COMPUTERIZED THERMAL IMAGING INC
Form 10-Q
November 13, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001

[ ] 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: 000-23955

COMPUTERIZED THERMAL IMAGING, INC.
(Exact name of Registrant as specified in its charter)

NEVADA	87-0458721
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
Two Centerpointe Drive, Suite 450 Lake Oswego, Oregon	97035
(Address of principal executive offices)	(Zip Code)

(503) 594-1210
(Registrant's telephone number, including area code)

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS: State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: Common stock, par value $0.001, of which 82,803,263 shares were issued and outstanding as of November 07, 2001.

COMPUTERIZED THERMAL IMAGING, INC.

FORM 10-Q

QUARTERLY REPORT

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PART I - FINANCIAL INFORMATION

ITEM 1.

COMPUTERIZED THERMAL IMAGING, INC.

(A Development Stage Company)
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

ASSETS	September 30, 2001	June 3 2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,382,537	$ 7,810,
Investments available for sale	11,152,192	11,070,
Accounts receivable-trade, net	562,271	383,
Accounts receivable-other, net	174,377	559,
Inventories	946,335	643,
Prepaid expenses	281,603	269,
Total current assets	19,499,315	20,735,
PROPERTY AND EQUIPMENT, Net	1,225,619	1,228,
INTANGIBLE ASSETS:		
Goodwill, net	9,553,113	9,834,
Intellectual property rights, net	42,744	44,
Total intangible assets	9,595,857	9,878,
TOTAL ASSETS	$ 30,320,791	$ 31,843,
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,227,956	$ 1,802,
Accrued liabilities	802,137	844,
Deferred revenues	365,460	11,
Total current liabilities	2,395,553	2,658,
COMMITMENTS AND CONTINGENCIES	-	
STOCKHOLDERS' EQUITY:		
Convertible preferred stock, $5.00 par value, 3,000,000 shares authorized; issued-none	-	
Common stock, $.001 par value, 200,000,000 shares authorized, 82,803,263 and 81,076,546 issued and outstanding on September 30, 2001 and June 30, 2001, respectively	82,804	81,
Additional paid-in capital	88,187,802	89,910,
Other comprehensive income	86,107	106,
Deficit accumulated during the development stage	(60,431,475)	(60,913,
Total stockholders' equity	27,925,238	29,184,
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 30,320,791	$ 31,843,

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

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COMPUTERIZED THERMAL IMAGING, INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	THREE MONTH PERIOD ENDED SEPTEMBER 30, 2001	2000
INCOME:		
Revenues	$ 207,253	$ 79,665
Cost of goods sold	(111,433)	(43,019)
GROSS MARGIN	95,820	36,646
OPERATING EXPENSES:		
General and administrative	(2,027,427)	1,456,417
Research and development	1,289,413	1,789,749
Marketing	230,237	332,164
Depreciation and amortization	386,567	437,787
Litigation settlement	-	-
Impairment loss	-	-
Total operating expenses (income)	(121,210)	4,016,117
OPERATING INCOME (LOSS)	217,030	(3,979,471)
OTHER INCOME (EXPENSE):		
Interest income	264,724	616,842
Interest expense	-	-
Other	-	2,552
Total income	264,724	619,394
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	481,754	(3,360,077)
EXTRAORDINARY GAIN ON EXTINGUISHMENT OF DEBT	-	-
NET INCOME (LOSS)	481,754	(3,360,077)
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gain (loss) on investments available for sale	(20,268)	60,001

TOTAL COMPREHENSIVE INCOME (LOSS)	$ 461,486	$ (3,300,076)
WEIGHTED AVERAGE SHARES OUTSTANDING	81,529,282	80,405,262
BASIC INCOME (LOSS) PER COMMON SHARE	$ 0.01	$ (0.04)
FULLY DILUTED SHARES OUTSTANDING	86,569,553	80,405,262
FULLY DILUTED INCOME (LOSS) PER SHARE	$ 0.01	$ (0.04)

