

IMAGING TECHNOLOGIES CORP/CA
Form 10-Q
November 27, 2002

24

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

or

TRANSITION REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file No. 0-12641

[GRAPHIC OMITTED]

IMAGING TECHNOLOGIES CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE 33-0021693
(State or other jurisdiction of incorporation or organization) (IRS Employer ID No.)

17075 VIA DEL CAMPO
SAN DIEGO, CALIFORNIA 92127
(Address of principal executive offices)

Registrant's Telephone Number, Including Area Code: (858) 451-6120

Check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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 No

The number of shares outstanding of the registrant's common stock as of November 22, 2002 was 93,777,896.

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IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2002 AND JUNE 30, 2002
(in thousands, except share data)

ASSETS

	(unaudited)	audited	
Current assets			
Cash		\$	22
Accounts receivable			255
Inventories			141
Prepaid expenses and other			46

Total current assets			464
Property and Equipment, net			183
Workers' compensation deposit and other assets			112

Total assets		\$	759
		=====	==

LIABILITIES AND SHAREHOLDERS' NET CAPITAL DEFICIENCY

Current liabilities			
Borrowings under bank notes payable		\$	3,295
Short-term notes payable, including amounts due to related parties			2,871
Convertible debentures			1,073
Accounts payable			7,583
PEO payroll taxes and other payroll deductions			1,213

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PEO accrued worksite employee	350	
Other accrued expenses	6,367	
	<hr/>	
Total current liabilities	22,752	
	<hr/>	
Shareholders' deficiency		
Series A preferred stock, \$1,000 par value, 7,500 shares authorized, 420.5 shares issued and outstanding	420	
Common stock, \$0.005 par value, 500,000,000 shares authorized; 21,929,365 shares issued and outstanding at June 30, 2002; 30,580,013 at September 30, 2002	153	
Common stock warrants	475	
Paid-in capital	79,935	
Shareholder loans	-	
Accumulated deficit	(102,976)	
	<hr/>	
Total shareholders' deficiency	(21,993)	
	<hr/>	
Total liabilities and shareholders' deficiency	\$ 759	\$
	<hr/> <hr/>	<hr/> <hr/>

See Notes to Consolidated Financial Statements.

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001
(in thousands, except share data)
(unaudited)

	2002	2001
Revenues		
Sales of products	\$ 486	\$ 1,057
Software, licenses and royalties	138	21
PEO services	2,822	-
	<hr/>	<hr/>
	3,446	1,078
	<hr/>	<hr/>
Costs and expenses		
Cost of products sold	235	598
Cost of licenses and royalties	21	-
Cost of PEO services	2,572	-
	<hr/>	<hr/>
Total cost of revenues	2,828	598
	<hr/>	<hr/>
Operating expenses:		
Selling, general, and administrative	2,053	1,413
Research and development	-	72
	<hr/>	<hr/>
	2,053	1,485
	<hr/>	<hr/>
Loss from operations	(1,435)	(1,005)
	<hr/>	<hr/>
Other income (expense):		
Interest and finance costs, net	(621)	(177)
Other	4	-

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	(617)	(177)
Loss before income taxes.	(2,052)	(1,182)
Income tax benefit (expense).	-	-
Net loss.	\$ (2,052)	\$ (1,182)
Earnings (loss) per common share		
Basic.	\$ (0.08)	\$ (0.14)
Diluted.	\$ (0.08)	\$ (0.14)
Weighted average common shares.	24,662	8,549
Weighted average common shares - assuming dilution.	24,662	8,549

See Notes to Consolidated Financial Statements.

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001
(in thousands, except share data)
(unaudited)

	2002	2001
Cash flows from operating activities		
Net loss	\$ (2,052)	\$ (1,182)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation and amortization	29	16
Stock issued for services	295	73
Amortization of debt discount	200	-
Value of services for exercise price of warrants.	166	-
Value attributed to warrants issued for services.	70	-
Changes in operating assets and liabilities		
Accounts receivable.	374	(516)
Inventories.	10	(90)
Prepaid expenses and other	(13)	(14)
PEO liabilities.	229	-

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Accounts payable and accrued expenses.	571	787
Net cash used by operating activities.	(121)	(926)
Cash flows from investing activities		
Capital expenditures	-	-
Net cash from (used by) investing activities	-	-
Cash flows from financing activities		
Net borrowings under bank notes payable.	-	(300)
Issuance of other notes payable.	75	1,227
Net proceeds from issuance of common stock	25	-
Net cash from financing activities	100	927
Net increase (decrease) in cash	(21)	1
Cash, beginning of period.	43	35
Cash, end of period.	\$ 22	\$ 36
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	\$ -	\$ -
Cash paid during the period for income taxes	\$ -	\$ -

See Notes to Consolidated Financial Statements.

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002
(unaudited)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements of Imaging Technologies Corporation and Subsidiaries (the "Company" or "ITEC") have been prepared pursuant to the rules of the Securities and Exchange Commission (the "SEC") for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles. These financial statements and notes herein are unaudited, but in the opinion of management, include all the adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for the periods presented. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the years ended June 30, 2002, 2001, and 2000 included in the Company's Annual Report on Form 10-K filed with the SEC. Interim operating results are not necessarily indicative of operating results for any future interim period or for the full

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year.

NOTE 2. GOING CONCERN CONSIDERATIONS

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. For the three months ended September 30, 2002, the Company experienced a net loss of \$2,052,000 and as of September 30, 2002, the Company had a negative working capital deficiency of \$22,288,000 and had a negative shareholders' deficiency of \$21,993,000. In addition, the Company is in default on certain note payable obligations and is being sued by numerous trade creditors for nonpayment of amounts due. The Company is also deficient in its filings and its payments relating to payroll tax liabilities. These conditions raise substantial doubt about its ability to continue as a going concern.

On August 20, 1999, at the request of Imperial Bank, the Company's primary lender, the Superior Court of San Diego appointed an operational receiver who took control of the Company's day-to-day operations on August 23, 1999. On June 21, 2000, in connection with a settlement agreement reached with Imperial Bank, the Superior Court of San Diego issued an order dismissing the operational receiver.

On October 21, 1999, Nasdaq notified the Company that it no longer complied with the bid price and net tangible assets/market capitalization/net income requirements for continued listing on The Nasdaq SmallCap Market. At a hearing on December 2, 1999, a Nasdaq Listing Qualifications Panel also raised public interest concerns relating to the Company's financial viability. The Company's common stock was delisted from The Nasdaq Stock Market effective with the close of business on March 1, 2000. As a result of being delisted from The Nasdaq SmallCap Market, shareholders may find it more difficult to sell common stock. This lack of liquidity also may make it more difficult to raise capital in the future. Trading of the Company's common stock is now being conducted over-the-counter through the NASD Electronic Bulletin Board and covered by Rule 15c-9 under the Securities Exchange Act of 1934. Under this rule, broker/dealers who recommend these securities to persons other than established customers and accredited investors must make a special written suitability determination for the purchaser and receive the purchaser's written agreement to a transaction prior to sale. Securities are exempt from this rule if the market price is at least \$5.00 per share.

The Securities and Exchange Commission adopted regulations that generally define a "penny stock" as any equity security that has a market price of less than \$5.00 per share. Additionally, if the equity security is not registered or authorized on a national securities exchange or the Nasdaq and the issuer has net tangible assets under \$2,000,000, the equity security also would constitute a "penny stock." Our common stock does constitute a penny stock because our common stock has a market price less than \$5.00 per share, our common stock is no longer quoted on Nasdaq and our net tangible assets do not exceed \$2,000,000. As our common stock falls within the definition of penny stock, these regulations require the delivery, prior to any transaction involving our common stock, of a disclosure schedule explaining the penny stock market and the risks associated with it. Furthermore, the ability of broker/dealers to sell our common stock and the ability of shareholders to sell our common stock in the secondary market would be limited. As a result, the market liquidity for our common stock would be severely and adversely affected. We can provide no assurance that trading in our common stock will not be subject to these or other regulations in the future, which would negatively affect the market for our common stock.

