

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

IMAGING TECHNOLOGIES CORP/CA

Form 10-K

November 13, 2003

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

FORM 10-K

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

COMMISSION FILE NO. 0-12641

[GRAPHIC OMITTED]

IMAGING TECHNOLOGIES CORPORATION
(Exact Name of Registrant as Specified in its Charter)

DELAWARE 33-0021693
(State or Other Jurisdiction of Incorporation or Organization)
(IRS Employer ID No.)

17075 Via Del Campo
San Diego, California 92127
(858) 451-6120
(Address of Principal Executive Offices and Registrant's Telephone Number,
Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:
None

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, \$0.005 par value

Indicate by a check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No []

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes X No []

Indicate by check mark whether the registrant is an accelerated filer. Yes []
No X

At November 10, 2003 the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$5,241,517 based on the last trade price as reported on the NASD Electronic Bulletin Board. For purposes of this calculation, shares owned by officers, directors, and 10% shareholders

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

known to the registrant have been excluded. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

At November 10, 2003, there were 291,195,402 shares of the registrant's Common Stock, \$0.005 par value, issued and outstanding.

Documents incorporated by reference:
None

FORWARD-LOOKING STATEMENTS

This document contains some forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements can generally be identified by the use of forward-looking words like "may," "will," "expect," "anticipate," "intend," "estimate," "continue," "believe" or other similar words. Similarly, statements that describe our future expectations, objectives and goals or contain projections of our future results of operations or financial condition are also forward-looking statements. Our future results, performance or achievements could differ materially from those expressed or implied in these forward-looking statements as a result of certain factors, including those listed under the heading "Risk Factors" and in other cautionary statements in this document.

PART I
=====

ITEM 1. BUSINESS

Imaging Technologies Corporation (OTCBB symbol: IMTO) ("ITEC" or the "Company") was incorporated in March 1982 under the laws of the State of California, and reincorporated in May 1983 under the laws of the State of Delaware. The Company's principal executive offices are located at 17075 via Del Campo, San Diego, CA 92127. The Company's main phone number is (858) 451-6120.

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 financial services that relieve existing and potential customers of the burdens associated with personnel management and control. To this end, the Company, through strategic acquisitions, became a professional employer organization ("PEO").

ITEC provides financial services principally through its wholly-owned SourceOne Group, Inc. ("SOG") subsidiary, which includes several operating units, including ProSportsHR, MedicalHR, and CallCenterHR (established subsequent to June 30, 2003). 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 a controlling interest approximating 88% of 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 is an information technology company that has developed the Check

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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). At present, there is no activity in this subsidiary; and management is evaluating its future.

In January 2003, we completed the acquisition of a controlling interest (approximately 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. QPI's major source of revenues is in developing and mounting photographic and digital images for use in display advertising for tradeshows and customer building interiors. QPI also has a proprietary product PhotoMotion, which 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 now supported and distributed by QPI. Additionally, we market our ColorBlind software products on the Internet through our color.com website.

MARKET OVERVIEW - FINANCIAL SERVICES

Our entry into the financial services business, in November 2001, was through the acquisition of professional employer organizations ("PEO"). We are expanding the services we provide beyond PEO services, which will include a variety of products and services to employers and employees, and expanded employee benefit programs such as payroll advances, life insurance, automated payroll credit cards, and branded healthcare plans.

The PEO industry emerged in the early 1980's largely in response to the burdens placed on small and medium-sized employers by the complex legal and regulatory issues related to human resources management. While various service providers were available to assist these businesses with specific tasks, PEOs emerged as providers of a more comprehensive range of services relating to the employer/employee relationship. In a PEO arrangement, the PEO assumes broad aspects of the employer/employee relationship. Because PEOs provide employee-related services to a large number of employees, they can achieve economies of scale that allow them to perform employment-related functions more efficiently, provide a greater variety of employee benefits and devote more attention to human resources management.

We believe that the demand for our services is driven by (1) the trend by small and medium-sized businesses toward outsourcing management tasks outside of core competencies; (2) the difficulty of providing competitive health care and related benefits to attract and retain employees; (3) the increasing costs of health and workers' compensation insurance coverage and workplace safety programs; and (4) complex regulation of labor and employment issues and the related costs of compliance.

Growing pressure from federal agencies such as the Department of Labor, the Immigration and Naturalization Service, and the Equal Employment Opportunity Commission, and the burdens of employment-related compliance such as COBRA, OSHA, workers' compensation, unemployment compensation, wrongful termination, ADA ("Americans with Disabilities Act"), and FMLA ("Family and Medical Leave Act") demand increasing levels of resources from small businesses.

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

According to the National Association of Professional Employer Organizations ("NAPEO"), the PEO industry collectively serves approximately 4 million work site employees in the United States. The target market for the PEO industry is represented by companies with 100 or fewer employees; a market of approximately 60 million people.

The most recent research from NAPEO reports that the average annual cost of regulation, paperwork, and tax compliance for firms with fewer than 500 employees is approximately \$5000 per employee. The average small business owner spends between 7% and 25% of his time handling employee-related administration.

NAPEO also reports that current PEO industry gross revenues are approximately \$43 billion, representing approximately 2.5 million employees in every state in the U.S. The average annual growth rate of the industry, since 1985, has been 25%. A typical PEO client company has 15 work site employees and an average annual pay per work site employee of \$23,258. Presently, there are approximately 800 PEO companies operating in the U.S.

According to the U.S. Small Business Administration ("SBA"), the U.S. has over 6 million small businesses, defined as those companies with 100 or fewer employees, representing over 99% of all businesses. The U.S. Census Bureau reports that small businesses represent the fastest growing segment of U.S. employment and commerce, representing an estimated annual payroll of \$1.4 trillion.

MARKET OVERVIEW - IMAGING PRODUCTS

ColorBlind software is a suite of software applications, which allow users to build color profiles of images in order to insure accurate output on digital devices such as printers, plotters, scanners, monitors, and cameras.

According to various market research companies such as International Data Corporation ("IDC") and The Gartner Group ("Gartner"), the worldwide document/imaging market is expected to grow to over \$200 billion by 2003. In-house color document production is expected to grow at a compound annual rate of 40% over the next few years. Various underlying industries may have a direct impact on our market potential. For example, according to Gartner, approximately 13 million of the 103 million households in the United States currently have a digital camera. Worldwide digital camera shipments are forecast to increase dramatically to approximately 42 million by 2004, according to IDC. The market growth and acceptance of the digital camera and the improved resolution of these cameras have created larger demand for color management and accurate color printing.

Changes in the technology of document creation, management, production, and transmittal (including the Internet) have been changing the dynamics of the imaging market. The greater bandwidth now available to even small desktop computers has facilitated the movement of color images, which has resulting in increased demand for cross platform color reproduction.

The direct-to-plate and direct-to-print trends in the printing industry have created more demand for digital color proofing.

Accordingly, color integrity is an important underlying requirement in the imaging process. The widespread use of color applications at the desktop, demand for higher quality color reproduction, expanded use of the Internet for document dissemination and e-commerce, growth of office networks, and the increased acceptance and use of digital photography are some of the factors that influence our markets.

Photomotion, a QPI technology, is a patented process for adding multiple

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

images to backlit static displays that appear to change as the viewer passes by the image. The Photomotion process uses existing original art to create an illusion of movement; and allows for separate and distinct image displays. It allows for three to five distinct images to be displayed within an existing light box. Images appear to change or "morph" as the viewer passes the display.

QPI offers a spectrum of services allowing a client to produce color visuals (digital and photographic) according to parameters as specified by a client. We also offer a full range of color laboratory reproduction services.

The market for Photomotion and color reproduction services is vast. The products are especially useful in point-of-purchase displays, indoor display advertising, and trade show exhibits and displays. To date, marketing has been limited to targeted customers such as beverage companies, casinos, sports arenas, and other specialty clients.

BUSINESS STRATEGY

FINANCIAL AND PEO SERVICES

The PEO business provides a broad range of services associated with human resources management. These include benefits and payroll administration, health and workers' compensation insurance programs, personnel records management, employer liability management, employee recruiting and selection, performance management, and training and development services.

Administrative Functions. We perform a wide variety of processing and record keeping tasks, mostly related to payroll administration and government compliance. Specific examples include payroll processing, payroll tax deposits, quarterly payroll tax reporting, employee file maintenance, unemployment claims processing and workers' compensation claims reporting.

Benefit Plans Administration. We sponsor benefit plans including group health coverage. We are responsible for the costs and premiums associated with these plans, act as plan sponsor and administrator of the plans, negotiate the terms and costs of the plans, maintain the plans in accordance with applicable federal and state regulations, and serve as liaison for the delivery of such benefits to worksite employees.

Personnel Management. We provide a variety of personnel management services, which provide our client companies access to resources normally found in the human resources departments of larger companies. Our client companies will have access to a personnel guide, which will set forth a systematic approach to administering personnel policies and practices and can be customized to fit a client company's particular work culture/environment.

Employer Liability Management. Under our Client Services Agreement ("CSA"), we assume many employment-related responsibilities associated with administrative functions and benefit plans administration. Upon request, we can also provide our clients guidance on avoiding liability for discrimination, sexual harassment, and civil rights violations. We employ counsel specializing in employment law.

Client Service Agreement. All clients enter into our CSA, which establishes our service fee. The CSA is subject to periodic adjustments to account for changes in the composition of the client's workforce and statutory changes that affect our costs. The CSA also establishes the division of responsibilities between our Company and the client as co-employers. Pursuant to the CSA, we are responsible for personnel administration and are liable for certain employment-related government regulation. In addition, we assume liability for payment of salaries, wages (including payroll taxes), and employee benefits of

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

worksite employees. The client retains the employees' services and remains liable for the purposes of certain government regulations.

Our PEO business represents a distribution channel for certain value-added services, including a wide variety of employer and employee benefit programs such as 401(k) plans, Section 125 cafeteria plans, legal services, tax consulting, payroll advances, and other insurance programs. Our intention is to expand our business through offering a variety of financial services. Additionally, we operate two new business units, launched subsequent to June 30, 2003, (MedicalHR and CallCenterHR) to provide temporary staff to the medical and call center industries.

The PEO business is growing rapidly, but profit margins are small. Consequently, profitability depends on (1) economies of scale leading to greater operating efficiencies; and (2) value-added services such as training, education, Internet support, and other services that may be used by employers and employees.

The income model for this business generally revolves around fees charged per employee. While gross profit is low, gross revenues are generally substantial. To this end, the Company intends to pursue acquisitions of small PEO firms. Each acquisition is expected to include retention of some existing management and staff in order to assure continuity of operations.

We evaluate our PEO business as one segment even though our PEO products are offered under various brand names.

COLOR MANAGEMENT SOFTWARE

Accurate color reproduction is one of the largest single challenges facing the imaging industry. Customers demand systems that are easy to use, predictable and consistent. A color management system is needed so users can convert files for use with different devices. The varying characteristics of each device are captured in a device profile. The International Color Consortium ("ICC") has established a standard for the format for these profiles.

Our ColorBlind color management software is a pre-packaged suite of applications, utilities, and tools that allow users to precisely create ICC profiles for each device in the color workflow including scanners, monitors, digital cameras, printers, and other specialized digital color input and output devices. Once profiled, ColorBlind balances these profiles to produce accurate, consistent, and reliable color rendering from input to output. ColorBlind software is sold as a stand-alone application or licensed to OEM's for resale to be bundled with peripheral devices.

We operate an internet site, color.com, as a resource center to provide information on the highest quality correct color. This site allows consumers to purchase our products, including ColorBlind software; and serves as an information resource for color imaging, including white papers on color imaging and management, links to color consultants and experts, and products.

ColorBlind Academy provides advanced color management training for resellers of color imaging products, including printers, copiers, monitors and other imaging products.

QPI - PHOTOMOTION

QPI's Photomotion Images are based upon patented technology. The resulting product is a unique color medium that uses existing original images to create the illusion of movement or multiple static displays that allow three to five distinct images to be displayed in an existing light box. The images appear to change, or "morph," as a viewer passes the display. This ability to put multiple

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

images in a single space, without the need for mechanical devices, allows for the creation of an active and entertaining display. The product is currently marketed in the U.S., Europe, Asia and Latin America.

Visual marketing, including out-of-home media, is a large and growing, multi-billion dollar worldwide industry. An industry survey suggests that the field of visual marketing will increase at a rate of 50% annual for the next ten years. Out-of-home media plays a critical role in the media plans of national and international advertisers.

GREENLAND CORPORATION

The acquisition of a controlling interest in Greenland Corporation has contributed to our PEO business through the establishment of ExpertHR, Inc. as a wholly-owned subsidiary of Greenland. Expert HR operations mirror those of SOG. Greenland's ExpertHR-Oklahoma, Inc. subsidiary is also a PEO company.

Greenland's wholly owned subsidiary, Check Central, is the developer of 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. The MAXcash system provides full ATM functionality, phone card, and money order dispensing and, in the near future, will offer bill paying, and wire transfer services.

The payroll check-cashing industry continues to expand, serving a population that now numbers 35% of working Americans.

We are evaluating the future of this business unit, which has been inactive for the past year, with the objective of developing a plan to provide the advantages of the MAXcash ABM to our clients and other PEO companies.

COMPETITION

The markets for our products and services are highly competitive and rapidly changing. Our ability to compete in our markets depends on a number of factors, including the success and timing of product and services introductions by us and our competitors, selling prices, performance, distribution, marketing ability, and customer support. A key element of our strategy is to provide competitively-priced, quality products and services.

The PEO business is also highly competitive, with approximately 800 firms operating in the U.S. There are several firms that operate on a nationwide basis with revenues and resources far greater than ours. Some large PEO companies are owned by insurance carriers and some are public companies whose shares trade on Nasdaq, including Administaff, Inc., Team Staff, Inc., Barrett Business Services, and Staff Leasing, Inc. Also see "Risks and Uncertainties."

OPERATIONS

ITEC's 6,000 square foot corporate headquarters facility in San Diego, California houses most of our administrative operations. PEO operations are conducted from the Company's headquarters offices and small branch offices in Troy, Michigan; Tulsa, Oklahoma; and Tustin, California. Additional sales offices are maintained in Richmond, Virginia; Miami, Florida; and Covington, Louisiana.

MANUFACTURING, PRODUCTION, AND SOURCES OF SUPPLY

ITEC has traditionally outsourced nearly all of its manufacturing. In June

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

2001, we suspended manufacturing of ITEC-branded products. We will continue to manufacture our software products in-house and through selected outside vendors. Also see "Risks and Uncertainties."

RESEARCH AND DEVELOPMENT

Some of our products are characterized by rapidly evolving technology, frequent new product introductions, and significant price competition. Accordingly, we monitor new technology developments and coordinate with suppliers, distributors and dealers to enhance existing products and to lower costs. Advances in technology require ongoing investment. We have entered into no formal projects in research and development for several years; however, we do make modifications to existing products on an as-needed basis to maintain their currency. Also see "Risks and Uncertainties."

INTELLECTUAL PROPERTY

ITEC's 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. QPI holds the patent for Photomotion. Technology products exist in a rapidly changing business environment. Consequently, we believe the effectiveness of patents, trade secrets, and copyright protection is less important in influencing long term success than the experience of our employees and our contractual relationships.

We have obtained U.S. registration for several of our trade names or trademarks, including ColorBlind, Photomotion, ExpertHR, MedicalHR, CallCenterHR, and ProSportsHR. These trade names are used to distinguish our products and services in the markets we serve.

If we fail to establish that we have not violated the asserted rights, we could be prohibited from marketing the associated product and/or services, and we could be liable for damages. We rely on a combination of trade secret, copyright and trademark protection, and non-disclosure agreements to protect our proprietary rights. Also see "Risks and Uncertainties."

PERSONNEL

ITEC (including our subsidiaries) employed a total of 68 individuals worldwide as of June 30, 2003. Of this number, 54 were involved in sales, marketing, corporate administration and finance, and 14 were in engineering, research and development, and technical support. There is no union representation for any of ITEC's employees.

GOING CONCERN CONSIDERATIONS

At June 30, 2003, and for the fiscal year then ended, we had a net loss and negative working capital, which raise substantial doubt about our ability to continue as a going concern. Our losses have resulted primarily from an inability to achieve sales targets due to insufficient working capital and entry into new business segments. Our ability to continue operations will depend on positive cash flow from future operations and on our ability to raise additional funds through equity or debt financing. We have reduced and/or discontinued some of our operations and, if we are unable to raise or obtain needed funding, we may be forced to discontinue operations.

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

For the year ended June 30, 2003, our net loss was \$6.9 million. At June 30, 2003 our negative working capital was \$28.4 million. Specific steps that we have taken to address these problems include obtaining working capital through the issuance and sale of convertible debentures, the relocation of our facilities to reduce rent payments, and growing our financial services business.

Furthermore, we plan 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. We have been able to reduce our costs by reducing our number of employees and suspending unprofitable operations associated with the computer printer business. We commenced a program to reduce our debt, which we will address more aggressively in our current fiscal year, partially through debt-to-equity conversions. Finally, we continue to pursue the acquisition of business units that will be consistent with these measures. We anticipate that all of these initiatives will be carried out throughout the fiscal year ending June 30, 2004.

RISKS AND UNCERTAINTIES

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.

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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 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.

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 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,

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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.

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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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 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, STATE, 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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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 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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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 DELISTING OF OUR COMMON STOCK FROM THE NASDAQ SMALLCAP MARKET HAS MADE IT MORE DIFFICULT TO RAISE FINANCING, AND THERE IS LESS LIQUIDITY FOR OUR COMMON STOCK AS A RESULT.

