SFAS No. 123(R) requires forfeitures of share-based awards to be estimated at the time of grant and



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revised, if necessary, in subsequent periods if those estimates change based on the actual amount of forfeitures. In the pro-forma information required under SFAS No. 123 for periods prior to January 1, 2006, the Company accounted for forfeitures as they occurred.

The fair value of stock options is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock and the expected dividends on it, and the risk free interest rate over the expected life of the option.

In the three months ended March 31, 2007 and 2006, the Company recognized compensation expense of \$5 and \$12, respectively, in the Company's condensed consolidated financial statements, all of which was for stock options. This amount includes compensation expense for stock options which were granted prior to January 1, 2006 but were not yet vested as of that date. Such compensation expense was estimated in accordance with the provisions of SFAS No. 123(R). The compensation expense also includes the expense recognized for stock options granted subsequent to January 1, 2006. Such compensation expense was estimated based on the grant date fair value in accordance with provisions of SFAS No. 123(R). Compensation expense increased by \$1 and \$8 during the three months ended March 31, 2007 and 2006, respectively, as a result of implementing SFAS No. 123(R).

On January 6, 2006, in conjunction with the completion of the purchase of the ACPG division of Checkpoint and SES Resources, Ltd., the Company awarded 123,000 stock option grants. These options were granted to employees of Sielox and SES, together with members of the Advisory panel and executive officers. Due to the resignation of former CEO William Fox, 40,000 of those options were forfeited. In addition, approximately 66,000 previously outstanding options were forfeited as a result of Mr. Fox's resignation. Due to the resignation of former director and Chairman of the Board James A. Mitarotonda, approximately 160,000 previously outstanding options were forfeited.

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### L Q CORPORATION, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### NOTE 2 - BALANCE SHEET COMPONENTS:

##### INVENTORIES, NET

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

	March 31, 2007 (unaudited)	December 31, 2006
Finished goods	\$527	\$541
Raw materials	162	162
	----	----
	\$689	\$703
	====	====

##### ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

The components of accrued expenses and other current liabilities are as follows (\$ in thousands):

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	March 31, 2007 (unaudited)	December 31, 2006
	-----	-----
Accrued Expenses and Other Current Liabilities		
Consulting and professional services	\$120	\$182
Royalties	10	29
Commissions	59	78
Warranty reserve	--	10
Other	41	89
	----	----
	\$230	\$388
	====	====

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L Q CORPORATION, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 3 - GOODWILL AND INTANGIBLE ASSETS, NET: ( \$ in thousands)

The intangible assets acquired as a result of the ACPG acquisition have been adjusted in the prior year as a result of the completion of an independent appraisal, adjustments to the estimated fair values of the assets acquired and post closing adjustments to the purchase price. The components of intangible assets acquired as a result of the ACPG acquisition are as follows:

	March 31, 2007 (unaudited)	
	-----	-----
	Gross Carrying Amount	Accumula Amortizat
	-----	-----
Amortized intangible assets		
Proprietary Technology	\$449	\$ 70
Existing Customer Relationships	72	6
	----	----
Total	521	\$ 76
		====
Unamortized intangible assets		
Goodwill	464	
	----	
Total	\$985	
	====	

Amortization expense for the three months ended March 31, 2007 was \$15. Estimated amortization expense applicable to amortizable intangible assets for each of the next 5 years is \$61.

All intangible assets of the Company are attributable to the Sielox, LLC reporting segment and the weighted average amortization for the Company's intangible assets is 9 years. The estimated useful life for Proprietary Technology and Existing Relationships is 8 and 15 years, respectively.

NOTE 4 - NET LOSS PER SHARE:

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Basic and diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. The calculation of diluted net loss per share excludes potential common shares if the effect is anti-dilutive. Potential common shares consist of unvested restricted common stock and incremental common shares issuable upon the exercise of stock options. The Company had a total of 184,000 and 596,000 of such options outstanding at March 31, 2007 and 2006, respectively.

### NOTE 5 - SEGMENT REPORTING (\$ IN THOUSANDS):

Effective January 1, 1998, the Company adopted the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the method in which companies report information about operating segments in financial statements. SFAS No. 131 focuses on the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers. The Company has determined that it operated in two operating segments at March 31, 2007 and 2006, respectively. The following information related to revenues, net losses and total assets are the only measures used by chief operating decision makers of the Company to evaluate segment performance. Substantially all of the Company's assets and revenues are located in, and derived from, the United States.

The following table represents total net revenues of each of the Company's reporting segments for the three months ended March 31, 2007 and 2006:

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### NOTE 5 - SEGMENT REPORTING (\$ IN THOUSANDS) CONT:

	Three months ended March 31, (unaudited)	
	2007	2006
Sielox, LLC	\$1,563	\$1,533
SES International Resources, Inc.	11	--
	-----	-----
Total	\$1,574	\$1,533
	=====	=====

The following table represents the total loss of each of the Company's reporting segments for the three months ended March 31, 2007 and 2006:

	Three months ended March 31, (unaudited)	
	2007	2006
Sielox, LLC	\$ (60)	\$ (267)
SES International Resources, Inc.	(18)	(43)
General Corporate	(151)	(206)
	-----	-----
Total	\$ (229)	\$ (516)
	=====	=====

The following table represents the total assets of each of the Company's reporting segments at March 31, 2007 and December 31, 2006, respectively:

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	March 31, 2007 (unaudited)	December 31, 2006
	-----	-----
Sielox, LLC	\$3,120	\$3,295
SES International Resources, Inc.	5	5
General Corporate	1,690	1,996
	-----	-----
Total	\$4,815	\$5,296
	=====	=====

### NOTE 6 - MAJOR SUPPLIERS:

For the quarter ended March 31, 2007, the Company had two major suppliers that accounted for approximately 42% of total purchases. These two major suppliers were owed approximately 51% of total payables at the end of the quarter.