In order for the Company to continue in existence, it must obtain additional funds to provide adequate working capital to finance operations, and begin to generate positive cash flows from its operations. During the past two fiscal

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years the Company has raised approximately \$3 million through the issuance of convertible debentures. The Company is currently in the process of filing a registration statement to register shares underlying the convertible debentures. In order for the Company to raise additional funds through a convertible debenture, the Company must get its current registration statement filed with the SEC declared effective. However, there can be no assurance that the Company will be able to complete any additional debt or equity financings on favorable terms or at all, or that any such financings, if completed, will be adequate to meet the Company's capital requirements including compliance with the Imperial Bank settlement agreement. Any additional equity or convertible debt financings could result in substantial dilution to the Company's shareholders. If adequate funds are not available, the Company may be required to delay, reduce or eliminate some or all of its planned activities, including any potential mergers or acquisitions. The Company's inability to fund its capital requirements would have a material adverse effect on the Company. The Company is also looking at making strategic acquisitions of companies that have positive cash flows. Specifically, the Company has letters of intent to acquire a controlling interest in Quik Pix, Inc., a controlling interest in Greenland Corporation and has entered into an agreement to acquire Dream Canvas, Inc., a Japanese corporation that has developed machines currently used for the automated printing of custom stickers, popular in the Japanese consumer market. The Company has also reduced its personnel and moved its corporate office in an effort to reduce operating costs. The financial statements do not include any adjustments that might result from the outcome of this going concern uncertainty.

NOTE 3. EARNINGS (LOSS) PER COMMON SHARE

Basic earnings (loss) per common share ("Basic EPS") excludes dilution and is computed by dividing net income (loss) available to common shareholders (the "numerator") by the weighted average number of common shares outstanding (the "denominator") during the period. Diluted earnings (loss) per common share ("Diluted EPS") is similar to the computation of Basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. In addition, in computing the dilutive effect of convertible securities, the numerator is adjusted to add back the after-tax amount of interest recognized in the period associated with any convertible debt. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net earnings (loss) per share. The following is a reconciliation of Basic EPS to Diluted EPS:

	EARNINGS (LOSS) (NUMERATOR)	SHARES (NUMERATOR)	PER-SHARE AMOUNT
	-----	-----	-----
SEPTEMBER 30, 2001			
Net loss	\$ (1,182,000)		
Preferred dividends	(6,000)		

Basic and diluted EPS.	\$ (1,188,000)	8,549,250	\$ (0.14)
	=====	=====	=====
SEPTEMBER 30, 2002			
Net loss	\$ (2,052,000)		
Preferred dividends	(6,000)		

Basic and diluted EPS.	\$ (2,058,000)	24,662,000	\$ (0.08)
	=====	=====	=====

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NOTE 4. INVENTORIES

	SEPT. 30, 2002	JUNE 30, 2002
	-----	-----
Materials and supplies. . . \$	256,000	\$ 261,000
Finished goods.	160,000	165,000
Less inventory reserve	(275,000)	(275,000)
	-----	-----
	\$ 141,000	\$ 151,000
	=====	=====

NOTE 5. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued SFAS No. 141 "Business Combinations." SFAS No. 141 supersedes Accounting Principles Board ("APB") No. 16 and requires that any business combinations initiated after June 30, 2001 be accounted for as a purchase; therefore, eliminating the pooling-of-interest method defined in APB 16. The statement is effective for any business combination initiated after June 30, 2001 and shall apply to all business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001 or later. The Company has implemented this pronouncement and has concluded that the adoption has no material impact to the financial statements.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangibles." SFAS No. 142 addresses the initial recognition; measurement and amortization of intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) and addresses the amortization provisions for excess cost over fair value of net assets acquired or intangibles acquired in a business combination. The statement is effective for fiscal years beginning after December 15, 2001, and is effective July 1, 2001 for any intangibles acquired in a business combination initiated after June 30, 2001. The Company has implemented this pronouncement and has concluded that the adoption has no material impact to the financial statements.

In October 2001, the FASB recently issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires companies to record the fair value of a liability for asset retirement obligations in the period in which they are incurred. The statement applies to a company's legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, and development or through the normal operation of a long-lived asset. When a liability is initially recorded, the company would capitalize the cost, thereby increasing the carrying amount of the related asset. The capitalized asset retirement cost is depreciated over the life of the respective asset while the liability is accreted to its present value. Upon settlement of the liability, the obligation is settled at its recorded amount or the company incurs a gain or loss. The statement is effective for fiscal years beginning after June 30, 2002. The Company has implemented this pronouncement and has concluded that the adoption has no material impact to the financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Statement 144 addresses the accounting and reporting for the impairment or disposal of long-lived assets. The statement provides a single accounting model for long-lived assets to be disposed of. New criteria must be met to classify the asset as an asset held-for-sale. This statement also focuses on reporting the effects of a disposal of a segment of a business. This statement is effective for fiscal years beginning after December 15, 2001. The Company has implemented this pronouncement and has concluded that

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the adoption has no material impact to the financial statements.

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" and FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers". This Statement amends FASB Statement No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

In June 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

NOTE 6. CONVERTIBLE NOTES PAYABLE

On December 12, 2000, the Company entered into a Convertible Note Purchase Agreement with Amro International, S.A., Balmore Funds, S.A. and Celeste Trust Reg. Pursuant to this agreement, the Company sold to each of the purchasers convertible promissory notes in the aggregate principal amount of \$850,000 bearing interest at the rate of eight percent (8%) per annum, due December 12, 2003, each convertible into shares of the Company's common stock. Interest shall be payable, at the option of the purchasers, in cash or shares of common stock. At any time after the issuance of the notes, each note is convertible into such number of shares of common stock as is determined by dividing (a) that portion of the outstanding principal balance of the note as of the date of conversion by (b) the lesser of (x) an amount equal to seventy percent (70%) of the average closing bid prices for the three (3) trading days prior to December 12, 2000 and (y) an amount equal to seventy percent (70%) of the average closing bid prices for the three (3) trading days having the lowest closing bid prices during the thirty (30) trading days prior to the conversion date. The Company has recognized interest expense of \$364,000 relating to the beneficial conversion feature of the above notes. Additionally, the Company issued a warrant to each of the purchasers to purchase 502,008 shares of the Company's common stock at an exercise price equal to \$1.50 per share. The purchasers may exercise the warrants through December 12, 2005. During fiscal 2001, notes payable of \$675,000 was converted into the Company's common stock.

On July 26, 2001, the Company entered into a convertible note purchase agreement with certain investors whereby the Company sold to the investors a convertible debenture in the aggregate principal amount of \$1,000,000 bearing interest at the rate of eight percent (8%) per annum, due July 26, 2004, convertible into shares of our common stock. Interest is payable, at the option of the investor, in cash or shares of our common stock. The note is convertible into such number of shares of our common stock as is determined by dividing (a) that portion of the outstanding principal balance of the note by (b) the conversion price. The conversion price equals the lesser of (x) \$1.30 and (y) 70% of the average of the 3 lowest closing bid prices during the 30 trading days prior to the conversion date. Additionally, we issued a warrant to the investor to purchase 769,231 shares of our common stock at an exercise price equal to \$1.30 per

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share. The investor may exercise the warrant through July 26, 2006. In accordance with EITF 00-27, the Company first determined the value of the note and the fair value of the detachable warrants issued in connection with this convertible debenture. The proportionate value of the note and the warrants is \$492,000 and \$508,000, respectively. The value of the note was then allocated between the note and the preferential conversion feature, which amounted to \$0 and \$492,000, respectively.

