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IMAGING TECHNOLOGIES CORP/CA  
Form 10QSB  
February 17, 2004

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

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2003

or

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

Commission file No. 0-12641

[GRAPHIC OMITED]

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, CA 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 X No

The number of shares outstanding of the registrant's common stock as of February 10, 2004 was 341,818,798

Transitional Small Business Disclosure Format (check one): Yes [ ] No [ X ]

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PART I. - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEET  
 (in thousands, except share data)  
 (unaudited)

ASSETS

	DECEMBER 31, 2003
Current assets	
Cash . . . . .	\$
Accounts receivable, net of allowance of \$392. . . . .	\$
Inventories, net. . . . .	\$
Prepaid expenses and other current assets . . . . .	\$
Total current assets . . . . .	\$
Goodwill . . . . .	\$
Patent, net of accumulated amortization of \$120. . . . .	\$
PEO contracts, net of accumulated amortization of \$168 . . . . .	\$
Property and equipment, net of accumulated depreciation. . . . .	\$
Workers' compensation deposit and other assets . . . . .	\$
Total assets. . . . .	\$

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

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Current liabilities	
Borrowings under bank notes payable . . . . .	\$
Notes payable, current portion (including related party note of \$1,500) . . . . .	
Convertible debentures, net of discounts of \$124. . . . .	
Accounts payable. . . . .	
Obligations under capital lease . . . . .	
PEO payroll taxes and other payroll deductions. . . . .	
Advances from related party . . . . .	
Other accrued expenses. . . . .	
	-----
Total current liabilities. . . . .	-----
Long-term liabilities:	
Long-term capital lease . . . . .	
Long-term convertible debentures, less discounts of \$755. . . . .	
Long-term notes payable (including related party note of \$250). . . . .	
	-----
Total liabilities. . . . .	-----
Preferred stock - minority interest in subsidiary. . . . .	
Shareholders' deficiency	
Series A convertible, redeemable preferred stock, \$1,000 par value, 7,500 shares authorized, 20.5 shares issued and outstanding. . . . .	
Common stock, \$0.005 par value, 500,000,000 shares authorized; 317,587,999 shares issued and outstanding . . . . .	
Common stock warrants and options . . . . .	
Paid-in capital . . . . .	
Accumulated deficit . . . . .	
	-----
Total shareholders' deficiency . . . . .	-----
Total liabilities and shareholders' deficiency. . . . .	\$ =====

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

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
THREE MONTHS ENDED DECEMBER 31, 2003 AND 2002  
(in thousands, except share data)  
(unaudited)

(In thousands, except per share amounts)

Revenues	
Sales of products . . . . .	\$
Software sales, licenses and royalties. . . . .	
Temporary staffing services . . . . .	
PEO services (gross billings of \$14,254 and \$2,139 respectively; less worksite employee payroll costs of \$15,641 and \$1,877, respectively) . . . . .	
	-----

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Total revenue . . . . .	-----
Costs of revenues	
Cost of products sold . . . . .	
Cost of software sales, licenses and royalties. . . . .	
Cost of temporary staffing. . . . .	
Cost of PEO services. . . . .	-----
Total cost of revenues. . . . .	-----
Gross profit . . . . .	
Operating expenses	
Selling, general, and administrative. . . . .	
Research and development. . . . .	-----
Loss from operations . . . . .	-----
Other income (expense):	
Interest and finance costs, net . . . . .	
Gain on extinguishment of debt. . . . .	
Other . . . . .	-----
Loss before provision for income taxes . . . . .	-----
Provision for income taxes . . . . .	-----
Net loss . . . . .	
Preferred stock dividends. . . . .	-----
Net loss attributed to common shareholders . . . . .	\$ =====
Loss per common shares	
Basic and diluted . . . . .	\$ =====
Weighted average common shares - basic and diluted . . . . .	=====

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

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
SIX MONTHS ENDED DECEMBER 31, 2003 AND 2002  
(in thousands, except share data)  
(unaudited)

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(In thousands, except per share amounts)

Revenues		
Sales of products . . . . .		\$
Software sales, licenses and royalties. . . . .		
Temporary staffing services . . . . .		
PEO services (gross billings of \$34,333 and \$4,961 respectively; less worksite employee payroll costs of \$36,316 and \$4,307, respectively) . . . . .		
Total revenue . . . . .		
Costs of revenues		
Cost of products sold . . . . .		
Cost of software sales, licenses and royalties. . . . .		
Cost of temporary staffing. . . . .		
Cost of PEO services. . . . .		
Total cost of revenues. . . . .		
Gross profit . . . . .		
Operating expenses		
Selling, general, and administrative. . . . .		
Research and development. . . . .		
Loss from operations . . . . .		
Other income (expense):		
Interest and finance costs, net . . . . .		
Gain on extinguishment of debt. . . . .		
Other . . . . .		
Loss before provision for income taxes . . . . .		
Provision for income taxes . . . . .		
Net loss . . . . .		
Preferred stock dividends. . . . .		
Net loss attributed to common shareholders . . . . .		\$
Loss per common shares		
Basic and diluted . . . . .		\$
Weighted average common shares - basic and diluted . . . . .		

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

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
SIX MONTHS ENDED DECEMBER 31, 2003 AND 2002  
(in thousands, except share data)  
(unaudited)

Cash flows from operating activities	
Net loss . . . . .	\$
Adjustments to reconcile net loss to net cash from operating activities	
Depreciation and amortization. . . . .	
Writedown of fixed assets. . . . .	
Stock issued for services. . . . .	
Amortization of debt discount. . . . .	
Value of service for exercise of warrants. . . . .	
Value of warrants issued for services. . . . .	
Gain on extinguishments of debt. . . . .	
Changes in operating assets and liabilities:	
Accounts receivable. . . . .	
Inventories. . . . .	
Prepaid expenses and other . . . . .	
Accounts payable and accrued expenses. . . . .	
PEO liabilities. . . . .	
Other assets . . . . .	
Net cash provided by (used in) operating activities . . . . .	
Cash flows from investing activities	
Purchase of furniture & equipment. . . . .	
Net cash used in investing activities. . . . .	
Cash flows from financing activities	
Change in cash overdraft, net. . . . .	
Net borrowings under bank notes payable. . . . .	
Issuance of convertible debentures . . . . .	
Repayment of notes payable . . . . .	
Repayment of capital lease obligation. . . . .	
Net proceeds from issuance of common stock . . . . .	
Net cash provided by (used in) financing activities . . . . .	
Net increase (decrease) in cash and cash equivalents. . . . .	
Cash and cash equivalents, beginning of period. . . . .	
Cash and cash equivalents, end of period. . . . .	\$

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

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
SIX MONTHS ENDED DECEMBER 31, 2003 AND 2002  
(in thousands, except share data)  
(unaudited)

### NON-CASH INVESTING AND FINANCING ACTIVITIES

During the six months ended December 31, 2003, the Company issued: (1) 6,470,000 shares of its common stock for services valued at \$148,150; (2) 10,272,110 shares of its common stock for compensation valued at \$140,332; (3) 20,260,000 shares of its common stock for debt of \$405,200; and (4) 95,000,208 shares of its common stock for the conversion of convertible debentures in the amount of \$994,385.

