COMPUTERIZED THERMAL IMAGING INC
Form 10-Q
May 18, 2001

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2001

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

For the transition period from ___________ to _____________

Commission file number: 000-23955

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

NEVADA	87-0458721
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

Two Centerpointe Way, Suite 450 Portland, Oregon	97035
(Address of principal executive offices)	(Zip Code)

(801) 776-4700
(Registrant's telephone number, including area code)

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

APPLICABLE ONLY TO CORPORATE ISSUERS: State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: Common stock, par value $0.001, of which 80,548,763 shares were issued and outstanding as of May 11, 2001.

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COMPUTERIZED THERMAL IMAGING, INC.

FORM 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1.

The following comprise our condensed (unaudited) consolidated financial statements for the three and nine-month periods ended March 31, 2001 and 2000.

COMPUTERIZED THERMAL IMAGING, INC.
(A Development Stage Company)

Condensed Consolidated Balance Sheets
(UNAUDITED)

ASSETS

	March 31, 2001	June 30, 2000
CURRENT ASSETS		
Cash and cash equivalents	$ 1,105,794	$ 8,997,767
Investment securities available for sale	21,086,859	26,034,399
Accounts receivable, trade net	100,331	177,254
Inventory	717,556	110,206
Interest receivable	343,177	439,273
Prepaid expenses	73,968	204,541
Software maintenance contract	-	309,863
Total Current Assets	23,427,685	36,273,303
PROPERTY AND EQUIPMENT, NET	1,253,203	567,936
SOFTWARE LICENSES, NET	2,871,274	3,447,289
GOODWILL, NET	10,106,959	10,994,561
INTELLECTUAL PROPERTY RIGHTS, NET	45,249	49,334
ADVANCES TO AFFILIATES	-	130,247
TOTAL ASSETS	$ 37,704,370	$ 51,462,670

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2001	June 30, 2000
CURRENT LIABILITIES		
Accounts payable trade	$ 426,783	$ 688,064
Sales taxes payable	1,733	14,809
Deferred revenues	-	1,750,000
Accrued liabilities	777,058	724,952
Total Current Liabilities	1,205,574	3,177,825
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY		
Convertible preferred stock, $5.00 par value, 3,000,000 shares authorized	-	-
Common stock, $.001 par value, 200,000,000 shares authorized, 80,488,138 and 80,149,516 issued and outstanding on March 31, 2001 and June 30, 2000	80,488	80,150
Additional paid-in-capital	90,425,758	82,774,168

Accumulated other comprehensive income	204,939	32,492
Accumulated deficit	(54,212,389)	(34,601,965)
Total Stockholders' Equity	36,498,796	48,284,845
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 37,704,370	$ 51,462,670

See notes to condensed consolidated financial statements.

COMPUTERIZED THERMAL IMAGING, INC.
(A Development Stage Company)
Condensed Consolidated Statements of Operations
(UNAUDITED)

	Three months ended March 31, 2001	Three months ended March 31, 2000	Nine months ended March 31, 2001	Nine months ended March 31, 2000	From Inception on June 10, 1987 through March 31, 2001
INCOME					
Sales revenues	$ 106,712	$ -	$ 302,419	$ -	$ 631,702
Cost of goods sold	(41,759)	-	(133,558)	-	(310,494)
Gross Margin	64,953	-	168,861	-	321,208
COSTS AND EXPENSES					
General and administrative costs	2,775,127	858,840	8,620,138	2,097,676	28,309,406
Research and development costs	1,989,246	1,190,557	5,991,894	3,196,065	18,138,658
Depreciation and amortization expense	544,038	212,352	1,691,062	251,407	2,448,237
Litigation and settlement expenses	-	62,500	-	62,500	1,097,434
Total Costs and Expenses	5,308,411	2,324,249	16,303,094	5,607,648	49,993,735
LOSS FROM OPERATIONS	(5,243,458)	(2,324,249)	(16,134,233)	(5,607,648)	(49,672,527)
OTHER INCOME AND EXPENSES					
Interest income	424,720	259,365	1,588,928	268,833	2,452,617
Interest expense	-	(576)	(35,705)	(576)	(2,209,517)
Income from sale of prototypes	-	-	-	-	180,815
Miscellaneous income	4,000	-	6,552	-	6,552
Total Other Income and Expenses	428,720	258,789	1,559,775	268,257	430,467

LOSS BEFORE EXTRAORDINARY ITEM	(4,814,738)	(2,065,460)	(14,574,458)	(5,339,391)	(49,242,060)
EXTRAORDINARY GAIN ON EXTINGUISHMENT OF DEBT	-	-	-	-	65,637
NET LOSS	(4,814,738)	(2,065,460)	(14,574,458)	(5,339,391)	(49,176,423)
OTHER COMPREHENSIVE INCOME					
Unrealized gain on available-for-sale securities	31,108	-	172,447	-	204,939
TOTAL COMPREHENSIVE LOSS	$(4,783,630)	$(2,065,460)	$(14,402,011)	$(5,339,391)	$(48,971,484)
WEIGHTED AVERAGE SHARES OUTSTANDING	80,486,460	67,218,472	80,456,637	65,684,683	
BASIC AND DILUTED LOSS PER SHARE	$(0.06)	$(0.03)	$(0.24)	$(0.08)	

See notes to condensed consolidated financial statements.