The Nasdaq SmallCap Market and Nasdaq Marketplace Rules require an issuer to evidence a minimum of \$2,000,000 in net tangible assets, a \$35,000,000 market capitalization or \$500,000 in net income in the latest fiscal year or in two of the last three fiscal years, and a \$1.00 per share bid price, respectively. On October 21, 1999, Nasdaq notified us that we 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 our financial viability. While the Panel acknowledged that we were in technical compliance with the bid price and market capitalization requirements, the Panel was of the opinion that the continued listing of our common stock on The Nasdaq Stock Market was no longer appropriate. This conclusion was based on the Panel's concerns regarding our future viability. Our 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, stockholders may find it more difficult to sell our common stock. This lack of liquidity also may make it more difficult for us to raise capital in the future.

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Trading of our 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 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 stockholders 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.

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.

ITEM 2. PROPERTIES

ITEC owns no real property. We lease approximately 6,000 square feet of space in a facility located at 17075 Via Del Campo, San Diego, California 92127, at a monthly lease rate of \$6,500. This facility houses corporate management, marketing, sales, engineering, and support offices. The lease expires in September 2005. However, ownership of this facility has changed and we are in discussions with the new owner terms upon which we may move to new facilities prior to the end of the lease.

We also have month-to-month leases on small branch offices in Troy, Michigan, Tustin, California, and San Diego, California. We have additional one year leases in Miami, Florida and Phoenix, Arizona, each with two year renewal options.

ITEM 3. LEGAL PROCEEDINGS

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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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.

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, 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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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. 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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

=====

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY

AND RELATED SHAREHOLDER MATTERS

Our common stock is traded in the over-the-counter market, and quoted on the NASD Electronic Bulletin Board under the symbol: "IMTO".

The following table sets forth the high and low bid quotations of ITEC common stock for the periods indicated as reported by the NASD Electronic Bulletin Board. Prices shown in the table represent inter-dealer quotations, without adjustment for retail markup, markdown, or commission, and do not necessarily represent actual transactions.

High	Low
-----	-----

Year ended June 30, 2001*

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

	First quarter. . . .	\$18.40	\$1.00
	Second quarter . . .	6.00	1.00
	Third quarter. . . .	7.60	1.00
	Fourth quarter . . .	2.60	1.20
Year	ended June 30, 2002		
	First quarter. . . .	\$ 0.07	\$0.03
	Second quarter . . .	0.02	0.05
	Third quarter. . . .	0.05	0.01
	Fourth quarter . . .	0.04	0.01
Year	ended June 30, 2003		
	First quarter. . . .	\$ 0.05	\$0.01
	Second quarter . . .	0.04	0.01
	Third quarter. . . .	0.02	0.01
	Fourth quarter . . .	0.02	0.01

* As adjusted for a 1-for-20 reverse split in August 2002

The number of holders of record of our common stock, \$.005 par value, including banks, brokers, and nominees, reported by our transfer agent, American Stock Transfer, was approximately 458 at June 30, 2003.

DIVIDENDS

We have never declared nor paid any cash dividends on our common stock. We currently intend to retain earnings, if any, after any payment of dividends on our 5% Convertible Preferred Stock, for use in our business and therefore, do not anticipate paying any cash dividends on our common stock.

Holder of the 5% Convertible Preferred Stock are entitled to receive, when and as declared by the Board of Directors, but only out of amounts legally available for the payment thereof, cumulative cash dividends at the annual rate of \$50.00 per share, payable semi-annually, commencing on October 15, 1986. ITEC has never declared nor paid any cash dividends on the 5% Convertible Preferred Stock. Dividends in arrears at June 30, 2003 were \$381 thousand.

We do not anticipate paying dividends on the 5% Convertible Preferred Stock in the near future. However, the 5% Convertible Preferred Stock is convertible, at any time, into shares of ITEC common stock, at a price of \$17.50 per common share. This conversion price is subject to certain anti-dilution adjustments, in the event of certain future stock splits or dividends, mergers, consolidations or other similar events. In addition, we shall reserve, and keep reserved, out of our authorized but un-issued shares of common stock, sufficient shares to effect the conversion of all shares of the 5% convertible preferred stock.

On August 9, 2002, pursuant to shareholder authorization, we implemented a 1-for-20 reverse split of our common stock. All share and per share data in this Form 10-K have been retroactively restated to reflect this reverse stock split.

ITEM 6. SELECTED FINANCIAL DATA

The consolidated statement of operations data with respect to the five years ended June 30, 2003, and the consolidated balance sheet data at June 30 set forth below are derived from our consolidated financial statements included in Item 8 below. The consolidated financial statements for the years ended June 30, 1999, 2000, and 2001 were audited by Boros & Farrington APC, independent accountants; the consolidated financial statements for the year ended June 30, 2002 were audited by Stonefield Josephson, Inc. The financial statements for the year ended June 30, 2003 were audited by our current independent accountants, Pohl, McNabola, Berg & Company, LLP ("PMB"). The selected consolidated financial data set forth (in thousands, except per share data) should be read in

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Item 7 below, and the our consolidated financial statements and the notes thereto contained in Item 8 below. Historical results are not necessarily indicative of future results of operations.

Statement of Operations Data:

In thousands (except per share data)

	2003	2002	2001	2000
	-----	-----	-----	-----
NET REVENUES				
Sales of products	\$ 924	\$ 3,574	\$ 2,897	\$ 1,634
Software sales, licenses, and royalties	367	580	555	788
PEO services	2,899	3,254	-	-
	-----	-----	-----	-----
Net total revenues	4,190	7,408	3,452	2,422
COSTS AND EXPENSES				
Cost of products sold	396	2,868	2,742	5,197
Cost of software sales, licenses and royalties	90	99	-	-
Cost of PEO services	1,813	2,389	-	-
Selling, general, and administrative	7,586	12,442	8,720	7,780
Research and development	-	-	250	1,929
Special charges	-	-	-	-
	-----	-----	-----	-----
LOSS FROM OPERATIONS	(5,695)	(10,390)	(8,260)	(12,484)
NET LOSS	\$ (6,855)	\$ (13,688)	\$ (9,888)	\$ (14,198)
LOSS PER COMMON SHARE				
Basic and diluted	\$ (0.07)	\$ (1.12)	\$ (1.51)	\$ (4.05)

Balance Sheet Data:

In thousands

	2003	2002	2001	2000
	-----	-----	-----	-----
Cash and cash equivalents	\$ 1,223	\$ 43	\$ 35	\$ 291
Working Capital	(28,446)	(20,751)	(16,920)	(14,532)
Total assets	7,595	1,180	1,212	1,683
Long-term obligations	1,364	-	-	-
Preferred stock	420	420	420	420
Total shareholders' deficit	(24,901)	(20,427)	(16,110)	(13,854)

ITEM 7. 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 Annual Report on Form 10-K. The statements contained in this Report on Form 10-K 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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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, 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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

products are supported and distributed by QPI. Additionally, we market our ColorBlind software products on the Internet through our color.com website.

As of the end of fiscal 2003, 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 the Company's business as these changes relate to increased sales of financial services, potential acquisitions of new businesses, changes in product lines, and the potential for discontinuing certain components of the business.

Our current strategy is: (1) to expand its financial services business; (2) to commercialize its own technology, which is embodied in its ColorBlind Color Management software, (3) to market Photomotion images through sales and licensing to distributors in international markets; and (4) to operate and improve our e-commerce initiatives in order to sell our products and services.

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 our 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.

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 "Item 1. Business - Risks and Uncertainties - Future Capital Needs."

RESTRUCTURING AND NEW BUSINESS UNITS

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.

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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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 ITEC 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 ITEC 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 GRLC. 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.

SPECIAL CHARGES AND GAINS

During the year ended June 30, 2003, we had a gain on extinguishment of debt of approximately \$2.4 million. This gain resulted primarily from the write off of stale accounts payable as discussed below, as well as a gain on a settlement of a long-term note payable of \$702,000, which was settled for \$274,000 in cash resulting in a gain of \$428,000, which is included in the \$2.4 million. With respect to the write-off of accounts payable, we reviewed our accounts payable and determined that \$2.0 million was associated with unsecured

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

creditors. ITEC, based upon an opinion provided by independent legal counsel, has been released as the obligator of these liabilities. Accordingly, management has elected to adjust its accounts payable and to classify such adjustments as extinguishment of debt.

RESULTS OF OPERATIONS

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We believe the following accounting policies are critical and/or require significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue and direct cost recognition - We account for our revenues in accordance with EITF 99-19. Our PEO segment revenues are derived from our gross billings, which are based on (i) the payroll cost of our worksite employees; and (ii) a markup computed as a percentage of the payroll cost. The gross billings are invoiced concurrently with each periodic payroll of our worksite employees. Revenues are recognized ratably over the payroll period as worksite employees perform their service at the client worksite. Revenues that have been recognized but not invoiced are included in unbilled accounts receivable on our Consolidated Balance Sheets.

Previously, we included both components of our gross PEO billings in revenues (gross method) and related costs due primarily to the assumption of significant contractual rights and obligations associated with being an employer, including the obligation for the payment of the payroll costs of our worksite employees. We assume our employer obligations regardless of whether we collect our gross billings. After discussions with the Securities and Exchange Commission staff, we have changed our presentation of revenues and related costs from the gross method to an approach that presents our revenues net of worksite employee payroll costs (net method) primarily because we are not generally responsible for the output and quality of work performed by the worksite employees.

In determining the pricing of the markup component of the gross billings, we take into consideration estimates of the costs directly associated with our worksite employees, including payroll taxes, benefits and workers' compensation costs, plus an acceptable gross profit margin. As a result, our operating results are significantly impacted by our ability to accurately estimate, control and manage our direct costs relative to the revenues derived from the markup component of our gross billings.

Consistent with our revenue recognition policy, our direct costs do not include the payroll cost of our worksite employees. Our direct costs associated with our PEO revenue generating activities are comprised of all other costs related to our worksite employees, such as the employer portion of payroll-related taxes, employee benefit plan premiums and workers' compensation insurance premiums.

NET REVENUES

Revenues were \$4.2 million, \$7.4 million, and \$3.5 million, for the fiscal years ended June 30, 2003, 2002, and 2001, respectively. The decrease in total revenues in fiscal 2003 as compared with fiscal 2002 was due to a 69% decrease in product sales. During fiscal 2003, we concentrated primarily in building our financial services business segment. The increase in revenues in fiscal 2002 compared with fiscal 2001 was due primarily to revenues associated with acquired PEO operations.

Financial Services

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

We recognize our revenues associated with our PEO business pursuant to EITF 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent." Our revenues are reported net of worksite employee payroll cost (net method). Our revenues from this business segment are affected by three primary sources - new client sales, client retention, and changes in existing clients through worksite employee new hires and layoffs.

PEO revenues were \$2.9 million for the year ended June 30, 2003. PEO revenues were \$3.3 million for the year ended June 30, 2002. The decrease of \$355 thousand (11%) was due to changes in the customer structure of SOG. Throughout fiscal 2003, we lost several customers due to changes in rates for services, particularly workers' compensation insurance. Additionally, we elected to terminate certain customers due to profitability concerns. We entered this business segment through acquisitions in November 2001. Consequently, there were no reported PEO revenues in the prior year. (Also see "Risk Factors" and the "Notes to the Consolidated Financial Statements" related to our PEO business.)

Imaging Products

Sales of imaging products, consisting primarily of QPI photographic and digital reproduction services, ColorBlind software sales, and Photomotion Images, were \$1.3 million, \$4.2, and \$3.5 million for the fiscal years ended June 30, 2003, 2002, and 2001, respectively. There were no sales related to QPI operations prior to its acquisition on January 14, 2003. The decrease of \$2.1 million (69%) in product sales was due, primarily, to our suspension of sales of office-related products from other manufacturers and our concentration on providing financial services instead of the sale of imaging products. Prior to the year ended June 30, 2003, we were involved in the sale of a variety of imaging hardware and software products, many from other manufacturers. These products included printers, copiers, scanners, and other digital imaging products, which we no longer sell. Our current product lines are based upon our own technologies. Our persistent lack of sufficient working capital has had, and may continue to have, a negative adverse effect on imaging products sales.

The increase in product sales from fiscal 2002 as compared to fiscal 2001 was due to increased sales of imaging products such as copiers and printers.

We had \$50,000 of revenues from license fees and royalties in the year ended June 30, 2003. License fees and royalties, were \$580 thousand and \$555 thousand for the fiscal years ended June 30, 2002 and 2001, respectively. Since we suspended our controller technology development efforts, license fees and royalties have been associated with our ColorBlind software technology.

COST OF PRODUCTS SOLD

Financial Services

Our primary costs related to financial (PEO) services include payroll taxes, benefits, and workers' compensation insurance. The costs of PEO services were \$1.8 million (63% of PEO revenues), for the year ended June 30, 2003; and \$2.4 million (73% of PEO revenues) for the year ended June 30, 2002. The 10% increase in profit margin is primarily due to the securing of worker's compensation policy coverages, which generated a greater profit margin than expected in our SOG subsidiary. We began providing PEO services pursuant to acquisitions in the prior fiscal year. Accordingly, there are no comparative results for the prior year periods. (Also see "Risk Factors" related to our PEO business.)

Imaging Products

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Cost of products sold were \$486 thousand (38% of product sales), \$2.9 million (71% of product sales), and \$2.7 million (95% of product sales), for the fiscal years ended June 30, 2003, 2002, and 2001, respectively. The increase in profitability over the three-year period was due primarily to changes in the mix of products we sell, which had the effect of increasing overall profit margins. We have been able to maintain reasonable profit margins on sales of products. Software products, in particular, provide significantly higher profit margins than hardware products such as printers, plotters, and copiers.

There were no costs associated with licensing and royalties in the year ended June 30, 2003. Costs were \$99,000 (17% of licensing and royalty revenues) in the year ended June 30, 2002. There were no costs in the prior fiscal year.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were \$7.6 million (181% of total revenues), \$12.4 million (49% of total revenues), and \$8.7 million (253% of total revenues), for the fiscal years ended June 30, 2003, 2002, and 2001, respectively. Selling, general and administrative expenses consisted primarily of salaries and commissions of sales and marketing personnel, salaries and related costs for general corporate functions, including finance, accounting, facilities, consulting, advertising, and other marketing related expenses.

The 39% decrease in selling, general and administrative expenses in fiscal 2003 as compared to fiscal 2002 was due, primarily, reductions in employees and facilities, which was made possible by changing our main business focus to providing financial services instead of imaging products sales and distribution; and to smaller fees and expenses related to financing activities.

During the year ended June 30, 2002, we took a charge of \$1.9 million related to the write off of goodwill associated with our acquisition of EduAdvantage.com in December 2000 and SOG in November 2001. While overall selling, general and administrative expenses increased \$3.7 million (43%) during fiscal 2002 as compared with fiscal 2001, there was a decrease in these expenses as a percentage of revenues due primarily to the additional revenues associated with our PEO business.

RESEARCH AND DEVELOPMENT

There were no research and development expenses for the years ended June 30, 2003 and 2002. There were research and development expenses of \$250 thousand for the year ended June 30, 2001. In fiscal 2001 the Company substantially reduced its research and development activities and, in July 2001, suspended its printer controller development and manufacturing operations. Current research and development activities are associated with our ColorBlind software product line.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have financed our operations primarily through cash generated from operations, debt financing, and from the sale of equity securities.

In December 2000, the Company entered into a Convertible Note Purchase Agreement for \$850,000, bearing an annual interest rate of 8%, due December 2003. The Note is convertible into the Company's common stock. As of October 15, 2003, \$675 thousand had been converted into common stock.

In July 2001, we entered into a Convertible Note Purchase Agreement for \$1,000,000, bearing an annual interest rate of 8%, due July 2004. The Note is convertible into ITEC common stock. As of October 15, 2003, there were no

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

conversions.

In September 2001, we entered into a Convertible Note Purchase Agreement for \$300,000, bearing an interest rate of 8%, due September 2004. The Note is convertible into ITEC common stock. As of October 15, 2003, there were no conversions.

In November 2001, we entered into a Convertible Note Purchase Agreement for \$200,000, bearing an interest rate of 8% due November 7, 2004. The Note is convertible into ITEC common stock. As of October 15, 2003, there were no conversions.

In January 2002, we entered into a Convertible Note Purchase Agreement for \$500,000, bearing an interest rate of 8% due January 22, 2002. The Note is convertible into ITEC common stock. As of October 15, 2003, there were no conversions.

We continue to pursue additional financings to fund our operations and growth. 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. Our inability to fund our capital requirements would have a material adverse effect on the Company. (Also see "Item 1. Business--Risks and Uncertainties--Future Capital Needs.")

As of June 30, 2003, we had negative working capital of approximately \$28.4 million, an increase of \$7.6 million from June 30, 2002. The increase is primarily due to the effect of operating losses and the difficulty in obtaining sufficient long-term debt and equity financing.

Net cash provided by operating activities was \$1.1 million compared to net cash used for operating activities of \$2.5 million in fiscal 2002 and \$3.5 million in fiscal 2001. The changes are due to gains realized for the settlement of liabilities.

Net cash used for investing activities was \$101 thousand in fiscal 2003 compared to \$197 thousand in fiscal 2002 and \$171 thousand in fiscal 2001. The decrease of \$96 thousand (49%) was due primarily to the absence of cash acquired in our 2002 acquisition of SOG.

We have no material commitments for capital expenditures. Our 5% convertible preferred stock, which ranks prior to our 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 June 30, 2003, was approximately \$381 thousand.