During the six months ended December 31, 2002, the Company (1) rescinded the \$70,000 conversion of convertible notes payable into common stock, (2) converted \$80,000 of debt into 8,000,000 shares of common stock and (3) issued 100,000 shares of common stock in connection with the acquisition of Dream Canvas Technologies, Inc.

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share data)  
(unaudited)

### NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated 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-QSB and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. 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, 2003, 2002, and 2001 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 year.

ePEO Link  
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In its Form 10QSB for the period ended September 30, 2003, the Company disclosed an intent to acquire the line of business of ePEO Link and a draft definitive agreement was included as an exhibit thereto. As of the date of this filing, the agreement between the Company and ePEO Link has not been finalized and is still under negotiation. Accordingly, no results of operations relating to ePEO Link have been included in the Company's financial statements incorporated in this Form 10QSB.

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Jackson Staffing  
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Effective September 1, 2003, the Company acquired, through hiring two key persons, the operations and results thereof of the temporary staffing service then owned by Jackson Staffing, LLC.

At that time, there was no specific acquisition agreement, except for the hiring of the two owners as employees of SourceOne Group, Inc., a wholly-owned subsidiary of the Company. Subsequently, a definitive agreement dated September 1, 2003 has been negotiated to purchase the business of Jackson Staffing. The results of operations for the three months ended December 31, 2003 are included in the consolidated financial statements of the Company.

### NOTE 2. GOING CONCERN CONSIDERATIONS

The accompanying unaudited consolidated financial statements have been prepared assuming that the Company will continue as a going concern. For the six months ended December 31, 2003, the Company had a net loss of \$4,783,000. As of December 31, 2003, the Company had a negative working capital deficiency of \$30,644,000 and had a shareholders' deficiency of \$26,777,000. 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 payments relating to payroll tax liabilities. These conditions raise substantial doubt about the Company's 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 15g-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



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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.

The Company must obtain additional funds to provide adequate working capital and finance operations. 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 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### NOTE 3. STOCK BASED COMPENSATION

The Company accounts for employee stock options in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees". Under APB 25, the Company does not recognize compensation expense related to options issued under the Company's employee stock option plans, unless the option is granted at a price below market price on the date of grant. In 1996, SFAS No. 123 "Accounting for Stock-Based Compensation", became effective for the Company. SFAS No. 123, which prescribes the recognition of compensation expense based on the fair value of options on the grant date, allows companies to continue applying APB 25 if certain pro forma disclosures are made assuming hypothetical fair value method, for which the Company uses the Black-Scholes option-pricing model.

For non-employee stock based compensation, the Company recognizes an expense in accordance with SFAS No. 123 and values the equity securities based on the fair value of the security on the date of grant. For stock-based awards, the value is based on the market value for the stock on the date of grant and if the stock has restrictions as to transferability, a discount is provided for lack of tradability. Stock option awards are valued using the Black-Scholes option-pricing model.

The Company applies Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for its stock option plans. The Company has opted under SFAS No. 123 to disclose its stock-based compensation with no financial effect. The pro forma effects of applying SFAS No. 123 in this initial phase-in period are not necessarily representative of the effects on reported net income or loss for future years. Had compensation expense for the Company's stock option plans been determined based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed under SFAS No. 123, the Company's pro forma net loss and net loss per share would have been as follows for the six months ended December 31:

(In thousands, except share amounts) . . . .	2003	2002
	-----	-----
Net loss		
As reported . . . . .	\$ (4,783)	\$ (2,704)

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Compensation recognized under APB No. 25. . . . .	-	-
Compensation recognized under SFAS No. 123. . . . .	-	(250)
	-----	-----
Pro forma . . . . .	\$ (4,783)	\$ (2,954)
	=====	=====
Basic earnings (loss) per share		
As reported . . . . .	\$ (0.02)	\$ (0.06)
	=====	=====
Pro forma . . . . .	\$ (0.02)	\$ (0.06)

This option valuation model requires input of highly subjective assumptions. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing model does not necessarily provide a reliable single measure of fair value of its employee stock options.

The weighted average fair value of the options granted during fiscal years 2004 and 2003 is estimated on the date of grant using the Black-Scholes option-pricing model. All options granted in fiscal years 2004 and 2003 vested immediately. The weighted average fair values and weighted average assumptions used in calculating the fair values were as follows for the years ended June 30:

	2004	2003
	-----	-----
Fair Value of options granted. \$N/A	\$0.01	
Risk free interest rate. . . . .	3.5%	
Expected life (years). . . . .	3	3
Expected volatility. . . . .	421%	
Expected dividends . . . . .	-	0%-

**NOTE 4. LOSS PER COMMON SHARE**

The Company reports earnings (loss) per share in accordance with SFAS No. 128, "Earnings per Share." Basic earnings (loss) per share are computed by dividing income (loss) available to common shareholders by the weighted average number of common shares available. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted earnings (loss) per share have not been presented since the effect of the assumed conversion of options and warrants to purchase common shares would have an anti-dilutive effect. The following potential common shares have been excluded from the computation of diluted net loss per share for the six months ended December 31, 2003: warrants - 18,563,435 and stock options - 33,408,100.

**NOTE 5. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

During April 2003, the FASB issued SFAS 149 - "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. In addition, except as stated below, all provisions of this Statement should be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues

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that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, paragraphs 7(a) and 23(a), which relate to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The Company does not participate in such transactions, however, is evaluating the effect of this new pronouncement, if any, and will adopt FASB 149 within the prescribed time.

During May 2003, the FASB issued SFAS 150 - "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a freestanding financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, Elements of Financial Statements. The Company is evaluating the effect of this new pronouncement and will adopt FASB 150 within the prescribed time.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Interpretation 46 changes the criteria by which one company includes another entity in its consolidated financial statements. Previously, the criteria were based on control through voting interest. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A company that consolidates a variable interest entity is called the primary beneficiary of that entity.

In December 2003 the FASB concluded to revise certain elements of FIN 46, which will be issued shortly. The FASB also modified the effective date of FIN 46. For all entities that were previously considered special purpose entities, FIN 46 should be applied in periods ending after December 15, 2003. Otherwise, FIN 46 is to be applied for registrants who file under Regulation SX in periods ending after March 15, 2004, and for registrants who file under Regulation SB, in periods ending after December 15, 2003. The Company does not expect the adoption to have a material impact on the Company's financial position or results of operations.

### NOTE 6. REVENUE RECOGNITION RELATED TO PEO SEGMENT

The Company recognizes its revenues associated with its PEO business pursuant to EITF 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent." Previously, the Company reported its worksite employees as a component of direct costs, The Company's revenues are now reported net of worksite employee payroll cost (net method). To conform to the net method, the Company reclassified worksite employee payroll costs for each of its quarters in the fiscal year ended June 30, 2003 and its Form 10K for the year ended June 30, 2002. These reclassifications had no effect on gross profit, operating loss, or net loss.