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

COMPUTERIZED THERMAL IMAGING, INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED COMPREHENSIVE INCOME
	SHARES	AMOUNT		
Balance at July 1, 2001	81,076,546	$ 81,077	$ 89,910,457	$ 106,375
Options exercised for cash				
$0.75 per share	1,000,000	1,000	749,000	
$0.97 per share	500,000	500	484,500	
$1.50 per share	54,002	54	132,212	
Stock-based compensation	50,000	50	(50)	
Warrants exercised for cash				
$2.50 per share	122,715	123	260,352	
Variable stock options				
Compensation marked to market			(3,348,669)	
Other comprehensive loss				(20,268)
Net income				
Balance at September 30, 2001	82,803,263	$ 82,804	$ 88,187,802	$ 86,107

The accompanying notes are an integral part of these condensed consolidated financial statements

COMPUTERIZED THERMAL IMAGING, INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 481,754	$ (3,360,077)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	386,567	437,787
Impairment loss	-	-
Bond Premium (Discount) Amortization	48,035	(23,336)
Amortization of debt issuance costs and discounts	-	
on notes payable	-	-
Common stock, warrants, and options issued	-	
as compensation for services	-	-
Options extended beyond their expiration date	-	-
Common stock issued for interest expense	-	-
Stock-based compensation on options marked to market	(3,348,669)	-
Common stock issued to settle litigation	-	-
Options issued at discount to market to settle litigation	-	-
Options issued at discount to market as compensation expense	-	-
Common stock issued for failure to complete timely registration	-	-
Common stock issued to 401(k) plan	-	-
Extraordinary gain on extinguishment of debt	-	-
Bad debt expense	51,925	166,894
Changes in operating assets and liabilities:		
Accounts receivable - trade	(230,865)	122,633
Accounts receivable - other	384,703	-
Inventories	(303,237)	(250,101)
Prepaid expenses	(11,895)	158,877
Accounts payable	(574,910)	(347,637)
Accrued liabilities	(42,066)	-
Deferred revenues	354,200	-
Net cash used in operating activities	(2,804,458)	(3,094,960)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	-	
Capital expenditures	(100,600)	(469,987)
Acquisition of Thermal Imaging, Inc. common stock	-	(40,000)
Purchase of software license	-	-
Purchase of investments available for sale	(8,160,431)	(1,003,852)
Proceeds on redemption of investments available for sale	8,010,000	-
Acquisition of Bales Scientific common stock, net of cash acquired	-	-

Net cash used in investing activities	(251,031)	(1,513,839)

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

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COMPUTERIZED THERMAL IMAGING, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	THREE MONTHS ENDED SEPTEMBER 30,		
	2001	2000	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock and warrants, net of offering costs	$ 1,627,741	$ 310,850	$
Advances to affiliate	-	(22,674)	
Advances from stockholders	-	-	
Proceeds from borrowing	-	-	
Payments on debt	-	-	
Net cash provided by financing activities	1,627,741	288,176	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,427,748)	8,860,605	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,810,285	137,162	
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 6,382,537	$ 8,997,767	$
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for:			
Interest expense			$
Income taxes			
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING AND INVESTING ACTIVITIES			
Common stock issued to individuals to acquire minority interest of subsidiary			$
Common stock issued in consideration of Bales Scientific			
Options issued at discount to market in connection with offering			
Stock offering costs capitalized			
Common stock issued for advances from shareholders			
Common stock issued for notes payable, accrued discount and interest			
Common stock issued for convertible subordinated			

debentures
Common stock issued for liabilities

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

COMPUTERIZED THERMAL IMAGING, INC.
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements

NOTE A. UNAUDITED FINANCIAL STATEMENTS AND BASIS OF PRESENTATION

The condensed consolidated financial statements for the three-month periods ended September 30, 2001 and 2000 are unaudited. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation for the periods presented have been included. These interim statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto contained in the Company's most recent Form 10-K. The consolidated results of operations for the three-month periods ended September 30, 2001 and 2000 are not necessarily indicative of the results to be expected for the full year.