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L Q CORPORATION, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)

### NOTE 7 - COMMITMENTS AND CONTINGENCIES:

#### Legal proceedings

We are a defendant in certain purported class action lawsuits filed by individual shareholders in the U.S. District Court for the Southern District of New York against certain of our former officers and directors, and various of the underwriters in our initial public offering ("IPO") and secondary offering. The lawsuits have been filed by individual shareholders who purport to seek class action status on behalf of all other similarly situated persons who purchased our common stock between July 8, 1999 and December 6, 2000. A consolidated amended class action complaint was filed on April 19, 2002. The complaint alleges that certain underwriters of the IPO solicited and received excessive and undisclosed fees and commissions in connection with that offering. The complaint further alleges that the defendants violated the federal securities laws by issuing a registration statement and prospectus in connection with our IPO which failed to accurately disclose the amount and nature of the commissions and fees paid to the underwriter defendants. On or about October 8, 2002, the Court entered an Order dismissing the claims asserted against certain individual defendants in the consolidated actions without any payment from these individuals or us. On or about February 19, 2003, the Court entered an Order dismissing with prejudice the claims asserted against us under Section 10(b) of the Exchange Act. As a result, the only claims that remain against us are those arising under Section 11 of the Securities Act. The parties have negotiated and executed a definitive settlement agreement. The proposed settlement provides that the class members in the class action cases brought against the participating issuer defendants will be guaranteed a recovery of \$1 billion by insurers of the participating issuer defendants. If recoveries totaling \$1 billion or more are obtained by the class members from the underwriter defendants, however, the monetary obligations to the class members under the proposed settlement will be satisfied. In addition, we and any other participating issuer defendants will be required to assign to the class members certain claims that they may have against the underwriters of their IPOs. The proposed settlement contemplates that any amounts necessary to fund the settlement or settlement-related expenses would come from participating issuers' directors and officers' liability insurance policy proceeds as opposed to funds of the participating issuer defendants themselves. A participating issuer

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defendant could be required to contribute to the costs of the settlement if that issuer's insurance coverage were insufficient to pay that issuer's allocable share of the settlement costs. If ultimately approved by the Court, the proposed settlement would result in the dismissal, with prejudice, of all claims in the litigation against us and all of the other issuer defendants who have elected to participate in the proposed settlement, together with the current or former officers and directors of participating issuers who were named as individual defendants. The proposed settlement does not provide for the resolution of any claims against the underwriter defendants, and the litigation as against those defendants is continuing. Consummation of the proposed settlement remains conditioned upon obtaining approval by the Court. By order entered on September 1, 2005, the Court granted preliminarily approval of the proposed settlement and directed that notice of the terms of the proposed settlement be provided to class members. Thereafter, the court held a fairness hearing, on April 24, 2006, at which objections to the proposed settlement were heard. The Court has yet to issue a ruling on the motion for final approval. On December 5, 2006, the Court of Appeals for the Second Circuit reversed the Court's order certifying a class in six test cases that were selected by the underwriter defendants and plaintiffs in the coordinated proceeding. On April 6, 2007, the Court of Appeals denied the plaintiffs' petition for rehearing of the Court's December 5, 2006 ruling but noted that the plaintiffs remain free to ask the District Court to certify a different class which might meet the standards for class certification that the Court of Appeals articulated in its December 5, 2006 decision. Because our proposed settlement with the plaintiffs involves the certification of the case against us as a class action for settlement purposes, it is unclear what impact, if any, the Second Circuit's class certification ruling will have on our case or the viability of the proposed settlement. In the event the settlement is not finalized, the Company believes that it has meritorious defenses to plaintiffs' claims and intends to defend the actions vigorously.

The expense of defending this litigation may be significant. The amount of time to resolve these lawsuits is unpredictable and defending us may divert management's attention from the day-to-day operations of our business, which could adversely affect our business, results of operations and cash flows. In addition, an unfavorable outcome in such litigation could have a material adverse affect on our business, results of operations and cash flows.

### Contingencies

On January 6, 2006, the Company's wholly-owned subsidiary, Sielox, acquired Checkpoint's ACPG division. The acquisition had an effective date of December 30, 2005. The total cash consideration given to Checkpoint for the transaction was approximately \$2.6 million, of which approximately \$2.5 million was paid directly to Checkpoint and \$100,000 was paid to an escrow agent on January 6, 2006.

This cash is held by the escrow agent and will be delivered by the agent to Checkpoint after a period of 18 months subsequent to the acquisition date assuming no claims for indemnification are made against Checkpoint.

### NOTE 7 - COMMITMENTS AND CONTINGENCIES CONT:

#### Commitment

The Company is committed to make purchases of approximately \$1,398,000 from a vendor within an 18 month period starting July 1, 2007 and ending December 31, 2008. The commitment was entered into in order to obtain more favorable pricing for the Company's inventory.

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

FACTORS THAT MAY AFFECT RESULTS OF OPERATIONS AND FINANCIAL CONDITION

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act, of 1934 as amended (the "Exchange Act"). Forward-looking statements can often be identified by the use of terminology such as "believe," "expect," "anticipate," "intend," "estimate," "assume" and other similar expressions which predict or indicate future events and trends and which do not relate to historical matters. The forward-looking statements contained in this Form 10-Q are generally located in the material set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" but may be found in other locations as well. Forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. Our actual results could differ materially from those set forth in the forward-looking statements.

Some of the factors that might cause these differences include those set forth under the heading "Item 1A - Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2006, which is incorporated herein by reference. Additional information regarding risks and uncertainties and other factors that could cause actual results to differ materially from those contemplated in forward-looking statements is included from time to time in our filings with the SEC. Forward-looking statements herein are based on information, plans and estimates at the date of this Form 10-Q, and we do not promise to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

While we believe that the discussion and analysis in this report is adequate for a fair presentation of the information, we recommend that you read this discussion and analysis in conjunction with the "Management's Discussion and Analysis" included in our Annual Report on Form 10-K for the year ended December 31, 2006 filed with the SEC.

OVERVIEW

L Q Corporation, Inc. ("we" or the "Company") was incorporated in California as "Liquid Audio, Inc." in January 1996 and reincorporated in Delaware in April 1999. In July 1999, we completed our initial public offering of common stock. Our name was formally changed to "L Q Corporation, Inc." on January 7, 2004. Our principal executive offices are located at 888 Seventh Avenue, 17th Floor, New York, NY 10019 and our telephone number is (212) 974-5730.

Through January 2003, we provided an open platform that enabled the digital delivery of media over the Internet.

From January 2003 until December 30, 2005, we did not operate any business and were settling our remaining claims and liabilities while reviewing alternatives for the use or disposition of our remaining assets.

Our common stock is reported currently on the Over-the-Counter Bulletin Board. Our common stock was traded on the NASDAQ National Market, but was delisted on June 5, 2003. The market price of our common stock as of May 10, 2007 was \$1.03 per share. The market price of our common stock as of December 31, 2006 was \$1.13 per share.

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### FACTORS THAT MAY AFFECT RESULTS OF OPERATIONS AND FINANCIAL CONDITION

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act, of 1934 as amended (the "Exchange Act"). Forward-looking statements can often be identified by the use of terminology such as "believe," "expect," "anticipate," "intend," "estimate," "assume" and other similar expressions which predict or indicate future events and trends and which do not relate to historical matters. The forward-looking statements contained in this Form 10-Q are generally located in the material set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" but may be found in other locations as well. Forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. Our actual results could differ materially from those set forth in the forward-looking statements.