COMPUTERIZED THERMAL IMAGING, INC.
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows
(UNAUDITED)

	Three months ended March 31,		Nine months ended March 31,		From Inception on June 10, 1987 through March 31,
	2001	2000	2001	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net loss	$(4,814,738)	$(2,065,460)	$(14,574,458)	$(5,339,391)	$(49,176,423)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization	544,038	212,352	1,691,062	251,407	2,448,237
Amortization of debt issuance costs and discounts on notes	-	-	-	-	937,969
Amortization of bond (premium) discount, net	635	-	17,624	-	17,624

Common stock, warrants, and options issued as compensation	137,000	58,098	137,000	432,206	10,008,594
Variable options marked to market as compensation	196,103	-	196,103	-	196,103
Warrants/options extended beyond expiration as compensation	-	-	1,687,250	-	1,687,250
Common stock issued for interest expense	-	-	-	-	423,596
Common stock/warrants issued to settle litigation	-	-	-	-	514,380
Options issued at discount to market as compensation	-	-	231,250	-	231,250
Common stock issued for failure to complete timely registration	-	-	-	-	82,216
Common stock issued to 401(k) plan	52,751	43,226	52,751	43,226	95,977
Extraordinary gain on extinguishment of debt	-	-	-	-	(65,637)
Write-off of advances to affiliate	-	-	130,537	-	130,537
Changes in operating assets and liabilities (net of effects of acquisition):					
Accounts receivable trade	(4,638)	(27,182)	76,923	(30,782)	21,035
Inventory	(228,117)	-	(607,350)	-	(540,798)
Interest receivable	53,611	-	96,096	-	(343,177)
Prepaid expenses	81,453	-	130,573	-	(73,968)
Miscellaneous Receivables	44,000	-	-	-	-
Maintenance contract		178,082	309,863	(471,918)	-
Accounts payable	(145,337)	1,346,198	(261,280)	1,945,335	359,104
Sales taxes payable	(13,779)	-	(13,077)	-	1,733
Deferred revenues	-	-	(1,750,000)	-	-
Accrued liabilities	258,847	-	52,106	-	777,058
Net Cash Used in Operating Activities	$(3,838,171)	$(254,686)	$(12,397,027)	$(3,169,917)	$(32,267,340)

See notes to condensed consolidated financial statements.

COMPUTERIZED THERMAL IMAGING, INC.
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows (Continued)
(UNAUDITED)

From
Inception on

	Three months ended March 31, 2001	Three months ended March 31, 2000	Nine months ended March 31, 2001	Nine months ended March 31, 2000	June 10, 1987 through March 31, 2001
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of assets	-	-	-	-	4,790
Purchase of property and equipment	(241,017)	(139,561)	(985,066)	(236,768)	(1,844,272)
Purchase of software license		-	(2,410)	-	(3,852,410)
Proceeds on sale of securities available for sale	2,970,240	-	6,575,872	-	6,575,872
Purchase of securities available for sale	-	-	(1,332,277)	-	(27,330,366)
Acquisition of Bales Scientific common stock	-	-		-	(5,642,880)
Acquisition of minority interest in subsidiary	-	(30,000)	(40,000)	(60,000)	(100,000)
Net Cash (Used in) Provided by Investing Activities	2,729,223	(169,561)	4,216,119	(296,768)	(32,189,266)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Common stock, warrants and options issued for cash	758	49,460,275	311,608	53,505,359	63,868,229
Stock offering costs	-	(2,933,793)	-	(2,933,793)	(2,933,793)
Cash paid in Bales acquisition	-	-	-	-	38,822
Advances to affiliates	-	-	(22,673)	-	(130,537)
Advances (to)/from stockholders	-	(7,042)	-	-	2,320,738
Proceeds from borrowings, net of debt issuance costs and accrued interest	-	45,793	-	45,793	3,576,131
Retirement of notes and debentures	-	-	-	-	(1,177,190)
Net Cash Provided by Financing Activities	758	46,565,233	288,935	50,617,359	65,562,400
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,108,190)	46,140,986	(7,891,973)	47,150,674	1,105,794
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,213,984	1,146,850	8,997,767	137,162	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,105,794	$ 47,287,836	$ 1,105,794	$ 47,287,836	$ 1,105,794

See notes to condensed consolidated financial statements.

COMPUTERIZED THERMAL IMAGING, INC.
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows (Continued)
(UNAUDITED)

	Three months ended March 31, 2001	Three months ended March 31, 2000	Nine months ended March 31, 2001	Nine months ended March 31, 2000	From Inception on June 10, 1987 through March 31, 2001
SUPPLEMENTAL CASH FLOW INFORMATION					
Cash paid for:					
Interest expense	$ -	$ -	$ 35,705	$ -	$ 35,705
Income taxes	-	-	-	-	-
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING AND INVESTING ACTIVITIES					
Common stock issued to individuals to acquire minority interest in subsidiary	$ -	$ -	$ -	$ -	$ 165,500
Common stock issued as consideration for Bales Scientific, Inc.	-	-	-	-	5,500,000
Options issued for offering costs	-	-	-	-	744,282
Common stock issued for offering costs			-	75,000	300,634
Common stock issued for notes payable, accrued discount and interest	-	-	-	-	2,224,953
Common stock issued for liabilities	-	-	-	-	50,000
Deemed dividend on extension of warrants	-	-	5,035,966	-	5,035,966

See notes to condensed consolidated financial statements.

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

NOTE A. UNAUDITED FINANCIAL STATEMENTS AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted as permitted by such rules and regulations. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of results of operations have been included in the financial statements. Results for interim periods are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in connection with the audited consolidated financial statements and notes thereto included in the Company's latest annual report on Form 10-KSB.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and related disclosures. Actual results may differ from these estimates.

NOTE B. NEW ACCOUNTING STANDARD AND GUIDANCE

Accounting for Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", subsequently amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities", which establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 requires an entity to recognize all derivative instruments as either assets or liabilities in the statement of financial position and measure those instruments at their fair value. The Company adopted the statement on July 1, 2000 and has determined that the adoption of SFAS 133 did not have a material effect on the financial condition of the Company.