### NOTE 7. CONVERTIBLE NOTES PAYABLE

Listed below is a roll-forward schedule of the convertible debentures:

(In Thousands)

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Balance at June 30, 2003 . . . . .	\$	1,857
Issuance of convertible debentures during the six months ended December 31, 2003. . . . .		650
Increase in debt discount and beneficial conversion feature. . . . .		(636)
Converted into common stock. . . . .		(994)
Amortization of value of warrants and preferential conversion feature . . . . .		475
		-----
Balance at December 31, 2003 . . . . .	\$	1,352
		=====

NOTE 8. SHAREHOLDERS' DEFICIENCY

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.

Stock Issuances  
-----

During the six months ended December 31, 2003, ITEC issued the following:

- 6,470,000 shares of its common stock for legal and consulting services valued at \$148,150. The value of the services was determined using the market value of ITEC's common stock on the date of issuance;
- 10,272,110 shares of its common stock for compensation valued at \$140,332. The value of the services was determined using the market value of ITEC's common stock on the date of issuance;
- 20,260,000 shares of its common stock for debt of \$405,200;
- 95,000,208 shares of its common stock for the conversion of convertible debentures in the amount of \$994,385; and
- 750,000 shares of its common stock upon the exercise of options.

NOTE 9. SEGMENT INFORMATION

The Company managed and internally reported the Company's business as three reportable segments, principally, (1) products and accessories, (2) software, (3) temporary staffing, and (4) PEO services.

Segment information for the six months ended December 31, 2003 is as follows:

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(in thousands)

	TEMPORARY PRODUCTS	SOFTWARE	STAFFING	PEO SERVICES	TOTAL
6-months ended 12/31/03					
Revenues . . . . .	\$ 455	\$ 36	\$ 3,436	\$ 6,549	\$10,476
Operating income (loss)	(536)	(2,080)	(122)	(1,659)	(4,397)
6-months ended 12/31/02					
Revenues . . . . .	\$ 580	\$ 179	\$ -	\$ 654	\$ 1,413
Operating income (loss)	(1,362)	(86)	-	(826)	(2,274)

### NOTE 10. SUBSEQUENT EVENTS

From January 1, 2004 to February 10, 2004, the Company issued 24,230,801 shares of its common stock to consultants, for warrant exercises, for conversion of convertible debt, and for the reduction of debt.

### 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-QSB. The statements contained in this Report on Form 10-QSB that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, hopes, intentions or strategies regarding the future. Forward-looking statements include statements regarding: future product or product development; future research and development spending and our product development strategies, and are generally identifiable by the use of the words "may", "should", "expect", "anticipate", "estimates", "believe", "intend", or "project" or the negative thereof or other variations thereon or comparable terminology. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements (or industry results, performance or achievements) expressed or implied by these forward-looking statements to be materially different from those predicted. The factors that could affect our actual results include, but are not limited to, the following: general economic and business conditions, both nationally and in the regions in which we operate; competition; changes in business strategy or development plans; our inability to retain key employees; our inability to obtain sufficient financing to continue to expand operations; and changes in demand for products by our customers.

#### OVERVIEW

We provide a variety of financial services to small and medium-size businesses. These services allow our customers to outsource many human resources tasks, including payroll processing, workers' compensation insurance, health insurance, employee benefits, 401k investment services, personal financial management, and income tax consultation. In November 2001, we began to provide these services to relieve some of the negative impact they have on the business operations of our existing and potential customers. To this end, through strategic acquisitions,

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we became a professional employer organization ("PEO").

We provide financial services principally through our wholly-owned SourceOne Group, Inc. ("SOG") subsidiary, which includes several operating units, including ProSportsHR, MedicalHR, and CallCenterHR. These units provide a broad range of financial services, including: benefits and payroll administration, health and workers' compensation insurance programs, personnel records management, employer liability management, and (in the case of MedicalHR and CallCenterHR), temporary staffing services, to small and medium-sized businesses.

In January 2003, we completed the acquisition of controlling interest (approximately 85%) in the shares of Greenland Corporation. Greenland shares are traded on the NASD Electronic Bulletin Board under the symbol GRLC. Greenland is a financial services company, whose wholly-owned ExpertHR subsidiary provides the same services as SOG. Greenland's wholly-owned Check Central, Inc. subsidiary Greenland's Check Central subsidiary is an information technology company that has developed the Check Central Solutions' transaction processing system software and related MAXcash Automated Banking Machine (ABM kiosk designed to provide self-service check cashing and ATM-banking functionality.

In January 2003, we completed the acquisition of a controlling interest (85%) in the shares of Quik Pix, Inc. ("QPI"). QPI shares are traded on the National Quotation Bureau Pink Sheets under the symbol QPIX. QPI is a visual marketing support firm located in Buena Park, California. Its principal service is to provide photographic and digital images mounted for customer displays in tradeshow and other displays. Its principal product, PhotoMotion is a patented color medium of multi-image transparencies. The process uses existing originals to create the illusion of movement, and allows for three to five distinct images to be displayed with an existing lightbox.

In prior years, we were principally involved in the development and distribution of imaging products. Our core technologies are related to the design and development of software products that improve the accuracy of color reproduction. Our ColorBlind software provides color management to improve the accuracy of color reproduction - especially as it relates to matching color between different devices in a network, such as monitors and printers. These products are supported and distributed by QPI. Additionally, we market our ColorBlind software products on the Internet through our color.com website.

In November 2003, the Company entered into an agreement to acquire, through hiring two key persons and a one year promissory note of \$600,000 and the assumption of certain unpaid insurance provider claims, the amount of which is not to exceed \$1,500,000.00, the operations and results thereof of the PEO business operations then owned by ePEO Linc, Inc.

In September 2003, the Company acquired, through hiring two key persons, the operations and results thereof of the temporary staffing service then owned by Jackson Staffing, LLC. There is no specific acquisition agreement, except for the hiring of the two owners as employees of SourceOne Group, Inc., a wholly-owned subsidiary of the Company. The Company did not acquire Jackson Staffing, but only assumed its business and employees. Accordingly, only the results of Jackson Staffing for the month ended September 30, 2003 are included in the Company's financial statements.

Our 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 our business as these changes relate to potential acquisitions of new businesses, changes in product lines, and the potential for suspending or discontinuing certain components of the business.

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Our current strategy is: to expand our PEO business and to commercialize our own technology, which is embodied in our ColorBlind Color Management software and other products obtained through strategic acquisitions.

To successfully execute our current strategy, we will need to improve our working capital position. The report of our independent auditors accompanying our June 30, 2003 financial statements includes an explanatory paragraph indicating there is a substantial doubt about ITEC's ability to continue as a going concern, due primarily to the decreases in our working capital and net worth. We plan 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, we have been able to reestablish relationships with some past customers and distributors and to establish relationships with new customers. Additionally, we have been working to reduce costs through the reduction in staff, the suspension of certain research and development programs, such as the design and manufacture of controller boards and printers, and the suspension of product sales and marketing programs related to office equipment and services in favor of a greater concentration on its PEO and imaging software businesses. We began a program to reduce our debt through debt to equity conversions. We continue to pursue the acquisition of businesses that will grow our business.