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#### Checkpoint Acquisition

On January 6, 2006, the newly formed wholly-owned subsidiary of the Company, Sielox completed the acquisition from Checkpoint Systems, Inc. ("Checkpoint") of substantially all of the net assets of Checkpoint's Access Control Products Group ("ACPG") division, effective as of the close of business on December 30, 2005.

The ACPG business, which operates as Sielox(TM) under the Company's management, develops, designs and distributes open architecture access control software, programmable controllers (electronic circuit boards) and related accessories such as readers and ID cards, which can be configured to monitor, manage and control physical access to building perimeters and interior locations.

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The Advisory Panel will provide SES with strategic and operational advice, identify expert talent throughout the United States and internationally, and manage and staff client assignments. The Advisory Panel is in the process of being formed and currently includes Michael J. Thomas, a senior executive service level agent from the U.S. Internal Revenue Service, the former Chief of Police of Boca Raton, Florida and David Edelson MD, FACP, a medical doctor who is presently Assistant Clinical Professor at Albert Einstein College of Medicine. The Advisory Panel is chaired by one of the owners/founders of SES Resources Ltd. and vice chaired by one of the owners/founders of SES Resources Ltd. and Sebastian Cassetta, the President and Chief Executive officer of the Company. Mr. Cassetta is the former Vice President and Director of Brinks Inc. SES is in the process of adding additional members to the Advisory Panel from various law enforcement agencies.

Please see our audited consolidated financial statements and the accompanying notes for information regarding our revenues, net profits or losses and total assets for each of the last three years.

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### Business

#### Access Control Products Group

The ACPG business was originally acquired by Checkpoint when Checkpoint acquired Sielox Systems, Inc. of Sunnyvale, California in 1986. At that time, the ACPG business distributed, developed and manufactured System Five and System Ten access control systems for automated access to buildings and areas within buildings. In the late eighties, ACPG introduced the Threshold series for use on DOS and QNX operating systems and in the mid-nineties developed a series of applications for use on the Windows operating systems. In March 2003, the ACPG business introduced Pinnacle, the next generation in access control software solutions. Today ACPG develops, designs and distributes a complete line of open architecture access control software, including both Pinnacle and the legacy Enterprise Threshold, programmable controllers (electronic circuit boards), and related accessories such as readers and ID cards which can be configured to monitor, manage and control physical access to building perimeters and interior locations. ACPG generally does not experience seasonality in its business and there is no single customer which constitutes 10% or more of its revenue.

#### SES Resources International

The newly formed business unit specializes in delivering critical strategic security and business protection solutions based on best practices developed by accomplished retired law enforcement agents and in association with an advisory panel comprised of senior executive service level government risk assessment and law enforcement professionals (the "Advisory Panel"). SES' primary areas of specialization include: corporate investigations (e.g. know your customer, know your employee, know your vendor reviews); due diligence reviews; forensic accounting; anti-money laundering investigatory services consistent with the requirements of the Patriot Act; anti-counterfeiting and intellectual property protection; corporate health and wellness consultancy; emergency preparedness and contingency planning; executive staffing solutions; and education and government security training services.

### Industry

#### Access Control Products Group

As security concerns continue to mount around the world, security access systems are an important component to a company's or Government Agency's complete security solution. Organizations continue to invest and upgrade such solutions and place increased reliance upon such systems. The trend towards integrating all security solutions including access control, CCTV, burglar and fire alarms into one system continues to expand.

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#### SES Resources International

Companies and governments are faced with a variety of security concerns and risk assessment challenges including terrorism, fraud, litigation, compliance, intellectual property protection, cyber attacks, industrial espionage, regulatory issues, crisis management and executive security staffing. The security consulting industry is highly fragmented with various established firms and a large number of independent organizations with various specializations and capabilities throughout the United States and around the world.

### Strategy



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### Access Control Products Group

The primary strategy of ACPG is to continue to invest in the Pinnacle software solution through added features and interfaces with other value added providers in order to provide enhanced physical access security and event management systems. ACPG will also continue to provide technical service and training to ACPG's dealer base and end users and where necessary upgrade its technical services.

### SES Resources International

SES is distinguishing its services and positioning by its diverse services offering. SES is in the process of identifying Senior Executive Service level retired law enforcement officers and federal agents with specialization and experience related to each service offering. SES expects to utilize the relationships and advice of its Advisory Panel in connection with identifying such resources. Each resource is expected to participate in SES projects as an independent contractor on a project by project basis in an effort to match expert talent with each specific project.

### Products

#### Access Control Products Group

ACPG develops, designs and distributes a complete line of open architecture access control software, programmable controllers (electronic circuit boards), and related accessories such as readers and ID cards which can be configured to monitor, manage and control physical access to building perimeters and interior locations.

ACPG supports both the Pinnacle software solution, introduced in March 2003 and the Threshold Enterprise solution introduced in 1997. The Pinnacle based system runs on both Windows Server 2003 and XP Professional. The system is an access control and event management system with unlimited scalability. The Threshold Enterprise runs on a Windows NT or 2000 access control platform.

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The Pinnacle access control system is extremely flexible and compatible and offers added functionality including badging utility for use in the design and production of professional quality badges. The Pinnacle system also has a DVR interface with video and event management linking. In addition, an interface with the OASIS mapping utility offers graphical mapping with icon links to over 75 systems from 30 vendors. Other Pinnacle utilities include standalone applications using the SDK, ever expanding libraries including n-man rule, report scheduler, door control, EventLink and Administrative Management. The newly introduced visitor management system allows for integration with STOPware's lobby visitor management system.

ACPG designs and distributes a complete line of intelligent controllers. This state of the art technology is available as 16-bit or 32-bit controllers capable of supporting from 2 to 8 door configurations. In addition, these controllers support from 4 to 60 alarm monitored inputs and/or controlled outputs and are configurable to meet any customer requirements. The 32-bit 1200 series controller can be used in a traditional hardwired environment or LAN/WAN environment with static IP or DHCP. In addition, ACPG currently offers several readers that are all compatible with both its Pinnacle and Threshold Enterprise software solutions. Such readers include the Performa (and Legacy Mirage) readers, a 13.56 MHz reader manufactured by Checkpoint Systems, Inc., a complete

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line of HID's 125 KHz Prox and 13.56 MHz iClass readers and cards, AWID's long range Prox readers, BioScrypt's biometric fingerprint, and Panasonic's Iris Scan Readers.