On September 21, 2001, the Company entered into a convertible note purchase agreement with an investor whereby we sold to the investor a convertible promissory note in the aggregate principal amount of \$300,000 bearing interest at the rate of eight percent (8%) per annum, due September 21, 2004, convertible into shares of our common stock. Interest is payable, at the option of the investor, in cash or shares of our common stock. The note is convertible into such number of shares of our common stock as is determined by dividing (a) that portion of the outstanding principal balance of the note by (b) the conversion price. The conversion price equals the lesser of (x) \$0.532 and (y) 70% of the average of the 3 lowest closing bid prices during the 30 trading days prior to the conversion date. Additionally, we issued a warrant to the investor to purchase 565,410 shares of our common stock at an exercise price equal to \$0.76 per share. The investor may exercise the warrant through September 21, 2006. In December 2001, \$70,000 of this note was converted into 209,039 shares of common stock and in the first quarter of fiscal 2003, the debenture holder requested that the conversion be rescinded. The Company honored the request and shares have been returned and the outstanding principal balance due under the note has been increased to \$300,000. In accordance with EITF 00-27, the Company first determined the value of the note and the fair value of the detachable warrants issued in connection with this convertible debenture. The proportionate value of the note and the warrants is \$106,000 and \$194,000, respectively. The value of the note was then allocated between the note and the preferential conversion feature which amounted to \$0 and \$194,000, respectively.

On November 7, 2001, the Company entered into a convertible note purchase agreement with an investor whereby we sold to the investor a convertible promissory note in the aggregate principal amount of \$200,000 bearing interest at the rate of eight percent (8%) per annum, due November 7, 2004, convertible into shares of our common stock. Interest is payable, at the option of the investor, in cash or shares of our common stock. The note is convertible into such number of shares of our common stock as is determined by dividing (a) that portion of the outstanding principal balance of the note by (b) the conversion price. The conversion price equals the lesser of (x) \$0.532 and (y) 70% of the average of the 3 lowest closing bid prices during the 30 trading days prior to the conversion date. Additionally, we issued a warrant to the investor to purchase 413,534 shares of our common stock at an exercise price equal to \$0.76 per share. The investor may exercise the warrant through November 7, 2006. In accordance with EITF 00-27, the Company first determined the value of the note and the fair value of the detachable warrants issued in connection with this convertible debenture. The proportionate value of the note and the warrants is \$92,000 and \$108,000, respectively. The value of the note was then allocated between the note and the preferential conversion feature, which amounted to \$0 and \$92,000, respectively.

On January 22, 2002, the Company entered into a convertible note purchase agreement with an investor whereby we sold to the investor a convertible promissory note in the aggregate principal amount of \$500,000 bearing interest at the rate of eight percent (8%) per annum, due January 22, 2003, convertible into shares of our common stock. Interest is payable, at the option of the investor, in cash or shares of our common stock. The note is convertible into such number of shares of our common stock as is determined by dividing (a) that portion of the outstanding principal balance of the note by (b) the conversion price. The conversion price equals the lesser of (x) \$0.332 and (y) 70% of the average of the 3 lowest closing bid prices during the 30 trading days prior to

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the conversion date. Additionally, we issued a warrant to the investor to purchase 3,313,253 shares of our common stock at an exercise price equal to \$0.332 per share. The investor may exercise the warrant through January 22, 2009. In accordance with EITF 00-27, the Company first determined the value of the note and the fair value of the detachable warrants issued in connection with this convertible debenture. The proportionate value of the note and the warrants is \$101,000 and \$399,000, respectively. The value of the note was then allocated between the note and the preferential conversion feature, which amounted to \$0 and \$101,000, respectively.

All the convertible debentures are shown as a current liability in the accompanying consolidated balance sheets since each debenture is convertible into common stock at any time.

NOTE 7. STOCK ISSUANCES

Amendment To The Certificate Of Incorporation.

On September 28, 2001, the Company's shareholders authorized an amendment to the Certificate of Incorporation to: (i) effect a stock combination (reverse split) of the Company's common stock in an exchange ratio to be approved by the Board, ranging from one (1) newly issued share for each ten (10) outstanding shares of common stock to one (1) newly issued share for each twenty (20) outstanding shares of common stock (the "Reverse Split"); and (ii) provide that no fractional shares or scrip representing fractions of a share shall be issued, but in lieu thereof, each fraction of a share that any shareholder would otherwise be entitled to receive shall be rounded up to the nearest whole share. There will be no change in the number of the Company's authorized shares of common stock and no change in the par value of a share of Common Stock.

On August 9, 2002, the Company's board of directors approved and effected a 1 for 20 reverse stock split. All share and per share data have been retroactively restated to reflect this stock split.

During the quarter ended September 30, 2002, the Company issued a total of 8,859,688 shares of common stock. Of the shares issued, 2,830,000 were issued for the exercise of warrants given to consultants for legal and business services. The exercise price of these warrants totaled \$191,000 of which \$25,000 was paid in cash and the remaining \$166,000 was paid via services rendered. The remaining 6,029,688 were shares issued to consultants for legal and business services. The Company also canceled 209,039 shares in connection with the rescission of the conversion of \$70,000 of debt (see Note 6)

NOTE 8. SEGMENT INFORMATION

During the period ended September 30, 2002, the Company managed and internally reported the Company's business as four (4) reportable segments: (1) imaging products and accessories; (2) imaging software; (3) e-commerce; and (4) professional employer organization

PERIOD ENDED.	PEO	IMAGING	IMAGING		
SEPT. 30, 2002.	BUSINESS	PRODUCTS	SOFTWARE	E-COMMERCE	TOTAL
Revenues.	\$2,822,000	\$ 486,000	\$ 138,000	\$ -	\$ 3,446,000
Cost of revenues.	2,572,000	235,000	21,000	-	2,828,000
Operating expenses.	588,000	1,141,000	324,000	2,053,000	
Operating (loss).	(338,000)	(890,000)	(207,000)	-	(1,435,000)

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Additional information regarding revenue by products and service groups is not presented for the prior fiscal year period ended September 30, 2001 because it is currently impracticable to do so due to various reorganizations of the Company's accounting systems. A comprehensive accounting system was implemented during fiscal 2002 that enables the Company to report such information in the future.

As of and during the period ended September 30, 2002, no customer accounted for more than 10% of consolidated accounts receivable or total consolidated revenues.

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q. The discussion of the Company's business contained in this Quarterly Report on Form 10-Q may contain certain projections, estimates and other forward-looking statements that involve a number of risks and uncertainties, including those discussed below at "Risks and Uncertainties." While this outlook represents management's current judgment on the future direction of the business, such risks and uncertainties could cause actual results to differ materially from any future performance suggested below. The Company undertakes no obligation to release publicly the results of any revisions to these forward-looking statements to reflect events or circumstances arising after the date hereof.

OVERVIEW

Imaging Technologies Corporation develops and distributes imaging software and distributes digital imaging products. The Company sells a range of imaging products for use in graphics and publishing, digital photography, and other niche business and technical markets. The Company's core technologies are related to the design and development of software products that improve the accuracy of color reproduction.

In November 2001, we embarked on an expansion program to provide more services to help with tasks that have negatively impacted the business operations of its existing and potential customers. To this end, the Company, through strategic acquisitions, became a professional employer organization ("PEO").

ITEC now provides comprehensive personnel management services through its wholly-owned SourceOne Group and EnStructure subsidiaries. Each of these subsidiaries provides a broad range of services, including benefits and payroll administration, health and workers' compensation insurance programs, personnel records management, and employer liability management to small and medium-sized businesses.

In May 2002, ITEC entered into an agreement to acquire Dream Canvas, Inc., a Japanese corporation that has developed machines currently used for the automated printing of custom stickers, popular in the Japanese consumer market. We expect to complete the acquisition in the second quarter of fiscal 2003.