There can be no assurance, however, that we 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 our capital requirements. Any additional equity or convertible debt financings could result in substantial dilution to our shareholders. If adequate funds are not available, we may be required to delay, reduce or eliminate some or all of our planned activities, including any potential mergers or acquisitions. Our inability to fund our 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

From August 20, 1999 until June 21, 2000, we were under the control of an operational receiver, appointed by the Court pursuant to litigation between ITEC and Imperial Bank. The litigation has been dismissed and management has reassumed control. However, management did not have operational control for nearly all of fiscal 2000.

In July 2001, we temporarily suspended our printer controller development and manufacturing operations in favor of selling products from other companies to its customers. We continue to sell proprietary imaging products, including our ColorBlind suite of color management software.

During the year-ended June 30, 2003, we suspended our sales efforts related to the resale of products from other manufacturers, including printers, copiers, and other digital imaging products. We may begin selling such products again, in the future, principally to our financial services customer base.

### ACQUISITION AND SALE OF BUSINESS UNITS

In December 2000, we 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, we began integrating EduAdvantage operations. However, these operations were not profitable. At present, and until we can determine our comprehensive strategy related to internet marketing, we have suspended these operations.

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In October 2001, we acquired certain assets, for stock, related to our office products and services business activities, representing \$250,000 of inventories, fixed assets, and accounts receivable. These assets have been written off.

In November 2001, we acquired SOG and we operate it as a wholly-owned subsidiary. SOG provides financial services, including payroll administration, employer and employee benefit plans, health and workers' compensation insurance programs, personnel records management, employer liability management, and other services to small and medium-sized businesses. SOG also includes several operating units, including MedicalHR, CallCenterHR, and ProSportsHR.

In March 2002, we acquired all of the outstanding shares of EnStructure, Inc. ("EnStructure"), a PEO company, for restricted IMTO common stock. The terms of the acquisition were defined in the acquisition agreement, which was exhibited as part of our Form 8-K, dated March 28, 2002. EnStructure has no operations at this time.

In May 2002, we entered into an agreement to acquire Dream Canvas, Inc., ("DCT"), a Japanese corporation, that developed machines used for the automated printing of custom stickers, popular in the Japanese consumer market. We completed the acquisition of DCT in October 2002 and paid the sum of \$40,000 with the issuance of 100,000 shares of IMTO common stock. In December 2002, we sold DCT to Baseline Worldwide Limited for \$75,000 in cash, and reported the transaction on Form 8-K, filed on December 19, 2002.

In July 2002, we 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. On January 14, 2003, we completed the acquisition of shares, representing controlling interest, of QPI. The terms of the acquisitions were disclosed on Form 8-K filed January 21, 2003.

In August 2002, we entered into an agreement to acquire controlling interest in Greenland Corporation. Greenland shares are traded on the Electronic Bulletin Board under the symbol GRIC. On January 14, 2003, we completed the acquisition of shares, representing controlling interest, of Greenland. The terms of the acquisitions were disclosed on Form 8-K filed January 21, 2003.

In March 2003, we purchased certain PEO contracts from Staff Pro Leasing 2 and Staff Pro Leasing, Inc. for \$269,000. The purchase price was paid via an initial cash payment of \$45,000 and the remainder of the purchase price is in the form of a promissory note to be paid over 24 months. The value attributed to the purchased PEO contracts is included as a component of intangible assets in the accompanying consolidated balance sheet and is being amortized over the expected life of the contracts of 5 years.

In April 2003, we formed a wholly-owned subsidiary of Greenland Corporation, ExpertHR Oklahoma. Subsequent to its formation, the new Company purchased a group of PEO clients for \$921,000 of convertible preferred stock of Greenland Corporation. ExpertHR of Oklahoma, Inc., at that time, was a newly formed corporation whose only asset was the PEO contracts purchased by Greenland. The value attributed to the purchased PEO contracts of \$921,000 is included as a component of intangible assets in the accompanying consolidated balance sheet and is being amortized over the expected life of the contracts of 5 years.

### SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the



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reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to allowance for doubtful accounts, value of intangible assets and valuation of non-cash compensation. We base our estimates and judgments on historical experiences and on various other factors that we believe to be reasonable 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 our consolidated 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 used for compensation. 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, 2003.

### REVENUE RECOGNITION RELATED TO PEO SEGMENT

We recognize revenues associated with our PEO business pursuant to EITF 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent." Previously, we reported our worksite employees as a component of direct costs, our revenues are now reported net of worksite employee payroll cost (net method). To conform to the net method, we reclassified worksite employee payroll costs for each of its quarters within the fiscal year ended June 30, 2003 and the annual report on Form 10K for the year ended June 30, 2002. These reclassifications had no effect on gross profit, operating loss, or net loss.

### RESULTS OF OPERATIONS

#### Revenues

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Revenues were \$10,476,000 and \$1,413,000 for the six month period ended December 31, 2003 and 2002, respectively, an increase of \$9,063,000 or 641%. The increase in revenues was due primarily to the increase in our PEO customer base and the addition of temporary staffing operations that began on September 1, 2003. Since the acquisition of SOG, we have lost several customers, primarily due to changes in rates for services, especially workers' compensation insurance. Additionally, we elected to terminate certain customers due to profitability concerns. New customers have been acquired, and more are anticipated pursuant to signed agreements, which we expect will contribute to increased revenues in the current fiscal year.

#### PEO Services

PEO revenues for the six month period ended December 31, 2003 and 2002 were \$6,549,000 and \$654,000, respectively, an increase of \$5,895,000 or 901%. The increase in revenues was due primarily to the increase in our PEO customer base.

#### Temporary Staffing

On September 1, 2003, we hired certain employees who had previously worked in the temporary staffing business. As a result, these new employees were able to bring to us their books of business, which resulted in revenues of \$3,436,000 since the date of their hire.

#### Imaging Products

Sales of imaging products were \$455,000 and \$580,000 for the six month period

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ended December 31, 2003 and 2002, respectively, a decrease of \$125,000 or 22%. The decrease in product sales was due to the suspension of sales and marketing activities associated with the resale of office products, including copiers, printers, and network solutions. We plan to further evaluate our position related to product sales and marketing.

Revenue from software sales, licensing fees and royalties were \$36,000 and \$179,000 for the six month period ended December 31, 2003 and 2002 respectively, a decrease of \$143,000 or 80%. The reduction in software revenues was due to our lack of sufficient working capital to support sales and marketing activities. Royalties from the licensing of ColorBlind source code are insignificant and are reported as part of software sales.