Our capital requirements depend on numerous factors, including market acceptance of our services and products, the resources we devote to marketing and selling our services and products, and other factors. We anticipate that our capital requirements will increase in future periods as we reduce our debt and increase our sales and marketing efforts. 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.

We plan 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 debt

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

and/or equity financing.

Subsequent to June 30, 2003, we issued an additional 109,963,339 shares of our common stock. Of this amount, 2,750,000 shares were issued due to exercise of warrants, 6,480,000 shares were used to pay consultants, and 100,733,339 shares were used to repay indebtedness; including convertible notes payable.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

RESPONSIBILITIES FOR CONSOLIDATED FINANCIAL STATEMENTS

The following consolidated financial statements of Imaging Technologies Corporation and subsidiaries were prepared by management, which is responsible for their integrity and objectivity. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on judgments of management.

Management is further responsible for maintaining internal controls designed to provide reasonable assurance that the books and records reflect the transactions of the companies and that established policies and procedures are carefully followed. From a shareholder's point of view, perhaps the most important feature in internal control is that it is continually reviewed for effectiveness and is augmented by written policies and guidelines, the careful selection and training of qualified personnel, and a strong program of internal audit.

Pohl, McNabola, Berg and Company ("PMB"), an independent auditing firm, is engaged to audit the consolidated financial statements of Imaging Technologies Corporation and subsidiaries and issue reports thereon. The audit is conducted in accordance with auditing standards generally accepted in the United States of America that comprehend the consideration of internal control and tests of transactions to the extent necessary to form an independent opinion on the financial statements prepared by management.

The Board of Directors, through the Audit Committee (composed entirely of independent Directors), is responsible for assuring that management fulfills its responsibilities in the preparation of the consolidated financial statements. The Audit Committee annually recommends to the Board of Directors the selection of the independent auditors and submits the selection for ratification by shareholders at the Company's annual meeting. In addition, the Audit Committee reviews the scope of the audits and the accounting principles being applied in financial reporting. The independent auditors, representatives of management, and the internal auditors meet regularly (separately and jointly) with the Audit Committee to review the activities of each, to ensure that each is properly discharging its responsibilities, and to assess the effectiveness of internal control. It is management's conclusion that internal control at June 30, 2003 provides reasonable assurance that the books and records reflect the transactions of the companies and that established policies and procedures are complied with. To reinforce complete independence, PMB has full and free access to meet with the Audit Committee, without management representatives present, to discuss the results of the audit, the adequacy of internal control, and the quality of financial reporting.

By: /s/ BRIAN BONAR

Brian Bonar
Chairman of the Board, President, and Chief Executive Officer

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

ITEM 8.

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

IMAGING TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2003, 2002, AND 2001

CONTENTS

Independent Auditors' Report -June 30, 2003.	25
Independent Auditors' Report -June 30, 2002.	26
Independent Auditors' Report -June 30, 2001.	27
Consolidated Balance Sheets.	28
Consolidated Statements of Operations.	29
Consolidated Statement of Shareholders' Deficiency	30
Consolidated Statements of Cash Flows.	31
Notes to Consolidated Financial Statements	33

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Imaging Technologies Corporation

We have audited the accompanying consolidated balance sheet of Imaging Technologies Corporation and Subsidiaries as of June 30, 2003 and the related consolidated statements of operations, shareholders' deficiency and cash flows for the year then ended. These financials statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Imaging Technologies Corporation and Subsidiaries as of June 30, 2003 and the consolidated results of their operations and their consolidated cash flows for the year then ended in conformity with auditing standards generally accepted in the United States.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

the accompanying consolidated financial statements, for the year ended June 30, 2003 the Company experienced a net loss of \$6,855,000 and as of June 30, 2003, the Company had a negative working capital deficiency of \$28,446,000 and had a negative shareholders' deficiency of \$24,901,000. 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 its ability to continue as a going concern. Management's plan in regard to these matters is also discussed in Note 1. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ POHL, McNABOLA, BERG & COMPANY, LLP
POHL, McNABOLA, BERG & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

San Francisco, California
October 17, 2003

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Imaging Technologies Corporation

We have audited the accompanying consolidated balance sheet of Imaging Technologies Corporation and Subsidiaries as of June 30, 2002 and the related consolidated statements of operations, shareholders' deficiency and cash flows for the year then ended. These financials statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Imaging Technologies Corporation and Subsidiaries as of June 30, 2002 and the consolidated results of their operations and their consolidated cash flows for the year then ended in conformity with auditing standards generally accepted in the United States.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the accompanying consolidated financial statements, for the year ended June 30, 2002, the Company experienced a net loss of \$13,688,000 and as of June 30, 2002, the Company had a negative working capital deficiency of \$20,751,000 and had a negative shareholders' deficiency of \$20,427,000. In addition, the Company is in default on certain note payable obligations and is being sued by numerous trade creditors for nonpayment of amounts due. The Company is also deficient in its filings and its payments relating to payroll tax liabilities. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also discussed in Note 1. These consolidated financial statements do not include any adjustments that

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

might result from the outcome of this uncertainty.

/s/ STONEFIELD JOSEPHSON, INC.
STONEFIELD JOSEPHSON, INC.
CERTIFIED PUBLIC ACCOUNTANTS

Irvine, California
November 7, 2002

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
of Imaging Technologies Corporation

We have audited the consolidated balance sheets of Imaging Technologies Corporation and its subsidiaries as of June 30, 2001 and the related consolidated statements of operations, shareholders' deficiency, and cash flows for each of the two years in the period ended June 30, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Imaging Technologies Corporation and its subsidiaries as of June 30, 2001, and the results of their operations and their cash flows for each of the two years in the period ended June 30, 2001 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements the Company has various factors that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ BOROS & FARRINGTON APC

BOROS & FARRINGTON APC
San Diego, California
October 10, 2001

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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

JUNE 30

ASSETS	-----	

Current assets		
Cash and cash equivalents		\$
Accounts receivable, net of allowance of \$725 and \$280		
Inventory, net of obsolescence reserve of \$293 and \$275		
Prepaid expenses and other current assets		

Total current assets		
Goodwill		
Patents, net of accumulated amortization of \$60		
PEO contracts, net of accumulated amortization of \$49		
Property and equipment, net of accumulated depreciation of \$2,607 and \$849		
Worker's compensation deposit and other assets		

Total assets		\$
	=====	
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities:		
Cash overdraft		\$
Borrowings under bank notes payable		
Notes payable, current portion (including related party note of \$1,500)		
Convertible debentures, net of discounts of \$473 and \$1,302		
Accounts payable		
Obligation under capital lease		
PEO payroll taxes and other payroll deductions		
PEO accrued worksite employee		
Advances from related party		
Other accrued expenses		

Total current liabilities		

Long-term liabilities:		
Long-term capital lease		
Long term convertible debentures, less discounts of \$245		
Long-term notes payable (including related party note of \$250)		

Total long-term liabilities		

Total liabilities		

Preferred stock - minority interest in subsidiary		
Commitments and contingencies (Note 12)		
Shareholders' deficiency		
Series A convertible, redeemable preferred stock, \$1,000 par value, 7,500 shares authorized, 420.5 shares issued and outstanding		

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Common stock, \$0.005 par value, 500,000,000 shares
 authorized; 181,232,063 and 21,929,365 shares
 issued and outstanding, respectively.
 Common stock warrants and options
 Paid-in capital
 Accumulated deficit

Total shareholders' deficiency

Total liabilities and shareholders' deficiency. \$

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

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF OPERATIONS
 (in thousands, except share data)

(In thousands, except per share amounts)

	FOR THE
Revenues	
Sales of products	\$
Software sales, licenses and royalties.	
PEO services (gross billings of \$10,946, \$21,100, and zero, respectively; less worksite employee payroll costs of \$8,029, \$17,526, and zero, respectively).	
Total revenue	
Costs of revenues	
Cost of products sold	
Cost of software sales, licenses and royalties.	
Cost of PEO services.	
Total cost of revenues.	
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	

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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.

(In thousands, except per share amounts)

Revenues	
Sales of products	\$
Software sales, licenses and royalties.	
PEO services (gross billings of \$10,946, \$21,100, and zero, respectively; less worksite employee payroll costs of \$8,029, \$17,526, and zero, respectively).	-----
Total revenue	-----
Costs of revenues	
Cost of products sold	
Cost of software sales, licenses and royalties.	
Cost of PEO services.	-----
Total cost of revenues.	-----
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	-----

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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 STATEMENT OF SHAREHOLDERS' DEFICIENCY
YEARS ENDED JUNE 30, 2003, 2002, AND 2001
(in thousands, except share data)

	SERIES A PREFERRED STOCK	SERIES D&E PREFERRED STOCK	COMMON STOCK WARRANTS
BALANCE, 6/30/2000	420	-	-
Issuance of common			
Cash (2,185,910)	-	-	-
Acquisition (187,500)	-	-	-
Software (60,000)	-	-	-
Services (219,333)	-	-	-
Conversion of liabilities (913,757)	-	-	-
Issuance of warrants	-	-	508
Exercise of warrants	-	-	(33)
Beneficial conversion on notes	-	-	-
Net loss	-	-	-
BALANCE, 6/30/2001	420	-	475
Issuance of common			
Cash - exercise of options and warrants	(6,754,739)	-	-
Business acquisition (500,000)	-	-	-
Asset purchase (250,000)	-	-	-
Services (3,179,978)	-	-	-
Conversion of liabilities (2,375,706)	-	-	-
Exercise of warrants for services (323,889)	-	-	-
Re-priced warrants & Options	-	-	-
Beneficial conversion on notes	-	-	-

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Value of warrants issued with notes.	-	-	-
Value of warrants issued for services.	-	-	-
Value of options granted below fair value.	-	-	-
Write-off of shareholder loan.	-	-	-
Net loss	-	-	-
	-----	-----	-----
BALANCE, 6/30/2002	420	-	475
Issuance of common			
Cash - exercise of options and warrants (750,000)	-	-	-
Business acquisition (12,500,000).	-	-	-
Compensation (4,190,000).	-	-	-
Services (92,733,499)	-	-	-
Conversion of liabilities (46,549,199).	-	-	-
Exercise of warrants for services (2,580,000)	-	-	-
Beneficial conversion on notes	-	-	-
Value of warrants issued for services.	-	-	-
Sale of common stock of Greenland Corporation.	-	-	-
Common stock and options of Greenland Corporation issued for services.	-	-	-
Conversion of debt for common stock of Greenland Corporation	-	-	-
Net loss	-	-	-
	-----	-----	-----
BALANCE, 6/30/2003	\$ 420	\$ -	\$ 475
	=====	=====	=====

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY
YEARS ENDED JUNE 30, 2003, 2002, AND 2001
(in thousands, except share data)
CONTINUED

	PAID IN CAPITAL	ACCUM. LOANS	DEFICIT	TOTAL
	-----	-----	-----	-----
BALANCE, 6/30/2000	63,156	(105)	(77,348)	(13)
Issuance of common				
Cash (2,185,910).	5,200	-	-	5
Acquisition (187,500)	272	-	-	
Software (60,000)	225	-	-	
Services (219,333).	372	-	-	
Conversion of liabilities (913,757)	670	-	-	
Issuance of warrants	-	-	-	
Exercise of warrants	33	-	-	
Beneficial conversion on notes	364	-	-	
Net loss	-	-	(9,888)	(9)
	-----	-----	-----	-----
BALANCE, 6/30/2001	70,292	(105)	(87,236)	(16)
Issuance of common				
Cash - exercise of options and warrants	(6,754,739)	1,635	-	

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Business acquisition (500,000)	299	-	-	
Asset purchase (250,000)	172	-	-	
Services (3,179,978)	1,359	-	-	1
Conversion of liabilities (2,375,706)	1,281	-	-	1
Exercise of warrants for services (323,889)	105	-	-	
Re-priced warrants & Options	215	-	-	
Beneficial conversion on notes	791	-	-	
Value of warrants issued with notes	1,209	-	-	1
Value of warrants issued for services	1,584	-	-	1
Value of options granted below fair value	550	-	-	
Write-off of shareholder loan	-	105	-	
Net loss	-	-	(13,688)	(13)
	-----	-----	-----	-----
BALANCE, 6/30/2002	79,492	-	(100,924)	(20)
Issuance of common				
Cash - exercise of options and warrants (750,000)	29	-	-	
Business acquisition (12,500,000)	63	-	-	
Compensation (4,190,000)	21	-	-	
Services (92,733,499)	783	-	-	1
Conversion of liabilities (46,549,199)	46	-	-	
Exercise of warrants for services (2,580,000)	121	-	-	
Beneficial conversion on notes	273	-	-	
Value of warrants issued for services	70	-	-	
Sale of common stock of Greenland Corporation	25	-	-	
Common stock and options of Greenland Corporation issued for services	127	-	-	
Conversion of debt for common stock of Greenland Corporation	27	-	-	
Net loss	-	-	(6,855)	(6)
	-----	-----	-----	-----
BALANCE, 6/30/2003	\$ 81,077	\$ -	\$ (107,779)	\$ (24)
	=====	=====	=====	=====

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except share data)

Cash flows used for operating activities

FOR THE

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Net loss	\$
Adjustments to reconcile net loss to net cash used for operating activities	
Impairment expense	
Depreciation and amortization	
Inventory reserve	
Change in allowance for doubtful accounts	
Bad debt expense - shareholder loan	
Stock issued for services	
Value of services for exercise price of warrants	
Value attributed to warrants issued for services	
Value of options granted below fair value	
Value of re-priced options and warrants	
Amortization from beneficial conversion feature	
Amortization of warrants issued with notes	
Gain on settlement of liabilities	
Changes in operating assets and liabilities	
Accounts receivable	
Inventory	
Prepaid expenses and other current assets	
Worker's compensation deposit and other	
PEO liabilities	
Accounts payable and accrued expenses	
Net cash provided by (used for) operating activities	
Cash flows provided by (used for) investing activities	
Cash (paid for) acquired in acquisition	
Capital expenditures	
Net cash provided by (used for) investing activities	
Cash flows provided by financing activities	

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Cash overdraft, net	
Payments under bank notes payable	
Issuance of short term notes payable.	
Net proceeds from issuance of common stock.	
Proceeds from convertible debentures.	
Payment on capital lease obligations.	
Repayment of short term notes payable	
Net cash provided by (used in) financing activities.	
Net increase (decrease) in cash and cash equivalents.	
Cash and cash equivalents, beginning of year	
Cash and cash equivalents, end of year	\$

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

Cash flows used for operating activities	
Net loss.	\$ (1)
Adjustments to reconcile net loss to net cash used for operating activities	
Impairment expense	
Depreciation and amortization.	
Inventory reserve.	
Change in allowance for doubtful accounts.	
Bad debt expense - shareholder loan.	
Stock issued for services.	
Value of services for exercise price of warrants	

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Value attributed to warrants issued for services	
Value of options granted below fair value.	
Value of re-priced options and warrants.	
Amortization from beneficial conversion feature.	
Amortization of warrants issued with notes	
Gain on settlement of liabilities.	
Changes in operating assets and liabilities	
Accounts receivable	
Inventory	
Prepaid expenses and other current assets	
Worker's compensation deposit and other	
PEO liabilities	
Accounts payable and accrued expenses	
Net cash provided by (used for) operating activities.	(
Cash flows provided by (used for) investing activities	
Cash (paid for) acquired in acquisition	
Capital expenditures.	
Net cash provided by (used for) investing activities.	
Cash flows provided by financing activities	
Cash overdraft, net	
Payments under bank notes payable	(
Issuance of short term notes payable.	
Net proceeds from issuance of common stock.	
Proceeds from convertible debentures.	
Payment on capital lease obligations.	
Repayment of short term notes payable	
Net cash provided by (used in) financing activities.	
Net increase (decrease) in cash and cash equivalents.	

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Cash and cash equivalents, beginning of year	
Cash and cash equivalents, end of year	\$

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

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (CONTINUED)
 (in thousands, except share data)

NON-CASH FINANCING ACTIVITIES:

	FOR THE
Conversion of convertible debentures into common stock.	\$
Conversion of notes payable into common stock	
Conversion of accounts payable and accrued liabilities into common/preferred stock	
Stock issued for purchase of assets.	
Net assets acquired in business combinations	
Cash.	
Receivables	
Other current assets.	
Property and equipment.	
Goodwill and other intangible assets.	
Accounts payable and accrued liabilities.	
Notes payable and capital lease	
Supplemental disclosure of cash flow information	
Cash paid during the year for interest.	
Cash paid during the year for income taxes.	

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

NON-CASH FINANCING ACTIVITIES:

	2001
Conversion of convertible debentures into common stock.	\$ 675
Conversion of notes payable into common stock	-
Conversion of accounts payable and accrued liabilities into common/preferred stock	-
Stock issued for purchase of assets.	225
Net assets acquired in business combinations	

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Cash.	-
Receivables	-
Other current assets.	79
Property and equipment.	3
Goodwill and other intangible assets.	686
Accounts payable and accrued liabilities.	(495)
Notes payable and capital lease	-
Supplemental disclosure of cash flow information	
Cash paid during the year for interest.	283
Cash paid during the year for income taxes.	-

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

IMAGING TECHNOLOGIES CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2003, 2002, AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Imaging Technologies Corporation, ("ITEC" or the "Company") formerly Personal Computer Products, Inc., incorporated under the laws of the state of California during March 1982 and subsequently reincorporated under the laws of the state of Delaware during May 1983, and its following active majority owned subsidiaries (there are eight inactive subsidiaries not listed):

- a) SourceOne Group, Inc., ("SourceOne"), incorporated under the laws of the state of Delaware on November 9, 2001 (owned 100% by the Company);
- b) EnStructure, Inc. ("EnStructure"), incorporated under the laws of the state of Nevada on May 10, 2001 (owned 100% by the Company);
- c) Dealseekers.com, Inc., ("Dealseekers"), incorporated under the laws of the state of Delaware on May 7, 1999 (owned 71.4% by the Company);
- d) Quik Pix, Inc. ("QPI"), incorporated under the laws of the state of California in 1980 and, as a result of a merger, reincorporated as a Delaware corporation in March 2000 (owned 85% by the Company); and
- e) Greenland Corporation ("Greenland"), incorporated under the laws of the state of Nevada as Zebu, Inc. in July 1986, and renamed Greenland in September 1994 (approximately 88% owned by the Company).). Greenland also has two wholly-owned subsidiaries that are included in the consolidated financial statements.