### SES Resources International

SES specializes in delivering critical strategic security and business protection solutions including corporate investigations (e.g. know your customer, know your employee, know your vendor reviews); due diligence reviews; forensic accounting; anti-money laundering investigatory services consistent with the requirements of the Patriot Act; anti-counterfeiting and intellectual property protection; corporate health and wellness consultancy; emergency preparedness and contingency planning; executive staffing solutions; and education and government security training services.

### Intellectual Property

ACPG is entitled to the exclusive use of certain patents and to the non-exclusive use of certain patents which were acquired in the acquisition from Checkpoint. Such patents and other intellectual property are utilized in the Performa and Mirage ID card readers. ACPG also acquired identified trademarks as well as licenses for specific intellectual properties which consist of critical components to the Pinnacle and Threshold Enterprise operating systems. ACPG also licenses two badging programs which it sells to third parties. ACPG pays royalties on these licensing contracts. SES does not own or use any patents or other material intellectual property in connection with its business.

Registrant has registered domain names for its key businesses including SESresources.com and Sielox.com.

### Technology and Product Development

ACPG's software engineers develop proprietary code for product functionality features. Certain product features have been acquired from third parties for which ACPG pays royalties relative to the feature set embedded within certain software products.

ACPG expended approximately \$ 1.3 million, \$1 million and \$1.7 million in product development activities during 2006, 2005 and 2004, respectively. The emphasis of these activities is the continued broadening of the product lines offered by ACPG, cost reductions of the current product lines, and an expansion of the markets and applications for ACPG's products. ACPG's future growth in revenues will be dependent, in part, on the products and technologies resulting from these efforts. Registrant expects to continue to invest at comparable levels in such activities in 2007 (and thereafter) in order to provide additional functionality to ACPG's offerings to meet the needs of ACPG's customer base.

### Marketing Efforts

ACPG and SES use a combination of internal and subcontract marketing and public relations agencies. ACPG and SES currently retain LRG Inc. as their public relations firm focused on the security market. ACPG typically attends two trade shows a year, ISCW and ASIS International. SES typically attends the Anti-Money Laundering Conference trade show. ACPG and SES's marketing initiatives include trade advertising and company websites - [www.sielox.com](http://www.sielox.com); [www.sesresources.com](http://www.sesresources.com). In addition, ACPG and SES distribute data sheets, marketing bulletins and brochures, and launch packages to their current and prospective clients, dealers

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and end-users, as appropriate for their respective businesses.

### Components

ACPG purchases components from outside suppliers and assembles the electronic components for legacy controllers and proximity readers at Checkpoint's facilities in the Dominican Republic and Puerto Rico. The 32-bit controllers are manufactured to specified designs by a third party. Select readers are also manufactured in Thailand. As part of the acquisition, ACPG has entered into a manufacturing agreement with Checkpoint. For non-proximity electronic access control components, ACPG subcontracts manufacturing activities. On January 27, 2006, we signed a five year lease on 8,900 square feet located at 170 Ninth Avenue, Runnemede, New Jersey. Occupancy at this facility began on April 1, 2006. Accordingly, all electronic control final system assembly and testing was relocated to the Runnemede facility.

### Distribution

The sales personnel of the ACPG market electronic access control products to approximately 200 independent dealers, some of whom are national dealers, primarily located in the U.S. ACPG employs regional salespeople who are compensated by salary plus commissions. Under the independent dealer program, the dealer takes title to our products and sells them to the end-user customer. The dealer installs the systems and provides ongoing service to the end-user customer. The ACPG requires its dealers to be certified in our products and requires them to attend training classes on our various product offerings.

### Competition

ACPG competes with other manufacturers of electronic access control systems as well as with conventional security systems. Major competitors are GE (the Casi Rusco and Infographics divisions), Honeywell (the NexWatch and Northern divisions), United Technologies (the Lenel Systems division), and Tyco (the Software House and Kantech divisions), as well as many other comparable sized companies such as MDI and International Electronics.

SES provides services that compete with the services provided by a highly fragmented market of many firms of various sizes, including investigatory firms and full service accounting and legal services firms, which provide such services as part of a broad range of services. Some of the well recognized firms include Kroll Worldwide, a division of Marsh & McLennan Companies, Inc., and Giuliani Associates.

### Employees

ACPG currently employs 22 people and SES currently employs 1 person. All employees are located in the United States and none are represented by a union or labor group.

### Facilities

The Company's headquarters are located in New York City, in an office maintained by Barington.

ACPG's primary facilities are located in Runnemede, New Jersey and SES's primary facilities are located in Jericho, New York. Both facilities are leased.

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On January 5, 2007, we entered into an agreement and plan of merger (the "Merger Agreement") with Dynabazaar, Inc., a Delaware corporation ("Dynabazaar") and LQ Merger Corp., a Delaware corporation and a wholly-owned subsidiary of Dynabazaar ("LMC"). On February 26, 2007, we entered into an amended and restated agreement and plan of merger (the "Amended and Restated Merger Agreement") with Dynabazaar and LMC, which amended and restated the Merger Agreement. The Amended and Restated Merger Agreement provides that, upon the terms and subject to the conditions set forth in such agreement, LMC will merge with and into the Company with the Company continuing as the surviving corporation and a wholly-owned subsidiary of Dynabazaar.

Under the terms of the Amended and Restated Merger Agreement, our stockholders will receive 3.68 shares of Dynabazaar common stock for each share of our common stock they hold. Upon completion of the merger, our stockholders will own approximately 34% of the combined company and Dynabazaar stockholders will own approximately 66% of the combined company on a fully-diluted basis. It is anticipated that the combined company's shares will continue to trade on the Over-The-Counter Bulletin Board.

The Boards of Directors of both Dynabazaar and the Company approved the Amended and Restated Merger Agreement in accordance with the recommendation of the special committees of independent directors formed by the Boards of Directors of each company to evaluate the transaction.

The transaction is subject to stockholder approval and other customary conditions and is expected to be completed during the second half of 2007. A special meeting of stockholders of the Company will be announced in the near future to obtain stockholder approval of the transaction.

Barington Capital Group, L.P. ("Barington") and certain of its affiliates which have joined with Barington in the filing of a statement on Schedule 13D, collectively own greater than 10% of the outstanding common stock of both Dynabazaar and the Company. Pursuant to a letter agreement dated February 26, 2007, Barington agreed to vote, and to cause its affiliates to vote, all of our shares now owned or hereafter acquired by Barington and its affiliates in favor of the transactions contemplated by the Amended and Restated Merger Agreement, in proportion to the votes of our other stockholders.