Royalties and licensing fees vary from quarter to quarter and are dependent on the sales of products sold by OEM customers using ITEC technologies. These revenues, however, continue to decline, and are expected to decline in the future due to our focus on our PEO operations as opposed to technology licensing activities.

### COST OF PRODUCTS SOLD

Cost of PEO services were \$7,135,000 (109% of PEO revenues) and \$143,000 (22% of PEO revenues) for the six month period ended December 31, 2003 and 2002, respectively. The decrease in gross profit is due primarily to increased costs of workers' compensation insurance premiums, which could not be passed on to our clients. These costs tend to vary from period-to-period, depending on timing of new contracts and employee risk classifications.

Cost of temporary staffing was \$1,194,000 (34% of temporary staffing revenue). There were no such revenues in the prior-year period.

Cost of products sold were \$128,000 (28% of product sales) and \$317,000 (55% of product sales) for the six month period ended December 31, 2003 and 2002, respectively. The increase in margins is due primarily to the sale of higher margin products.

Cost of software, licenses and royalties were \$3,000 (8% of associated revenues) and \$62,000 (35% of associated revenues) for the six month period ended December 31, 2003 and 2002, respectively. The increase is due primarily to increased business activity, which also included increased duplication and packaging costs.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses have consisted primarily of salaries and commissions of sales and marketing personnel, salaries and related costs for general corporate functions, including finance, accounting, facilities and legal, advertising and other marketing related expenses, and fees for professional services.

Selling, general and administrative expenses for the six month period ended December 31, 2003 and 2002, respectively, were \$6,413,000 and \$3,165,000 an increase of \$3,248,000 or 102%. The increase is due to the acquisition of Greenland and QPI, the increased overhead associated with operating a larger company, and the cost of outside consultants to assist in the integration of the companies.

### COSTS OF RESEARCH AND DEVELOPMENT

There were no costs incurred for research and development in the six months ended December 31, 2003 and 2002. We have been reducing our research and development costs during the past several quarters. We have suspended most of

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our engineering and licensing activities associated with OEM printer products and have re-directed our research and development costs toward the support of our ColorBlind software products.

### OTHER INCOME AND EXPENSE

Interest and financing costs were \$929,000 and \$1,111,000 for the six months ended December 31, 2003 and 2002, respectively. The decrease is due to less amortization of debt discounts in the current period.

### GAIN ON EXTINGUISHMENT OF DEBT

Gain on the extinguishment of debt was \$518,000 and \$656,000 for the six months ended December 31, 2003 and 2002, respectively. The amounts related to accounts payable, which had become stale and uncollectible under the Statute of Limitations in the State of California and upon obtaining a legal opinion with respect to the State of California Statute of Limitations.

### 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. Additionally, in order to facilitate its growth and future liquidity, the Company has made some strategic acquisitions.

As a result of some of the Company's financing activities, there has been a significant increase in the number of issued and outstanding shares. During the six month period ended December 31, 2003, the Company issued an additional 136,355,936 shares. These shares of common stock were issued primarily for corporate expenses in lieu of cash, for the conversion of convertible debentures and other debt, and for the exercise of warrants.

As of December 31, 2003, the Company had negative working capital of \$30,644,000, a decrease in working capital of approximately \$5,127,000 as compared to June 30, 2003, due primarily to our net loss for the six months ended December 31, 2003.

Net cash used in operating activities was \$1,500,000 for the six months ended December 31, 2003 as compared to cash provided by operating activities of \$209,000 for the six months ended December 30, 2002, a decrease of \$1,709,000, due primarily to the increased net loss as a result of the acquisition of Greenland and QPI.

Cash used in investing activities was \$158,000 for the six month period ended December 31, 2003, an increase of \$158,000 (100%) from the year-earlier period.

We have no material commitments for capital expenditures. Our 5% convertible preferred stock (which ranks prior to ITEC'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 December 31, 2003, was approximately \$391,000.

Our capital requirements depend on numerous factors, including market acceptance of our products and services, the resources we devote to marketing and selling our products and services, and other factors. The report of our independent auditors accompanying our June 30, 2003 financial statements includes an explanatory paragraph indicating there is a substantial doubt about our ability to continue as a going concern, due primarily to the decreases in our working capital and net worth. (Also see Note 2 to the Consolidated Financial Statements.)

### RISKS AND UNCERTAINTIES

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### Risks Relating to our Business:

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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.

To successfully execute our current strategy, we will need to improve our working capital position. The report of our independent auditors accompanying the Company's June 30, 2003 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 our 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 increased revenues and decreased costs, with interim cash flow deficiencies being addressed through additional equity financing.

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. We may experience significant quarterly fluctuations in revenues and operating expenses as we introduce new products and services. Accordingly, any inaccuracy in our forecasts could adversely affect our financial condition and results of operations. Demand for our products and services could be adversely affected by a slowdown in the overall demand for imaging products and/or financial and PEO services. 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.

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

The markets for our products and services are highly competitive and rapidly changing. Some of our current and prospective competitors have significantly greater financial, technical, 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: the frequency and success of product and services introductions by us and by our competitors, the selling prices of our products and services and of our competitors' products and services, the performance of our products and of our competitors' products, product distribution by us and by our competitors, our marketing ability and the marketing ability of our competitors, and the quality of customer support offered by us and by our competitors.

The PEO industry is highly fragmented. While many of our competitors have limited operations, there are several PEO companies equal or substantially

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greater in size than ours. We also encounter competition from "fee-for-service" companies such as payroll processing firms, insurance companies, and human resources consultants. The large PEO companies have substantially more resources than us and provide a broader range of resources than we do.

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: integrating acquired products and technologies in a timely manner, integrating businesses and employees with our business, managing geographically-dispersed operations, reductions in our reported operating results from acquisition-related charges and amortization of goodwill, potential increases in stock compensation expense and increased compensation expense resulting from newly-hired employees, the diversion of management attention, the assumption of unknown liabilities, potential disputes with the sellers of one or more acquired entities, our inability to maintain customers or goodwill of an acquired business, the need to divest unwanted assets or products, and 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 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 stockholders will experience ownership dilution and these equity securities may have rights, preferences or privileges superior to those of our common stock.

IF WE ARE UNABLE TO DEVELOP AND/OR ACQUIRE 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 develop new versions of our ColorBlind software, and to acquire competitive products from other manufacturers. We monitor new technology developments and coordinate with suppliers, distributors and dealers to enhance our products and to lower costs. If we are unable to develop and acquire new, competitive products in a timely manner, our financial condition and results of operations will be adversely affected.

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IF WE ARE FOUND TO BE INFRINGING ON A COMPETITOR'S INTELLECTUAL PROPERTY RIGHTS 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 only one patent through our QPI subsidiary for its Photomotion product. 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.

IF OUR 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 small network of dealers and distributors in the United States and internationally. We support our worldwide distribution network and end-user customers through operations headquartered in San Diego.

Portions 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 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.

INCREASES IN HEALTH INSURANCE PREMIUMS, UNEMPLOYMENT TAXES, AND WORKERS' COMPENSATION RATES WILL HAVE A SIGNIFICANT EFFECT ON OUR FUTURE FINANCIAL PERFORMANCE.