Revenue Recognition

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." The SAB summarizes the SEC staff's views on applying generally accepted accounting principles to revenue recognition in financial statements. The Company has reviewed its revenue recognition policies and has determined that they comply with the principles set forth in SAB No. 101. Accordingly, the issuance of SAB No. 101 did not have any effect on the Company's financial position or results of operation.

NOTE C. INVENTORIES

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

	March 31, 2001	June 30, 2000
Raw materials and work-in-process	$ 659,033	$ 110,206
Finished goods	33,955	-
Supplies	24,568	-
	$ 717,556	$ 110,206

NOTE D. INCOME TAXES

The Company uses the liability method of accounting for income taxes. Under this method, deferred income taxes are recorded to reflect the tax consequences on future years of temporary differences between the tax basis of assets and liabilities and their financial statement amounts at the end of each reporting period. The Company has reviewed its net deferred tax assets, together with net operating loss carryforwards, and has provided a valuation allowance to reduce its potential deferred tax assets to their net realizable value. In making this determination, the Company has considered the Company's history of tax losses incurred since inception and the fact that the Company is still within the development stage.

NOTE E. STOCK WARRANTS, OPTIONS, AND RESTRICTED STOCK

During the second quarter of fiscal year 2001, employee stock options covering 500,000 shares of common stock were issued at an 11.38 percent discount to market and 1,000,000 employee stock options, originally scheduled to expire on December 20, 2000, were extended to September 18, 2001. As a result of the issuance and extension of the stock options, the Company recorded additional compensation expense of $1,918,500 for the nine-month period ended March 31, 2001. The additional compensation expense has no net effect to the cash flows or total stockholders' equity of the Company.

During the second quarter of fiscal year 2001, warrants representing 2,086,150 underlying shares of common stock scheduled to expire on December 31, 2000 were extended to August 31, 2001. The expiration date of such warrants was previously extended from December 31, 1999 to December 31, 2000. The excess of the fair value of the warrants on the date of extension over the fair value of such warrants measured at the date of their original issuance, or $5,035,966, was recorded as a deemed dividend paid to the warrant holders for the nine-month period ended March 31, 2001. The deemed dividend has no net effect to the cash flows or total stockholders' equity of the Company.

During the third quarter of fiscal year 2001, stock options covering 1,000,000 shares of common stock previously granted to an employee were repriced from a $3.63 per share exercise price to a $2.15 per share exercise price. The vesting of such options were also accelerated such that options, previously scheduled to vest over a three-year employment period beginning April 30, 2000, will vest no later than December 31, 2001. Pursuant to Accounting Principles Board Opinion No. 25 and Financial Accounting Standards Board Interpretation No. 44, these options are accounted for as variable options and marked-to-market at the conclusion of each accounting period following the change in the terms of the options. Since the price of the Company's stock was equal to or less than the revised exercise price on the date such options were repriced, no additional compensation expense was

recorded as a result of the repricing. However, the Company recorded additional compensation expense of $290,000 for the three and nine-month periods ended March 31, 2001 in connection with marking-to-market such options at the close of the period. The additional compensation expense has no net effect to the cash flows or total stockholders' equity of the Company.

NOTE F. CONTINGENCIES

At March 31, 2001, the Company was not involved in any pending or threatened legal disputes that the Company believes would have a material adverse impact on the Company's financial statements.

NOTE G. RECLASSIFICATIONS

Certain 2000 amounts have been reclassified to conform to the 2001 presentations.

NOTE H. CANCELLATION OF AGREEMENTS WITH CTII

Pursuant to certain agreements entered into in fiscal 2000 to market and deploy our Breast Cancer System 2100 throughout Central and South America, the Company accepted a purchase order on June 6, 2000 for the sale of 10 Breast Cancer Systems for $5 million to Computerized Thermal Imaging International, Inc. ("CTII"), an entity in which the Company received a 15-percent interest pursuant to the agreements. The Company received a down payment of $1.75 million (which was recorded as deferred revenue as of June 30, 2000), with the remaining $3.25 million to be received upon delivery of the systems. The invoice obligated the Company to deliver the 10 systems to CTII on, or about, mid-October, 2000. Additionally, the Company expected to issue 500,000 options upon the delivery and placement of such systems into commercial use.

In late September 2000, the Company advised CTII of its desire to renegotiate the foregoing agreements given the substantial change in market conditions, the increased value of the Company's common stock and unresolved issues concerning the deployment of the Company's systems in Mexico. On October 11, 2000, following attempts to reach more favorable terms, the Company concluded it was in the best interests of the Company and its shareholders to mutually terminate the agreements and the purchase order for the 10 units. Accordingly, the agreements and purchase order were terminated and the Company refunded the $1.75 million down payment received from CTII on the initial order of the 10 units. In connection with the termination of the agreements, the Company's obligation to issue options to CTII was eliminated, the Company's 15% ownership in CTII reverted back to the remaining principals of CTII, and each party to the agreements will bear the respective costs of any performance under the agreements.

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

This document contains forward-looking statements about our business and future. The United States Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. Our forward-looking statements are expressed in good faith and we believe that there is a reasonable basis for us to make them. However, readers are cautioned not to place undue reliance on such statements. Forward-looking statements include, but are not limited to, statements about our: 1) plans; 2) objectives; 3) goals; 4) strategies; 5) expectations for the future; 6) future performance and events; 7) underlying assumptions for all of the above; and 8) other statements that are not statements of historical fact.