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James A. Mitarotonda, who serves as a director of Dynabazaar, is Chairman, President and Chief Executive Officer of a corporation that is the general partner of Barington. Sebastian E. Cassetta, who serves as a director, President and Chief Executive Officer of the Company, is a Senior Managing Director and the Chief Operating Officer of Barington. Mr. Cassetta is also the Chief Executive Officer of Dynabazaar. Since April 20, 2007 and serves as the Chief Executive Officer of Costar Video Systems, LLC, a subsidiary of Dynabazaar. Dianne K. McKeever, a research analyst at Barington, serves as a director of the Company, and Michael McManus, a director of the Company, holds an equity interest in certain affiliates of Barington. Barington is a party to separate administrative services agreements with us and Dynabazaar, pursuant to which Barington performs certain administrative, accounting and other services on behalf of each company. Our and Dynabazaar's principal executive offices are maintained by Barington.

### CRITICAL ACCOUNTING POLICIES

In December 2001, the SEC requested that all registrants discuss their most "critical accounting policies" in management's discussion and analysis of

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financial condition and results of operations. The SEC indicated that a "critical accounting policy" is one which is both important to the portrayal of the company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our significant accounting policies are more fully described in Note 1, "The Company and Summary of Significant Accounting Policies", to our consolidated financial statements included in our Annual Report on Form 10-K and the amended 10-K that was filed on April 20, 2007, for the year ended December 31, 2006. No changes to these critical policies have taken place during the quarter ended March 31, 2007.

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### RESULTS OF OPERATIONS

#### THREE MONTHS ENDED MARCH 31, 2007 AND 2006 (\$ IN THOUSANDS)

##### Total Revenues

Revenue for the three month period ending March 31, 2007 was \$1,574 compared to \$1,533 for the three month period ended March 31, 2006. Revenue for the three month period ended March 31, 2007 is entirely due to the activities of our subsidiaries Sielox and SES. Revenue for Sielox was \$1,563 and for SES \$11 compared to \$1,533 and \$0 respectively for the period ending March 31, 2006.

##### Operating Expenses

Selling, General and Administrative, Selling, general and administrative expenses decreased approximately 21% to \$722 for the three months ended March 31, 2007 from \$908 in the comparable period of 2006. Substantially all of the decrease can be attributed to a reduction in expenses relating to the business and operations of our subsidiaries Sielox and SES. Selling, general and administrative expenses consist primarily of compensation for personnel, selling commissions, marketing expenses and payments to outside contractors for general corporate functions, including finance, information systems, human resources, facilities, legal management and professional service fees, bad debt expense, occupancy and other overhead.

Technical and Engineering. Technical and engineering expenses were \$276 for the three months ended March 31, 2007, compared to \$312 for the three months ended March 31, 2006. Technical and engineering expenses consist of expenses relating to personnel costs and other expenses for software and hardware engineers and applications.

Other Income (Expense), Net. Substantially all other income is from interest received from investments in highly-liquid money market funds. Other income was \$12 for the three months ended March 31, 2007 compared to \$27 for the three months ended March 31, 2006. The decrease in other income is directly attributable to a decline in the cash balances available for investment after we purchased the ACPG division of Checkpoint. This purchase was completed on January 6, 2006 with an effective date of December 30, 2005.

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### LIQUIDITY AND CAPITAL RESOURCES (\$ IN THOUSANDS)

As of March 31, 2007, we had approximately \$1,671 of cash and cash equivalents.

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Net cash used in operating activities was approximately \$267 and approximately \$283 for the three months ended March 31, 2007 and 2006, respectively. Substantially all of the decrease is attributable to the improved operations of our subsidiaries, Sielox and SES. The net loss accounted for \$229, accounts payable and accrued expenses and other current liabilities used \$88 and \$163 respectively. This decrease in cash used was reduced by an increase in inventories and accounts receivable of \$14 and \$136 respectively.

Net cash used in investing activities was approximately \$6 and \$2,700 for the three months ended March 31, 2007 and 2006, respectively. Cash used for investing activities primarily relates to the purchase of fixed assets for 2007. Cash used for March 31, 2006 primarily relates to cash paid to Checkpoint for the acquisition of ACPG.

Net cash used in financing activities was approximately \$6 and \$0 for the three months ended March 31, 2007 and 2006, respectively. Cash used for financing activities primarily relates to principal payments on a capital lease.

We also, as permitted under Delaware law and in accordance with our Bylaws, indemnify our officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving at our request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum amount of potential future indemnification is unlimited; however, we have a Director and Officer Insurance Policy that limits our exposure and enables us to recover a portion of any future amounts paid. As a result of our insurance policy coverage, we believe the fair value of these indemnification agreements is minimal.

We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for working capital and capital expenditures in the near future.

### RISK FACTORS

WE MUST OVERCOME PRICING COMPETITION WITH RESPECT TO OUR ACCESS CONTROL PRODUCTS GROUP PRODUCTS. COMPETITIVE PRICING PRESSURES CAN CAUSE PROFIT EROSION.

ACPG products compete against products sold by an increasing number of competitors on the basis of several factors including price. In order to compete in the marketplace, ACPG's products must provide superior technology at competitive prices. Failure to produce cost-effective products could adversely affect customer demand and adversely affect our results of operations. In addition, the competitive business arena could create pricing pressure for the ACPG products. A reduction in pricing of ACPG's products due to competitive pressures could have an adverse effect on our revenues, operating income and results of operations.

WE MUST DEVELOP NEW PRODUCTS AND ENHANCEMENTS TO EXISTING PRODUCTS TO REMAIN COMPETITIVE. IF WE FAIL TO DEVELOP NEW PRODUCTS AND PRODUCT ENHANCEMENTS ON A TIMELY BASIS, WE MAY LOSE MARKET SHARE. OUR INVESTMENT IN THE PINNACLE SOFTWARE SOLUTION MAY NOT REALIZE A RETURN ON INVESTMENT.

The market for ACPG's Pinnacle software solution is characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. Accordingly, our future success will depend to a substantial extent on our ability to:

- o invest significantly in research and product development;
- o develop, introduce and support new products and enhancements on a timely basis; and

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- o gain and consecutively increase market acceptance of our products.

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Our ACPG division is currently developing new products and enhancements to its existing products. We may not be able to successfully complete the development and market introduction of new products or product enhancements. If we fail to develop and deploy new products and product enhancements on a timely basis, or if we fail to gain market acceptance of our new products, revenues will decline and we may lose market share to our competitors. There is no assurance that we will be successful in marketing and selling our Pinnacle software solution or other new products, that the revenues from the sales of the Pinnacle software solution or other new products will justify the investment, or that the sales of Pinnacle will continue to increase.