Certain amounts from the prior period financial statements have been reclassified to conform with current period presentation.

NOTE B. RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, BUSINESS COMBINATIONS. SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements.

In July 2001, the FASB issued SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, which is effective July 1, 2002 for the Company. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing intangibles such as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also requires the Company complete a transitional goodwill impairment test six months from the date of adoption. The Company is currently assessing the impact of SFAS 142 on its financial position and results of operations.

NOTE C. REVENUE RECOGNITION

The Company derives revenue from the sale of industrial and medical equipment, and industrial non-destructive inspection services and design. The Company recognizes revenue only when its customer has assumed the risks and rewards of ownership or upon service completion. The Company records deferred revenue when the sale is subject to a contingency or when payment arrangements differ from its normal domestic or international terms. Deferred revenue is recognized upon expiration of the contingency or collection of the balance due.

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NOTE D. INVENTORIES

Inventories are stated at the lower-of-cost or market with cost determined using first-in first-out. Inventories consist of the following:

	September 30, 2001	June 30, 2001
Raw materials and work-in-process	$ 625,585	$ 341,898
Finished goods	320,750	301,200
Total	$ 946,335	$ 643,098

NOTE E. INCOME TAXES

The Company accounts for income taxes using the liability method. Under this method, the Company records deferred income taxes to reflect future year tax consequences of temporary differences between the tax basis of assets and liabilities and their financial statement amounts. The Company has reviewed its net deferred tax assets, together with net operating loss carry-forwards, and has provided a valuation allowance to reduce its potential deferred tax assets to their net realizable value.

NOTE F. STOCK WARRANTS, OPTIONS, AND RESTRICTED STOCK

During the three months ended September 30, 2001, the Company issued 122,715 common shares pursuant to the exercise of warrants and 1,554,002 shares pursuant to the exercise of employee stock options. During the quarter, outstanding warrants to purchase 1,939,110 shares of our common stock for $2.50 per share expired and are no longer exercisable. The Company issued no options or warrants during the three months ended September 30, 2001.

In accordance with Accounting Principles Board Opinion (APB) No. 25 ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES FOR STOCK-BASED COMPENSATION, and Financial Accounting Standards Board Interpretation No. 44, ACCOUNTING FOR CERTAIN TRANSACTIONS INVOLVING STOCK COMPENSATION (AN INTERPRETATION OF APB 25), during the quarter ended September 30, 2001, we recorded a decrease to expenses of $3,349,000 related to stock-based compensation for `variable' stock options. This non-cash adjustment represents changes in the difference between the exercise price of certain stock options and the fair market value of the underlying security (the Company's common stock). Because the value of a share of the Company's stock at September 30, 2001 was less than the value of a share at June 30, 2001, we recorded a decrease in previously recognized expense.

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NOTE G. CONTINGENCIES

Except as disclosed in our Form 10-K and in Part II, Item 1 of this report, the Company is unaware of any material contingencies.

NOTE H. EARNINGS PER SHARE

Basic and fully diluted earnings per share are based on the net income and the weighted average number of common shares outstanding during each period.

For the quarter, ended September 30, 2000, common equivalent shares from common stock options and warrants are excluded from the computation, as their effect would be antidilutive. Options to purchase approximately 916,000 shares of common stock at prices ranging from $2.95 to $9.06 per share and warrants to purchase approximately 5,847,000 shares of common stock at prices ranging from $5.00 to $7.25 were outstanding during the quarter ended September 30, 2001 but were not included in the computation of diluted EPS because the exercise prices were greater than the average market price of the common shares. Fully diluted earnings per share are as follows:

For the three-month period ended September 30, 2001

	Income (Numerator)	Shares (Denominator)	Per-Sha Amoun
Net Income	$ 481,754		
Basic income per share	$ 481,754	81,529,282	$.0.01
Effect of dilutive securities			
Options		4,411,806	
Warrants		628,465	
Fully diluted income per share	$ 481,754	86,569,553	$.0.01