We make these forward-looking statements based on our analysis of internal and external historical trends and future expectations. However, such statements involve risks and uncertainties that could cause our actual results to materially differ from our forward-looking statements and there can be no assurance that we will achieve the results set forth in these forward-looking statements. In addition to other factors, the following are important factors that could cause our actual results to materially differ from our forward-looking statements: 1) the results of our pre-clinical and clinical testing; 2) the time and costs involved in obtaining regulatory approvals for our systems and products; 3) our ability to respond to changes in the medical technology marketplace including our ability to develop or acquire new technologies; 4) competitive factors; 5) the availability of financing on terms and conditions acceptable to us; 6) the availability of personnel with requisite skills; and 7) the terms of any new collaborative, licensing and other arrangements that we may establish.

We have no obligation, or intent, to update or revise these forward-looking statements to reflect future events, new information, or otherwise. The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our Audited Consolidated Financial Statements and Notes thereto contained in our Form 10-KSB for the fiscal year ended June 30, 2000.

Trends/Uncertainties Affecting Continuing Operations

We are a development stage enterprise and have generated no significant revenues since inception in 1987. Our ability to achieve profitability will depend, in large part, on our ability to successfully develop clinical applications for our products, obtain regulatory approvals, and develop the capacity to manufacture and extensively market our products.

We are presently making the transition from a research and development stage company to a commercial operating company. This transition anticipates final approval of our Breast Cancer System 2100 currently undergoing FDA evaluation. We can make no assurances that we will ultimately obtain FDA approval of our Breast Cancer System 2100 or, that if approved, we will be able to successfully make the transition to a commercial operating company and sell our products on a broad basis. While attempting to make this transition, we will be subject to all risks inherent in a growing venture, including, but not limited to, the need to develop and manufacture reliable and effective products, develop marketing expertise and expand our sales force. There can be no assurance that we will achieve profitable operations.

General

Computerized Thermal Imaging, Inc. ("we", "us", "our", and "the Company") is in business to enhance the quality of human life through cost-effective, superior diagnostics. Our research indicates that data generated by our infrared imaging system can help physicians detect many diseases, disorders, and injuries within the body's physiological, neurological, and vascular systems that may go undetected using conventional imaging modalities. Realizing that our non-invasive, painless imaging system can be applied to the public good, we have placed our primary focus on an area of great need: breast cancer detection. This decision resulted in the development of our Breast Cancer System 2100 ("Breast Cancer System"). We are presently seeking FDA premarket approval ("PMA") of this system as an adjunct to mammography. The purpose of our PMA Application and clinical trial is to establish the efficacy of our Breast Cancer System to consistently distinguish between malignant and benign tissue and, thereby, significantly reduce the number of unnecessary breast biopsies performed each year. We have submitted, and received acceptance on, four of the five modules to be submitted to the FDA as part of our PMA Application. In late 2000, we completed the data collection phase of our clinical trial and expect to submit the fifth, and final, module following compilation and analysis of the clinical results prior to June 30, 2001.

In addition to screening for breast cancer, we believe our thermal imaging technology also shows promise in the treatment of pain, the identification of musclo-skeletal abnormalities, and the non-destructive testing of structural components. In connection therewith, we design, manufacture and sell our Photonic Stimulator designed to improve vascularity and increase blood flow circulation in the treatment of pain. Specifically, we have recently initiated practical studies to demonstrate the Photonic Stimulator's usefulness in the treatment of diabetic neuropathy. We also develop, manufacture, and sell unique industrial applications of our technology to address the non-destructive inspection of aging aircraft, electronics, composites, metals and other advanced materials, as well as breakthroughs in the inspection of turbine blades of large power-generation equipment. To date, our line of products consists of our Breast Cancer

System (currently undergoing FDA review), our Photonic Stimulator, our Thermal Image Processor, and our Turbine Blade Inspection System.

We are presently transitioning from development stage to commercialization. In March 2000, we raised over $44 million to support this transition and complete our PMA Application. We have had limited revenues from operations and essentially no sales of any magnitude related to our Breast Cancer System. To date, revenues have been generated primarily from sales of our Photonic Stimulator and Thermal Image Processor and services provided in connection with our Turbine Blade Inspection System. In January of our fiscal year 2001, we initiated a marketing campaign designed to establish the distribution channels for our products. In connection therewith, we recently executed agreements with distribution agents to market our products. Orders resulting from our marketing campaign exceeded $850,000 during the quarter ended March 31, 2001. These orders will be recognized as revenues in future periods in accordance with, and to the extent permitted by, generally accepted accounting principles and regulations promulgated by the Securities and Exchange Commission.

We are publicly traded on the American Stock Exchange under the "CIO" ticker symbol. As of May 11, 2001, we have 80,548,763 shares of common stock outstanding held by approximately 29,000 known shareholders. Known shareholders are comprised primarily of individual investors. In addition to the issued and outstanding common stock, we have approximately 18.7 million shares underlying warrants and options that remain unexercised, including warrants and options not fully vested as of the date hereof. Accordingly, on a fully diluted basis, we have approximately 99 million common shares outstanding, 24.1% of which is beneficially owned by insiders and affiliates. In addition to the foregoing, we own 98.1 percent of Computerized Thermal Imaging Company (previously known as Thermal Medical Imaging, Inc.) and 100 percent of Bales Scientific, Inc. We have no other interest in any other entity.

Capital is required, in part, to satisfy general corporate expenses, salaries, software license and maintenance contract payments, manufacturing costs, professional fees to comply with securities reporting requirements, costs of clinical trials and technical support, FDA consulting expenses, acquisition of technology, costs of litigation, and expenses associated with the private placement and registration of our securities. Our capital resources are principally derived from the sale and private placement of our common stock and warrants and the exercise of our common stock warrants and options.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31, 2000.