THE AVAILABILITY AND PRICING OF COMPONENT PARTS MAY ADVERSELY AFFECT PRODUCTION AND PROFITABILITY.

Our ability to grow earnings will be affected by increases in the cost of component parts, including electronic components and circuit boards. We may not be able to offset fully the effects of higher component parts through price increases, productivity improvements or cost reduction programs.

FUTURE ACQUISITIONS MAY NOT BE FOUND OR MAY NOT BE SUCCESSFULLY INTEGRATED INTO OUR BUSINESS AND COULD ADVERSELY AFFECT OUR BUSINESS.

We have pursued, and will continue to pursue, growth opportunities through attempted acquisition of complementary businesses, products and technologies. We are unable to predict whether or when any other prospective acquisition will be completed, if at all. The process of integrating an acquired business may be prolonged due to unforeseen difficulties and may require a disproportionate amount of our resources and management's attention. There can be no assurances that management will be able to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into existing operations, or expand into new markets. Further, once integrated, acquisitions may not achieve levels of revenues, profitability or productivity comparable to our existing business or otherwise perform as expected. The occurrence of any of these events could harm our business, financial condition or results of operations.

In addition, future acquisitions may require substantial capital resources, which may require us to seek additional debt or equity financing. Future acquisitions could result in the following, any of which could seriously harm our results of operations or the price of our stock:

- o issuance of equity securities that would dilute current stockholders' percentages of ownership;
- o large one-time write-offs;
- o the incurrence of debt and contingent liabilities;
- o difficulties in the assimilation and integration of operations, personnel, technologies, products and information systems of the acquired companies;
- o diversion of management's attention from other business concerns;
- o contractual disputes;

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- o risks of entering geographic and business markets in which we have no or only limited prior experience; and
- o potential loss of key employees of acquired organizations.

THE ACPG BUSINESS HAS INCURRED NET LOSSES. THERE IS NO ASSURANCE THAT IT WILL TURN PROFITABLE IN THE FUTURE.

We (including the ACPG operations) have incurred losses in the past and may incur losses in the future. The ACPG business incurred net losses of \$0.9 million, \$1.0 million and \$1.4 million in 2006, 2005 and 2004, respectively. Continued or increased net losses could have a material adverse effect on our business, financial condition and results of operations and the value and market price of our common stock.

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WE RELY ON LICENSES WITH THIRD PARTIES TO LICENSE SOFTWARE CODE THAT IS AN INTEGRAL PART OF THE ACPG BUSINESS'S PINNACLE SOFTWARE SOLUTION AND IF WE WOULD NEED TO SEEK ALTERNATE LICENSES, OUR RESULTS OF OPERATIONS COULD BE ADVERSELY AFFECTED.

We license certain software code that is an integral part of ACPG's Pinnacle software solution from third parties. In particular, we obtain from third party licensors certain software code included in the Pinnacle software solution, and the software for its badging products. We would need to seek alternative licensors for the software code if any of the third party licensors terminate or decides not to renew a license. If any of these third party licensors become unable to or refuses to license its code, it could interrupt and delay the development, design and delivery of the Pinnacle software solution and related products. Any such disruption could adversely affect our results of operations.

CYCLICAL INDUSTRY AND ECONOMIC CONDITIONS MAY ADVERSELY AFFECT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Our operating results may be affected adversely by the general cyclical pattern of the industries in which we operate. For example, demand for ACPG products and services is significantly affected by levels of commercial construction and consumer and business discretionary spending. The demand patterns of these markets could impact the revenues and margins in this business.

SES RESOURCES INTERNATIONAL, INC. IS A NEWLY FORMED BUSINESS.

As a newly formed organization, our subsidiary, SES Resources International, Inc., or SES, has no independent record of performance in the following service categories in which it is expected to specialize:

- o corporate investigations (e.g. know your customer, know your employee, know your vendor reviews);
- o due diligence reviews;
- o forensic accounting; anti-money laundering investigatory services consistent with the requirements of the Patriot Act;
- o anti-counterfeiting and intellectual property protection;
- o corporate health and wellness consultancy;



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- o emergency preparedness and contingency planning; executive staffing solutions; and
- o education and government security training services

As a new business, SES may not be successful in being engaged by prospective clients, which would have an adverse affect on revenues and results of operations.

OUR SUCCESS IN THE SES BUSINESS DEPENDS ON OUR ABILITY TO EXPAND THE SES ADVISORY PANEL.

SES intends to deliver critical strategic security and business protection solutions based on best practices developed by accomplished retired law enforcement agents and in association with an Advisory Panel comprised of senior executive service level government risk assessment and law enforcement professionals. We may not be able to identify additional senior executive service law enforcement agents who are able to serve as Advisors on the Advisory Panel. Such inability would harm the development of the SES business in general, and prevent us from distinguishing ourselves in the marketplace in particular, which could adversely affect revenues and results of operations.

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SOME OF OUR COMPETITORS HAVE GREATER RESOURCES THAN WE HAVE, WHICH MAY LIMIT OUR ABILITY TO EFFECTIVELY COMPETE WITH THEM.

Some of our competitors have greater financial, personnel and other resources than we have, which may limit our ability to effectively compete with them. For example, our main competitors in the ACPG business include Tyco International Ltd. and Honeywell International Inc. These and other large competitors may be able to:

- o respond more quickly to new or emerging technologies or changes in customer requirements;
- o benefit from greater economies of scale;
- o offer more aggressive pricing; and/or
- o devote greater resources to the promotion of their products.

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WE ARE DEPENDENT ON OUR KEY PERSONNEL, THE LOSS OF WHOM COULD NEGATIVELY AFFECT BUSINESS.

We are dependent on our key personnel, including general management, software and hardware engineers, technical support and sales executives, who have significant industry experience, knowledge and know how. The loss of these key personnel could negatively affect business and results of operations.

OUR COMMON STOCK HAS BEEN DELISTED FROM NASDAQ, WHICH LIMITS THE MARKET FOR OUR COMMON STOCK AND COULD ADVERSELY AFFECT THE ABILITY OF OUR STOCKHOLDERS TO RESELL OUR COMMON STOCK.

Our common stock was delisted from the NASDAQ National Market for failure to maintain certain listing requirements and a significantly reduced market price

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of common stock. The stock may be less liquid and more volatile as a result, and it may be more difficult to raise new operating funds in the public market. The common stock is presently quoted only on the Over-the-Counter Bulletin Board under the ticker symbol "LQCI.OB" and the ability of our stockholders to obtain liquidity and consistent market prices for our shares has been significantly impaired.