For the three-month period ended September 30, 2000

	Income (Numerator)	Shares (Denominator)	Per-Sha Amount
Net Loss	$(3,300,076)		
Basic loss per share	$(3,300,076)	80,405,262	$(0.04
Effect of dilutive securities			
Options		-	
Warrants		-	
Fully diluted loss per share	$(3,300,076)	80,405,262	$ (0.0

NOTE I. SEGMENTS

During the current fiscal year, management began to evaluate the Company as two distinct lines of business: medical and industrial products and services. The following table describes operations for each product segment for the three-month periods September 30, 2001 and 2000.

Segment results for the three-month period ended September 30, 2001

	Medical	Industrial	Total
Revenue	$ 136,680	$ 70,573	$ 207,253
Gross Margin	38,830	56,990	95,820
General & Administrative	(1,642,216)	(385,211)	(2,027,427)
Research & Development	970,066	319,347	1,289,413
Marketing	186,492	43,745	230,237
Depreciation and amortization	100,529	286,038	386,567
Operating expense (income)	(385,129)	263,919	(121,210)
Operating income (loss)	$ 423,959	$ (206,929)	$ 217,030

Segment results for the three-month period ended September 30, 2000

	Medical	Industrial	Total
Revenue	$ 76,665	$ 3,000	$ 79,665
Gross Margin	33,646	3,000	36,646
General & Administrative	1,179,700	276,717	1,456,417
Research & Development	1,789,749	-	1,789,749
Marketing	269,053	63,111	332,164
Depreciation and amortization	252,636	185,151	437,787
Operating expense	3,491,138	524,979	4,016,117
Operating income (loss)	$(3,457,492)	$ (521,979)	$(3,979,471)

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

This document, and the documents incorporated by reference, contain forward-looking statements within the meaning of the Securities Act of 1933 and Securities Exchange Act of 1934. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied. When used in this document the words "expects", "anticipates," "intends," "plans," "may," "believes," "seeks," "estimates," and similar expressions generally identify forward-looking statements. All forward-looking statements included in this document are based on information available to the Company on the date hereof, and we assume no obligation to update any forward-looking statements.

The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our Audited Consolidated Financial Statements and Notes thereto contained in our Form 10-K/A for the fiscal year ended June 30, 2001.

TRENDS/UNCERTAINTIES AFFECTING CONTINUING OPERATIONS

In January 2001, we began transitioning our focus from research and development to commercializing our technology. Success in this transition depends upon the Company's ability, among other things, to:

- obtain FDA approval for our Breast Cancer System;
- develop and manufacture reliable and effective products;
- attract, retain, train and motivate qualified personnel;
- develop manufacturing and marketing expertise and expand our internal sales force; and
- attract qualified distributors.

We have had limited revenues from operations. To date, the Company has generated revenues from the Photonic Stimulator, TIP, Turbine Blade Inspection System and inspection services. We cannot assure you that we will achieve profitability in the near future.

GENERAL

Computerized Thermal Imaging, Inc. ("we", "us", "our", "CTI", "the Company") designs, manufactures and markets thermal imaging devices and services used for clinical diagnosis, pain management and industrial non-destructive testing. The Company markets its products worldwide through an internal sales force and a network of independent distributors.

From its inception in 1987, the Company has emphasized the research and development of thermal imaging equipment and proprietary imaging technology. These efforts have led to the development of our non-invasive and non-destructive infrared imaging systems. We believe our thermal imaging system generates data, difficult to obtain or not available using other imaging modalities, that are useful to health care providers in the detection of certain diseases and disorders and useful to industry as a tool for product quality testing.