All significant inter-company accounts and transactions have been eliminated.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. For the year ended June 30, 2003, the Company experienced a net loss of \$6,855,000 and as of June 30, 2003, the Company had a negative working capital deficiency of \$28,446,000 and had a negative shareholders' deficiency of \$24,901,000. In addition, the Company is in default on certain note payable obligations and is being sued by numerous

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

trade creditors for nonpayment of amounts due. The Company is also delinquent in its payments relating to payroll tax liabilities. These conditions raise substantial doubt about its ability to continue as a going concern.

On August 20, 1999, at the request of Imperial Bank, the Company's primary lender, the Superior Court of San Diego appointed an operational receiver who took control of the Company's day-to-day operations on August 23, 1999. On June 21, 2000, in connection with a settlement agreement reached with Imperial Bank (see Note 8), 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." The Company's common stock does constitute a penny stock because the Company's common stock has a market price less than \$5.00 per share, the Company's common stock is no longer quoted on NASDAQ and the Company's net tangible assets do not exceed \$2,000,000. As the Company's common stock falls within the definition of penny stock, these regulations require the delivery, prior to any transaction involving the Company's common stock, of a disclosure schedule explaining the penny stock market and the risks associated with it. Furthermore, the ability of broker/dealers to sell the Company's common stock and the ability of shareholders to sell the Company's common stock in the secondary market would be limited. As a result, the market liquidity for the Company's common stock would be severely and adversely affected. The Company's management can provide no assurance that trading in the Company's common stock will not be subject to these or other regulations in the future, which would negatively affect the market for the Company's common stock.

In order for the Company to continue in existence, it must obtain additional funds to provide adequate working capital to finance operations, and begin to generate positive cash flows from its operations. During the years ended June 30, 2003, 2002 and 2001, the Company has raised an aggregate of \$2,950,000 through the issuance of convertible debentures. 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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

fund its capital requirements would have a material adverse effect on the Company. The Company is also looking at making strategic acquisitions of companies that have positive cash flows. The Company has also reduced its personnel and moved its corporate office in an effort to reduce operating costs. The financial statements do not include any adjustments that might result from the outcome of this going concern uncertainty.

Nature of Business

The Company business operations are as follows:

- a) The Company is a financial services provider and a professional employer organization (PEO) that provides comprehensive personnel management services including benefits and payroll administration, medical and workers' compensation insurance programs, personnel records management, and employer liability management;
- b) The Company also develops and mounts photographic and digital images for use in display advertising for tradeshow, building interiors, and other point-of-sale locations; and
- c) The Company designs, develops and sells digital imaging solutions and color management software products for use in graphics, publishing, digital photography, and other business and technical markets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Significant estimates made by the Company's management include but are not limited to recoverability of property and equipment and proprietary products through future operating profits. Actual results could materially differ from those estimates.

Revenue Recognition

PEO Service Fees and Worksite Employee Payroll Costs

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." The Company's revenues are reported net of worksite employee payroll cost (net method). Pursuant to discussions with the Securities and Exchange Commission staff, the Company changed its presentation of revenues from the gross method to an approach that presents its revenues net of worksite employee payroll costs (net method) primarily because the Company is not generally responsible for the output and quality of work performed by the worksite employees.

In determining the pricing of the markup component of the gross billings, the Company takes into consideration its estimates of the costs directly associated with its worksite employees, including payroll taxes, benefits and workers' compensation costs, plus an acceptable gross profit margin. As a result, the Company's operating results are significantly impacted by the Company's ability to accurately estimate, control and manage its direct costs relative to the revenues derived from the markup component of the Company's gross billings.

Consistent with its revenue recognition policy, the Company's direct costs do

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

not include the payroll cost of its worksite employees. The Company's direct costs associated with its revenue generating activities are comprised of all other costs related to its worksite employees, such as the employer portion of payroll-related taxes, employee benefit plan premiums and workers' compensation insurance premiums.

Sales of Products

Revenue is recognized when earned. The Company's revenue recognition policies are in compliance with all applicable accounting regulations, including American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, Software Revenue Recognition, and SOP 98-9, Modification of SOP 97-2, With Respect to Certain Transactions. Revenue from products licensed to original equipment manufacturers is recorded when OEMs ship licensed products while revenue from certain license programs is recorded when the software has been delivered and the customer is invoiced. Revenue from packaged product sales to and through distributors and resellers is recorded when related products are shipped. Maintenance and subscription revenue is recognized ratably over the contract period. When the revenue recognition criteria required for distributor and reseller arrangements are not met, revenue is recognized as payments are received. Provisions are recorded for returns and bad debts. The Company's software arrangements do not contain multiple elements, and the Company does not offer post contract support.

Contingent Liabilities

The Company accrues and discloses contingent liabilities in its consolidated financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 5, Accounting for Contingencies. SFAS No. 5 requires accrual of contingent liabilities that are considered probable to occur and that can be reasonably estimated. For contingent liabilities that are considered reasonably possible to occur, financial statement disclosure is required, including the range of possible loss if it can be reasonably determined. The Company has disclosed in its audited financial statements several issues that it believes are reasonably possible to occur, although it cannot determine the range of possible loss in all cases. As these issues develop, the Company will continue to evaluate the probability of future loss and the potential range of such losses. If such evaluation were to determine that a loss was probable and the loss could be reasonably estimated, the Company would be required to accrue its estimated loss, which would reduce net income in the period that such determination was made.

Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year's presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Concentration of Credit Risk

The Company places its cash in what it believes to be credit-worthy financial institutions. However, cash balances may exceed FDIC and SPIC insured levels at various times during the year.

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Financial instruments that could potentially subject the Company to concentration of credit risk include accounts receivable. The Company generally requires clients to pay invoices for service fees no later than one day prior to the applicable payroll date. As such, the Company generally does not require collateral.

Allowance Method Used to Record Bad Debts

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of \$725,000 and \$280,000 at June 30, 2003, and June 30, 2002, respectively.

Inventory

Inventory are valued at the lower of cost or market; cost being determined by the first-in, first-out method.

Long-Lived Assets

Property and Equipment

Property and equipment are recorded at cost. Depreciation, including amortization of assets recorded under capitalized leases, is generally computed on a straight-line basis over the estimated useful lives of assets ranging from three to seven years. Amortization of leasehold improvements is provided over the initial term of the lease, on a straight-line basis. Maintenance, repairs, and minor renewals and betterments are charged to expense.

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment, there was an impairment charge recorded of \$64,000 at June 30, 2003.

Goodwill and Intangible Assets

Long-lived assets are reviewed whenever indicators of impairment are present and the undiscounted cash flows are not sufficient to recover the related asset carrying amount. At June 30, 2003, intangible assets included the excess of the investment in Greenland Corporation over the fair market of the net assets acquired of approximately \$2,822,000. The intangible assets were reviewed during 2003, in light of the Company's acquisition of Greenland Corp. and the resultant decline in the market value of Greenland's stock. This review indicated that the goodwill recorded as a result of the Greenland acquisition was impaired. Consequently, the carrying value of the Greenland goodwill totaling \$296,000 was written off as a component of operating expenses during 2003.

At June 30, 2002, the Company wrote off \$1,750,000 of related to intangible assets as the Company determined that such intangible assets have been impaired.

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

The write off consisted of \$569,000 of goodwill that was recorded as a result of the Company's acquisition of Eduadvantage.com in December 2000 and \$1,181,000 of the customer list recorded as a result of the Company's acquisition of SourceOne Group in November 2001. The underlying businesses of both Eduadvantage.com and SourceOne Group lost a significant amount of the revenue base that was originally purchased by the Company and therefore, a write down of the intangible assets purchased in these acquisition is necessary since the performance on an undiscounted cash flow basis of the assets purchased is not sufficient to recover the intangible assets.

Patent Costs

Patent costs include direct costs of obtaining the patent. Costs for new patents are capitalized and amortized over the estimated useful life of the patent, generally over the life of the patent on a straight-line method. The cost of patents in process is not amortized until issuance. In the event of a patent being superseded, the unamortized costs are written off immediately. Accumulated amortization relating to the patent was approximately \$60,000 at June 30, 2003, and none for 2002 and 2001

Other Intangible Assets - Purchased PEO Contracts

Other intangible assets consist of purchased PEO contracts. Other intangible assets are recorded at cost and amortized on a straight-line basis over their estimated useful life, generally over the shorter of the definitive terms of the related agreements or five years. Accumulated amortization was \$49,000 at June 30, 2003, and none for 2002 and 2001.

Advertising Costs

The Company expenses advertising and promotion costs as incurred. During fiscal 2003, 2002 and 2001, the Company incurred advertising and promotion costs of approximately \$22,000, \$66,000 and \$224,000, respectively.

Research and Development

Research and development costs are charged to expense as incurred.

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 year ended June 30, 2003: warrants - 6,002,356 and stock options - 34,158,100.

Offering Costs

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Offering costs including distribution fees, due diligence fees, wholesaling costs, legal and accounting fees, and printing are capitalized before the sale of the related stock and then charged against gross proceeds when the stock is sold.

Debt Issuance Costs

Debt issuance costs are principally the values attributed to the detachable warrants issued in connection with the convertible debentures and the value of the preferential conversion feature associated with the convertible debentures. These debt issuance costs are accounted for in accordance with Emerging Issues Task Force ("EITF") 00-27 issued by the Financial Accounting Standards Board ("FASB").

Income Taxes

The Company utilizes SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company recognizes the amount of taxes payable or refundable for the current year and recognizes deferred tax liabilities and assets for the expected future tax consequences of events and transactions that have been recognized in the Company's financial statements or tax returns. The Company currently has substantial net operating loss carryforwards. The Company has recorded a 100% valuation allowance against net deferred tax assets due to uncertainty of their ultimate realization.

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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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 years ended June 30:

(In thousands, except share amounts)	2003	2002	2001
Net income (loss)			
As reported.	\$ (6,876)	\$ (13,709)	\$ (9,909)
Compensation recognized under APB No. 25. .	-	-	-
Compensation recognized under SFAS No. 123.	(425)	(942)	-
Pro forma	\$ (7,301)	\$ (14,651)	\$ (9,909)
Basic earnings (loss) per share			
As reported.	\$ (0.07)	\$ (1.12)	\$ (1.51)
Pro forma.	\$ (0.08)	\$ (1.20)	\$ (1.51)

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 2003 and 2002 is estimated on the date of grant using the Black-Scholes option-pricing model. No options were granted in fiscal 2001. The weighted average fair values and weighted average assumptions used in calculating the fair values were as follows for the years ended June 30:

	2003	2002	2001
Fair value of options granted.	\$0.015	\$0.56	N/A
Risk-free interest rate. . . .	3.5%	3.5%	N/A
Expected life (years).	3	1	N/A
Expected volatility.	431%	179%	N/A

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

-----	-----	-----	-----
Expected dividends	-	-	N.A
-----	-----	=====	=====

Fair Value of Financial Instruments

For certain of the Company's financial instruments, including accounts receivable, bank overdraft, accounts payable, and accrued expenses, the carrying amounts approximate fair value, due to their relatively short maturities. The amounts owed for long-term debt also approximate fair value because current interest rates and terms offered to the Company are at current market rates.

Comprehensive Loss

The Company adopted SFAS No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting other comprehensive income and its components in a financial statement. Comprehensive income, as defined, includes all changes in equity (net assets) during a period from non-owner sources. Examples of items to be included in comprehensive income, which are excluded from net income, include foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. Comprehensive income is not presented in the Company's financial statements since the Company did not have any of the items of other comprehensive income in any period presented.

Minority Interest in Consolidated Subsidiary

"Minority interest in consolidated subsidiary" represents the minority stockholders' proportionate share of the equity of QPI. At June 30, 2003 the Company owned 88% of Greenland's capital stock, and has voting control. The Company's 88% controlling interest requires that Greenland's operations be included in the consolidated financial statements. The outstanding preferred stock of Greenland that is not owned by the Company is shown as "Preferred Stock - minority interest in subsidiary" in the 2003 and 2002 Consolidated Balance Sheet.

Segment Disclosure

SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," was issued, which changes the way public companies report information about segments. SFAS No. 131, which is based on the selected segment information, requires quarterly and entity-wide disclosures about products and services, major customers, and the material countries in which the entity holds assets and reports revenues.

Recent Accounting Pronouncements

In 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 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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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.

In 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.

2. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of:

(In thousands)	JUNE 30,	
	2003	2002
Accounts receivable	\$ 1,232	\$ 909
Less allowance for doubtful accounts.	(725)	(280)
Accounts receivable, net	\$ 507	\$ 629

The Company reviews accounts receivable periodically during the year for collectibility. An allowance for doubtful accounts and sales returns is established for any receivables whose collection is in doubt or for estimated returns.

3. INVENTORY

The Company wrote down its inventory during the year ended June 30, 2003. Inventory consisted of the following as of:

(In thousands)	JUNE 30,	
	2003	2002
Inventory		
Materials and supplies	\$ -	\$ 261

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Finished goods	308	165
	308	426
Less: Inventory reserve.	(293)	(275)
Inventory, net.	\$ 15	\$ 151

4. RELATED PARTY TRANSACTIONS

Transactions with a Director of the Company

A director of the Company is a majority shareholder in a consulting firm that provides management and public relations services to the Company. The Company accrued consulting fees and expenses to this consulting firm in the amount of approximately \$120,000 and \$60,000 in 2003 and 2002, respectively.

Transactions with Officers and Key Executives

During 2003 and 2002, common stock with an aggregate fair market value of \$60,000 and \$444,000, respectively, was awarded to key executives as compensation and advances.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of:

(In thousands)	JUNE 30,	
	2003	2002
Property and equipment, net		
Computers and other equipment .	\$ 150	\$ 155
Office furniture and equipment.	-	57
Leasehold improvements.	-	-
	\$ 150	\$ 212

Depreciation and amortization expense for the years ended June 30, 2003, 2002, and 2001, was approximately, \$200,000, \$118,000 and \$806,000, respectively.

6. ACQUISITIONS

ExpertHR of Oklahoma

Effective April 1, 2003, the Company formed a wholly-owned subsidiary of Greenland Corporation, ExpertHR Oklahoma. Subsequent to its formation, the new

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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 entire purchase price of the purchased contracts of \$921,000 has been allocated to contracts in the accompanying consolidated balance sheet and is being amortized over the expected life of the contracts of 5 years

Greenland Corporation

On January 14, 2003, the Company completed the acquisition of shares, representing controlling interest, of Greenland Corporation ("Greenland"). Under the terms of the Greenland acquisition, ITEC acquired 19,183,390 shares of common stock of Greenland and received warrants to purchase an additional 95,319,510 shares of Greenland common stock contingent upon the contribution of certain PEO contracts to Greenland. The payment of the exercise price of the warrants was made via the contribution of the required PEO contracts. The purchase price was \$2,225,000 in the form of a promissory note payable to Greenland and is convertible into shares of ITEC common stock, the number of which will be determined by a formula applied to the market price of the shares at the time that the promissory note is converted. The promissory note of \$2,225,000 is payable to Greenland and is eliminated during the consolidation.

The Company contributed the required PEO contracts to Greenland resulting in the warrants being exercised. 115.1 million Greenland common shares were issued to ITEC and delivered pursuant to the terms of the Closing Agreement. The conditions of the exercise of warrants pursuant to the Closing Agreement were met. Accordingly, ITEC holds voting rights to 115.1 million shares of Greenland common stock, representing approximately 85% of the total outstanding Greenland common shares.

On January 14, 2003, four new directors were elected to serve on Greenland's Board of Directors as nominees of ITEC. As of the date of this report, ITEC holds four seats of seven. Greenland's Chief Executive Officer, Thomas Beener, remains in his position. Brian Bonar, ITEC's CEO serves as Chairman of Greenland's Board of Directors.

The purchase price was determined through analysis of Greenland's financial reports as filed with the Securities and Exchange Commission and the potential future performance of Greenland's ExpertHR subsidiary. The total purchase price was arrived at through negotiations.

Greenland's ExpertHR subsidiary provides professional employer services (PEO) to niche markets. 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. Greenland's common stock trades on the OTC Bulletin Board under the symbol GRLC.

Pursuant to the terms of the Agreement, the actual purchase price was \$0, based on the stated purchase price of \$2,225,000 per the agreement less promissory note payable to \$2,225,000 to Greenland, which was eliminated in the consolidation.

The operating results of Greenland beginning January 14, 2003 are included in the accompanying consolidated statements of operations.

The total purchase price was valued at approximately \$0 and is summarized and allocated as follows in accordance with SFAS No. 141 and 142:

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

(In thousands)

Other current assets.	\$	4
Property and equipment.		90
Other non-current assets.		18
Accounts payable and accrued expenses, and other current liabilities.		(3,202)
Other long-term liabilities		(28)
Goodwill.		3,118
Purchase price.	\$	-

The excess purchase price was allocated to goodwill, as there were no other identifiable intangible assets of Greenland in which to allocate part of the purchase price.