Health insurance premiums, state unemployment taxes, and workers' compensation rates are, in part, determined by our PEO companies' claims experience, and comprise a significant portion of our 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 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 (a) 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 service fee; 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

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payroll and benefits costs could have a material adverse effect on the our financial condition or results of operations.

AS A MAJOR EMPLOYER, OUR OPERATIONS ARE AFFECTED BY NUMEROUS FEDERAL, STATES, AND LOCAL LAWS RELATED TO LABOR, TAX, AND EMPLOYMENT MATTERS.

By entering into a co-employer relationship with employees assigned to work at client company locations, we assume certain obligations and responsibilities or 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.

While many states do not explicitly regulate PEOs, over 20 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.

THE MAINTENANCE OF HEALTH AND WORKERS' COMPENSATION INSURANCE PLANS THAT COVER WORKSITE EMPLOYEES IS A SIGNIFICANT PART OF OUR BUSINESS.

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.

OUR STANDARD AGREEMENTS WITH PEO CLIENTS ARE SUBJECT TO CANCELLATION ON 60-DAYS WRITTEN NOTICE BY EITHER THE COMPANY OR THE CLIENT.

Accordingly, the short-term nature of our client service 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.

A NUMBER OF PEO INDUSTRY LEGAL ISSUES REMAIN UNRESOLVED WITH RESPECT TO THE CO-EMPLOYMENT AGREEMENT BETWEEN A PEO AND ITS WORKSITE EMPLOYEES, INCLUDING QUESTIONS CONCERNING THE ULTIMATE LIABILITY FOR VIOLATIONS OF EMPLOYMENT AND DISCRIMINATION LAWS.

Our client service agreement establishes a contractual division of responsibilities between our clients and us 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

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such liabilities. Additionally, worksite employees may be deemed to be our agents, subjecting us to liability for the actions of such worksite employees.

IF THE SUPERIOR SECURITY INTEREST HELD BY IMPERIAL BANK IS REMOVED AND 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.

Throughout fiscal 2001, 2002 and 2003, 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 present, we had a net loss and negative working capital, which raises substantial doubt about our ability to continue as a going concern. Our losses have resulted primarily from an inability to achieve revenue targets due to insufficient working capital. Our ability to continue operations will depend on positive cash flow, if any, from future operations and on our ability to raise additional funds through equity or debt financing. Although we have reduced our work force, suspended some of our operations, and entered into new market segments (financial services), if we are unable to achieve the necessary revenues or raise or obtain needed funding, we may be forced to discontinue operations.

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, 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. 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. This agreement does not require us to pay any interest unless we default on the settlement agreement and fail to cure the default. Regardless, we have continued to accrue interest on this debt until it has been paid and there is no possibility that such interest will become due and payable. 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. Our current arrangement with Imperial Bank reduces our monthly payments to \$50,000. The remaining balance due is approximately \$3.1 million.



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WE HAVE NOT REMAINED CURRENT IN OUR PAYMENT OF FEDERAL AND STATE INCOME AND OTHER PAYROLL-RELATED TAXES WITHHELD IN OUR PEO BUSINESS.

We have not been able to remain current in our payments of federal and state tax obligations related to our PEO operations. We are currently working with the Internal Revenue Service and state agencies to resolve these issues and establish repayment plans. If we are not able to establish repayment plans that allow us to continue our operations, we may be forced to cease doing business in the financial services marketplace.

Risks Relating to our Stock:  
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THE ISSUANCE OF THE SHARES PURSUANT TO OUTSTANDING CONVERTIBLE NOTES WILL RESULT IN DILUTION.

There are a large number of shares underlying convertible notes and warrants that may be available for future sale and the sale of these shares may depress the market price of our common stock and may cause substantial dilution to existing stockholders.

The number of shares of common stock issuable upon conversion of convertible notes may increase if the market price of our stock declines. Nearly all of the shares issuable upon conversion of notes and debentures and upon exercise of warrants may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock. The issuance of shares upon conversion of convertible notes and debentures and exercise of outstanding warrants will also cause immediate and substantial dilution to existing stockholders and may make it difficult to obtain additional capital.

THE OVERHANG AFFECT FROM THE RESALE OF SELLING SHAREHOLDERS' SECURITIES ON THE MARKET COULD RESULT IN LOWER STOCK PRICES WHEN CONVERTED

Overhang can translate into a potential decrease in our market price per share. The common stock underlying unconverted debentures represents overhang. These outstanding debentures are converted into common stock at a discount to the market price providing the debenture holder the ability to sell his or her stock at or below market and still make a profit, which is incentive for the holder to sell the shares as quickly as possible to ensure as much profit as possible in case the stock price falls. If the share volume cannot absorb the discounted shares, our market price per share will likely decrease. As the market price decreases, each subsequent conversion will require a larger quantity of shares.

SHORT SELLING COMMON STOCK BY WARRANT AND DEBENTURE HOLDERS MAY DRIVE DOWN THE MARKET PRICE OF OUR STOCK.

The warrant and debenture holders may sell shares of our common stock on the market before exercising the warrant or converting the debenture. The stock is usually offered at or below market since the warrant and debenture holders receive stock at a discount to market. Once the sale is completed the holders exercise or convert a like dollar amount of shares. If the stock sale lowered the market price, upon exercise or conversion, the holders would receive a greater number of shares than they would have absent the short sale. This pattern may result in the spiraling down of our stock's market price.

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: general stock market trends, announcements of developments related to our business, fluctuations in our operating results, a shortfall in our revenues or earnings compared to the estimates of securities

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analysts, announcements of technological innovations, new products or enhancements by us or our competitors, general conditions in the markets we serve, general conditions in the worldwide economy, developments in patents or other intellectual property rights, and developments in our relationships with our customers and suppliers.

In addition, in recent years the stock market in general, and the market for shares of technology and other stocks 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.

OUR COMMON STOCK IS SUBJECT TO THE "PENNY STOCK" RULES OF THE SEC AND THE TRADING MARKET IN OUR SECURITIES IS LIMITED, WHICH MAKES TRANSACTIONS IN OUR STOCK CUMBERSOME AND MAY REDUCE THE VALUE OF AN INVESTMENT IN OUR STOCK.

Our shares of Common Stock are "penny stocks" as defined in the Exchange Act, which are quoted in the over-the-counter market on the OTC Bulletin Board. As a result, an investor may find it more difficult to dispose of or obtain accurate quotations as to the price of the shares of the Common Stock being registered hereby. In addition, the "penny stock" rules adopted by the Commission under the Exchange Act subject the sale of the shares of the Common Stock to certain regulations which impose sales practice requirements on broker-dealers. For example, broker-dealers selling such securities must, prior to effecting the transaction, provide their customers with a document that discloses the risks of investing in such securities. Included in this document are: (1) the bid and offer price quotes for the penny stock, and the number of shares to which the quoted prices apply; (2) the brokerage firm's compensation for the trade; and (3) the compensation received by the brokerages firm's salesperson for the trade.