Our research indicates that our equipment and technology is useful in studying and diagnosing breast cancer, which is the most common cancer in women after skin cancers. Our research and development efforts have led to the creation of our Breast Cancer System 2100(TM) ("Breast Cancer System"). We are seeking FDA pre-market approval ("PMA") for this system, as an adjunct to mammography and clinical examinations, for use as a painless and non-invasive technique for acquiring clinical information. To receive FDA approval, we must establish the Breast Cancer System's ability to consistently distinguish between malignant and benign tissue and thereby significantly reduce the number of unnecessary (benign finding) breast biopsies performed. We have received acceptance on four of five modules required for PMA approval. We submitted the fifth module, which includes clinical trial results and efficacy claims, during June 2001. We are awaiting FDA review and comment.

In addition to breast cancer screening, we believe our technologies may have application in pain treatment and non-destructive testing of industrial and structural components. We design, manufacture and sell our Thermal Image Processor ("TIP") and Photonic Stimulator for pain treatment. We have developed industrial applications for our technology that address industrial markets for non-destructive testing and inspection of turbine blades, aging aircraft, electronics, composites, metals and other advanced materials.

As of September 30, 2001, the Company had approximately 82.8 million shares of common stock held by approximately 29,000 shareholders, primarily individuals. We have warrants and options for approximately 14.7 million shares of common stock that remain unexercised. Accordingly, on a fully diluted basis, we have approximately 97.6 million common shares outstanding. In addition, we own 100 percent of Bales Scientific, Inc. We have no other interest in any other entity. We trade on the American Stock Exchange under the symbol "CIO".

The Company uses capital to pay general corporate expenses, including salaries, manufacturing costs, professional fees, clinical trials and technical support costs, and general and administrative expenses. To date, the Company has funded its business activities with funds raised through the private placement of its common stock and warrants and the exercise of warrants and options.

RESULTS OF OPERATIONS

Quarter Ended September 30, 2001 Compared to Quarter Ended September 30, 2000.

REVENUES

Revenues for the quarter ended September 30, 2001, increased $128,000 from the same period last year to $207,000, of which approximately $137,000 resulted from the sale of pain management products and the $70,000 from the sale of industrial products and services. During the quarter ended September 30, 2000 all of the Company's $80,000 in revenues resulted from the sale of pain management products.

During the quarter ended September 30, 2001, medical segment revenues increased $57,000, or 71%, from the same period last year to $137,000. During the quarter ended September 30, 2000, medical segment revenues were $80,000.

During the quarter ended September 30, 2001, the Company's new industrial segment recorded revenues of $70,000 through its Bales Scientific, Inc. subsidiary. During the quarter ended September 30, 2000, the Company had no industrial segment revenues.

COSTS AND EXPENSES

General and administrative expenses for the quarter ended September 30, 2001, were ($2,027,000) compared to $1,456,000 for the same period last year. Excluding a non-cash compensation benefit of $2,789,000, general and administrative expenses for the quarter ended September 30, 2001 decreased $694,000, or 47.7%, from the same quarter in 2000 to $761,000. This decrease is primarily a result of 1) a $439,000 decrease in legal fees; 2) a $167,000 decrease in professional services expense; and 3) a $216,000 decrease in stockholder service costs. These expense reductions were partially offset by a $70,000 increase in wage expense.

Research and development expenses for the quarter ended September 30, 2001, were $1,289,000 compared to $1,790,000 for the same period last year. Excluding a non-cash compensation benefit of $202,000, research and development expenses for the quarter ended September 30, 2001, decreased $299,000, or 17%, from the same quarter in 2000, to $1,491,000. The decrease is primarily a result of 1) a $166,000 decrease in clinical trial expenses; 2) a $435,000 decrease in consulting services associated with the development of our breast imaging system; 3) $164,000 decrease in software license fees. This reduction in expenses was partially offset by 1) a $313,000 increase in salaries as a result of an increase in the number of research and development employees; 2) a $91,000 increase in office expenses; and 3) a $74,000 increase in supplies and equipment expense.

