

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

QUINTEK TECHNOLOGIES INC
Form 10QSB
February 20, 2004

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

FORM 10-QSB

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

For the Quarterly Period Ended December 31, 2003

or

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

Commission File Number 000-29719

QUINTEK TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

State of California

77-0505346

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

537 Constitution Ave., Suite B
Camarillo, California 93012

(Address of principal executive office)

Registrant's telephone number: 805-383-3914

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

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Act). Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant has filed all documents and reports required to be
filed by Section 12,13, or 15(d) of the Securities Exchange Act of 1934 after
the distribution of securities under a plan confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

On February 19, 2004 a total of 48,749,994 shares of the registrant's common
stock were issued and outstanding.

Transitional Small Business Disclosure

Format:

Yes No

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

TABLE OF CONTENTS

PART I	FINANCIAL INFORMATION
Item 1.	Financial Statements
	Balance Sheets
	Statement of Operations
	Statements of Cashflows
	Notes to Financial Statements
Item 2.	Management's Discussion and Analysis
Item 3.	Disclosure Controls and Procedures
PART II	OTHER INFORMATION
Item 1.	Legal Proceedings
Item 2.	Changes in Securities
Item 3.	Defaults Upon Senior Securities
Item 4.	Submission of Matters to a Vote of Security Holders
Item 5.	Other Information
Item 6.	Exhibits and Reports on Form 8-K
	Signatures
	Exhibit 31.1
	Exhibit 31.2
	Exhibit 32.1
	Exhibit 32.2

2

Index

PART I	FINANCIAL INFORMATION	4
Item 1	Financial Statements	4
Item 2	Management's Discussion and Analysis	16
Item 3	Disclosure Controls and Procedures	16
PART II	OTHER INFORMATION	17
Item 1	Legal Proceedings	17
Item 2	Changes in Securities	17
Item 3	Defaults Upon Senior Securities	17
Item 4	Submission of Matters to a Vote of Security Holders	17
Item 5	Other Information	17
Item 6	Exhibits and Reports on Form 8-K	18
	Signatures	
	Exhibits	19

3

QUINTEK TECHNOLOGIES, INC.

BALANCE SHEETS AT DECEMBER 31, 2003

AND JUNE 30, 2003

December 31,
2003 June 30,

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

A S S E T S -----	Unaudited -----	2003 -----
Current assets:		
Cash	2,649	21,162
Accounts receivable (net of allowance for doubtful accounts of \$18,445 and \$26,498)	21,424	73,118
Inventory	11,469	4,371
Other	4,774	8,617
	-----	-----
Total current assets	40,316	107,268
Property and equipment, at cost:		
Equipment	102,881	102,881
Computer and office equipment	106,881	93,297
Furniture and fixtures	33,518	33,518
	-----	-----
	243,280	229,696
Less-accumulated depreciation	(212,931)	(206,687)
	-----	-----
Net fixed assets	30,349	23,009
Other assets:		
Deposits	2,395	2,395
Intangible assets (net of accumulated amortization of \$104,108 and \$87,100)	31,965	48,973
Investments	28,762	28,762
Employee receivables, net	5,727	3,599
	-----	-----
Total other assets	68,849	83,729
	-----	-----
Total assets	139,514	214,006
	=====	=====

The accompanying notes are an integral part of the financial statements

4

LIABILITIES AND STOCKHOLDERS' (DEFICIT) -----	December 31, 2003 Unaudited -----	June 30, 2003 -----
Current liabilities:		
Accounts payable	210,737	200,315
Factoring payable	20,000	146,890
Payroll and payroll taxes payable	226,796	136,115
Payroll taxes assumed in merger	107,950	123,272
Accrued expenses	103,469	116,609
Notes payable-stockholders	132,300	32,300
Current portion of long-term debt	16,287	12,330
Other liabilities	29,176	29,135
Convertible bonds	162,495	151,695
Unearned revenue	131,959	41,034

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

Liabilities in process of conversion to stock	470,629	468,669
	-----	-----
Total current liabilities	1,611,798	1,458,364
Long-term debt, net of current portion	40,122	24,659
	-----	-----
Total liabilities	1,651,920	1,483,023
COMMITMENTS AND CONTINGENCIES	--	--
Stockholders' (deficit):		
Common stock-\$0.01 par value, 50,000,000 shares authorized, 48,749,995 and 46,762,008 issued and outstanding	487,500	467,620
Additional paid-in capital	20,430,108	20,326,780
Retained (deficit)	(22,429,131)	(22,062,534)
	-----	-----
	(1,511,523)	(1,268,134)
Less-subscriptions receivable	(883)	(883)
	-----	-----
Total stockholders' (deficit)	(1,512,406)	(1,269,017)
	-----	-----
Total liabilities and stockholders' (deficit)	139,514	214,006
	=====	=====

The accompanying notes are an integral part of the financial statements

5

QUINTEK TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS FOR THE THREE MONTHS AND SIX MONTHS

ENDED DECEMBER 31, 2003 AND 2002

	Three Months Ended December 31		Six Months Ended December 31	
	(Unaudited)		(Unaudited)	
	2003	2002	2003	2002
	-----	-----	-----	-----
Sales	77,248	72,221	185,425	222,611
Cost of sales	60,673	43,044	113,583	112,953
	-----	-----	-----	-----
Gross margin	16,575	29,177	71,842	109,658
Operating expenses:				
Selling, general and				