Quik Pix, Inc.

On January 14, 2003, ITEC completed its acquisition of approximately 85% of the issued and outstanding shares of common stock of Quik Pix, Inc. ("QPI"). The purchase price was 12,500,000 shares of ITEC restricted common stock valued at \$125,000. In addition, ITEC agreed to pay \$45,000 to a shareholder of QPI.

Established in 1982, QPI is a visual marketing support firm. Its principal product, PhotoMotion, is patented. PhotoMotion is a unique color medium that uses existing originals to create the illusion of movement and allows for three to five distinct images to be displayed with an existing light box. QPI visual marketing products are sold to a range of clientele including advertisers and their agencies.

The purchase price was determined through analysis of QPI's financial condition and the potential future performance of its business operations. The total purchase price was arrived at through negotiations.

Pursuant to the terms of the Agreement, the actual purchase price was \$170,000 based on the fair value of the common stock issued of \$125,000 and the payable of \$45,000 to a shareholder of QPI.

The operating results of QPI beginning January 14, 2003 are included in the accompanying consolidated statements of operations.

The total purchase price was valued at approximately \$170,000 and is summarized as follows in accordance with SFAS No. 141 and 142:

(In thousands)

Other current assets.	\$	280
-------------------------------	----	-----

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Property and equipment.	11
Other non-current assets.	18
Accounts payable and accrued expenses, and other current liabilities. . . .	(865)
Other long-term liabilities	(892)
Patent.	1,618
Purchase price.	\$ 170

The excess purchase price of \$1,618,000 was allocated to QPI's patent. QPI has a patent related to Photomotion images, which expires in July 2020. This intangible asset is being amortized over the remaining life of the patent.

Dream Canvas Technology, Inc.

The Company completed the acquisition of Dream Canvas Technology, Inc. (DCT) in October 2002 and paid the sum of \$40,000 with the issuance of 100,000 shares of its common stock. In December 2002 the Company sold DCT to Baseline Worldwide Limited for \$75,000 in cash. The Company reported this transaction on Form 8-K, filed on December 19, 2002, which is incorporated by reference.

SourceOne, Inc.

On November 12, 2001, the Company acquired all of the outstanding shares of SourceOne, Inc. ("SourceOne") from Neotactix, Inc. for 500,000 shares (valued at \$300,000) of the Company's common stock and the assumption of \$750,000 of payments due SourceOne from Neotactix. The Company paid \$250,000 in cash at closing. The balance of \$500,000 is payable in cash or stock on a quarterly payment schedule beginning in April 2002. If the Company chooses to pay this debt in stock, the stock issued must be registered with the SEC and the price per share will be the best bid price on the day the payment is made. As of June 30, 2002, the Company has not made any additional payments, as there is currently a dispute over certain liabilities that have arisen since the purchase date.

SourceOne is a professional employer organization ("PEO") that provides comprehensive personnel management services, including benefits and payroll administration, health and workers' compensation insurance programs, personnel records management, and employer liability management.

The following summarized the fair market values net assets acquired:

(In thousands)

ASSETS

Cash and cash equivalents.	\$	215
------------------------------------	----	-----

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Accounts receivable.	1,162
-----	-----
Equipment.	21
-----	-----
Other assets	206
-----	-----
Total assets.	1,604
-----	-----
LIABILITIES	
-----	-----
Accounts payable	(99)
-----	-----
Payroll liabilities.	(1,379)
-----	-----
Notes payable.	(200)
-----	-----
Other liabilities.	(213)
-----	-----
Total liabilities	(1,891)
-----	-----
Excess of liabilities over assets acquired.	287
-----	-----
Total consideration given	1,050
-----	-----
Customer list.	\$ 1,337
-----	=====

The customer list purchased in the above acquisition was being amortized over a period of five years. The value of the customer list at the date of acquisition was greater than the excess purchase price so the entire excess purchase was allocated to the customer list.

EduAdvantage

Effective December 1, 2000, the Company acquired all of the outstanding shares of Eduadvantage.com in exchange for 175,000 of the Company's common stock. EduAdvantage.com is a California corporation that is primarily engaged in a web-based business. The acquisition has been accounted for as a purchase transaction. The following summarized the net assets acquired.

(In thousands)

Assets	
-----	-----
Receivables.	\$ 78
-----	-----
Equipment.	3
-----	-----
Goodwill	687
-----	-----
	768
-----	-----
Less assumption of liabilities.	(495)
-----	-----
Net assets acquired	\$ 273

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

----- =====
 Asset Acquisition

On March 1, 2003, the Company purchased certain PEO contracts from Staff Pro Leasing 2 and Staff Pro Leasing, Inc. for \$269,483. The purchase price was paid via an initial cash payment of \$44,915 and the remainder of the purchase price is in the form of a promissory note to be paid over 24 months. The entire purchase price is shown as contracts in the accompanying consolidated balance sheet and is being amortized over the expected life of the contracts of 5 years.

On October 25, 2001, the Company acquired certain assets from three related parties. These assets related to the Company's office products and services business activities, and represent an aggregate of \$250,000, which included inventory, fixed assets and accounts receivable. The purchase price of the assets was 375,000 shares of the Company's common stock that was determined by the market price of the Company's common stock at the date of acquisition. - The number of shares issued in this transaction was subsequently reduced to \$250,000 thus reducing the purchase price to \$173,333.

The following unaudited pro forma financial information presents the consolidated operations of the Company as if the above-mentioned acquisitions had occurred as of the beginning of the periods presented. This information is provided for illustrative purposes only, and is not necessarily indicative of the operating results that would have occurred had the acquisitions been consummated at the beginnings of the periods presented, nor is it necessarily indicative of any future operating results.

(In thousands, except per share data)	YEAR ENDED JUNE 30,		
-----	2003	2002	2001
-----	-----	-----	-----
Net revenue, as reported	\$ 4,190	\$ 7,408	\$ 3.452
Net revenue, pro forma	\$ 4,473	\$ 10,862	\$ 7,104
-----	-----	-----	-----
Net loss, as reported	\$ (6,855)	\$ (13,688)	\$ (9,888)
Net loss, pro forma	\$ (9,059)	\$ (20,877)	\$ (18,811)
-----	-----	-----	-----
Loss per share, as reported	\$ (0.07)	\$ (1.12)	\$ (1.51)
Loss per share, pro forma	\$ (0.11)	\$ (0.84)	\$ (0.96)
-----	-----	-----	-----

7. OTHER ACCRUED EXPENSES

Other accrued expenses consisted of the following as of:

(In thousands) JUNE 30,

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

	2003	2002
	-----	-----
Compensation and employee benefits.	\$ 2,130	\$ 1,542
Interest	5,134	3,858
Payroll and sales tax payable . . .	993	-
IRS levy payable	105	-
Penalties	1,886	-
Commissions	503	-
Other	1,084	356
	-----	-----
	\$ 11,835	\$ 5,756
	=====	=====

8. DEBT

Borrowings Under Banks Notes Payable

On June 6, 2000, the Company entered into a settlement agreement with Imperial Bank ("Imperial"). Under this agreement, the Company would pay \$150,000 per month until the balance was paid in full. Payments have been reduced to \$100,000 per month through January 2002 and further reduced to \$50,000 subsequent to January 2002. During the year ended June 30, 2002, the Company paid \$1,023,000 toward this obligation. Due to the uncertainty regarding the Company's ability to meet its obligations and certain defaults under this agreement, the debt has been classified as current. The debt is accruing interest at 12.9% per annum, which will be waived if all principal payments are made timely. Accrued interest related to these notes due Imperial totaling \$1,375,000 at June 30, 2003 is included in other accrued expenses. The debt is collateralized by substantially all assets of the Company. The balance due to Imperial at June 30, 2003 and 2002 was \$1,490,000 and \$1,615,000, respectively.

As of June 30, 2003 and 2002, the Company owed Export-Import Bank ("ExIm") \$1,680,000 plus interest under a Working Capital Guarantee Facility whereby Imperial made a demand upon ExIm who responded by making a claim payment to Imperial. The note bears interest at 10% per annum. ExIm has made a demand for immediate payment and note is currently in default.

The following is a summary of the borrowings under bank notes payable:

(In thousands) . . .	JUNE 30,	
	2003	2002
	-----	-----
Imperial	\$ 1,490	\$ 1,615
Export-Import Bank.	1,680	1,680
	-----	-----
Total	\$ 3,170	\$ 3,295
	=====	=====

Notes Payable, including amounts due to related parties

The following summarizes short-term notes payable, which are in default, and due on demand:

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

(In thousands)	JUNE 30,	
	2003	2002
	-----	-----
Payable to suppliers, 10%	\$ -	\$ 41
Payable to shareholders, 8%	150	515
Payable in connection with SourceOne acquisition, 10%	-	700
Payable in connection with QPI acquisition	575	-
Payable in connection with Greenland acquisition	427	-
Payable in connection with acquisition of SraffPro	87	-
Payable to individual, 10%	14	40
Payable to related party	250	-
Payable to a former directors, 16%	1,500	1,500
	-----	-----
	3,003	2,796
Less current portion	(2,097)	(2,796)
	-----	-----
Long-term portion	\$ 906	\$ -
	=====	=====

Notes payable mature as follows:

(In thousands)	
During the years ended June 30,	
2004	\$2,097
2005	906
2006	-
2007	-

3,003	
	=====

Convertible Debentures

On December 12, 2000, the Company entered into a Convertible Note Purchase Agreement with Amro International, S.A., Balmore Funds, S.A. and Celeste Trust Reg. Pursuant to this agreement, the Company sold to each of the purchasers convertible promissory notes in the aggregate principal amount of \$850,000 bearing interest at the rate of eight percent (8%) per annum, due December 12, 2003, each convertible into shares of the Company's common stock. Interest shall be payable, at the option of the purchasers, in cash or shares of common stock. At any time after the issuance of the notes, each note is convertible into such number of shares of common stock as is determined by dividing (a) that portion of the outstanding principal balance of the note as of the date of conversion by (b) the lesser of (x) an amount equal to seventy percent (70%) of the average closing bid prices for the three (3) trading days prior to December 12, 2000 and (y) an amount equal to seventy percent (70%) of the average closing bid prices for the three (3) trading days having the lowest closing bid prices during the thirty (30) trading days prior to the conversion date. The Company has recognized interest expense of \$364,000 relating to the beneficial conversion feature of the above notes. Additionally, the Company issued a warrant to each of the purchasers to purchase 502,008 shares of the Company's common stock at an exercise price equal to \$1.50 per share. The purchasers may exercise the warrants through December 12, 2005. During fiscal 2003, 2002 and 2001, notes payable of \$0, \$0 and \$675,000, respectively, was converted into the

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Company's common stock.

On July 26, 2001, the Company entered into a convertible note purchase agreement with certain investors whereby the Company sold to the investors a convertible debenture in the aggregate principal amount of \$1,000,000 bearing interest at the rate of eight percent (8%) per annum, due July 26, 2004, convertible into shares of the Company's common stock. Interest is payable, at the option of the investor, in cash or shares of the Company's common stock. The note is convertible into such number of shares of the Company's common stock as is determined by dividing (a) that portion of the outstanding principal balance of the note by (b) the conversion price. The conversion price equals the lesser of (x) \$1.30 and (y) 70% of the average of the 3 lowest closing bid prices during the 30 trading days prior to the conversion date. Additionally, the Company issued a warrant to the investor to purchase 769,231 shares of the Company's common stock at an exercise price equal to \$1.30 per share. The investor may exercise the warrant through July 26, 2006. In accordance with EITF 00-27, the Company first determined the value of the note and the fair value of the detachable warrants issued in connection with this convertible debenture. The proportionate value of the note and the warrants is \$492,000 and \$508,000, respectively. The value of the note was then allocated between the note and the preferential conversion feature, which amounted to \$0 and \$492,000, respectively.

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

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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

warrants is \$92,000 and \$108,000, respectively. The value of the note was then allocated between the note and the preferential conversion feature, which amounted to \$0 and \$92,000, respectively.

On January 22, 2002, the Company entered into a convertible note purchase agreement with an investor whereby the Company sold to the investor a convertible promissory note in the aggregate principal amount of \$500,000 bearing interest at the rate of eight percent (8%) per annum, due January 22, 2003, convertible into shares of the Company's common stock. Interest is payable, at the option of the investor, in cash or shares of the Company's common stock. The note is convertible into such number of shares of the Company's common stock as is determined by dividing (a) that portion of the outstanding principal balance of the note by (b) the conversion price. The conversion price equals the lesser of (x) \$0.332 and (y) 70% of the average of the 3 lowest closing bid prices during the 30 trading days prior to the conversion date. Additionally, the Company issued a warrant to the investor to purchase 3,313,253 shares of the Company's common stock at an exercise price equal to \$0.332 per share. The investor may exercise the warrant through January 22, 2009. In accordance with EITF 00-27, the Company first determined the value of the note and the fair value of the detachable warrants issued in connection with this convertible debenture. The proportionate value of the note and the warrants is \$101,000 and \$399,000, respectively. The value of the note was then allocated between the note and the preferential conversion feature, which amounted to \$0 and \$101,000, respectively.

On August 5, 2002, the Company entered into a convertible note purchase agreement with an investor in the aggregate principal amount of \$100,000 bearing interest at the rate of eight percent (8%) per annum, due August 5, 2005, convertible into shares of the Company's common stock. Interest is payable, at the option of the investor, in cash or shares of the Company's common stock. The note is convertible into such number of shares of the Company's common stock as is determined by dividing (a) that portion of the outstanding principal balance of the note by (b) the conversion price. The conversion price equals the lesser of (x) \$0.03 and (y) 70% of the average of the 3 lowest closing bid prices during the 30 trading days prior to the conversion date. In accordance with EITF 00-27, the value of the note was allocated between the note and the preferential conversion feature, which amounted to \$57,000 and \$43,000, respectively.

On January 31, 2003, the Company entered into a convertible note purchase agreement with an investor whereby the Company converted a previous advance from the investor into a convertible promissory note in the aggregate principal amount of \$150,000 bearing interest at the rate of eight percent (8%) per annum, due January 31, 2005, convertible into shares of the Company's common stock. Interest is payable, at the option of the investor, in cash or shares of the Company's common stock. The note is convertible into such number of shares of the Company's common stock as is determined by dividing (a) that portion of the outstanding principal balance of the note by (b) the conversion price. The conversion price equals the lesser of (x) \$0.0226 and (y) 70% of the average of the 3 lowest closing bid prices during the 30 trading days prior to the conversion date. In accordance with EITF 00-27, the value of the note was allocated between the note and the preferential conversion feature, which amounted to \$86,000 and \$64,000, respectively.

On April 1, 2003, the Company entered into a convertible note purchase agreements with three investors whereby the Company converted a previous advances from the investors into a convertible promissory notes in the aggregate principal amount of \$390,000 bearing interest at the rate of eight percent (8%) per annum, due April 1, 2005, convertible into shares of the Company's common stock. Interest is payable, at the option of the investor, in cash or shares of the Company's common stock. The note is convertible into such number of shares of the Company's common stock as is determined by dividing (a) that portion of

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

the outstanding principal balance of the note by (b) the conversion price. The conversion price equals the lesser of (x) \$0.0226 and (y) 70% of the average of the 3 lowest closing bid prices during the 30 trading days prior to the conversion date. In accordance with EITF 00-27, the value of the note was allocated between the note and the preferential conversion feature, which amounted to \$223,000 and \$167,000, respectively.

Below is a roll-forward schedule of the convertible debentures:

(In thousands)

Balance at June 30, 2001.	\$ 175
Issuance of convertible debentures during the year.	2,000
Converted into common stock	(70)
Value of warrants issued with convertible debentures.	(1,209)
Value of preferential conversion feature.	(791)
Amortization of value of warrants	437
Amortization of value of preferential conversion feature.	261
Balance at June 30, 2002.	\$ 803
Issuance of convertible debentures during the year.	640
Converted into common stock	(164)
Value of preferential conversion feature.	(274)
Amortization of value of warrants	477
Amortization of value of preferential conversion feature.	375
Balance at June 30, 2003.	\$ 1,857

The weighted average interest rate on notes payable outstanding at June 30, 2003 and 2002, was 8.7% and 9.7% respectively.

9. 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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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 September 28, 2001, the Company's shareholders approved a Board proposal to amend the Certificate of Incorporation to increase the number of shares of common stock that the Company is authorized to issue from 200,000,000 to 500,000,000 shares.

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.

5% Series A Convertible, Redeemable Preferred Stock

Holders of the 5% convertible preferred stock ("Series A") are entitled to receive, when and as declared by the Board of Directors, but only out of amounts legally available for the payment thereof, cumulative cash dividends at the annual rate of \$50.00 per share, payable semi-annually.

The 5% convertible preferred stock is convertible, at any time, into shares of the Company's common stock, at a price of \$17.50 per common share. This conversion price is subject to certain anti-dilution adjustments, in the event of certain future stock splits or dividends, mergers, consolidations or other similar events. In addition, the Company shall reserve, and keep reserved, out of its authorized but un-issued shares of common stock, sufficient shares to effect the conversion of all shares of the 5% convertible preferred stock.

In the event of any involuntary or voluntary liquidation, dissolution, or winding up of the affairs of the Company, the 5% convertible preferred shareholders shall be entitled to receive \$1,000 per share, together with accrued dividends, to the date of distribution or payment, whether or not earned or declared.