Marketing expenses for the quarter ended September 30, 2001, were $230,000 compared to $332,000 for the same period last year. Excluding a non-cash compensation benefit of $358,000, marketing expenses for the quarter ended September 30, 2001, increased $256,000, or 77.3%, from the same quarter in 2000 to $589,000. The increase was mainly attributable to $171,000 increase in wages and benefits and a $78,000 increase in office expenses and travel. These increased expenses are associated with developing a marketing team in connection with our transition into an operating company.

Depreciation and amortization expense for the quarter ended September 30, 2001, decreased $51,000, or 11.7% from the same quarter in 2000 to $387,000. The decrease in depreciation and amortization expense resulted from asset impairments and write offs recorded in the fourth quarter of our 2000 fiscal year.

During the three months ended September 30, 2001, we decreased our monthly average expense level $246,000, or 20%, to $946,000 from $1,192,000 during the same quarter last year.

NET INTEREST INCOME

Interest income for the quarter ended September 30, 2001 decreased $352,000, or 57% from the same quarter of 2000 to $265,000. This decrease results from lower interest rates and decreased cash balances available for investment.

NET INCOME/(LOSS)

As a result of the foregoing, we recorded net income of $482,000 for the quarter ended September 30, 2001, compared to a loss of $3,360,000 for the quarter ended September 30, 2000.

For the quarter ended September 30, 2001, the profit attributable to common shareholders was $482,000, or $0.01 per share, compared to a loss attributable to common shareholders of $3,360,000, or $(0.04) per share, for the quarter ended September 30, 2000.

LIQUIDITY AND CAPITAL RESOURCES

SOURCES OF LIQUIDITY

Our net working capital at September 30, 2001, was $17.1 million compared to $18.7 million at June 30, 2001. The ratio of current assets to current liabilities was 8.1 to 1.0 at September 30, 2001, compared to 7.8 to 1.0 at June 30, 2001.

Our cash requirements consist of, but are not limited to, general corporate expenses including office salaries and expenses, lease payments on our office space, acquisition of technology, legal and accounting fees to comply with securities registration and reporting requirements, costs of clinical trials and technical support, and FDA consulting expenses.

Net cash used in operating activities for the quarter ended September 30, 2001 was $2,804,000 compared to $3,095,000 for the quarter ended September 30, 2000, an improvement of $291,000 or 9.4%. Net cash used by investing activities in the 2001 period was $ 251,000 compared to net cash used in investing activities of $1,514,000 in the prior year's comparable period, an improvement of $1,263,000 or 83.4%. Net cash provided by financing activities was $1,627,000 in the quarter ended September 30, 2001 compared to $288,000 during the same quarter last year, an improvement of $1,339,000 or 464.9%.

As a result of the foregoing, cash and cash equivalents decreased by $1,428,000 in the quarter ended September 30, 2001, compared to a $4,321,000 decrease in the quarter ended September 30, 2000, an improvement of $2,893,000 or 67.0%.

Capital resources needed to meet our planned expenditures are derived primarily from equity funding on the private placement of our common stock and warrants and the exercise of our outstanding warrants and options.

Agreement with Beach Boulevard, LLC

On March 4, 1999, we entered into a Securities Purchase Agreement (as amended in May 1999, the "Investment Agreement") with Beach Boulevard L.L.C. ("Beach"). Subject to certain conditions set forth in the Investment Agreement, we have the right to require Beach to purchase up to $7 million of our common stock in a series of $500,000 tranches. As of the date hereof, we have required Beach to purchase approximately $3 million of our common stock in a series of six tranches during our fiscal years ended June 30, 2000 and 1999. Since Beach's participation in the sixth tranche, we have made no requirements of funding by Beach, although Beach's obligation to provide funding, subject to the terms and conditions set forth in the Investment Agreement, continues.

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Because Beach is not required to purchase additional shares unless certain conditions are satisfied as set forth in the Investment Agreement, there is no assurance that Beach will ultimately provide us with the remaining $4 million commitment. Furthermore, there is no assurance that we will require Beach to purchase additional shares even if the conditions set forth in the Investment Agreement are satisfied.