In July 2002, ITEC entered into an agreement to acquire controlling interest in Quik Pix, Inc. ("QPI"). QPI shares are traded on the National Quotation Bureau Pink Sheets under the symbol QPIX. We anticipate closing this transaction in the second quarter of fiscal 2003.

In August 2002, ITEC entered into an agreement to acquire controlling interest in Greenland Corporation. Greenland shares are traded on the Electronic

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Bulletin Board under the symbol GRLC. We anticipate closing this transaction in the second quarter of fiscal 2003.

As of the end of fiscal 2002, the Company's business continues to experience operational and liquidity challenges. Accordingly, year-to-year financial comparisons may be of limited usefulness now and for the next several periods due to anticipated changes in the Company's business as these changes relate to potential acquisitions of new businesses, changes in product lines, and the potential for discontinuing certain components of the business.

The Company's current strategy is: (1) to expand its PEO business; (2) to commercialize its own technology, which is embodied in its ColorBlind Color Management software and other products obtained through strategic acquisitions, (3) to market imaging products, including products from other manufacturers to its customers, and (4) to continue to operate and improve e-commerce sites in order to sell imaging products to resellers and other imaging professionals.

To successfully execute its current strategy, the Company will need to improve its working capital position. The report of the Company's independent auditors accompanying the Company's June 30, 2002 financial statements includes an explanatory paragraph indicating there is a substantial doubt about the Company's ability to continue as a going concern, due primarily to the decreases in the Company's working capital and net worth. The Company plans to overcome the circumstances that impact our ability to remain a going concern through a combination of achieving profitability, raising additional debt and equity financing, and renegotiating existing obligations.

Since the removal of the court appointed operational receiver in June 2000, the Company has been able to reestablish relationships with some past customers and distributors and to establish relationships with new customers. Additionally, the Company has been working to reduce costs through the reduction in staff and the suspension of certain research and development programs, such as the design and manufacture of controller boards and printers. The Company began a program to reduce its debt through debt to equity conversions. Management continues to pursue the acquisition of businesses that will grow the Company's business.

There can be no assurance, however, that the Company will be able to complete any additional debt or equity financings on favorable terms or at all, or that any such financings, if completed, will be adequate to meet the Company's capital requirements. Any additional equity or convertible debt financings could result in substantial dilution to the Company's shareholders. If adequate funds are not available, the Company may be required to delay, reduce or eliminate some or all of its planned activities, including any potential mergers or acquisitions. The Company's inability to fund its capital requirements would have a material adverse effect on the Company. Also see "Liquidity and Capital Resources." and "Risks and Uncertainties - Future Capital Needs."

Restructuring and New Business Units

During fiscal 1999, the Company began the development of an e-commerce web site designed to offer computer and imaging hardware, software, and consumables. The Internet address is www.dealseekers.com. These operations are still in the development stage.

From August 20, 1999 until June 21, 2000, the Company had been under the control of an operational receiver appointed by the Court pursuant to litigation between the Company and Imperial Bank. The litigation has been dismissed, and Company management has reassumed control. Accordingly, Company management did

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not have operational control for nearly all of fiscal 2000.

In July 2001, the Company suspended its printer controller development and manufacturing operations in favor of selling products from other companies to its customers.

Acquisition and Sale of Business Units

In December 2000, the Company acquired all of the shares of EduAdvantage.com, Inc., an internet sales organization that sells computer hardware and software products to educational institutions and other customers via its websites: www.eduadvantage.com and www.soft4u.com. During fiscal 2001, the Company began integrating EduAdvantage operations. However, these operations have not been profitable and management is evaluating the future of this business unit.

In October 2001, the Company acquired certain assets, for stock, related to the Company's office products and services business activities, representing \$250,000 of inventories, fixed assets, and accounts receivable.

In November 2001, the Company acquired SourceOne Group, Inc. and operates it as a wholly-owned subsidiary. SourceOne provides PEO services, including benefits and payroll administration, health and workers' compensation insurance programs, personnel records management, and employer liability management to small and medium-sized businesses.

In March 2002, ITEC acquired all of the outstanding shares of EnStructure, Inc. ("EnStructure"), a PEO company, for restricted common stock of the Company. The purchase price may be increased or decreased based upon EnStructure's representations of projected revenues and profits, which are defined in the acquisition agreement, which was exhibited as part of the Company's Form 8-K, dated March 28, 2002. EnStructure is operated as a wholly-owned subsidiary.

In May 2002, ITEC entered into an agreement to acquire Dream Canvas, Inc., a Japanese corporation that has developed machines currently used for the automated printing of custom stickers, popular in the Japanese consumer market. We expect to complete the acquisition in the second quarter of fiscal 2003.

In July 2002, ITEC entered into an agreement to acquire controlling interest in Quik Pix, Inc. ("QPI"). QPI shares are traded on the National Quotation Bureau Pink Sheets under the symbol QPIX. We anticipate closing this transaction in the second quarter of fiscal 2003.

In August 2002, ITEC entered into an agreement to acquire controlling interest in Greenland Corporation. Greenland shares are traded on the Electronic Bulletin Board under the symbol GRLC. We anticipate closing this transaction in the second quarter of fiscal 2003.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to allowance for doubtful accounts, value of intangible assets and financing operations. Management bases its estimates and judgments on historical experiences and on various other factors that are believed to be reasonable

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under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of the Company's financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources, primarily allowance for doubtful accounts and estimated fair value of equity instruments. These accounting policies are described at relevant sections in this discussion and analysis and in the notes to the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

RESULTS OF OPERATIONS NET REVENUES

Revenues were \$3.4 million and \$1.1 million for the quarters ended September 30, 2002 and 2001, respectively. The substantial (209%) increase in sales was due primarily to the Company's PEO business, which was not present in the prior year period.

Imaging Products

Sales of imaging products, including software, were \$624,000 and \$1.1 million for the quarterly period ended September 30, 2002 and 2001, respectively. Sales of imaging products declined by \$571,000 or 54% in the period ended September 30, 2002 as compared to the prior year period due to the Company's lack of working capital to purchase inventory. The Company's lack of sufficient working capital has had, and may continue to have, a negative adverse effect on imaging products sales.

The Company had license fees or royalties of \$138,000 in the period ended September 30, 2002 compared to license fees and royalties of \$21,000 in the prior year period. These revenues, however, are expected to decline in the future due to the Company's focus on product sales and the Company's PEO operations as opposed to technology licensing activities.

PEO Services

PEO revenues were \$2.8 million for the quarter ended September 30, 2002. The Company entered this business segment through acquisitions in November 2001. Consequently, there were no reported PEO revenues in the prior year period.

Shortly after the acquisition of SourceOne Group, we lost most of the customer base, due to a number of factors, including increases in workers' compensation insurance premiums and customers who elected to allow their contracts with us to expire. Consequently, we have been rebuilding our PEO business without the benefit of customers acquired in the acquisition of SourceOne Group. (Also see "Risk Factors" related to the Company's PEO business.)

COST OF PRODUCTS SOLD

Imaging Products

Costs of imaging products sold, including software, were \$256,000 (41% of sales) and \$598,000 (57% of sales) for the quarters ended September 30, 2002 and 2001, respectively. The increase in gross margin in 2002 as compared to 2001 was primarily due to changes in the types of products sold. Notably, in the period ended September 30, 2002 as compared with the prior year period, software

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sales increased 557%.

PEO Services

Costs of PEO services were \$2.6 million (91% of PEO revenues) for the period ended September 30, 2002. The Company began providing these services pursuant to acquisitions in the current fiscal year. Accordingly, there are no comparative results for the prior year periods. (Also see "Risk Factors" related to the Company's PEO business.)