In addition, the brokerage firm must send the investor: (1) monthly account statement that gives an estimate of the value of each penny stock in your account; (2) a written statement of your financial situation and investment goals; and (3) legal remedies, which may be available to you, are as follows: (a) if penny stocks are sold to you in violation of your rights listed above, or other federal or state securities laws, you may be able to cancel your purchase and get your money back.; (b) if the stocks are sold in a fraudulent manner, you may be able to sue the persons and firms that caused the fraud for damages; and (c) if you have signed an arbitration agreement, however, you may have to pursue your claim through arbitration.

If the person purchasing the securities is someone other than an accredited investor or an established customer of the broker-dealer, the broker-dealer must also approve the potential customer's account by obtaining information concerning the customer's financial situation, investment experience and investment objectives. The broker-dealer must also make a determination whether the transaction is suitable for the customer and whether the customer has sufficient knowledge and experience in financial matters to be reasonably expected to be capable of evaluating the risk of transactions in such securities. Accordingly, the Commission's rules may limit the number of potential purchasers of the shares of the Common Stock.

RESALE RESTRICTIONS ON TRANSFERRING "PENNY STOCKS" ARE SOMETIMES IMPOSED BY SOME STATES, WHICH MAY MAKE TRANSACTIONS IN OUR STOCK CUMBERSOME AND MAY REDUCE THE VALUE OF AN INVESTMENT IN OUR STOCK.

Various state securities laws impose restrictions on transferring "penny stocks" and as a result, investors in the Common Stock may have their ability to sell their shares of the Common Stock impaired. For example, the Utah Securities Commission prohibits brokers from soliciting buyers for "penny stocks", which

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makes selling them more difficult.

OUR ABSENCE OF DIVIDENDS OR THE ABILITY TO PAY THEM PLACES A LIMITATION ON ANY INVESTORS RETURN.

We anticipate that, for the foreseeable future, earnings will be retained for the development of its business. Accordingly, we do not anticipate paying dividends on the common stock in the foreseeable future. The payment of future dividends will be at the sole discretion of our Board of Directors and will depend on our general business condition.

Information about forward-looking statements  
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This report contains certain forward-looking statements, which involve substantial risks and uncertainties. These forward-looking statements can generally be identified because the context of the statement includes words such as "may," "will," "except," "anticipate," "intend," "estimate," "continue," "believe," or other similar words. Similarly, this prospectus also contains forward-looking statements about our future. Forward-looking statements include statements about our plans, objectives, goals, strategies, expectations for the future, future performance and events, underlying assumptions for all of the above, and other statements, which are not statements of historical facts.

These forward-looking statements involve risks and uncertainties discussed in the risk factor section, which could cause our actual results to materially differ from our forward-looking statements. We make these forward-looking statements based on our analysis of internal and external historical trends, but there can be no assurance that we will achieve the results set forth in these forward-looking statements. Our forward-looking statements are expressed in good faith and we believe that there is a reasonable basis for us to make them.

We have no obligation to update or revise these forward-looking statements to reflect future events.

### ITEM 3. CONTROLS AND PROCEDURES

As required by SEC rules, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures at the end of the period covered by this 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 changes in our internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

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In October 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 and, in November 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. In January 2003, we entered into a Stipulation of Settlement with the plaintiffs. We agreed to pay the plaintiffs 5,000,000 shares of common stock and \$200,000 in cash. The Parties have accepted the settlement. We have issued the shares, and our insurance carrier has paid the \$200,000 cash payment. Pursuant to a hearing in May 2003 the Court provided approval to the settlement.

On August 22, 2002, we were sued by our 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 amount related to this obligation was included as an expense in the year ended June 30, 2003.

ITEC was a party to a lawsuit filed by Symphony Partners, L.P. related to its acquisition of SourceOne Group, LLC. As reported on Form 8-K, dated July 22, 2003, the plaintiffs sought payment of \$702 thousand. In June 2003, we entered into a settlement with the plaintiffs for a cash payment of \$274 thousand, which has been paid.

ITEC 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. Subsequent to the period reported in this filing, in June 2003, we entered into a settlement with the plaintiffs who have agreed to dismiss their claims against us with prejudice in exchange for a settlement fee payment of \$10,000, which has been paid.

We have been sued in Illinois state court along with AIA/Merriman, our insurance brokers, by the Arena Football League-2 ("AF2"). Damages payable to AF2, should they win the suit, could exceed \$700,000. We expect to defend our position and rely on representations of our insurance brokers. We have also issued a counter suit against the AF2 for failure to disclose information required by our contract and other material misrepresentations management believes the AF2 has made.

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 \$3.0 million, which has been reduced to \$1.8 million during the 2003. 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.

In connection with ITEC's acquisition of controlling interest of Greenland Corporation, the following are the outstanding legal matters for Greenland Corporation:

Greenland, along with Seren Systems ("Seren"), its then current and primary software developer and supplier for its own ABM terminals, was in the process of completing development of the check cashing service interface to the Mosaic Software host system being implemented to support a large network of V.com terminals. In September 2000, Seren unilaterally halted testing and effectively shut-down any further check cashing development for the V.com project. The parties participating in this project may have been financially damaged, related to the delay in performance by Greenland and Seren. None of the parties have brought suit against Greenland and/or Seren at this time. There is no assurance,

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however, that such suit(s) will not be brought in the future.

On May 23, 2001 Greenland filed a Complaint in San Diego County naming Michael Armani as the defendant. The Complaint alleges breach of contract by Michael Armani in connection with two separate stock purchase agreements. Greenland seeks damages in the amount of \$474,595. On August 7, 2001 Greenland filed a request for Entry of Default against Mr. Armani in the amount of \$474,595 and the court granted entry of default. Subsequently Mr. Armani filed a motion to set aside the entry of default and on October 26, 2001 the court granted said motion and the entry of default was set aside. Greenland and Mr. Armani participated in mediation and as a result entered into a settlement agreement whereby Mr. Armani agreed to make certain cash payments to Greenland and the parties entered into mutual release of all claims. Mr. Armani defaulted in his obligation to make the first cash payment and consequently, Greenland obtained a judgment against Mr. Armani for \$100,000. Greenland is continuing its efforts to collect on the judgment.

On May 23, 2001 Arthur Kazarian, Trustee for the General Wood Investment Trust (the "Landlord") filed a Complaint in San Diego County naming Greenland as a defendant. The Complaint alleges breach of contract pursuant to the terms of the lease agreement between the Company and the Landlord for the real property located at 1935 Avenida Del Oro, Oceanside, California and previously occupied by Greenland. The Complaint seeks damages in the amount of approximately \$500,000. Although Greenland remains liable for the payments remaining for the term of the lease, the Landlord has a duty to mitigate said damages. Greenland recorded a lease termination liability of \$275,000 during the year ended December 31, 2001. Greenland entered into a settlement agreement with Arthur Kazarian, Trustee for the General Wood Investment Trust (the "Landlord") where by Greenland agreed to pay the sum of \$220,000 to the Landlord in installments payments of \$20,000 in May 2002, \$50,000 in October 2002 and the remaining balance in December 2002. In the event Greenland defaults in any or all scheduled payments, the Landlord is entitled to a stipulated judgment of approximately \$275,000. Greenland was unable to make the scheduled payments and as a result, on July 8, 2002, the Landlord has entered a judgment lien against Greenland in the amount of \$279,654.