CAPITAL REQUIREMENTS/PLAN OF OPERATION

Since inception, we have generated significant losses from operations. Although our recently acquired subsidiary, Bales Scientific, has generated limited revenues during the past several years, it is also a development stage enterprise. Our cash requirements consist of, but are not limited to: general corporate expenses including salaries and benefits, lease payments for office space, technology acquisition, legal and accounting fees, clinical trial and technical support, FDA consulting, marketing, and expenses associated with the private placement of our equity securities. Capital resources needed to meet our past and planned expenditures have been financed and are likely to continue to be primarily from the sale of equity securities. As of September 30, 2001, we had approximately $17.1 million in working capital.

Our capital requirements may vary from our estimates and depend upon numerous factors including, but not limited to: a) progress in our research and development programs; b) results of pre-clinical and clinical testing; c) costs of technology; d) time and costs involved in obtaining regulatory approvals; e) costs of filing, defending and enforcing any patent claims and other intellectual property rights; f) the economic impact of competing technological and market developments; and g) the terms of any new collaborative, licensing and other arrangements that we may establish.

We believe we will have sufficient capital to fund our business plan over the next year. If additional capital is required, we will rely on private investors to support us either through loans or contributions to capital in exchange for restricted common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a development stage enterprise. We believe we are not subject to market risks beyond ordinary economic risks, such as interest rate fluctuation and inflation.

At September 30, 2001, we had invested approximately $11.2 million in available-for-sale marketable securities including investments in United States government securities and corporate bonds and $5.5 million in cash available to invest in available-for-sale marketable securities. Although we believe the issuers of these marketable securities are solvent and are favorably rated by recognized rating agencies, there is the risk that such issuers may not have sufficient liquid assets to satisfy their obligations at the time such obligations become due. If such were to occur, we may not be able to recover the full amount of our investment.

Each of our marketable securities has a fixed rate of interest. Accordingly, a change in market interest rates may result in an increase or decrease in the market value of our marketable securities. If we liquidate any of our marketable securities prior to the time of their maturity, we could receive less than the face value of the security.

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PART II-- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

KATHLEEN SULLIVAN EMPLOYMENT AGREEMENT

On June 27, 2000, Kathleen Sullivan ("Plaintiff") filed a complaint in the Superior Court of California for the County of Los Angeles (Central District), alleging breach of contract for failure to compensate her for promotional services rendered to the Company. In March 2001, Plaintiff amended her complaint to include causes of action for fraud and negligent misrepresentation against us and a former officer. Plaintiff seeks unspecified damages. We believe Ms. Sullivan breached the agreement and intend to defend this lawsuit on that basis. No trial date has been set.

ALEX SAENZ COMPLAINT AND COUNTERCLAIMS

On June 1, 2000, we filed a complaint against Alex Saenz ("defendant") in the Circuit Court of the State of Oregon. On July 7, 2000, the complaint was moved from the circuit court to the United States District Court for the District of Oregon.

We believe that defendant interfered with our business by threatening lawsuits to recover stock options allegedly owed to him in connection with our April 2000 Private Placement, and threatening to sue and otherwise harass an individual important to the continued conduct of our business. The defendant has denied our allegations and filed a counterclaim alleging breach of various verbal agreements to compensate him for services rendered.

Following a trial that ended August 16, 2001, the court ruled that defendant was not entitled to any additional compensation from our company. The court also dismissed the defendant's counterclaim against the company. The defendant has appealed to the 9th Circuit Court of Appeals where the matter will be briefed.

BLOOMBERG/EVANS DEFAMATION ACTION

On August 28, 2000, we filed a complaint for libel in the United States District Court for the District of Utah against Bloomberg, L.P. ("Bloomberg"). The lawsuit alleges that on June 29 and July 18, 2000, Bloomberg published certain defamatory articles about the Company through its news service. We allege damages in excess of One Hundred Million Dollars ($100,000,000).