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were \$2.1 million (60% of total revenues) and \$ 1.4 million (128% of total revenues) for the quarters ended September 30, 2002 and 2001, respectively. While such expenses increased by \$700,000 (50%) for the period ended September 30, 2002 as compared to the previous year, they have decreased as a percentage of total revenues. Selling, general and administrative expenses consisted primarily of general corporation functions, salaries, facilities, and fees for professional services, including legal expenses. The increase in selling, general and administrative expenses in the period ended September 30, 2002 as compared to the year-earlier period was due primarily to costs associated with the Company's PEO business, including promotional costs and salaries. However, management continues to pare its overall operating expenses, including reductions in personnel and facilities.

RESEARCH AND DEVELOPMENT

There were no research and development expenses during the period ended September 30, 2002 compared to \$72,000 (7% of total revenues) for the quarter ended September 30, 2001. The decrease in expenses in 2002 compared to 2001 was due to ongoing shortages in working capital.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company has financed its operations primarily through cash generated from operations, debt financing, and from the sale of equity securities.

In the near-term, the Company must rely on generating the majority of its cash from borrowings and the sale of equity securities. To address these needs, the Company has, and plans to continue to sell both equity and debt securities. The Company continues to work toward producing profitable and cash-flow-positive operations in order to reduce its dependence upon equity and debt financings.

During the period ended September 30, 2002, the Company placed \$75,000 of notes payable debt in order to finance operations. Without additional funding, through both equity and debt financing in the near future, sufficient to satisfy the creditors of the Company, as well as providing working capital for the Company, the Company will have to further curtail its operations or cease to operate. The Company continues to actively work with entities capable of providing such funding.

As of September 30, 2002, the Company had negative working capital of approximately \$22.3 million compared to \$20.8 million of negative working capital at June 30, 2002, a decrease of approximately \$1.5 million. The decrease is primarily due to the operating loss for the period.

Net cash used in operating activities was \$121,000 during the quarter ended September 30, 2002, compared to \$926,000 during the quarter ended September 30, 2001, due primarily to increases in operating expenses associated with the Company's PEO business.

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No cash was used in investing activities during the quarter ended September 30, 2002, or in the prior year period.

Net cash from financing activities was \$100,000 during the quarter ended September 30, 2002, compared to \$927,000 during the year-earlier quarter. The decrease was due primarily to a reduction in the amount of debt and equity securities sold during the period ended September 30, 2002 compared to the year-earlier period, which has been the principal source of liquidity for the Company.

The Company's 5% convertible preferred stock (which ranks prior to the Company's common stock) carries cumulative dividends, when and as declared, at an annual rate of \$50.00 per share. The aggregate amount of such dividends in arrears at September 30, 2002, was approximately \$336,000.

The Company has no material commitments for capital expenditures.

The Company's capital requirements depend on numerous factors, including market acceptance of the products we sell, the resources the Company devotes to marketing and selling products and services, and other factors. The Company anticipates that its capital requirements will increase in future periods as it continues to increase its sales and marketing efforts. The report of the Company's independent auditors accompanying the Company's June 30, 2002 financial statements includes an explanatory paragraph indicating there is a substantial doubt about the Company's ability to continue as a going concern, due primarily to the decreases in the Company's working capital and net worth. If adequate funds are not available, the Company may be required to delay, reduce or eliminate some or all of its planned activities. The Company's inability to fund its capital requirements would have a material adverse effect on the Company. See "Risks and Uncertainties--Future Capital Needs."

RISKS AND UNCERTAINTIES FUTURE CAPITAL NEEDS

IF WE ARE UNABLE TO SECURE FUTURE CAPITAL, WE WILL BE UNABLE TO CONTINUE OUR OPERATIONS.

If we are unable to secure future capital, we will be unable to continue our operations. Our business has not been profitable in the past and it may not be profitable in the future. We may incur losses on a quarterly or annual basis for a number of reasons, some within and others outside our control. See "Potential Fluctuation in Our Quarterly Performance." The growth of our business will require the commitment of substantial capital resources. If funds are not available from operations, we will need additional funds. We may seek such additional funding through public and private financing, including debt or equity financing. Adequate funds for these purposes, whether through financial markets or from other sources, may not be available when we need them. Even if funds are available, the terms under which the funds are available to us may not be acceptable to us. Insufficient funds may require us to delay, reduce or eliminate some or all of our planned activities.

IF OUR QUARTERLY PERFORMANCE CONTINUES TO FLUCTUATE, IT MAY HAVE A NEGATIVE IMPACT ON OUR BUSINESS.

Our quarterly operating results can fluctuate significantly depending on a number of factors, any one of which could have a negative impact on our results of operations. The factors include: (1) the timing of product announcements and subsequent introductions of new or enhanced products by us and by our competitors; (2) the availability and cost of inventory; (3) the timing and mix of shipments of our products; (4) the market acceptance of our new products; (5) our ability to retain our existing PEO customers and to recruit new PEO customers; (6) seasonality; (7) currency fluctuations; (8) changes in our prices

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and in our competitors' prices; (9) the timing of expenditures for staffing and related support costs; (10) the extent and success of advertising; (11) research and development expenditures; and (12) changes in general economic conditions.

We may experience significant quarterly fluctuations in revenues and operating expenses as we introduce new products. In addition, our inventory purchases and spending levels are based upon our forecast of future demand for our products. Accordingly, any inaccuracy in our forecasts could adversely affect our financial condition and results of operations. Demand for our products could be adversely affected by a slowdown in the overall demand for computer systems, printer products or digitally printed images. Our failure to complete shipments during a quarter could have a material adverse effect on our results of operations for that quarter. Quarterly results are not necessarily indicative of future performance for any particular period. Our PEO business is dependent upon the staffing levels of our clients. Reductions of our clients' staff could have a negative impact on our future financial performance.

SINCE OUR COMPETITORS HAVE GREATER FINANCIAL AND MARKETING RESOURCES THAN WE DO, WE MAY EXPERIENCE A REDUCTION IN MARKET SHARE AND REVENUES.

The markets for the products we sell are highly competitive and rapidly changing. Some of our current and prospective competitors have significantly greater financial, technical, manufacturing and marketing resources than we do. Our ability to compete in our markets depends on a number of factors, some within and others outside our control. These factors include: (1) the frequency and success of product introductions by us and by our competitors; (2) the variety of PEO related services offered by us and by our competitors; (3) the selling prices of our products and of our competitors' products; (4) the performance of our products and of our competitors' products; (5) product distribution by us and by our competitors; (6) our marketing ability and the marketing ability of our competitors; and (7) the quality of customer support offered by us and by our competitors.

A key element of our strategy is to provide competitively priced, quality products. We cannot be certain that our products will continue to be competitively priced. We have reduced prices on certain of our products in the past and will likely continue to do so in the future. Price reductions, if not offset by similar reductions in product costs, will reduce our gross margins and may adversely affect our financial condition and results of operations.

IF WE ARE UNABLE TO OFFER OUR CUSTOMERS NEW PRODUCTS IN A TIMELY MANNER, WE MAY EXPERIENCE A SIGNIFICANT DECLINE IN SALES AND REVENUES, WHICH MAY HURT OUR ABILITY TO CONTINUE OPERATIONS.

The markets for our products are characterized by rapidly evolving technology, frequent new product introductions and significant price competition. Consequently, short product life cycles and reductions in product selling prices due to competitive pressures over the life of a product are common. Our future success will depend on our ability to continue to offer competitive products and achieve cost reductions for the products we sell. In addition, we monitor new technology developments and coordinate with suppliers, distributors and dealers to enhance our existing products and lower costs. Advances in technology will require increased investment in ColorBlind product development to maintain our market position. If we are unable to develop new, competitive products in a timely manner, our financial condition and results of operations will be adversely affected.

IF THE MARKET'S ACCEPTANCE OF OUR PRODUCTS AND SERVICES CEASES TO GROW, WE MAY NOT GENERATE SUFFICIENT REVENUES TO CONTINUE OUR OPERATIONS.