Revenues

Revenues for the quarter ended March 31, 2001 totaled $106,712. These revenues resulted entirely from product sales by Bales Scientific, our subsidiary, which we acquired in April 2000. Accordingly, we had no revenues for the comparative period ended March 31, 2000. The foregoing revenues do

not reflect over $850,000 in orders received during the quarter ended March 31, 2001 which will be recognized as revenues in future periods in accordance with, and to the extent permitted by, generally accepted accounting principles and regulations promulgated by the Securities and Exchange Commission.

Interest income in the quarter ended March 31, 2001 increased $165,355 compared with the same quarter of 2000, to $424,720. This increase is primarily the result of investing the proceeds from the private placement of our common stock during the quarter ended March 31, 2000.

Costs and Expenses

General and Administrative Expenses. General and administrative expenses for the quarter ended March 31, 2001 increased $1,916,287 or 223% over the same quarter in 2000, to $2,775,127. This increase is primarily a result of additional compensation expense of $750,931 in the 2001 quarter ($196,103 resulting from the accounting for employee stock options, $417,828 resulting from a material increase in the number of employees over the prior period, and $137,000 resulting from granting restricted stock). The increase is further attributable to 1) additional legal expenses of $326,739 incurred in connection with regulatory filings, on-going litigation, and other legal matters; 2) additional retirement plan and employee-related expenses of $126,581 resulting from the aforementioned increase in the number of employees; 3) an increase in travel costs of $125,198; 4) an increase in marketing-related costs of $173,329 incurred as a result of transitioning efforts towards commercialization of our products; and 5) a $226,086 increase in miscellaneous and office-related expenses.

Research and Development Expenses. Research and development expenses for the quarter ended March 31, 2001 increased $798,689, or 67%, over the same quarter in 2000, to $1,989,246. The increase is primarily a result of 1) a $69,413 increase in clinical trial expenses; 2) a $512,533 increase in salaries as a result of a material increase in the number of employees; and 3) a $194,234 increase in expenses attributable to software and systems development consultants.

Depreciation and Amortization. Depreciation and amortization expenses for the quarter ended March 31, 2001 increased $331,686, or 157% over the results of the same quarter in 2000, to $544,038. The increase in depreciation and amortization expense primarily resulted from amortization of goodwill associated with our acquisition of Bales Scientific in April 2000 and amortization of our software licenses.

During the quarter ended March 31, 2001 and all prior periods, we expensed all costs associated with processes and systems development, including software code writings, computer systems hardware and software purchases, material expenses in the development of our examination table and all payroll expenses throughout the periods presented.

Net Loss

As a result of the foregoing, we incurred a loss of $4,814,738 for the quarter ended March 31, 2001 compared to a loss of $2,065,460 for the quarter ended March 31, 2000.

For the quarter ended March 31, 2001, the loss attributable to common shareholders was $4,814,738, or $(0.06) per share, compared to a loss attributable to common shareholders of $2,065,460, or $(0.03) per share, for the quarter ended March 31, 2000.

NINE MONTHS ENDED MARCH 31, 2001 COMPARED TO NINE MONTHS ENDED MARCH 31, 2000.

Revenues

Revenues for the nine months ended March 31, 2001 totaled $302,419. These revenues resulted entirely from product sales by Bales Scientific, our subsidiary, which we acquired in April 2000. Accordingly, we had no revenues for the comparative period ended March 31, 2000.

Interest income in the nine months ended March 31, 2001 increased $1,320,095 compared with the same period of 2000, to $1,588,928. This increase is primarily the result of investing the proceeds from the private placement of our common stock during the quarter ended March 31, 2000.

Costs and Expenses

General and Administrative Expenses. General and administrative expenses for the nine months ended March 31, 2001 increased $6,522,462, or 311% over the same period in 2000 to $8,620,138. This increase is primarily a result of additional compensation expense of $3,408,065 in the 2001 quarter ($2,114,603 resulting from the accounting for employee stock options, $1,156,462 resulting from a material increase in the number of employees over the prior period, and $137,000 resulting from granting restricted stock). The overall increase was further attributable to 1) additional legal expenses of $1,023,390 in connection with our Nasdaq/AMEX listing application, regulatory filings, on-going litigation, and other legal matters; 2) additional retirement plan and employee-related expenses of $276,499 resulting from the aforementioned increase in the number of employees; 3) an increase in travel costs of $345,793; 4) an increase in marketing-related costs of $431,152 as a result of transitioning efforts towards commercialization of our products; 5) a $235,490 increase in office-related expenses; 6) a $175,203 increase in insurance expense; and 7) a $249,753 increase in rent expense.

Research and Development Expenses. Research and development expenses for the nine months ended March 31, 2001 increased $2,795,829, or 87% over the same period in 2000, to $5,991,894. The increase is primarily a result of 1) a $146,567 increase in clinical trial expenses; 2) a $1,288,269 increase in salaries as a result of a material increase in the number of employees; 3) a $1,194,634 increase in payments to various contractors in connection with our clinical trials, software development and FDA Pre-Market Approval application; and 4) a $309,687 increase in software license fees.

Depreciation and Amortization. Depreciation and amortization expenses for the nine months ended March 31, 2001 increased $1,439,655, or 573% over the results of the same period in 2000, to $1,691,062. The increase in depreciation and amortization expense primarily resulted from amortization of

goodwill associated with our acquisition of Bales Scientific and amortization of our software licenses.

During the nine months ended March 31, 2001 and all prior periods, we expensed all costs associated with processes and systems development, including software code writings, computer systems hardware and software purchases, material expenses in the development of our examination table and all payroll expenses throughout the periods presented.

Net Loss

As a result of the foregoing, we incurred a loss of $14,574,458 for the nine months ended March 31, 2001 compared to a loss of $5,339,391 for the nine months ended March 31, 2000. After accounting for dividends deemed paid to specified warrant holders on the extension of their warrants, we incurred a loss of $19,610,424 for the period ended March 31, 2001 compared to a loss of $5,339,391 for the period ended March 31, 2000.