On March 26, 2001, the Court dismissed our complaint against Bloomberg, without prejudice. The Court ruled that, despite the possibility that a jury could have found Bloomberg's statements defamatory, damages had not been sufficiently pleaded. We had alleged that Bloomberg's statements directly caused a decline in our stock price and that the price decline did not merely "coincide" with those statements, as Bloomberg maintained. The court held that any decline in our stock value attributable to Bloomberg's statements may be damage to our shareholders, but not necessarily to the Company itself .

We have appealed the District Judge's decision to the Federal 10th Circuit Court of Appeals in Denver, Colorado, where the matter will be briefed soon.

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SALAH AL-HASAWI ADVISORY SERVICES CLAIM

On March 29, 2000, Salah Al-Hasawi ("Plaintiff'), a citizen and resident of Kuwait, filed an action in the United States District Court for the Southern District of New York, against us and our former Chief Executive Officer, alleging violations under Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, for commissions allegedly due to Plaintiff in connection with the private placement of our securities. Shortly thereafter, the Plaintiffs lawsuit was dismissed without prejudice and on April 12, 2000, the Plaintiff filed a similar complaint in the United States District Court for the District of Utah. Plaintiff seeks specified damages, attorney fees and unspecified damages pursuant to five separate causes of action including breach of contract, fraud and unjust enrichment.

We have denied all of Plaintiffs claims and have affirmatively alleged that all amounts due have been paid in full. We are currently engaged in discovery and the no trial date has yet been set.

DAVID PACKER VS. COMPUTERIZED THERMAL IMAGING. INC.

On March 19, 2001, we entered into a Separation Agreement with David A. Packer. Under that agreement, Packer's employment with the Company was to terminate on December 31, 2001.

On June 13, 2001, the Company communicated its intent to terminate the agreement based upon information discovered subsequent to the signing of that agreement regarding alleged misrepresentations made by Packer in regard to his employment duties. The Company also cancelled 1,000,000 options granted to Mr. Packer under the agreement.

Packer filed suit against the Company in Davis County, Utah on June 19, 2001 in an attempt to recover the benefits and compensation, including the 1,000,000 options, that were contemplated under the agreement. The Company has filed a counterclaim against Packer for breach of contract, misrepresentation, and a declaration that the Separation Agreement is void. We are currently engaged in discovery and the no trial date has yet been set.

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

FDA Approval Status

Our Breast Cancer System qualifies as a medical device because of its intended use in the diagnosis of disease while not interacting chemically with the body. We have chosen to pursue FDA PMA approval, the most stringent type of device marketing application required by FDA, because we believe that PMA approval will enhance our ability to introduce our system to the market by: 1) allowing us to reference medical efficacy claims in connection with marketing our Breast Cancer System, 2) improving physician acceptance of our systems, and 3) obtaining designation of insurance payment codes.

We submitted our Pre-Market Application in 5 modules. We submitted the fifth and final module, an evaluation of our clinical studies during June 2001. While we cannot determine when or whether the FDA will approve our Pre-Market Application, the FDA is performing the in-depth scientific, regulatory and manufacturing reviews and inquiries required by its procedures. In connection with its reviews, the FDA has requested additional data and discussion to help them complete their evaluation. The data requested has been furnished and we anticipate further information requests and discussions. The same procedures were performed in connection with securing FDA approvals for Modules 1 through 4. After the FDA staff completes its work, the PMA will be subjected to an advisory panel for review and recommendation. After the FDA receives the advisory panel recommendation, it will complete its documentation and issue a decision.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None

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.

COMPUTERIZED THERMAL IMAGING, INC.
(Registrant)

Dated November 9, 2001	/s/Richard V. Secord --------------------------------- Richard V. Secord Chairman & Chief Executive Officer
Dated November 9, 2001	/s/Bernard J. Brady --------------------------------- Bernard J. Brady Chief Financial Officer, Secretary & Treasurer