In addition, our common stock may constitute "penny stock" (as defined in Rule 3a51-1 promulgated under the Exchange Act) if it fails to meet certain criteria set forth in such Rule. Various practice requirements are imposed on broker-dealers who sell "penny stocks" to persons other than established customers and accredited investors. For these types of transactions, the broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transactions prior to sale. Consequently, the Rule may deter broker-dealers from recommending or selling our common stock, which could further affect the liquidity of the common stock.

OUR BUSINESS IS SUBJECT TO INCREASINGLY COMPLEX CORPORATE GOVERNANCE, PUBLIC DISCLOSURE, ACCOUNTING, AND TAX REQUIREMENTS THAT HAVE INCREASED BOTH COSTS AND THE RISK OF NONCOMPLIANCE.

We are subject to rules and regulations of federal and state government as well as the service on which our common stock is quoted. These entities, including the Public Company Accounting Oversight Board, or PCAOB, the SEC, the Internal Revenue Service and NASD, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by Congress, most notably the Sarbanes-Oxley Act of 2002. Our efforts to comply with these requirements have resulted in, and are likely to continue to result in, significant legal, accounting and other expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In addition, we incur additional costs associated with our public company reporting requirements. These rules and regulations also may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage.

We are subject to periodic audits or other reviews by such governmental agencies. The SEC periodically reviews our public company filings. Any such examination or review frequently requires management's time and diversion of internal resources and, in the event of an unfavorable outcome, may result in additional liabilities or adjustments to our historical financial results.

RECENT CHANGES IN ACCOUNTING RULES, INCLUDING THE EXPENSING OF STOCK OPTIONS GRANTED TO OUR EMPLOYEES, COULD HAVE A MATERIAL IMPACT ON OUR REPORTED BUSINESS AND FINANCIAL RESULTS.

The U.S. generally accepted accounting principles are subject to interpretation by the Financial Accounting Standards Board, or FASB, the American Institute of Certified Public Accountants, the PCAOB, the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results.

On December 15, 2004, the FASB issued SFAS 123R, Share-Based Payment, which requires us to measure compensation expense for employee stock options using the fair value method beginning the first quarter of fiscal year 2006, which is the quarter ended March 31, 2006. SFAS 123R applies to all outstanding stock options that are not vested at the effective date and grants of new stock options made subsequent to the effective date. As a result of SFAS 123R, we recorded higher

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levels of stock based compensation due to differences between the valuation

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methods of SFAS 123R and Accounting Principles Board Opinion No. 25, or APB No. 25. In prior periods, we recorded any compensation expense associated with stock option grants to employees using the intrinsic value method in accordance with APB 25.

WE HAVE BEEN NAMED AS A PARTY IN CERTAIN CLASS ACTION LAWSUITS WHICH COULD REQUIRE SIGNIFICANT MANAGEMENT TIME AND ATTENTION AND RESULT IN SIGNIFICANT LEGAL EXPENSES AND MAY RESULT IN AN UNFAVORABLE OUTCOME WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS.

We are a defendant in certain purported class action lawsuits filed by individual shareholders in the U.S. District Court for the Southern District of New York against certain of our former officers and directors, and various of the underwriters in our initial public offering ("IPO") and secondary offering. The lawsuits have been filed by individual shareholders who purport to seek class action status on behalf of all other similarly situated persons who purchased our common stock between July 8, 1999 and December 6, 2000. A consolidated amended class action complaint was filed on April 19, 2002. The complaint alleges that certain underwriters of the IPO solicited and received excessive and undisclosed fees and commissions in connection with that offering. The complaint further alleges that the defendants violated the federal securities laws by issuing a registration statement and prospectus in connection with our IPO which failed to accurately disclose the amount and nature of the commissions and fees paid to the underwriter defendants. On or about October 8, 2002, the Court entered an Order dismissing the claims asserted against certain individual defendants in the consolidated actions without any payment from these individuals or us. On or about February 19, 2003, the Court entered an Order dismissing with prejudice the claims asserted against us under Section 10(b) of the Exchange Act. As a result, the only claims that remain against us are those arising under Section 11 of the Securities Act. The parties have negotiated and executed a definitive settlement agreement. The proposed settlement provides that the class members in the class action cases brought against the participating issuer defendants will be guaranteed a recovery of \$1 billion by insurers of the participating issuer defendants. If recoveries totaling \$1 billion or more are obtained by the class members from the underwriter defendants, however, the monetary obligations to the class members under the proposed settlement will be satisfied. In addition, we and any other participating issuer defendants will be required to assign to the class members certain claims that they may have against the underwriters of their IPOs. The proposed settlement contemplates that any amounts necessary to fund the settlement or settlement-related expenses would come from participating issuers' directors and officers' liability insurance policy proceeds as opposed to funds of the participating issuer defendants themselves. A participating issuer defendant could be required to contribute to the costs of the settlement if that issuer's insurance coverage were insufficient to pay that issuer's allocable share of the settlement costs. If ultimately approved by the Court, the proposed settlement would result in the dismissal, with prejudice, of all claims in the litigation against us and all of the other issuer defendants who have elected to participate in the proposed settlement, together with the current or former officers and directors of participating issuers who were named as individual defendants. The proposed settlement does not provide for the resolution of any claims against the underwriter defendants, and the litigation as against those defendants is continuing. Consummation of the proposed settlement remains conditioned upon obtaining approval by the Court. By order entered on September 1, 2005, the Court granted preliminarily approval of the proposed settlement and

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directed that notice of the terms of the proposed settlement be provided to class members. Thereafter, the court held a fairness hearing, on April 24, 2006, at which objections to the proposed settlement were heard. The Court has yet to issue a ruling on the motion for final approval. On December 5, 2006, the Court of Appeals for the Second Circuit reversed the Court's order certifying a class in six test cases that were selected by the underwriter defendants and plaintiffs in the coordinated proceeding. On April 6, 2007, the Court of Appeals denied the plaintiffs' petition for rehearing of the Court's December 5, 2006 ruling but noted that the plaintiffs remain free to ask the District Court to certify a different class which might meet the standards for class certification that the Court of Appeals articulated in its December 5, 2006 decision. Because our proposed settlement with the plaintiffs involves the certification of the case against us as a class action for settlement purposes, it is unclear what impact, if any, the Second Circuit's class certification ruling will have on our case or the viability of the proposed settlement. In the event the settlement is not finalized, the Company believes that it has meritorious defenses to plaintiffs' claims and intends to defend the action vigorously.