Greenland entered into an agreement with Intellicorp, Inc. ("Intellicorp") whereby Intellicorp agreed to invest \$3,000,000 in exchange for seats on the board of directors and restricted shares of common stock of Greenland. After making the initial payment of \$500,000, Intellicorp defaulted on the balance. Greenland sued for recovery of the unpaid \$2,500,000. Greenland had issued 46,153,848 shares of common stock for the investment, which were returned to Greenland and cancelled. A default judgment was entered against defendant IntelliCorp, IntelliGroup, and Isaac Chang. In June 2003, a judgment was entered in the Superior Court of the State of California, County of San Diego, against the defendants in favor of Greenland. The amount of the judgment was \$3,950,640.02 and was comprised of an award of \$2,950,640.02 for compensatory damages and an award of \$1,000,000.00 for punitive damages. The Court found, by clear and convincing evidence, that the Defendants acted maliciously and with the intent to defraud Greenland when they entered into a private placement transaction to fund Greenland. The defendant's ability to pay is unknown. The appeal period has expired and we are beginning the collection process.

Max Farrow, a formal officer of Greenland, filed a Complaint in San Diego County naming Greenland, Thomas J. Beener, Intelli-Group, Inc., Intelli-Group LLC and Intelli-Corp, Inc. as defendants. The Complaint alleges breach of contract in connection with Mr. Farrow's resignation as an officer and director of the Company in January 2001. Greenland and Mr. Thomas Beener, entered into a settlement agreement with Max Farrow whereby Mr. Farrow agreed to release Mr. Beener from all claims, obligations etc., in exchange for the issuance of 8 million restricted shares of Greenland common stock. The good faith settlement was approved by the court and the agreed upon consideration was delivered to Mr.

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Farrow. Greenland entered into a settlement with Farrow whereby Greenland agreed to a judgment of \$125,000. However, the judgment will not be enforced until such time as efforts to collect against IntelliCorp et al have been exhausted. In the event funds are collected from IntelliCorp. Mr. Farrow will receive the first \$125,000 plus 50% of the next \$200,000 collected. Greenland will retain all amounts collected thereafter.

Fund Recovery, a temporary staffing service filed a complaint against Greenland alleging breach of contract. A summary judgment motion is pending. Greenland recorded the liability amount of \$14,000 in the consolidated financial statements.

John Ellis has filed a demand for arbitration in San Diego County against Greenland seeking damages of approximately \$70,000 for an alleged breach of contract action. Greenland believes it has valid defenses to the allegations. Mr. Ellis appears to have abandoned this action in arbitration and has elected to pursue a civil suit. However, arbitration action is proceeding. In addition, the parties are attempting mediation to avoid the cost and time of an arbitration proceeding.

John Ellis has filed an action in San Diego County against Greenland seeking damages of approximately \$60,000 for an alleged breach of contract action. Greenland believes it has valid defenses to the allegations. This amount was recorded as a liability in the consolidated financial statements. Greenland has filed a motion to quash service of the civil action and to compel arbitration. The court has stayed the proceedings pending the progress and/or outcome of arbitration.

NKS Enterprises, Inc. commenced a legal action against Greenland in San Diego Superior Court in Vista California seeking damages in connection with the purchase and operation of a MaxCash ABM. The case was settled in December 2002. The maximum amount to be paid under the settlement is \$100,000. In exchange, Greenland will receive the MaxCash ABM sold to NKS Enterprises. This amount was recorded as a liability in the consolidated financial statements.

In connection with the Company's acquisition of controlling interest of Quik Pix, Inc., we are unaware of any pending litigation.

From time to time, Greenland and QPI may be involved in litigation relating to claims arising out of their operations in the normal course of business.

### ITEM 2. CHANGES IN SECURITIES

#### Common Stock

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During the six months ended December 31, 2003, ITEC issued the following:

- 6,470,000 shares of its common stock for legal and consulting services valued at \$148,150. The value of the services was determined using the market value of ITEC's common stock on the date of issuance;
- 10,272,110 shares of its common stock for compensation valued at \$140,332. The value of the services was determined using the market value of ITEC's common stock on the date of issuance;
- 20,260,000 shares of its common stock for debt of \$405,200;
- 95,000,208 shares of its common stock for the conversion of convertible debentures in the amount of \$994,385; and
- 750,000 shares of its common stock upon the exercise of options.

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### Stock Split

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On August 9, 2002, the Company's board of directors approved and affected 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

The Company is currently in default on certain bank loans that have an aggregate outstanding balance at December 31, 2003 of \$3,145,000.

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

None

### ITEM 5. OTHER INFORMATION

None

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) Exhibits

10(a) Alpha Capital Aktiengesellschaft December 17, 2003 convertible note

10(b) Alpha Capital Aktiengesellschaft December 17, 2003 warrant

10(c) Gamma Opportunity Capital Partners, LP December 17, 2003 convertible note

10(d) Gamma Opportunity Capital Partners, LP December 17, 2003 warrant

10(e) Longview Fund, LP December 17, 2003 convertible note

10(f) Longview, LP December 17, 2003 warrant

10(g) Stonestreet Limited Partnership December 17, 2003 convertible note

10(h) Stonestreet Limited Partnership December 17, 2003 warrant

10(i) Subscription Agreement December 17, 2003

10(j) Acquisition Agreement between the Company and Jackson Staffing, Inc., dated September 1, 2003.

#### 31.1 Rule 13a-14(a) Certification

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

#### (b) Reports on Form 8-K

On October 14, 2003, the Registrant filed a Current Report on Form 8-K announcing that the Registrant would be late in filing its Form 10-K for the year ended June 30, 2003. The delay was due to recent changes in the Registrant's independent accountants. Additionally, due to changes in the Registrant's independent accountants, the Form 10-K required review of the Registrant's two prior independent accountants before the document can be filed.

On January 13, 2004, the Registrant filed a Current Report on Form 8-K

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announcing that on December 4, 2003, the Registrant announced that Thomas Brown had been appointed to the position of Senior Vice President and Chief Financial Officer. Mr. Brown subsequently resigned his positions with the Registrant, on or about December 30, 2004. Brian Bonar, Chairman and Chief Executive Officer of the Registrant will serve as Chief Financial Officer until a suitable replacement can be found.

SIGNATURES

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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: February 13, 2004

IMAGING TECHNOLOGIES CORPORATION (Registrant)

By: /S/ Brian Bonar

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Brian Bonar  
Chairman, Chief Executive Officer, and Acting Chief Financial Officer