The 5% convertible preferred stock is callable, at the Company's option, at call prices ranging from \$1,050 to \$1,100 per share. No call on the 5% convertible preferred stock was made during fiscal 2003, 2002 and 2001. As of June 30, 2003, the accumulated dividend in arrears was approximately \$381,000 on the Series A.

Private Equity Line Of Credit Agreement

On July 5, 2000, the Company entered into a Private Equity Line of Credit Agreement with Impany Investment Limited ("Impany"). Pursuant to this agreement, the Company has the right, subject to certain conditions, to sell up to \$36,000,000 of common stock over the next two years to Impany, which Impany may resell to the public under a registration statement filed with the SEC in September 2000. (The SEC has not yet declared this registration statement effective). Beginning on the date the registration statement is declared effective by the SEC, and continuing for two years thereafter, the Company may in its sole discretion sell, or put, shares of the Company's common stock to Impany. From time to time during the two-year term, the Company may make 18 monthly draw downs, by giving notice and requiring Impany to purchase shares of the Company's common stock, for the draw down amount. Impany's purchase price will be based upon the average of the three lowest closing bid prices of the common stock over the period of five (5) trading days during which the purchase price of the common stock is determined with respect to the put date, which period shall begin two (2) trading days prior to the put date and end two (2) trading days following the put date. During fiscal 2001, the Company sold \$750,000 of common stock under this agreement. Funding under this agreement is

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

not currently available to the Company since the Company has not been able to get its registration statement declared effective by the SEC.

Common Stock Warrants

In August 2000, the Company issued "retention" warrants to employees that allow the purchase of up to 166,050 shares of common stock at a purchase price of \$0.20 per share. These warrants became exercisable in January 2001 for those employees who have remained employed by the Company through that period. The Company took a charge of approximately \$175,000 since the exercise price of the warrants was less than the value of the Company's common stock at the date of issuance.

In August 2000, the Company issued warrants to officers and key employees that allow the purchase of 106,800 shares of common stock at a purchase price of \$6.00 per share. These warrants are exercisable immediately.

In December 2000 in connection with the issuance of a convertible note payable, the Company issued warrants to purchase 502,000 shares of the Company's common stock at an exercise price equal to \$1.50 per share. The purchasers may exercise the warrants through December 12, 2005. The value of these warrants was estimated at \$123,000 using the Black-Scholes option-pricing model. The following assumptions were used: average risk-free interest rate of 4.0%; expected life of 1 year; dividend yield of 0%; and expected volatility of 30%.

In connection with the Private Equity Line of Credit Agreement, the Company issued a warrant on July 5, 2000 to Impany to purchase up to 100,000 shares of its common stock at an exercise price equal to \$11.40 per share. Impany may exercise the warrant through January 5, 2003. The value of these warrants was estimated at \$145,000 using the Black-Scholes option-pricing model. The following assumptions were used: average risk-free interest rate of 4.0%; expected life of 1 year; dividend yield of 0%; and expected volatility of 30%.

In connection with certain convertible debentures issued during fiscal 2002, the Company issued to the debenture holders warrants to purchase up to 5,061,450 shares of its common stock at an exercise prices ranging from \$0.0332 to \$1.30. The warrants expire between July 26, 2006 and January 22, 2009. The value of these warrants was estimated at \$1,209,000. The Black-Scholes option-pricing model was used to determine the value of these warrants. The following assumptions were used: average risk-free interest rate of 3.5%; expected life of 5 years; dividend yield of 0%; and expected volatility of 179%. The value was then compared to the value of the underlying convertible debenture and the proportionate value was assigned to the detachable warrants and the underlying convertible debenture. The value of the warrants of \$1,209,000 is being amortized over the term of the underlying convertible debenture. The amortization expense for fiscal 2002 was \$437,000.

In fiscal 2002, the Company also issued 4,750,300 warrants to certain consultants. The exercise prices of the warrants range from \$0.10 to \$0.80. All these warrants were exercised during fiscal 2002. The value of these warrants was estimated at \$1,584,000 using the Black-Scholes option-pricing model. The following assumptions were used: average risk-free interest rate of 3.5%; expected life of 1 year; dividend yield of 0%; and expected volatility of 179%.

In fiscal 2003, the Company also issued 2,830,300 warrants to certain consultants. The exercise prices of the warrants range from \$0.05 to \$0.10. All these warrants were exercised during fiscal 2003. The value of these warrants was estimated at \$70,000 using the Black-Scholes option-pricing model. The following assumptions were used: average risk-free interest rate of 3.5%; expected life of 0.25 years; dividend yield of 0%; and expected volatility of

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

179%.

The following is a summary of the warrant activity:

	UNDERLYING COMMON PRICE PER SHARE	SHARES
	-----	-----
JUNE 30, 2000.	\$ 8.20 - \$1.50	517,900
Granted	\$ 0.20 - \$11.40	874,850
Exercised	\$ 0.20 - \$8.00	(317,950)
Canceled.	\$20.00 - \$125.00	(33,850)
	-----	-----
JUNE 30, 2001.	\$ 0.20 - \$11.40	1,040,950
Granted	\$ 0.102 - \$1.30	9,811,700
Exercised	\$ 0.20 - \$8.00	(4,750,300)
Canceled.	-	-
	-----	-----
JUNE 30, 2002.	\$ 0.20 - \$11.40	6,102,350
Granted	\$ 0.05 - \$0.10	2,830,000
Exercised	\$ 0.05 - \$0.10	(2,830,000)
Canceled.	\$ 11.40	(100,000)
	-----	-----
Exercisable at June 30, 2003	\$ 0.20 - \$10.00	6,002,350
	-----	=====

The weighted average remaining contractual life of warrants outstanding at June 30, 2003 is 4.2 years. Of the warrants exercisable at June 30, 2003, 4,565,010 have an exercise price ranging from \$0.20 to \$0.76 and the remaining 1,437,340 have an exercise price ranging from \$1.30 to \$10.00.

For warrants granted during the year ended June 30, 2003 where the exercise price was less than the stock price at the date of the grant, the weighted-average fair value of such options was \$0.025 and the weighted-average exercise price of such options was \$0.0558. In connection with the issuance of these warrants, the Company recognized an expense of \$70,000. The fair value of these warrants was determined using the Black-Scholes pricing model.

Common Stock Option Plans

In July 1984 ("1984 Plan"), November 1987 ("1988 Plan") and September, 1996 ("1997 Plan"), the Company adopted stock option plans, under which incentive stock options and non-qualified stock options may be granted to employees, directors, and other key persons, to purchase shares of the Company's common stock, at an exercise price equal to no less than the fair market value of such stock on the date of grant, with such options exercisable in installments at dates typically ranging from one to not more than ten years after the date of grant.

Under the terms of the 1988 and 1997 Plans, loans may be made to option holders, which permit the option holders to pay the option price, upon exercise, in installments. A total of 10,600 and 50,000 shares of common stock are authorized for issuance under the 1988 and 1997 Plans, respectively.

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

No shares are available for future issuance under the 1984 Plan due to the expiration of the plan during 1994. As of June 30, 1999, options to acquire 100 shares were outstanding under the 1984 Plan and options to acquire 33,500 shares remained available for grant under the 1988 and 1997 Plans.

In addition, the Board of Directors, outside the 1984, 1988 and 1997 Plans ("Outside Plan"), granted to employees, directors and other key persons of ITEC or its subsidiaries options to purchase shares of the Company's common stock, at an exercise price equal to no less than the fair market value of such stock on the date of grant. Options are exercisable in installments at dates typically ranging from one to not more than ten years after the date of grant.

In October 1995, the Board of Directors authorized the exercise price for employee options and warrants to be reduced to the current market value. Accordingly, the exercise price on an aggregate of 911 and 13,750 options under the 1988 and Outside Plans, respectively, were canceled and reissued at an exercise price of \$20.00 per share.

The 1997 Employee Stock Purchase Plan ("Purchase Plan") was approved by the Company's shareholders in September 1996. The Purchase Plan permits employees to purchase the Company's common stock at a 15% discounted price. The Purchase Plan is designed to encourage and assist a broad spectrum of employees of the Company to acquire an equity interest in the Company through the purchase of its common stock. It is also intended to provide participating employees the tax benefits under Section 421 of the Code. The Purchase Plan covers an aggregate of 25,000 shares of the Company's common stock.

All employees, including executive officers and directors who are employees, customarily employed more than 20 hours per week and more than five months per year by the Company are eligible to participate in the Purchase Plan on the first enrollment date following employment. However, employees who hold, directly or through options, five percent or more of the stock of the Company are not eligible to participate.

Participants may elect to participate in the Purchase Plan by contributing up to a maximum of 15 percent of their compensation, or such lesser percentage as the Board may establish from time to time. Enrollment dates are the first trading day of January, April, July and October or such other dates as may be established by the Board from time to time. On the last trading day of each December, March, June and September, or such other dates as may be established by the Board from time to time, the Company will apply the funds then in each participant's account to the purchase of shares. The cost of each share purchased is 85 percent of the lower of the fair market value of common stock on (i) the enrollment date or (ii) the purchase date. The length of the enrollment period may not exceed a maximum of 24 months. No participant's right to acquire shares may accrue at a rate exceeding \$25,000 of fair market value of common stock (determined as of the first trading day in an enrollment period) in any calendar year. No shares have been issued under the Purchase Plan.

2001 Stock Option and Stock Purchase Plans.

The Company's shareholders approved the 2001 Stock Option Plan, pursuant to which 5,000,000 shares of common stock are reserved for issuance to eligible employees and directors of, and consultants to, the Company or any of its subsidiaries. Upon expiration, cancellation or termination of unexercised options, the shares of the Company's Common Stock subject to such options will again be available for the grant of options under the 2001 Stock Option Plan. Options granted under the 2001 Stock Option Plan may either be incentive or nonqualified stock options.

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

The Company's shareholders approved the 2001 Stock Purchase Plan, as amended, which enables eligible employees to purchase in the aggregate up to 2,500,000 shares of common stock.

Stock Option Activity

The following is a summary of the stock option activity:

STOCK OPTION PLANS		
	UNDERLYING PRICE PER SHARE	COMMON SHARES
JUNE 30, 2000.	\$ 18.20 - \$169.00	11,750
Granted	\$ 2.80 - \$6.80	-
Exercised	\$ 2.80 - \$23.80	-
Canceled.	\$ 18.20 - \$169.00	(3,650)

JUNE 30, 2001.	\$ 6.80 - \$150.00	8,100
Granted	\$ 0.60 - \$0.60	2,750,000
Exercised	\$ 0.20 - \$2.00	(2,744,500)
Canceled.	-	-

JUNE 30, 2002.	\$ 0.60 - \$150.00	13,600
Granted	\$ 0.01 - \$0.015	34,150,000
Exercised	-	-
Canceled.	(5,500)	-

EXERCISABLE AT JUNE 30, 2003	\$ 0.01 - \$28.20	34,158,100
=====		

The weighted average remaining contractual life of options outstanding issued under the Stock Option Plans is 2.6 years at June 30, 2003.

For options granted during the year ended June 30, 2003 where the exercise price was less than the stock price at the date of the grant, the weighted-average fair value of such options was \$0.012 and the weighted-average exercise price of such options was \$0.0124. In connection with the issuance of these options, the Company recognized an expense of \$0 related since the exercise price was equal to the value of the Company's stock at the date of issuance.

Common stock issued for services and compensation

The table below shows all the issuances of common stock for services during the year ended June 30, 2003, 2002 and 2001. The value of the services was derived by multiplying the market value of the Company's common stock at the date a transaction for services was entered into by the number of shares issued.

Common stock issued for services and compensation

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

The table below shows all the issuances of common stock for services during the year ended June 30, 2003, 2002 and 2001. The value of the services was derived by multiplying the market value of the Company's common stock at the date a transaction for services was entered into by the number of shares issued.

FISCAL 2003			
ISSUE DATE	DESCRIPTION	SHARES ISSUED	VALUE
7/01/02	Strategic planning/marketing	450,000	\$ 72,000
7/08/02	Strategic planning/marketing	79,688	12,431
8/15/02	Strategic planning/marketing	500,000	25,000
8/19/02	Strategic planning/marketing	150,000	7,500
9/09/02	Strategic planning/marketing	1,500,000	79,500
9/18/02	Strategic planning/marketing	3,000,000	93,000
9/23/02	Strategic planning/marketing	100,000	2,200
9/24/02	Strategic planning/marketing	250,000	4,750
10/10/02	Strategic planning/marketing	2,310,900	23,109
10/10/02	Strategic planning/marketing	3,000,000	30,000
10/29/02	Strategic planning/marketing	15,000,000	150,000
11/12/02	Strategic planning/marketing	937,500	18,750
12/13/02	Strategic planning/marketing	400,000	12,000
12/17/02	Professional Services	1,000,000	10,000
12/17/02	Strategic planning/marketing	4,000,000	40,000
1/03/03	Strategic planning/marketing	45,000,000	450,000
1/03/03	Strategic planning/marketing	500,000	5,000
1/07/03	Strategic planning/marketing	686,667	10,300
1/08/03	Strategic planning/marketing	2,000,000	30,000
2/10/03	Professional services	533,333	8,000
3/03/03	Strategic planning/marketing	300,000	3,000
4/10/03	Strategic planning/marketing	1,000,000	10,000
6/10/03	Strategic planning/marketing	4,333,333	65,000

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

6/23/03	Strategic planning/marketing	5,702,079	85,531

92,733,500	\$	1,247,071	
=====			

FISCAL 2002

ISSUE DATE	DESCRIPTION	SHARES ISSUED	VALUE

7/09/01.	Strategic planning/marketing	250,000	\$350,000

10/16/01	Legal services	21,600	13,000

11/1/01.	Legal services	16,666	10,000

11/1/01.	Strategic planning/marketing	400,000	240,000

11/14/01	Legal services	6,667	5,000

12/17/01	Employee compensation	6,500	1,000

1/8/02	Legal services	14,306	9,000

3/12/02.	Strategic planning/marketing	31,487	6,000

3/14/02.	Strategic planning/marketing	300,000	60,000

4.24.02.	Compensation	10,000	5,000

5/2/02	Strategic planning/marketing	1,250,000	250,000

5.21.02.	Strategic planning/marketing	200,000	80,000

6/3/02	Strategic planning/marketing	339,369	68,000

6/18/02.	Employee compensation	333,383	278,000

3,179,978	\$	1,375,000	
=====			

FISCAL 2001

ISSUE DATE	DESCRIPTION	SHARES ISSUED	VALUE

12/4/2000.	Strategic planning/marketing	35,000	\$66,000

12/4/2000.	Legal services	4,000	8,000

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

12/18/2000	Strategic planning/marketing	50,000	94,000
1/17/2000.	Strategic planning/marketing	15,000	18,000
1/26/2000.	Legal services	3,250	8,000
1/22/2000.	Compensation	1,000	-
1/31/2001.	Strategic planning/marketing	10,000	14,000
1/31/2001.	Compensation	9,250	30,000
2/5/2001	Compensation	5,500	16,000
2/14/2001.	Strategic planning/marketing	10,000	25,000
3/6/2001	Compensation	9,000	11,000
3/12/2001.	Strategic planning/marketing	30,000	6,000
1/19/2001.	Legal services	13,333	8,000
1/12/2001.	Strategic planning/marketing	10,000	50,000
4/4/2001	Legal services	4,000	7,000
5/3/2001	Legal services	6,667	8,000
6/7/2001	Legal services	3,333	4,000
219,333	\$	373,000	

10. SEGMENT AND GEOGRAPHIC INFORMATION

During fiscal 2003, the Company managed and internally reported the Company's business as three (3) reportable segments as follows:

- (1) imaging products;
- (2) imaging software;
- (3) professional employer organization

Segment information for the fiscal year ended June 30, 2003, 2002, and 2001 was as follows:

	IMAGING PEO BUSINESS	PRODUCTS	IMAGING SOFTWARE	TOTAL
(In thousands)				
Selected statement of operations activity:				
FISCAL YEAR ENDED JUNE 30, 2003				
Revenues	\$ 2,899	\$ 924	\$ 367	\$ 4,188
Cost of revenues	(1,813)	(396)	(90)	(2,300)
Operating income	1,086	528	277	1,891
FISCAL YEAR ENDED JUNE 30, 2002				
Revenues	\$ 3,254	\$ 3,574	\$ 580	\$ 7,408

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Cost of revenues.	(2,389)	(2,868)	(99)	(5,
Operating income (loss)	865	706	481	2,
 FISCAL YEAR ENDED JUNE 30, 2001				
Revenues.	-	\$ 2,897	\$	555
Cost of revenues.	-	(2,742)	-	(2,
Operating income.	-	155	555	

Information regarding revenue by products and service groups is not presented for the fiscal year ended June 30, 2001 because it is currently impracticable to do so due to various reorganizations of the Company's accounting systems. A comprehensive accounting system was implemented during fiscal 2002.

As of and during the years ended June 30, 2003, 2002, and 2001, no customer accounted for more than 10% of consolidated accounts receivable or total consolidated revenues.

Net sales from principal geographic areas were as follows:

(In thousands) . . .	2003	2002	2001
	-----	-----	-----
Europe.	\$ 367	\$ 299	\$ 82
Asia.	-	328	633
Others.	-	295	34
	-----	-----	-----
Total export sales.	367	922	749
Domestic sales. . .	3,823	6,486	2,703
	-----	-----	-----
Total sales. . . .	\$4,190	\$ 7,408	\$ 3,452
	=====	=====	=====

11. INCOME TAXES

The Company's provision for income taxes is accounted for in accordance with SFAS 109. SFAS 109 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under the SFAS 109 asset and liability method, deferred tax assets and liabilities are determined based upon the difference between the financial statement and tax bases of assets and liabilities using the enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is then provided for deferred tax assets that are more likely than not to not be realized.