The expense of defending this litigation may be significant. The amount of time to resolve these lawsuits is unpredictable and defending us may divert management's attention from the day-to-day operations of our business, which could adversely affect our business, results of operations and cash flows. In addition, an unfavorable outcome in such litigation could have a material adverse effect on our business, results of operations and cash flows.

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PROVISIONS IN OUR CHARTER DOCUMENTS AND DELAWARE LAW COULD PREVENT OR DELAY A CHANGE IN CONTROL AND MAY REDUCE THE MARKET PRICE OF OUR COMMON STOCK.

Provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger, acquisition or other business combination that a stockholder may consider favorable. These provisions include:

- o authorizing the issuance of preferred stock without stockholder approval;
- o limiting the persons who may call special meetings of stockholders;
- o prohibiting stockholder actions by written consent;
- o prohibiting cumulative voting for the election of directors or any other matter submitted to a vote of stockholders unless required by the California General Corporation Law; and
- o requiring super-majority voting to effect certain amendments to our certificate of incorporation and bylaws.

We are incorporated in Delaware and certain provisions of Delaware law may also discourage, delay or prevent someone from acquiring or merging with it, which may cause the market price of its common stock to decline.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### MARKET RISK

No material changes exist to the market risk our investment portfolio of cash and money market funds faced during the three months ended March 31, 2007.

### ITEM 4. CONTROLS AND PROCEDURES

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Based on the evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act by our management, with the participation of our chief executive officer and our chief financial officer, as of end of the period covered by this report, our chief executive officer and our chief financial officer have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

No change in our internal control over financial reporting occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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### PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

We are a defendant in certain purported class action lawsuits filed by individual shareholders in the U.S. District Court for the Southern District of New York against certain of our former officers and directors, and various of the underwriters in our initial public offering ("IPO") and secondary offering. The lawsuits have been filed by individual shareholders who purport to seek class action status on behalf of all other similarly situated persons who purchased our common stock between July 8, 1999 and December 6, 2000. A consolidated amended class action complaint was filed on April 19, 2002. The complaint alleges that certain underwriters of the IPO solicited and received excessive and undisclosed fees and commissions in connection with that offering. The complaint further alleges that the defendants violated the federal securities laws by issuing a registration statement and prospectus in connection with our IPO which failed to accurately disclose the amount and nature of the commissions and fees paid to the underwriter defendants. On or about October 8, 2002, the Court entered an Order dismissing the claims asserted against certain individual defendants in the consolidated actions without any payment from these individuals or us. On or about February 19, 2003, the Court entered an Order dismissing with prejudice the claims asserted against us under Section 10(b) of the Exchange Act. As a result, the only claims that remain against us are those arising under Section 11 of the Securities Act. The parties have negotiated and executed a definitive settlement agreement. The proposed settlement provides that the class members in the class action cases brought against the participating issuer defendants will be guaranteed a recovery of \$1 billion by insurers of the participating issuer defendants. If recoveries totaling \$1 billion or more are obtained by the class members from the underwriter defendants, however, the monetary obligations to the class members under the proposed settlement will be satisfied. In addition, we and any other participating issuer defendants will be required to assign to the class members certain claims that they may have against the underwriters of their IPO's. The proposed settlement contemplates that any amounts necessary to fund the settlement or settlement-related expenses would come from participating issuers' directors and officers' liability insurance policy proceeds as opposed to funds of the participating issuer defendants themselves. A participating issuer defendant could be required to contribute to the costs of the settlement if that issuer's insurance coverage were insufficient to pay that issuer's allocable share of the settlement costs. If ultimately approved by the Court, the proposed settlement would result in the dismissal, with prejudice, of all claims in the litigation against us and all of the other issuer defendants who have elected to participate in the proposed settlement, together with the current or former

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officers and directors of participating issuers who were named as individual defendants. The proposed settlement does not provide for the resolution of any claims against the underwriter defendants, and the litigation as against those defendants is continuing. Consummation of the proposed settlement remains conditioned upon obtaining approval by the Court. By order entered on September 1, 2005, the Court granted preliminarily approval of the proposed settlement and directed that notice of the terms of the proposed settlement be provided to class members. Thereafter, the court held a fairness hearing, on April 24, 2006, at which objections to the proposed settlement were heard. The Court has yet to issue a ruling on the motion for final approval. On December 5, 2006, the Court of Appeals for the Second Circuit reversed the Court's order certifying a class in six test cases that were selected by the underwriter defendants and plaintiffs in the coordinated proceeding. On April 6, 2007, the Court of Appeals denied the plaintiffs' petition for rehearing of the Court's December 5, 2006 ruling but noted that the plaintiffs remain free to ask the District Court to certify a different class which might meet the standards for class certification that the Court of Appeals articulated in its December 5, 2006 decision. Because our proposed settlement with the plaintiffs involves the certification of the case against us as a class action for settlement purposes, it is unclear what impact, if any, the Second Circuit's class certification ruling will have on our case or the viability of the proposed settlement. In the event the settlement is not finalized, the Company believes that it has meritorious defenses to plaintiffs' claims and intends to defend the action vigorously.

The expense of defending this litigation may be significant. The amount of time to resolve these lawsuits is unpredictable and defending us may divert management's attention from the day-to-day operations of our business, which could adversely affect our business, results of operations and cash flows. In addition, an unfavorable outcome in such litigation could have a material adverse effect on our business, results of operations and cash flows.

### ITEM 6 EXHIBITS

- 2.1 Agreement and Plan of Merger with Dynabazaar, Inc. and LQ Merger Corp. dated as of January 5, 2007 (1)
  - 2.2 Letter Agreement dated January 5, 2007 (1)
  - 2.3 Amended and Restated Agreement and Plan of Merger with Dynabazaar, Inc. and LQ Merger Corp. dated as of February 26, 2007 (2)
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- 2.4 Letter Agreement dated February 26, 2007 (2)
  - 31.1 Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002\*
  - 31.2 Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002\*
  - 32.1 Certification of Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002\*
  - 32.2 Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002\*

\* Filed herewith.

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- (1) Incorporated by reference to the Form 8-K filed with the Securities and Exchange Commission on January 5, 2007.
- (2) Incorporated by reference to the Form 8-K filed with the Securities and Exchange Commission on February 27, 2007.

L Q CORPORATION, INC.

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.

DATE: May 15, 2007

L Q CORPORATION, INC.

By: /s/ Sebastian E. Cassetta

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Sebastian E. Cassetta  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Melvyn Brunt

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Melvyn Brunt  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

DATE: May 15, 2007