The markets for our products are relatively new and are still developing. We believe that there has been growing market acceptance for imaging products,

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color management software, supplies and PEO services. We cannot be certain, however, that these markets will continue to grow. Other technologies are constantly evolving and improving. We cannot be certain that products based on these other technologies will not have a material adverse effect on the demand for our products and services. If our products are not accepted by the market, we will not generate sufficient revenues to continue our operations.

IF WE ACQUIRE COMPLEMENTARY BUSINESSES, WE MAY NOT BE ABLE TO EFFECTIVELY INTEGRATE THEM INTO OUR CURRENT OPERATIONS, WHICH WOULD ADVERSELY AFFECT OUR OVERALL FINANCIAL PERFORMANCE.

In order to grow our business, we may acquire businesses that we believe are complementary. To successfully implement this strategy, we must identify suitable acquisition candidates, acquire these candidates on acceptable terms, integrate their operations and technology successfully with ours, retain existing customers and maintain the goodwill of the acquired business. We may fail in our efforts to implement one or more of these tasks. Moreover, in pursuing acquisition opportunities, we may compete for acquisition targets with other companies with similar growth strategies. Some of these competitors may be larger and have greater financial and other resources than we do. Competition for these acquisition targets likely could also result in increased prices of acquisition targets and a diminished pool of companies available for acquisition. Our overall financial performance will be materially and adversely affected if we are unable to manage internal or acquisition-based growth effectively.

Acquisitions involve a number of risks, including: (1) integrating acquired products and technologies in a timely manner; (2) integrating businesses and employees with our business; (3) managing geographically-dispersed operations; (4) reductions in our reported operating results from acquisition-related charges and amortization of goodwill; (5) potential increases in stock compensation expense and increased compensation expense resulting from newly-hired employees; (6) the diversion of management attention; (7) the assumption of unknown liabilities; (8) potential disputes with the sellers of one or more acquired entities; (9) our inability to maintain customers or goodwill of an acquired business; (10) the need to divest unwanted assets or products; and (11) the possible failure to retain key acquired personnel.

Client satisfaction or performance problems with an acquired business could also have a material adverse effect on our reputation, and any acquired business could significantly under perform relative to our expectations. We are currently facing all of these challenges and our ability to meet them over the long term has not been established. As a result, we cannot be certain that we will be able to integrate acquired businesses, products or technologies successfully or in a timely manner in accordance with our strategic objectives, which could have a material adverse effect on our overall financial performance.

In addition, if we issue equity securities as consideration for any future acquisitions, existing shareholders will experience ownership dilution and these equity securities may have rights, preferences or privileges superior to those of our common stock. See "Future Capital Needs."

IF OUR VENDORS ARE NOT ABLE TO CONTINUE TO SUPPLY GOODS AND SERVICES AT APPROPRIATE PRICES TO MEET THE MARKET DEMAND FOR OUR PRODUCTS, IT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL PERFORMANCE.

The terms of our supply contracts for goods and services are negotiated separately in each instance. Any significant increase in prices or decrease in availability of products we purchase for resale could have a material adverse effect on our business and overall financial performance.

IF WE ARE FOUND TO BE INFRINGING ON A COMPETITOR'S INTELLECTUAL PROPERTY RIGHTS

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OR IF WE ARE REQUIRED TO DEFEND AGAINST A CLAIM OF INFRINGEMENT, WE MAY BE REQUIRED TO REDESIGN OUR PRODUCTS OR DEFEND A LEGAL ACTION AT SUBSTANTIAL COSTS TO US.

We currently hold no patents. Our software products are copyrighted. However, copyright protection does not prevent other companies from emulating the features and benefits provided by our software. We protect our software source code as trade secrets and make our proprietary source code available to OEM customers only under limited circumstances and specific security and confidentiality constraints.

Competitors may assert that we infringe their patent rights. If we fail to establish that we have not violated the asserted rights, we could be prohibited from marketing the products that incorporate the technology and we could be liable for damages. We could also incur substantial costs to redesign our products or to defend any legal action taken against us. We have obtained U.S. registration for several of our trade names or trademarks, including: PCPI, NewGen, ColorBlind, LaserImage, ColorImage, ImageScript and ImageFont. These trade names are used to distinguish our products in the marketplace.

IF OUR FOREIGN ACCOUNTS RECEIVABLE ARE NOT COLLECTIBLE, A NEGATIVE IMPACT ON OUR CONTINUED OPERATIONS AND OVERALL FINANCIAL PERFORMANCE COULD RESULT.

We conduct business globally. Accordingly, our future results could be adversely affected by a variety of uncontrollable and changing factors including: (1) foreign currency exchange fluctuations; (2) regulatory, political or economic conditions in a specific country or region; (3) the imposition of governmental controls; (4) export license requirements; (5) restrictions on the export of critical technology; (6) trade restrictions; (7) changes in tariffs; (8) government spending patterns; (9) natural disasters; (10) difficulties in staffing and managing international operations; and (11) difficulties in collecting accounts receivable.

In addition, the laws of certain countries do not protect our products and intellectual property rights to the same extent as the laws of the United States.

We intend to pursue international markets as key avenues for growth and to increase the percentage of sales generated in international markets. In our 2002, 2001 and 2000 fiscal years, product, software, and licensing sales outside the United States represented approximately 22%, 22%, and 2% of our net sales, respectively. We expect product sales outside the United States to continue to represent a significant portion of our sales. As we continue to expand our international sales and operations, our business and overall financial performance may be adversely affected by the factors stated above.

IF ALL OF THE LAWSUITS CURRENTLY FILED WERE DECIDED AGAINST US AND/OR ALL THE JUDGMENTS CURRENTLY OBTAINED AGAINST US WERE TO BE IMMEDIATELY COLLECTED, WE WOULD HAVE TO CEASE OUR OPERATIONS.

On or about October 7, 1999, the law firms of Weiss & Yourman and Stull, Stull & Brody made a public announcement that they had filed a lawsuit against us and certain current and past officers and/or directors, alleging violation of federal securities laws during the period of April 21, 1998 through October 9, 1998. On or about November 17, 1999, the lawsuit, filed in the name of Nahid Nazarian Behfarin, on her own behalf and others purported to be similarly situated, was served on us. A motion to dismiss the lawsuit was granted on February 16, 2001 on our behalf and those individual defendants that have been served. However, on or about March 19, 2001, an amended complaint was filed on behalf of Nahid Nazarian Behfarin, Peter Cook, Stephen Domagala and Michael S. Taylor, on behalf of themselves and others similarly situated. On or about March 20, 2001, we once again filed a motion to dismiss the case along with

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certain other individual defendants. The motion was denied and an answer to the complaint has been filed on behalf of the company and certain individual defendants. We believe these claims are without merit and we intend to vigorously defend against them on our behalf as well as on behalf of the other defendants. The defense of this action has been tendered to our insurance carriers.

On August 22, 2002, the Company was sued by its former landlord, Carmel Mountain #8 Associates, L.P. or past due rent on its former facilities at 15175 Innovation Drive, San Diego, CA 92127.

The Company is also a party to a lawsuit filed by Symphony Partners, L.P. related to its acquisition of SourceOne Group, LLC. We have hired counsel to represent us in this action and believe that the claims against the Company are without merit.

The Company is one of dozens of companies sued by The Massachusetts Institute of Technology, et.al, related to a patent held by the plaintiffs that may be related to part of the Company's ColorBlind software. We believe that any amounts due in royalties or otherwise to the plaintiffs by the Company, should the Company be in violation of said patent, would not be material.

Throughout fiscal 2000, 2001, and 2002, and through the date of this filing, approximately fifty trade creditors have made claims and/or filed actions alleging the failure of us to pay our obligations to them in a total amount exceeding \$3 million. These actions are in various stages of litigation, with many resulting in judgments being entered against us. Several of those who have obtained judgments have filed judgment liens on our assets. These claims range in value from less than one thousand dollars to just over one million dollars, with the great majority being less than twenty thousand dollars. Should we be required to pay the full amount demanded in each of these claims and lawsuits, we may have to cease our operations. However, to date, the superior security interest held by Imperial Bank has prevented nearly all of these trade creditors from collecting on their judgments.