For the nine months ended March 31, 2001, the loss attributable to common shareholders was $19,610,424, or $(0.24) per share, compared to a loss attributable to common shareholders of $5,339,391, or $(0.08) per share, for the nine months ended March 31, 2000.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Our net working capital at March 31, 2001 was $22,222,111 compared to $41,471,687 at March 31, 2000. The ratio of current assets to current liabilities was 19.43 to 1.0 at March 31, 2001 compared to 7.56 to 1.0 at March 31, 2000.

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

Net cash used in operating activities for the nine months ended March 31, 2001 was $12,397,027 compared to $3,169,917 for the nine months ended March 31, 2000. Net cash provided by investing activities in the 2001 period was $4,216,119 compared to net cash used in investing activities of $296,768 in the prior year's comparable period. Net cash provided by financing activities was $288,935 in the nine months ended March 31, 2001 compared to $50,617,359 generated in the prior year's comparable period. As a result of the foregoing, cash and cash equivalents decreased by $7,891,973 in the nine months ended March 31, 2001 compared to a $47,150,674 increase in the nine months ended March 31, 2000.

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

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

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

Sources of Potential Long-term Liquidity. We expect that both use agreements and equipment financing will be sources of long-term liquidity for us, although it is premature to anticipate the results of either. Although we have investigated both options and have entered into preliminary discussions with equipment financing companies, we are awaiting Pre-Market Approval of our Breast Cancer System 2100 before entering into any additional planning or definitive agreements regarding either. Much of what we anticipate as being sources of long-term liquidity is contingent upon (1) whether or not we achieve Pre-Market Approval of our Breast Cancer System 2100, (2) the development and execution of a definitive and successful marketing strategy, (3) whether we are able to develop our Medical Systems for other applications in the United States, and (4) the results of our marketing efforts in domestic and foreign markets.

Capital Requirements/Plan of Operation

We are a development stage enterprise and, as such, are largely dependent on the sale of our common stock and warrants, and the exercise of our warrants and options, to provide liquidity. Since inception, we have continually sought funding to meet our day-to-day operations and business plan and have often sought substantial loans from affiliates and shareholders to meet our financial obligations. Such loans were often repaid in stock. Although we believe that we have sufficient resources to meet our current plan of operations for the next 12 months, it is possible that, due to unforeseen events, we will have insufficient resources and funding required to execute our plan of operations. Until such time as we begin generating significant revenues from operations, which is not likely until and unless Pre-Market Approval of our Breast Cancer System 2100 is obtained from the FDA and our products are marketed and sold on a large-scale basis, we will be faced with the difficulties and expenses associated with our financing needs and obligations.

Our capital requirements may vary from our estimates and depend on numerous factors including, but not limited to: 1) progress in our research and development programs; 2) results of pre-clinical and clinical testing; 3) costs of technology; 4) time and costs involved in obtaining regulatory approvals; 5) hiring of additional personnel to carry out our plan of

operations; 6) costs of filing, defending and enforcing any patent claims and other intellectual property rights; 7) economic impact of competing technological and market developments; 8) the costs of transitioning to a commercial enterprise; 8) the costs to manufacture our products; and 9) the terms of any new collaborative, licensing and other arrangements that we may establish.

We estimate that we will require approximately $17 million in cash to meet our business plan and obligations for the 12-month period ending March 31, 2002 including approximately $6.8 million in engineering and manufacturing design costs and research and development to continue and/or initiate clinical trials, test our systems in connection with industrial and other medical applications and complete our FDA Pre-Market Approval application with the FDA, $2.0 million for day-to-day operating expenses including lease payments on our facilities, $4.6 million to cover salaries, $1.1 million in capital equipment, $1.8 million for public relations, advertising, and commercialization of our products, and $.7 million for legal and accounting for SEC compliance with reporting obligations, on-going litigation, and general legal representation. As of March 31, 2001, we have 53 employees and plan to hire additional employees as we move towards completion of the FDA approval process and develop our marketing and distribution plan.

Certain aspects of our Plan of Operation for the next twelve months include: 1) completion of FDA Pre-Market Approval application on our Breast Cancer System 2100; 2) development and initiation of our plan for commercialization of our products including development of relationships with distributors; and 3) development and commercialization of our technologies into industrial application.

We have a financing arrangement (discussed in "Sources of Liquidity" above) whereby Beach is currently required to provide us with up to $4,000,000 in financing from time to time under certain conditions and then only if we desire to obtain financing from Beach. This financing arrangement is in the form of a Securities Purchase Agreement whereby Beach purchases shares of our common stock at a 15% discount to the market price of our common stock at the time of the funding. We can provide no assurances that we will require additional funding under the Securities Purchase Agreement or, if we desire additional funding, we will meet the terms of the Securities Purchase Agreement necessary to require additional funding. Furthermore, any issuance of shares to Beach could have a severe dilutive effect on the existing holders of our common stock.

There are currently outstanding options and warrants covering approximately 16.6 million shares that can be exercised or converted with exercise prices ranging from $.60 to $9.0625 (representing gross proceeds to us, upon conversion, of approximately $45.8 million). Of the estimated $45.8 million in gross proceeds available to us upon conversion of vested options and warrants, approximately $6.4 million is attributable to options and warrants expiring in 2001, approximately $5.3 million is attributable to options and warrants expiring in 2002, approximately $3.0 million is attributable to options and warrants expiring in 2003, approximately $30.5 million is attributable to options and warrants expiring in 2005, and approximately $0.6 million is attributable to warrants and options which expire after 2005. Additional proceeds of approximately $9 million may become available to us at a future date upon the vesting and exercise of yet unvested options. As of March 31, 2001, we had outstanding: a) 7,933,751

immediately exercisable options to purchase our common stock at exercise prices ranging from $.60 to $9.0625 per share; b) 2,074,285 options to purchase our common stock at exercise prices ranging from $.76 to $7.71875 that vest at future dates pursuant to various agreements; and c) immediately exercisable warrants to purchase 8,715,431 shares of our common stock at prices ranging from $.72 to $7.25 per share.