The provision (benefit) for income taxes is as follows for the years ended June 30:

	2003	2002	2001
	-----	-----	-----
Current - State. \$	-	-	-
Deferred benefit	-	-	-
	-----	-----	-----
\$	-	-	-
	=====	=====	=====

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

The components of deferred income taxes are as follows at June 30:

(In thousands)	2003	2002	2001
	-----	-----	-----
Deferred tax assets			
Net operating loss carryforwards. \$	37,100	\$ 34,500	\$ 30,000
Other	500	500	500
	-----	-----	-----
	37,600	35,000	30,500
Valuation allowance.	(37,600)	(35,000)	(30,500)
	-----	-----	-----
	\$ -	\$ -	\$ -
	=====	=====	=====

The Company's federal and state net operating loss carryforwards expire in various years through 2017. The Company has made numerous equity issuances that could result in limitations on the annual utilization of the Company's net operating loss carryforwards. The Company has not performed an analysis to determine the effect of such changes.

The provision for income taxes results in an effective rate that differs from the federal statutory rate. Reconciliation between the actual tax provision and taxes computed at the statutory rate is as follows for the years ended June 30:

(In thousands)	2003	
	-----	-----
Benefit (provision) at federal statutory income tax rate. \$	2,600	\$
Losses for which no current benefit is available.	(2,600)	(
State income taxes.	-)
	-----	-----
	\$ -	\$
	=====	=====

12. COMMITMENTS AND CONTINGENCIES

Lease Commitment

The Company leases its operating facilities under a lease agreement that expires in March 2006. Subsequent to June 30, 2002, the Company signed a new lease for its corporate facility that expires in October 2005 that is included in the future minimum lease payments in that table below. In addition, the Company leases other facilities and equipment under operating and capital short-term leases.

Total rental expense was approximately \$228,000, \$492,000 and \$457,000 for the years ended June 30, 2003, 2002 and 2001, respectively.

Future minimum lease payments under non-cancelable capital and operating leases with initial or remaining terms of one year or more are as follows:

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

(In thousands)	CAPITAL LEASES	OPERATING LEASES
YEAR ENDING JUNE 30,		
2003	\$ 481	\$ 296
2004	29	197
2005	11	116
2006	9	-
2007	-	-
Net minimum lease payments	\$ 530	\$ 609
Less: Amounts representing interest	(97)	
Present value of net minimum lease payments	433	
Less: current portion	(405)	
Long-term portion	\$ 28	

Legal Matters

In October 1999, the law firms of Weiss & Yourman and Stull, Stull & Brody made a public announcement that they had filed a lawsuit against the Company 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 the Company. In January 2003, the Company entered into a Stipulation of Settlement with the plaintiffs. It agreed to pay the plaintiffs 5,000,000 shares of common stock and \$200,000 in cash. The Parties have accepted the settlement. ITEC has issued the shares, and its 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, the Company was sued by its former landlord, Carmel Mountain #8 Associates, L.P. or past due rent on its former facilities at 15175 Innovation Drive, San Diego, CA 92127.

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, the Company 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, the Company entered into a settlement with the plaintiffs who have agreed to dismiss their claims against ITEC with prejudice in exchange for a settlement fee payment of \$10,000, which has been

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

paid.

The Company has been sued in Illinois state court along with AIA/Mirriman, its insurance brokers by the Arena Football League-2 ("AFS"). Damages payable to AF2, should they win the suit, could exceed \$700,000. The Company expects to defend its position and rely on representations of its insurance brokers.

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 the Company to pay its obligations to them in a total amount exceeding \$3.0 millions 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 the Company. Several of those who have obtained judgments have filed judgment liens on the Company's 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 shutdowns 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, 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") whereby 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

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

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 the Company is 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. 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 services 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. Ellis has appeared to have abandoned arbitration. However, arbitration action is proceeding and the parties are attempting mediation to avoid the cost and time of an arbitration proceeding.

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 controlling interest of Quik Pix, Inc., the Company is not aware 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.

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

13. GAIN ON EXTINGUISHMENT OF DEBT

During the year ended June 30, 2003, the Company recognized a gain on extinguishment of debt of \$2,370,000. This gain resulted primarily from the write off of stale accounts payable as discussed below, as well as a gain on a settlement of a long-term note payable of \$702,000, which was settled for \$274,000 in cash resulting in a gain of \$428,000. With respect to the write-off of accounts payable, the Company reviewed its accounts payable and determined that \$1,942,000 was associated with unsecured creditors. The Company, based upon an opinion provided by independent legal counsel, has been released as the obligator of these liabilities. Accordingly, management has elected to adjust its accounts payable and to classify such adjustments as extinguishment of debt.

14. SUBSEQUENT EVENTS

From July 1, 2003 to November 6, 2003, the Company issued 109,963,339 shares of its common stock to consultants, for warrant exercises, for conversion of convertible debt, and for the reduction of debt.

SELECTED QUARTERLY FINANCIAL DATA

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

(In thousands)	QUARTERS ENDED		
	SEPT. 30, 2002	DEC. 31, 2002	MAR. 31, 2003
Net revenues	\$ 1.106	\$ 397	\$ 576
Net income (loss) before cumulative effect of accounting change	(2,052)	(652)	42
Cumulative effect of accounting change	-	-	-
Net income (loss)	\$ (2,052)	\$ (652)	\$ 42
Net income (loss) per share before cumulative effect of accounting change - basic	\$ (0.08)	\$ (0.01)	\$ (0.00)
Cumulative effect of accounting change per share - basic	\$ (0.08)	\$ (0.01)	\$ (0.00)
Net income (loss) per share - basic	\$ (0.08)	\$ (0.01)	\$ (0.00)
Net income (loss) per share - diluted	\$ (0.08)	\$ (0.01)	\$ (0.00)
Shares used in per share calculation (basic)	24,662	66,284	140,754
Shares used in per share calculation (diluted)	24,662	66,284	140,754

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

(In thousands)	QUARTERS END
	SEPT. 30, 20
Net revenues	\$ 1.
Net income (loss) before cumulative effect of accounting change	(1,
Cumulative effect of accounting change	
Net income (loss)	\$ (1,
Net income (loss) per share before cumulative effect of accounting change - basic	\$ (0
Cumulative effect of accounting change per share - basic	
Net income (loss) per share - basic	\$ (0
Net income (loss) per share before cumulative effect of accounting change- diluted	\$ (0
Shares used in per share calculation (basic)	8,
Shares used in per share calculation (diluted)	8,

(In thousands)	MAR. 31, 200
Net revenues	\$ 2,5
Net income (loss) before cumulative effect of accounting change	(1,1
Cumulative effect of accounting change	
Net income (loss)	\$ (1,1
Net income (loss) per share before cumulative effect of accounting change - basic	\$ (0.
Cumulative effect of accounting change per share - basic	
Net income (loss) per share - basic	\$ (0.
Net income (loss) per share before cumulative effect of accounting change- diluted	\$ (0.
Shares used in per share calculation (basic)	13,1

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Shares used in per share calculation (diluted) 13,1

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Within 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and our Principal Accounting Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and the Principal Accounting Officer concluded that our disclosure controls and procedures are effective, in all material respects, with respect to the recording, processing, summarizing, and reporting, within the time periods specified in the Securities and Exchange Commission's rules and forms, of information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

There were no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of the evaluation referred to above.

PART III

=====

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

DIRECTORS

The directors and executive officers of the Company, their ages and positions with the Company as of June 30, 2003 are as follows:

Name	Age	Since	Director	Title
Brian Bonar	56	1995	Chief Executive Officer	
Richard H. Green	67	2000	Director	
Robert A. Dietrich	58	2000	Director	
Eric W. Gaer	55	2000	Director	
Stephen J. Fryer	65	2000	Director	

Brian Bonar has served as a director of the Company since August 1995 and became the Company's Chairman of the Board in December 1999. From August 1992 through April 1994, Mr. Bonar served as the Company's Director of Technology Sales and from April 1994 through September 1994 as the Company's Vice President, Sales and Marketing. In September 1994, Mr. Bonar became the Company's Executive Vice President and, in July 1997, was appointed as the Company's President and Chief Operating Officer. In April 1998 Mr. Bonar assumed the post of CEO. From 1991 to 1992, Mr. Bonar was Vice President of Worldwide Sales and Marketing for Bezier Systems, Inc., a San Jose, California-based manufacturer and marketer of laser printers. From 1990 to 1991, he was Worldwide Sales Manager for Adaptec, Inc., a San Jose-based laser printer controller

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

developer. From 1988 to 1990, Mr. Bonar was Vice President of Sales and Marketing for Rastek Corporation, a laser printer controller developed located in Huntsville, Alabama. From 1984 to 1988, Mr. Bonar was employed as Executive Director of Engineering at QMS, Inc., an Alabama-based developer and manufacturer of high-performance color and monochrome printing solutions. Prior to these positions, Mr. Bonar was employed by IBM, U.K. Ltd. for approximately 17 years.

Dr. Richard H. Green has served as a director since September 2000. He is currently the President of International Power & Environmental Company (IPEC), a consulting company located in San Diego, California. From 1993 through 1995, he served as Deputy Secretary of the State of California Environmental Protection Agency (Cal/EPA). From 1988 through 1993 Dr. Green served as Manager of Program Engineering and Review Office in the Office of Technology and Applications at the Jet Propulsion Laboratory (JPL) in Pasadena, California, where he had held various management positions since 1967. From 1965 through 1967, Dr. Green served as Senior Engineer for The Boeing Company, Space Division. From 1983 through 1985, Dr. Green held the Corwin D. Denny Chair as Professor of Energy and Director of the Energy Institute at the University of LaVerne, and from 1961 through 1964 served as Assistant Professor of Civil Engineering (Environmental Sciences) at Washington State University. Dr. Green currently is a member of the Governing Board of Pasadena City College. Dr. Green completed his bachelor's degree at Whitman College in 1958, his Master of Science at Washington State University in 1961, and his Ph.D. at Washington State University, under a United States Public Health Services Career Development Award, in 1965.

Robert A. Dietrich has served as a director of the Company since January 2000. Mr. Dietrich is President and CEO of Cyberair Communications Inc., a privately-held telecommunications company with strategic interests in Internet communications and "bandwidth" expansion technologies, as well as domestic and international telephone services, in Irvine, California. Recently, Mr. Dietrich was named President and CEO of Semper Resources Corporation, a public natural resources holding company in Irvine, California. From 1996 to 2000, Mr. Dietrich was Managing Director and CFO of Ventana International, Ltd., Irvine, California, a venture capital and private investment-banking firm. From 1990 to 1994, Mr. Dietrich was Vice President and Chief Financial Officer of CEI, Inc., in Santa Ana, California, a commercial furnishings firm, prior to joining Ventana. Mr. Dietrich is a graduate of the University of Notre Dame, with a bachelor's degree in accounting, and the University of Detroit, with a master's degree in finance. He served as a lieutenant in the U.S. Navy's Atlantic Command Operations Control Center.

Eric W. Gaer has served as a director since March 2000. Since 1998, Mr. Gaer has been the President and CEO of Arroyo Development Corporation, a privately-held, San Diego-based management consulting company. From 1996 to 1998, he was Chairman, President and CEO of Greenland Corporation, a publicly-held high technology company in San Diego, California. In 1995, he was CEO of Ariel Systems, Inc., a privately-held engineering development company in Vista, California. Over the past 25 years, Mr. Gaer has served in executive management positions at a variety of high-technology companies, including ITEC, Daybreak Technologies, Inc., Venture Software, Inc., and Merisel, Inc. In 1970, he received a Bachelor of Arts degree in mass communications from California State University, Northridge.

Stephen J. Fryer has served as a director of the Company since March 2000. He is currently Chairman of the Board and CEO of Pen Interconnect, Inc. ("Pen"), a

high technology company in Irvine, California. He began his employment service at Pen in 1997 as Senior Vice President of Sales and Marketing. At Pen, he became a director in 1995 and was appointed President and CEO in 1998. From 1989 to 1996, Mr. Fryer was a principal in Ventana International, Ltd., a

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

venture capital and private investment-banking firm in Irvine, California. He has over 28 years experience in the computer industry in the United States, Asia and Europe. Mr. Fryer graduated from the University of California in 1960 with a bachelor's degree in mechanical engineering.

EXECUTIVE OFFICERS

The executive officers of the Company as of June 30, 2003, are as follows:

NAME	AGE	POSITION
		Chairman of the Board of Directors
Brian Bonar	56	and Chief Executive Officer
Chief Operating Officer		
James R. Downey, Jr.	55	and Chief Accounting Officer
Senior Vice President, General		
Philip J. Englund	59	Counsel and Secretary

Brian Bonar is also a director of the Company. See above for a discussion of Mr. Bonar's business experience.

James R. Downey, Jr. joined the Company in January 2003 and was appointed Chief Operating Officer and Chief Accounting Officer by the Board of Directors on February 25, 2003. Mr. Downey has over 33 years of operational and financial experience in a wide range of industries and firms. From 1999 to 2003, he was an owner/manager of his own businesses. From 1992 through 1999 he served as the Chief Financial Officer of a primary metals multi-plant manufacturer and a high technology manufacturer of sheet metal components used in jet engines and other aerospace applications. From 1987 to 1992 he was the Director of Manufacturing Consulting for western New England for the firm of Coopers & Lybrand. From 1981 to 1987, he was the Chief Financial Officer and Vice President of Instrument Manufacturing for Zygo Corporation, a manufacturer of non-contact test and measurement instrumentation and precision optical components. From 1971 to 1981 he was both an audit and consulting manager for Price Waterhouse & Co. and Peat Marwick, Mitchell and Co. He graduated from the University of Colorado in 1970 with a degree in Business Administration and is a Certified Public Accountant.

Philip J. Englund was Senior Vice President, General Counsel and Secretary of the Company since February 1999. He resigned his positions with the Company on August 23, 2002.

ITEM 11. EXECUTIVE COMPENSATION.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	FISCAL YEAR	LONG TERM ANNUAL COMPENSATION	OTHER ANNUAL SALARY	COMPENSATION AWARDS	OPTIONS/ BONUS	COMPENSATION
Brian Bonar	2003	\$	275,000	\$	--	\$ 76,814

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

Chairman, Board of Directors, . . .	2002	\$	230,000	--	--
President and C.E.O.	2001		243,333	--	--
 Christopher W. McKee (1)	 2002	 \$	 17,625	 \$	 --
Senior Vice President.	2001		175,000	--	--
 Philip J. Englund (2)	 2002	 \$	 135,000	 \$	 --
Senior Vice President, General . .	2001		165,000	--	--
Counsel and Secretary					
 James R. Downey, Jr.	 2003	 \$	 79,000	 \$	 --
Chief Operating Officer and Chief					
Accounting Officer					

- (1) Mr. McKee resigned effective August 3, 2001
(2) Mr. Englund resigned effective August 23, 2002.
(3) Mr. Downey joined the Company effective January 6, 2003

OPTION/SAR GRANTS IN LAST FISCAL YEAR

The following table provides information on Options/SARs granted in the 2003 Fiscal Year to the Named Officers.

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED (#)	PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF EXERCISE OR BASE PRICE	STOCK PRICE EXPIRATION DATE	APPR OPTI
	(3)		(\$/SHARE)		
	5% (\$)	10% (\$)			
Brian Bonar.	15,000,000	73	\$ 0.01	2/1/12	\$
Christopher W. McKee (1)	---	---	---	---	---
Philip J. Englund (2). . .	300,000	10	0.40	11/15/03	
James R. Downey, Jr. . . .	5,500,000	24	0,01	2/1/12	

- (1) Mr. McKee resigned effective August 3, 2001
(2) Mr. Englund resigned effective August 23, 2002.
(3) Warrants/options become exercisable monthly over a 3-year period from date of grant. Adjusted for 1-for-20 reverse stock split at August 9, 2002.
(4) Calculated based on the closing price of the Company's common stock on October 15, 2003 (\$0.03).

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES

The following table provides information on option exercises in the 2003 Fiscal Year by the Named Officers and the value of such Named Officers' unexercised options at June 30, 2003. Warrants to purchase Common Stock are included as options. No stock appreciation rights were held by them at the end of the 2003 Fiscal Year.

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

NAME	SHARES	NUMBER OF SECURITIES	VALUE OF UNEXERCISED	IN-THE-MONEY AT FISCAL YEAR-END
	ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	UNDERLYING UNEXERCISED OPTIONS/SARS AT FY-END (#)	

	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE

Brian Bonar	4,000,000	\$ 40,000	19,007,500	
Christopher W. McKee (1)	---	---	---	
Philip J. Englund (2)	---	---	---	
James R. Downey, Jr. (3)	---	---	5,500,000	

NAME

Brian Bonar ---
 Christopher W. McKee (1) ---
 Philip J. Englund (2) ---
 James R. Downey, Jr. (3) ---

- (1) Mr. McKee resigned effective August 3, 2001
- (2) Mr. Englund resigned effective August 23, 2002.
- (3) Mr. Downey joined the Company on January 6, 2003
- (4) At the 2003 Fiscal Year end, the closing price of the Common Stock on that date as quoted by the NASD Electronic Bulletin Board was \$0.01. Share amounts have been adjusted for the 1-for-20 reverse split at August 9, 2002

COMPENSATION OF DIRECTORS

Each member of the Board of Directors of the Company receives a fee of \$500 from the Company for each meeting attended.