IF OUR OPERATIONS CONTINUE TO RESULT IN A NET LOSS, NEGATIVE WORKING CAPITAL AND A DECLINE IN NET WORTH, AND WE ARE UNABLE TO OBTAIN NEEDED FUNDING, WE MAY BE FORCED TO DISCONTINUE OPERATIONS.

For several recent periods, up through the fiscal quarter ended September 30, 2002, we had a net loss, negative working capital and a decline in net worth, which raise substantial doubt about our ability to continue as a going concern. Our losses have resulted primarily from an inability to achieve product sales and contract revenue targets due to insufficient working capital. Our ability to continue operations will depend on positive cash flow from future operations and on our ability to raise additional funds through equity or debt financing. Although we have reduced our work force and discontinued some of our operations, if we are unable to achieve the necessary product sales or raise or obtain needed funding, we may be forced to discontinue operations.

IF OUR WORLDWIDE DISTRIBUTORS REDUCE OR DISCONTINUE SALES OF OUR PRODUCTS, OUR BUSINESS MAY BE MATERIALLY AND ADVERSELY AFFECTED.

Our products are marketed and sold through a distribution channel of value added resellers, manufacturers' representatives, retail vendors, and systems integrators. We have a network of dealers and distributors in the United States and Canada, in the European Community and on the European Continent, as well as a growing number of resellers in Africa, Asia, the Middle East, Latin America, and Australia. We support our worldwide distribution network and end-user customers through distribution and support operations headquartered in San Diego.

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A large percentage of our sales are made through distributors who may carry competing product lines. These distributors could reduce or discontinue sales of our products, which could materially and adversely affect us. These independent distributors may not devote the resources necessary to provide effective sales and marketing support of our products. In addition, we are dependent upon the continued viability and financial stability of these distributors, many of which are small organizations with limited capital. These distributors, in turn, are substantially dependent on general economic conditions and other unique factors affecting our markets. We believe that our future growth and success will continue to depend in large part upon our distribution channels. Our business could be materially and adversely affected if our distributors fail to pay amounts to us that exceed reserves we have established.

IF HEALTH INSURANCE PREMIUMS, UNEMPLOYMENT TAXES AND WORKERS' COMPENSATION RATES INCREASE, IT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL PERFORMANCE.

Health insurance premiums, state unemployment taxes and workers' compensation rates are, in part, determined by our claims experience, and comprise a significant portion of our PEO operations' direct costs. We employ risk management procedures in an attempt to control claims incidence and structure our benefits contracts to provide as much cost stability as possible. However, should we experience a large increase in claims activity, the unemployment taxes, health insurance premiums or workers' compensation insurance rates we pay could increase. Our ability to incorporate such increases into service fees to clients is generally constrained by contractual agreements with our clients. Consequently, we could experience a delay before such increases could be reflected in the service fees we charge. As a result, such increases could have a material adverse effect on our financial condition or results of operations.

WE CARRY SUBSTANTIAL LIABILITY FOR WORKSITE EMPLOYEE PAYROLL AND BENEFITS COSTS.

Under our PEO operations' client service agreements, we become a co-employer of worksite employees and we assume the obligations to pay the salaries, wages and related benefits costs and payroll taxes of such worksite employees. We assume such obligations as a principal, not merely as an agent of the client company. Our obligations include responsibility for (1) payment of the salaries and wages for work performed by worksite employees, regardless of whether the client company makes timely payment to us of the associated costs and service fees; and (2) providing benefits to worksite employees even if the costs incurred by us to provide such benefits exceed the fees paid by the client company. If a client company does not pay us, or if the costs of benefits provided to worksite employees exceed the fees paid by a client company, our ultimate liability for worksite employee payroll and benefits costs could have a material adverse effect on our financial condition or results of operations.

IF CERTAIN FEDERAL, STATE AND LOCAL LAWS RELATED TO LABOR, TAX AND EMPLOYMENT MATTERS ARE CHANGED, IT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR CONTINUED PEO OPERATIONS AND ON OUR OVERALL FINANCIAL PERFORMANCE.

By entering into a co-employer relationship with employees assigned to work at client company locations, we assume certain obligations and responsibilities as an employer under these laws. However, many of these laws (such as the Employee Retirement Income Security Act ("ERISA") and federal and state employment tax laws) do not specifically address the obligations and responsibilities of non-traditional employers such as PEOs; and the definition of "employer" under these laws is not uniform. Additionally, some of the states in which we operate have not addressed the PEO relationship for purposes of compliance with applicable state laws governing the employer/employee relationship. If these other federal or state laws are ultimately applied to our PEO relationship with our worksite employees in a manner adverse to us, such an application could have a material adverse effect on our financial condition or results of operations.

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While many states do not explicitly regulate PEOs, twenty-one states have passed laws that have licensing or registration requirements for PEOs, and several other states are considering such regulation. Such laws vary from state to state, but generally provide for monitoring the fiscal responsibility of PEOs and, in some cases, codify and clarify the co-employment relationship for unemployment, workers' compensation and other purposes under state law. There can be no assurance that we will be able to satisfy licensing requirements of other applicable relations for all states. Additionally, there can be no assurance that we will be able to renew our licenses in all states.

Our client service agreement establishes a contractual division of responsibilities between us and our clients for various personnel management matters, including compliance with and liability under various government regulations. However, because we act as a co-employer, we may be subject to liability for violations of these or other laws despite these contractual provisions, even if we do not participate in such violations. Although our agreement provides that the client is to indemnify us for any liability attributable to the conduct of the client, we may not be able to collect on such a contractual indemnification claim, and thus may be responsible for satisfying such liabilities. Additionally, worksite employees may be deemed to be our agents, subjecting us to liability for the actions of such worksite employees.

IF WE ARE UNABLE TO RETAIN HEALTH AND WORKERS' COMPENSATION INSURANCE PLANS THAT COVER WORKSITE EMPLOYEES ON FAVORABLE TERMS, IT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR CONTINUED PEO OPERATIONS AND ON OUR OVERALL FINANCIAL PERFORMANCE.

The current health and workers' compensation contracts are provided by vendors with whom we have an established relationship and on terms that we believe to be favorable. While we believe that replacement contracts could be secured on competitive terms without causing significant disruption to our business, there can be no assurance in this regard. Nevertheless, workers' compensation and health insurance rates have been rising substantially over the past year and have had a negative effect on us and on the PEO industry in general. Accordingly, these rising costs have had a negative effect on our revenues and results of operations.

IF WE ARE UNABLE TO RETAIN OR REPLACE OUR EXISTING PEO CUSTOMERS, IT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OVERALL FINANCIAL PERFORMANCE.

Our standard agreements with PEO clients are subject to cancellation on sixty days written notice by either us or the client. Accordingly, the short-term nature of these agreements make us vulnerable to potential cancellations by existing clients, which could materially and adversely affect our financial condition and results of operations. Additionally, our results of operations are dependent, in part, upon our ability to retain or replace client companies upon the termination or cancellation of our agreements.

AS A COMPANY IN THE TECHNOLOGY INDUSTRY AND DUE TO THE VOLATILITY OF THE STOCK MARKETS GENERALLY, OUR STOCK PRICE COULD FLUCTUATE SIGNIFICANTLY IN THE FUTURE.

The market price of our common stock historically has fluctuated significantly. Our stock price could fluctuate significantly in the future based upon any number of factors such as: (1) general stock market trends; (2) announcements of developments related to our business; (3) fluctuations in our operating results; (4) a shortfall in our revenues or earnings compared to the estimates of securities analysts; (5) announcements of technological innovations, new products or enhancements by us or our competitors; (6) general conditions in the computer peripheral market and the imaging markets we serve; (7) general conditions in the worldwide economy; (8) developments in patents or other intellectual property rights; and (9) developments in our relationships with our customers and suppliers.