The likelihood of warrants and options being exercised will be high if our common stock trades at a price above the respective strike prices of these securities. However, we can provide no assurances that our outstanding options and warrants will be exercised even if the price of our common stock trades above the respective strike prices of these securities.

Based on the foregoing, we believe we will have sufficient capital to fund our business plan over the next year from our existing cash and cash equivalents and from the proceeds from the redemption of our marketable securities. If, due to unforeseen events, funding falls short and we need to obtain additional funds, we would seek them from private investors through loans or on the sale of our restricted common stock. However, we can provide no assurances that either of these avenues of financial support would be available to us or, if available, on terms acceptable to us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

At March 31, 2001, we had invested approximately $21 million in available-for-sale marketable securities including investments in United States government securities and corporate bonds. Although we believe the issuers of the securities in which we have invested are solvent and are favorably rated by recognized rating agencies, there is the risk that such issuers may not have sufficient liquid assets to satisfy their obligations at the time such obligations become due. If such were to occur, we may not be able to recover the full amount of our investment.

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Bloomberg/Evans Defamation Action

On August 28, 2000, we filed a complaint for libel in the United States District Court for the District of Utah, Northern Division, Case No. 1:00CV00098K against Bloomberg, L.P. (the "Defendant"). The lawsuit alleges that on June 29 and July 18, 2000, Defendant published certain defamatory articles about the Company that were written by David Evans through its news service, Bloomberg News. According to the Complaint, the defamatory articles

were published over Defendant's Internet web site and elsewhere to millions of people, and contained certain false, misleading, and defamatory statements regarding our business and thermal imaging technology. The lawsuit further alleges that, after publication of the first defamatory article on June 29, 2000, we wrote to Defendant and explained the alleged inaccuracies and falsehoods contained therein. Although Defendant then published on July 18, 2000 what it labeled as a "correction" to the first story, this second "defamatory article" still contained defamatory matter calling into doubt (among other things) our ability to attract capital as well as the efficacy of our Breast Cancer System 2100. The Complaint alleges damages against Defendant in excess of One Hundred Million Dollars ($100,000,000). On October 23, 2000, Defendant filed a motion to dismiss our complaint pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure. On December 11, 2000, we responded to the Defendant's motion, and on January 3, 2001, the Defendant filed its reply brief. A hearing was held by the Utah District Court on the Defendant's motion to dismiss our complaint on February 2, 2001. On March 26, 2001, the Court dismissed, without prejudice, our complaint against the Defendant. In so doing, the Court ruled that despite the possibility that a jury could have found Defendant's statements to be defamatory, damages had not been sufficiently pleaded. We had alleged that the Defendant statements directly caused a decline in our stock price and that the price decline did not merely "coincide" with those statements, as Defendant maintained. The court held that any decline in our stock value attributable to the Defendant statements may be damage to our shareholders, but not necessarily to the Company itself, and that other resulting damages directly relating to the Company were not specifically delineated in the initial pleadings. On April 13, 2001, we filed a motion with the District Court to reconsider its decision to dismiss. As of the date of this filing, the District Court has not ruled on our request to reconsider and there is insufficient information to make a conclusion as to the outcome of the case.

Kathleen Sullivan Employment Agreement

On June 27, 2000, Kathleen Sullivan ("Plaintiff") filed a complaint in the Superior Court of California for the County of Los Angeles (Central District), Case No. BC232482, against us alleging breach of contract. Thereafter, in March 2001, Plaintiff amended her complaint to include causes of action for fraud and negligent misrepresentation against us and a former officer. Plaintiff seeks unspecified damages pursuant to an agreement whereby she was to undertake particular promotional activities for the benefit of the Company during 1998. The agreement required us to issue stock and/or warrants in exchange for Plaintiff's performance. Plaintiff claims that we failed to duly compensate her for services rendered, whereas, we assert breach and non-performance as a defense on the basis that Plaintiff failed to fulfill her contractual obligations.

We believe that Plaintiff's claims are without merit and will defend ourselves against any and all claims. We are currently engaged in discovery and trial has been continued to October 15, 2001.

State Securities Matters

In a letter dated May 17, 2000, the Utah Division of Securities (the "Division") proposed terms of an order whereby we would cease and desist from paying commissions except to broker-dealers and we would pay a $500 fine in

connection with our recent private placement. On July 21, 2000, we responded and requested that it reconsider the proposed terms of its order. On August 17, 2000, we were advised that the Division had considered our letter but was not predisposed to consider a change to its initial order. On March 5, 2001, we met with the Division and requested that the Division reconsider the proposed items of its order. We are awaiting its response.

ITEM 2. CHANGES IN SECURITIES

No instruments defining the rights of the holders of any class of registered securities have been materially modified, limited or qualified during the period.

The following securities, which are not registered under the Securities Act of 1933 (the "Act"), were issued since the Company's last report for the quarter ended December 31, 2000. The following includes the issuance of shares upon conversion of warrants and options:

During January, 2001, we issued 11,533 shares of restricted common stock to the Company's 401K Plan to fund the Company's 2000 contribution to the Plan. This transaction is exempt from registration pursuant to Section 4(2) of the Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

None.