EMPLOYMENT CONTRACTS, TERMINATION OF EMPLOYMENT, AND CHANGE-IN-CONTROL ARRANGEMENTS

None

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee currently consists of Messrs. Gaer and Green. Neither of these individuals was an officer or employee of the Company at any time during the 2003 Fiscal Year. Mr. Gaer owns a company that receives consulting fees from the Company.

AUDIT COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Audit Committee currently consists of Messrs. Green and Dietrich. Neither of these individuals was an officer or employee of the Company at any time during the 2003 Fiscal Year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

The following table sets forth certain information known to the best of the Company's knowledge with respect to the beneficial ownership of Common Stock as of October 15, 2003, by (i) all persons who are beneficial owners of five percent (5 percent) or more of the Common Stock, (ii) each director, and (iii) all current directors and executive officers individually and as a group. Unless otherwise indicated, each of the shareholders has sole voting and investment power with respect to the shares beneficially owned, subject to community property laws, where applicable.

NAME	NO. SHARES	PERCENT OF CLASS (1)

Brian Bonar (2)	19,007,500	6.53%
Robert A. Dietrich (3) . . .	11,637,500	4.00%
Stephen J. Fryer (4)	7,453,250	2.56%
Eric W. Gaer (5)	9,936,000	3.41%
Richard Green (5)	9,969,500	3.42%
All current directors and executive officers (group of 5) (6)	58,003,750	19.92%

(1) Percentage of ownership is based on 291,195,402 shares of Common Stock outstanding on October 15, 2003. Shares of Common Stock subject to stock options, warrants and convertible securities which are currently exercisable or convertible or will become exercisable or convertible within 60 days after October 15, 2003 are deemed outstanding for computing the percentage of the person or group holding such options, warrants or convertible securities but are not deemed outstanding for computing the percentage of any other person or group.

(2) Includes 12,000,000 shares issuable upon exercise of warrants that are currently exercisable or will become exercisable within 60 days after October 15, 2003.

(3) Includes 9,125,000 shares issuable upon exercise of warrants that are currently exercisable or will become exercisable within 60 days after October 15, 2003.

(4) Includes 4,875,000 shares issuable upon exercise of warrants that are currently exercisable or will become exercisable within 60 days after October 15, 2003.

(5) Includes 7,375,000 shares issuable upon exercise of warrants that are currently exercisable or will become exercisable within 60 days after October 15, 2003.

(6) Includes 40,750,000 shares issuable upon exercise of warrants that are currently exercisable or will become exercisable within 60 days after October 15, 2003.

ITEM13. CERTAINRELATIONSHIPSANDRELATEDTRANSACTIONS.

During the year ended June 30, 2003, the Company accrued consulting expenses of \$110,000 due Arroyo Development Corporation, owned by Mr. Eric Gaer, a member of the Board of Directors. There was no officer or director

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

indebtedness to the Company.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

(1) Audit Fees - The aggregate fees billed for each of the last two fiscal years by our principal accountants, Stonefield Josephson, Inc. and Pohl, McNabola, Berg & Company, LLP, for professional services rendered for the audit of our annual financial statements and review of financial statements included in our Form 10-Qs or services that are normally provided by the accountants in connection with statutory and regulatory filings or engagements for those fiscal years were as follows:

	2003	2002
	-----	-----
Stonefield Josephson, Inc.	\$ -	\$64,500
Pohl, McNabola, Berg & Company, LLP	\$65,000	\$ -

(2) Audit-Related Fees - The aggregate fees billed for each of the last two fiscal years for assurance and related services by our principal accountants, Stonefield Josephson, Inc. and Pohl, McNabola, Berg & Company, LLP, that are reasonably related to the performance of the audit or review of our financial statements and are not reported in the preceding paragraph were as follows:

	2003	2002
	-----	-----
Stonefield Josephson, Inc.	\$ -	\$36,600
Pohl, McNabola, Berg & Company, LLP	\$ -	\$ -

(3) Tax Fees - There were no fees billed for each of the last two fiscal years for professional services provided by our principal accountants Stonefield Josephson, Inc. and Pohl, McNabola, Berg & Company, LLP, for tax compliance, tax advice, and tax planning.

(4) All Other Fees - There were no fees billed for each of the last two fiscal years for the products and services provided by our principal accountants, Stonefield Josephson, Inc. and Pohl, McNabola, Berg & Company, LLP, other than the services reported in paragraphs (1), (2), and (3) above.

(5) Our audit committee's pre-approval policies and procedures described in paragraph (c)(7)(i) of Rule 2-01 of Regulation S-X were that the audit committee pre-approve all accounting related activities prior to the performance of any services by any accountant or auditor.

(6) The percentage of hours expended on the principal accountant's engagement to audit our financial statements for the most recent fiscal year that were attributable to work performed by persons other than the principal accountant's full-time, permanent employees was approximately 10%

PART IV
=====

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

ITEM 14.

EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) DOCUMENTS FILED AS PART OF THIS FORM 10-K:

(1) FINANCIAL STATEMENTS

The financial statements of the Company are included herein as required under Item 8 of this Annual Report on Form 10-K. See Index to Financial Statements on page 23.

(2) FINANCIAL STATEMENT SCHEDULES:

Financial Statement Schedules have been omitted because they are not applicable or not required or the information required to be set forth therein is included in the financial statements or notes thereto.

(b) REPORTS ON FORM 8-K.

Form 8-K filed September 17, 2002
Form 8-K filed December 19, 2002
Form 8-K filed January 21, 2003
Form 8-K filed March 14, 2003
Form 8-K filed May 27, 2003
Form 8-K filed July 22, 2003

(c) EXHIBITS.

The following exhibits are filed as part of, or incorporated by reference into, this Form 10-K.

3(a) Certificate of Incorporation of the Company, as amended, and currently in effect. See also below (Incorporated by reference to Exhibit 3(a) to 1988 Form 10-K) *

3(b) Certificate of Amendment of Certificate of Incorporation of the Company, filed February 8, 1995, as amended, and currently in effect (Incorporated by reference to Exhibit 3(b) to 1995 Form 10-K) *

3(c) Certificate of Amendment of Certificate of Incorporation of the Company, filed May 23, 1997, as amended, and currently in effect (Incorporated by reference to 1997 Form 10-K) *

3(d) Certificate of Amendment of Certificate of Incorporation, filed January 12, 1999, as amended and currently in effect (Incorporated by reference to Form 10-Q for the period ended December 31, 1998) *

3(e) Certificate Eliminating Reference to Certain Series of Shares of Stock from the Certificate of Incorporation, filed January 12, 1999, as amended and currently in effect (Incorporated by reference to Form 10-Q for the period ended December 31, 1998) *

3(f) By-Laws of the Company, as amended, and currently in effect (Incorporated by reference to Exhibit 3(b) to 1987 Form 10-K) *

3(g) Certificate of Amendment of Certificate of Incorporation, filed May 12, 2000, as amended and currently in effect (Incorporated by reference to Exhibit 3(g) to 2001 Form 10-K) *

4(a) Amended Certificate of Designation of Imaging Technologies Corporation with respect to the 5% Convertible Preferred Stock (Incorporated by reference

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

to Exhibit 4(d) to 1987 Form 10-K) *

4(b) Amended Certificate of Designation of Imaging Technologies Corporation with respect to the 5% Series B Convertible Preferred Stock (Incorporated by reference to Exhibit 4(b) to 1988 Form 10-K) *

4(c) Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock of Imaging Technologies Corporation (Incorporated by reference to Exhibit 4(c) to 1998 Form 10-K) *

4(d) Certificate of Designation, Powers, Preferences and Rights of the Series of Preferred Stock to be Designated Series D Convertible Preferred Stock, filed January 13, 1999 (Incorporated by reference to Form 10-Q for the period ended December 31, 1998) *

4(e) Certificate of Designation, Powers, Preferences and Rights of the Series of Preferred Stock to be Designated Series E Convertible Preferred Stock, filed January 28, 1999 (Incorporated by reference to Form 10-Q for the period ended December 31, 1998) *

10(a) Private Equity Line of Credit Agreement by and among certain Investors and the Company (Incorporated by reference to Form 8-K, filed July 26, 2000) *

10(b) Convertible Note Purchase Agreement dated December 12, 2000 between the Company and Amro International, S.A., Balmore Funds, S.A., and Celeste Trust Reg. (Incorporated by reference to Form 8-K, filed January 19, 2001. *

10(c) Convertible Note Purchase Agreement dated July 26, 2001 between the Company and Balmore Funds, S.A. (Incorporated by reference to Form 8-K filed August 2, 2001. *

10(d) Share Purchase Agreement, dated December 1, 2000, between ITEC and EduAdvantage.com, Inc. (Incorporated by reference to Form 10-Q for the period ended September 30, 2000) *

10(e) Agreement to Acquire Shares, dated December 1, 2000, between ITEC and Quik Pix, Inc. (Incorporated by reference to Form 10-Q for the period ended September 30, 2000) and subsequently cancelled. *

10(f) Agreement to Acquire Shares, dated December 17, 2000, between ITEC and Pen Internconnect, Inc. (Incorporated by reference to Form 10-Q for the period ended September 30, 2000) and subsequently cancelled. *

10(g) Share Purchase Agreement, dated December 1, 2000, between ITEC and EduAdvantage.com, Inc. (Incorporated by reference to Form 10-Q for the period ended September 30, 2000) *

10(h) Convertible Promissory Note dated September 21, 2001 between the Company and Stonestreet Limited Partnership. (Incorporated by reference to Exhibit 10(u) of 2001 Form 10-K) *

10(i) Convertible Note Purchase Agreement dated September 21, 2001 between the Company and Stonestreet Limited Partnership. (Incorporated by reference to Exhibit 10(v) of 2001 Form 10-K) *

10(j) Registration Rights Agreement dated September 21, 2001 between the Company and Stonestreet Limited Partnership. (Incorporated by reference to Exhibit 10(w) of 2001 Form 10-K) *

10(k) Form of Warrant to Purchase 11,278,195 Shares of Common Stock of ITEC, dated September 21, 2001, between ITEC and Stonestreet Limited Partnership. (Incorporated by reference to Exhibit 10(x) of 2001 Form 10-K) *

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

- 10(l) Asset Purchase Agreement, dated October 25, 2001, among the Company and Lisa Lavin, Gary J. Lavin, and Roland A. Fernando. (Incorporated by reference to Exhibit 10(a) to September 2001 Form 10-Q) *
- 10(m) Audited Financial Statements of SourceOne Group, LLC. (Incorporated by reference to Form 8-K filed on January 25, 2002) *
- 10(n) Secured Convertible Debenture issued by the Company to Bristol Investment Fund, Ltd., dated January 22, 2002. (Incorporated by reference to Exhibit 10(a) of December 2001 Form 10-Q) *
- 10(o) Securities Purchase Agreement between the Company and Bristol Investment Fund, Ltd., dated January 22, 2002. (Incorporated by reference to Exhibit 10(b) of December 2001 Form 10-Q) *
- 10(p) Registration Rights Agreement between the Company and Bristol Investment Fund, Ltd., dated January 22, 2002. (Incorporated by reference to Exhibit 10(c) of December 2001 Form 10-Q) *
- 10(q) Transaction Fee Agreement between the Company and Alexander Dunham Securities, Inc., dated January 22, 2002. (Incorporated by reference to Exhibit 10(d) of December 2001 Form 10-Q) *
- 10(r) Stock Purchase Warrant issued to Alexander Dunham Securities, Inc., dated January 22, 2002. (Incorporated by reference to Exhibit 10(e) of December 2001 Form 10-Q) *
- 10(s) Stock Purchase Warrant issued to Bristol Investment Fund, Ltd., dated January 22, 2002. (Incorporated by reference to Exhibit 10(f) of December 2001 Form 10-Q) *
- 10(t) Security Agreement between the Company and Bristol Investment Fund, Ltd., dated January 22, 2002. (Incorporated by reference to Exhibit 10(g) of December 2001 Form 10-Q) *
- 10(u) Convertible Promissory Note between the Company and Stonestreet Limited Partnership, dated November 7, 2001. (Incorporated by reference to Exhibit 10(h) of December 2001 Form 10-Q) *
- 10(v) Convertible Note Purchase Agreement between the Company and Stonestreet Partnership, dated November 7, 2001. (Incorporated by reference to Exhibit 10(i) of December 2001 Form 10-Q) *
- 10(w) Registration Rights Agreement between the Company and Stonestreet Limited Partnership, dated November 7, 2001. (Incorporated by reference to Exhibit 10(j) of December 2001 Form 10-Q) *
- 10(x) Stock Purchase Warrant issued to Stonestreet Limited Partnership, dated November 7, 2001. (Incorporated by reference to Exhibit 10(k) of December 2001 Form 10-Q) *
- 10(y) Acquisition Agreement between the Company and Dream Canvas, Inc., dated May 17, 2002; subject to completion of its terms. (Incorporated by reference to Exhibit 10(y) of Form 10-K filed November 18, 2002.) *
- 10(z) Closing Agreement between the Company and Quik Pix, Inc., dated July 23, 2002, subject to completion of its terms. (Incorporated by reference to Exhibit 10(z) of Form 10-K filed November 18, 2002.) *
- 10(aa) Agreement to Acquire Shares between the Company and Greenland Corporation, dated August 5, 2002, subject to completion of its

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

terms.(Incorporated by reference to Exhibit 10(aa) to Form 10-K filed November 18, 2002.) *

10(ab) Acquisition Agreement, dated December 13, 2002, between the Company and Baseline Worldwide, Limited. (Incorporated by reference to Exhibit 99.3 of Form 8-K filed December 19, 2002.) *

10(ac) Secured Promissory Note in the amount of \$2,250,000 issued by the Company to Greenland Corporation, dated January 7, 2003. (Incorporated by reference to Exhibit 99.1 of Form 8-K filed January 21, 2003.) *

10(ad) Security Agreement, dated January 7, 2003, between the Company and Greenland Corporation. (Incorporated by reference to Exhibit 99.2 of Form 8-K filed January 21, 2003.) *

10(ae) Agreement to Acquire Shares, dated August 9, 2002 between the Company and Greenland Corporation. (Incorporated by reference to Exhibit 99.3 of Form 8-K filed January 21, 2003.) *

10(af) Closing Agreement, dated January 7, 2003, between the Company and Greenland Corporation. (Incorporated by reference to Exhibit 99.4 of Form 8-K filed January 21, 2003.) *

10(ag) Share Acquisition Agreement, dated June 12, 2002, between the Company and Quik Pix, Inc. (Incorporated by reference to Exhibit 99.5 of Form 8-K filed January 21, 2003.) *

10(ah) Closing Agreement, dated July 23, 2002, between the Company and Quik Pix, Inc. (Incorporated by reference to Exhibit 99.6 of Form 8-K filed January 21, 2003.) *

10(ai) Stock Purchase Agreement among the Company, Greenland Corporation, and ExpertHR-Oklahoma, dated March 18, 2003. (Incorporated by reference to Exhibit 10(j) to Form 10-Q filed May 20, 2003.) *

10(aj) Assignment of Patent between John Capezzuto and Quik Pix, Inc. dated January 14, 2003. **

10(ak) Promissory Note between the Company and John Capezzuto dated June 1, 2003 (signed June 9, 2003)**

10(al) Promissory Note between the Company and John Capezzuto dated June 9, 2003 **

10(am) Agreement and Assignment of Rights, dated February 1, 2003, between Accord Human Resources, Inc. and Greenland Corporation, and Imaging Technologies. (Incorporated by reference to Exhibit 10(k) of Form 10-KSB filed April 7, 2003 by Greenland Corporation.) *

10(an) Agreement and Assignment of Rights, dated March 1, 2003, between StaffPro Leasing 2, Greenland Corporation, and ExpertHR. (Incorporated by reference to Exhibit 10(l) of Form 10-KSB filed April 7, 2003 by Greenland Corporation.) *

10(ao) Promissory Note, dated March 1, 2003, payable to StaffPro Leasing 2 by Greenland Corporation. (Incorporated by reference to Exhibit 10(k) of Form 10-KSB filed April 7, 2003 by Greenland Corporation.) *

10(op) Agreement to Acquire Shares between the Company and The Christensen Group, et al, dated April 1, 2003. **

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

- 21 List of Subsidiaries of the Company **
- 23.1 Consent of Independent Accountants - Boros & Farrington **
- 23.2 Consent of Independent Accountants - Stonefield Josephson, Inc. **
- 23.3 Consent of Independent Accountants - Pohl, McNabola, Berg and Company **
- 99.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **
- 99.2 Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 **

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 12, 2003 IMAGING TECHNOLOGIES CORPORATION

By:/s/ BRIAN BONAR

 Brian Bonar
 Chief Executive Officer

By:/s/ JAMES R. DOWNEY, JR.

 James R. Downey, Jr.
 Chief Accounting Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints, Brian Bonar as his attorney-in-fact, each with full power of substitution and resubstitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K (including post-effective amendments), and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming that said attorney-in-fact, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons in the capacities and on the dates indicated.

SIGNATURE.	TITLE	DATE
-----	-----	-----

Chairman of the Board of Directors, . November 12, 2003

Edgar Filing: IMAGING TECHNOLOGIES CORP/CA - Form 10-K

/s/ Brian Bonar. Chief Executive Officer, and

Brian Bonar. Acting Chief Financial Officer
(Principal Executive Officer)
/s/ Robert A. Dietrich November 12, 2003

Robert A. Dietrich
Director
/s/ Eric W. Gaer November 12, 2003

Eric W. Gaer
Director
/s/ Stephen J. Fryer November 12, 2003

Stephen J. Fryer
Director
/s/ Richard H. Green November 12, 2003

Richard H. Green
Director