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In addition, in recent years the stock market in general, and the market for shares of technology stocks in particular, have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. Similarly, the market price of our common stock may fluctuate significantly based upon factors unrelated to our operating performance.

IF AN OPERATIONAL RECEIVER IS REINSTATED TO CONTROL OUR OPERATIONS, WE MAY NOT BE ABLE TO CARRY OUT OUR BUSINESS PLAN.

On August 20, 1999, at the request of Imperial Bank (now Comerica Bank), our primary lender, the Superior Court, San Diego appointed an operational receiver to us. On August 23, 1999, the operational receiver took control of our day-to-day operations. Through further equity infusion, primarily in the form of the exercise of warrants to purchase our common stock, operations have continued, and on June 21, 2000, the Superior Court, San Diego issued an order dismissing the operational receiver as a part of a settlement of litigation with Imperial Bank pursuant to the Settlement Agreement effective as of June 20, 2000. The Settlement Agreement requires that we make monthly payments of \$150,000 to Imperial Bank until the indebtedness is paid in full. However, in the future, without additional funding sufficient to satisfy Imperial Bank and our other creditors, as well as providing for our working capital, there can be no assurances that an operational receiver may not be reinstated. If an operational receiver is reinstated, we will not be able to expand our products nor will we have complete control over sales policies or the allocation of funds.

The penalty for noncompliance of the Settlement Agreement is a stipulated judgment that allows Imperial Bank to immediately reinstate the operational receiver and begin liquidation proceedings against us. The monthly payments were reduced to \$50,000 for the balance of calendar year 2002; and continue as of the date of this report.

SINCE OUR COMMON STOCK IS NO LONGER LISTED ON THE NASDAQ SMALLCAP MARKET, IT HAS BEEN MORE DIFFICULT TO RAISE FINANCING .

The Nasdaq SmallCap Market and Nasdaq Marketplace Rules require an issuer to evidence a minimum of \$2,000,000 in net tangible assets, a \$35,000,000 market capitalization or \$500,000 in net income in the latest fiscal year or in two of the last three fiscal years, and a \$1.00 per share bid price, respectively. Since we do not qualify to be listed on The Nasdaq SmallCap Market, shareholders may find it more difficult to sell our common stock. This lack of liquidity also may make it more difficult for us to raise capital in the future.

Trading of our common stock is now being conducted over-the-counter through the NASD Electronic Bulletin Board and covered by Rule 15c-9 under the Securities Exchange Act of 1934. Under this rule, broker/dealers who recommend these securities to persons other than established customers and accredited investors must make a special written suitability determination for the purchaser and receive the purchaser's written agreement to a transaction prior to sale. Securities are exempt from this rule if the market price is at least \$5.00 per share.

The Securities and Exchange Commission adopted regulations that generally define a "penny stock" as any equity security that has a market price of less than \$5.00 per share. Additionally, if the equity security is not registered or authorized on a national securities exchange or the Nasdaq and the issuer has net tangible assets under \$2,000,000, the equity security also would constitute a "penny stock." Our common stock does constitute a penny stock because our common stock has a market price less than \$5.00 per share, our common stock is no longer quoted on Nasdaq and our net tangible assets do not exceed \$2,000,000.

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As our common stock falls within the definition of penny stock, these regulations require the delivery, prior to any transaction involving our common stock, of a disclosure schedule explaining the penny stock market and the risks associated with it. Furthermore, the ability of broker/dealers to sell our common stock and the ability of shareholders to sell our common stock in the secondary market would be limited. As a result, the market liquidity for our common stock would be severely and adversely affected. We can provide no assurance that trading in our common stock will not be subject to these or other regulations in the future, which would negatively affect the market for our common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None

ITEM 4. CONTROLS AND PROCEDURES

As required by SEC rules, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing of this quarterly report. This evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that the design and operation of our disclosure controls and procedures are effective. There were no significant changes to our internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us 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. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On or about October 7, 1999, the law firms of Weiss & Yourman and Stull, Stull & Brody made a public announcement that they had filed a lawsuit against us and certain current and past officers and/or directors, alleging violation of federal securities laws during the period of April 21, 1998 through October 9, 1998. On or about November 17, 1999, the lawsuit, filed in the name of Nahid Nazarian Behfarin, on her own behalf and others purported to be similarly situated, was served on us. A motion to dismiss the lawsuit was granted on February 16, 2001 on our behalf and those individual defendants that have been served. However, on or about March 19, 2001, an amended complaint was filed by Nahid Nazarian Behfarin, Peter Cook, Stephen Domagala and Michael S. Taylor, on behalf of themselves and others similarly situated. On or about March 20, 2001, we once again filed a motion to dismiss the case along with certain other individual defendants. The motion was denied and an answer to the complaint has been filed on behalf of the company and certain individual defendants. We believe these claims are without merit and we intend to vigorously defend against them on our behalf as well as on behalf of the other defendants. The defense of this action has been tendered to our insurance carriers.

On August 22, 2002, the Company was sued by its former landlord, Carmel Mountain #8 Associates, L.P. or past due rent on its former facilities at 15175

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Innovation Drive, San Diego, CA 92127.

The Company is also a party to a lawsuit filed by Symphony Partners, L.P. related to its acquisition of SourceOne Group, LLC. We have hired counsel to represent us in this action and believe that the claims against the Company are without merit.

The Company is one of dozens of companies sued by The Massachusetts Institute of Technology, et.al, related to a patent held by the plaintiffs that may be related to part of the Company's ColorBlind software. We believe that any amounts due in royalties or otherwise to the plaintiffs by the Company, should the Company be in violation of said patent, would not be material.

Throughout fiscal 2000, 2001, and 2002, and through the date of this filing, approximately fifty trade creditors have made claims and/or filed actions alleging the failure of us to pay our obligations to them in a total amount exceeding \$3 million. These actions are in various stages of litigation, with many resulting in judgments being entered against us. Several of those who have obtained judgments have filed judgment liens on our assets. These claims range in value from less than one thousand dollars to just over one million dollars, with the great majority being less than twenty thousand dollars.

Furthermore, from time to time, the Company may be involved in litigation relating to claims arising out of its operations in the normal course of business.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On August 9, 2002, the Company's board of directors approved and effected a 1 for 20 reverse stock split. All share and per share data have been retroactively restated to reflect this stock split.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

During the period ended September 30, 2002, Philip Englund, the Company's Senior Vice President and General Counsel resigned his positions with the Company.

During the period ended September 30, 2002, Thomas Beener was elected by the Board of Directors of the Company to serve as a Director, effective September 1, 2002. Mr. Beener is also President and Chief Executive Officer of Greenland Corporation.

In July 2002, the Company entered into an agreement to acquire controlling interest in Quik Pix, Inc. ("QPI"). QPI shares are traded on the National Quotation Bureau Pink Sheets under the symbol QPIX. The Company anticipates closing this transaction in the second quarter of fiscal 2003.

In August 2002, ITEC entered into an agreement to acquire controlling interest in Greenland Corporation. Greenland shares are traded on the Electronic Bulletin Board under the symbol GRLC. We anticipate closing this transaction in the second quarter of fiscal 2003.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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(a) Exhibits:

99.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

(b) Reports on Form 8-K

Form 8-K filed on September 17, 2002 related to the change if the Company's certifying accountants.

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.

Dated: November 25, 2002

IMAGING TECHNOLOGIES CORPORATION (Registrant)

By: /s/

Brian Bonar
Chairman, Chief Executive Officer,
and Chief Accounting Officer

CERTIFICATION

I, Brian Bonar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Imaging Technologies Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's certifying officers are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this

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quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's certifying officers have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's certifying officers have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 25, 2002

/s/ Brian Bonar

Brian Bonar
Chief Executive Officer and
Principal Accounting Officer