ITEM 5. OTHER INFORMATION

FDA Approval Status

Our Breast Cancer System 2100 qualifies as a medical device under 21 U.S.C. 321(h) because it is intended for use in the diagnosis, cure, mitigation, treatment or prevention of disease and does not interact chemically with the body. Typically, low risk, Class I or Class II devices that are substantially similar to approved products already on the market can obtain FDA clearance by the agency's pre-market notification known as a 510(k) filing. Sophisticated instruments that entail significant risk are generally classified as Class III devices and require manufacturers to submit a Pre-Market Application ("PMA") to the FDA. A PMA is much more complex and time-consuming to prepare than a 510(k) filing. A PMA typically contains a significant quantity of clinical testing, manufacturing and other data, all of which are carefully scrutinized by the FDA to demonstrate the product's safety, reliability and effectiveness.

We do not believe that our Breast Cancer System 2100 requires us to submit a PMA to the FDA for approval. Notwithstanding, we have chosen to pursue FDA approval via the PMA process to gain market acceptance of our system. We believe that FDA approval of our Breast Cancer System 2100 will 1) enable us to reference medical efficacy claims in connection with the marketing of our Breast Cancer System 2100, 2) lend credibility to all of our imaging systems, 3) ease the task of introducing our other products to the

market, 4) enhance physician acceptance of our systems, and 5) permit us to obtain designation of insurance payment codes for particular medical procedures.

The FDA is permitting us to submit our PMA in five modules, thereby accelerating the data submittal process. To date, we have submitted four of the five required modules and have received FDA acceptance on each of the four modules submitted. We anticipate submitting our final module (Module 5) prior to June 30, 2001. We cannot determine if, or when, we will ultimately obtain FDA approval of our Pre-Market Approval application.

David A. Packer Separation Agreement

On September 29, 2000, David A. Packer, our retiring President and Chief Operating Officer, signed an employment agreement effective for a term of three years beginning April 30, 2000. The agreement called for compensation of $200,000 per year, plus stock options covering 1,000,000 shares of common stock at an exercise price of $3.625 per share. On March 19, 2001, we entered into a Separation Agreement with Mr. Packer. Mr. John Brenna, our incoming President and Chief Operating Officer, will assume the duties and responsibilities held by Mr. Packer and will focus efforts to transition the Company from development stage to a commercial enterprise.

In consideration of Mr. Packer's employment agreement and in the interests of the Company, Mr. Packer will remain employed with us through December 31, 2001 to assist in the completion of Module 5 and provide other related services as requested. Further, the stock options covering 1,000,000 shares of common stock noted above were repriced to a $2.15 per share exercise price. The vesting of such options was also accelerated such that 750,000 options, previously scheduled to vest over a two-year employment period beginning April 30, 2001, are scheduled to vest no later than December 31, 2001. A copy of Mr. Packer's Separation Agreement is attached hereto as Exhibit 10.1.

Kevin L. Packard Employment Agreement

Earlier this year, we began planning the consolidation of our corporate headquarters to our offices in Oregon and our manufacturing facilities to our offices in Utah. This consolidation is expected to occur within this calendar year and will necessitate the relocation of several key individuals from Utah to our offices in Oregon. Recently, Mr. Kevin Packard, our Chief Financial Officer, accepted a position as a professor of accounting at a nearby university and has advised us that he will not be relocating to Oregon. We have engaged a placement firm to locate Mr. Packard's successor. Mr. Packard has agreed to continue as the Company's Chief Financial Officer, Secretary and

Treasurer until August 1, 2001 or until his successor is found to effect a seamless transition of his responsibilities. In connection therewith, Mr. Packard signed a six-month employment agreement effective February 1, 2001. The agreement calls for compensation of $138,000 per year (to be reduced to $100,000 after his successor is found), plus 50,000 shares of restricted stock that vests at the conclusion of the six-month agreement. In consideration, Mr. Packard relinquished all rights that he had in 100,000 stock options granted to him in May 2000. The restricted stock granted to Mr. Packard is governed by our 1997 Stock Option and Restricted Stock Plan. If the employment agreement is terminated for "cause" as defined in the

agreement, or Mr. Packard voluntarily terminates the agreement, all of the restricted stock granted to Mr. Packard thereunder, and which has not vested, shall be forfeited. The agreement subjects Mr. Packard to a two-year non-compete restriction, the obligation to give us the right to take advantage of any business opportunity, and the duty not to reveal any confidential information about the business of the Company. A copy of Mr. Packard's Employment Agreement is attached hereto as Exhibit 10.2.

Current Registration Statements

On October 16, 2000, we filed an amended combined registration statement on Form S-3, File #333-39654 Amendment No. 1, that included the common stock transactions covered by two prior registration statements. On October 26, 2000 we filed Amendment No. 2 to such registration statement and, on October 27, 2000, the Securities and Exchange Commission declared the combined registration statement effective. Accordingly, all common stock underlying the transactions covered by our Registration Statement #333-39654 can be sold, traded or otherwise transferred pursuant to the terms of such registration statement.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Report on Form 8-K filed April 4, 2001 reporting the dismissal of the Bloomberg litigation.

Exhibits. The following exhibits are filed herewith:

10.1 Separation and Severance Agreement dated March 19, 2001 between Computerized Thermal Imaging, Inc. and David A. Packer.

10.2 Employment agreement effective as of February 1, 2001 between Computerized Thermal Imaging, Inc. and Kevin L. Packard.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMPUTERIZED THERMAL IMAGING, INC.
(Registrant)

/s/Richard V. Secord

Dated May 17, 2001

Richard V. Secord
Chairman & Chief Executive Officer

	/s/Kevin L. Packard
Dated May 17, 2001	---
	Kevin L. Packard Chief Financial Officer, Secretary & Treasurer