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

administrative	246,560	112,796	412,458	231,632
Stock-based compensation for services	15,000	61,680	15,000	72,013
	-----	-----	-----	-----
Total operating expenses	261,560	174,476	427,458	303,645
	-----	-----	-----	-----
Loss from operations	(244,985)	(145,299)	(355,616)	(193,987)
Other income (expenses):				
Other income	2,864	14,138	5,846	34,017
Interest expense	(10,768)	(3,907)	(16,828)	(23,846)
	-----	-----	-----	-----
Total other income (expenses)	(7,904)	10,231	(10,982)	10,171
	-----	-----	-----	-----
Net (loss) before income taxes	(252,889)	(135,068)	(366,598)	(183,816)
Provision for income taxes	--	--	--	--
	-----	-----	-----	-----
Net (loss)	(252,889)	(135,068)	(366,598)	(183,816)
	=====	=====	=====	=====
Net loss per share:				
Basic and diluted	(\$ 0.01)	(\$ 0.00)	(\$ 0.01)	(\$ 0.00)

The accompanying notes are an integral part of the financial statements

6

QUINTEK TECHNOLOGIES, INC.

STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS

ENDED DECEMBER 31, 2003 AND 2002

	(Unaudited)	
	December 31,	
	2003	2002
	-----	-----
Cash flows from operating activities:		
Net (loss)	(366,598)	(183,816)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:		
Depreciation and amortization	23,252	18,148
Stock-based compensation for services	15,000	72,013
Changes in current assets and liabilities:		
(Increase) decrease in accounts receivable	51,694	(89,448)
(Increase) decrease in inventory	(7,098)	27,004
Decrease in other current assets	3,843	2,038
Increase (decrease) in accounts payable	10,422	(32,421)
Increase in payroll payables	75,359	115,371
Increase (decrease) in other liabilities		

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

and accrued expenses	78,995	(29,640)
	-----	-----
Total adjustments	251,467	83,065
	-----	-----
Net cash (used) by operating activities	(115,131)	(100,751)
Cash flows from investing activities:		
Purchase of fixed assets	(13,585)	(4,000)
Decrease in other assets	--	4,000
(Increase) in employer receivables	(2,127)	(10,215)
	-----	-----
Net cash (used) by investing activities	(15,712)	(10,215)
Cash flows from financing activities:		
Factoring payable	(126,890)	--
Notes payable-stockholders	100,000	73,000
Convertible bonds	10,800	5,937
Proceeds from common stock	109,000	30,200
Notes payable	19,420	--
	-----	-----
Net cash provided by financing activities	112,330	109,137
	-----	-----
Net (decrease) in cash	(18,513)	(1,829)

Cash-beginning of period	21,162	2,602
	-----	-----
Cash-end of period	2,649	773
	=====	=====

The accompanying notes are an integral part of the financial statements

7

QUINTEK TECHNOLOGIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2003
(Unaudited)

- Basis of Presentation**

In the opinion of management, the accompanying unaudited financial statements of Quintek Technologies, Inc. (the "Company") include all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly its financial position as of December 31, 2003, the results of operations for the three months ended December 31, 2003 and 2002, and cash flows for the three months ended December 31, 2003 and 2002. The results of operations for the three months ended December 31, 2003 and 2002, are not necessarily indicative of the results to be expected for the full year or for any future period. The information included in this Form 10-QSB should be read in conjunction with Management's Discussion and Analysis and financial statements and notes thereto included in the Company's 2003 Form 10-KSB.
- Summary of Significant Accounting Policies**

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

a) Nature of Business

The Company was originally incorporated under the laws of the State of California on April 16, 1993, as Quintek Electronics, Inc. On January 14, 1999, the Company merged with Pacific Diagnostic Technologies, Inc. in a business combination accounted for as a purchase. The acquisition took place under a plan of reorganization. Quintek Electronics, Inc. ("QEI") became public when it was acquired by Pacific Diagnostic Technologies, Inc. ("PDX") through a reverse merger and Chapter 11 Plan of Reorganization. Under the plan, all assets of QEI were sold to PDX, all PDX management resigned once the Plan was confirmed, and QEI's management and operating plan were adopted by the new operating entity. Shortly after the confirmation of the plan, the name of the reorganized debtor was changed to Quintek Technologies, Inc. ("QTI"). QTI assumed the assets, liabilities, technology and public position of both QEI and PDX. At the time of the merger, PDX was a nonoperating public entity and QTI has no intention of carrying on the former operations of PDX.

The plan was structured to compensate all related parties with common stock and units. Each unit consisted of one share of common stock, one Class A warrant, one Class B warrant, one Class C warrant and one Class D warrant. PDX shareholders received unrestricted units at a ratio of one QTI unit for 25 shares of PDX stock, resulting in a distribution of 310,535 units. PDX creditors received unrestricted QTI units at a ratio of one QTI unit for \$3 of previous PDX debt, resulting in a net distribution of 885,549 units. Chapter 11 administrators and consultants received approximately 610,000 unrestricted QTI shares, attorneys received 220,000 unrestricted units and market-makers received 200,000 unrestricted units. QEI shareholders received 11,096,167 shares of restricted common stock.

8

On February 24, 2000, the Company acquired all of the outstanding common stock of Juniper Acquisition Corporation ("Juniper"). For accounting purposes, the acquisition has been treated as a capitalization of the Company with the Company as the acquirer (reverse acquisition). The historical financial statements prior to February 24, 2000 are those of the Company.

2. Summary of Significant Accounting Policies (Continued)

The Company was established for the primary purpose of developing, manufacturing, and distributing the 4300 Aperture Card Imaging System technologies, used for recording digital images on aperture card media ("the 4300 system"). Aperture cards are small, rectangular cards each of which contains a 35mm strip of microfilm, which is used for storing visual information. The 4300 system is intended to eliminate the problems of conventional aperture card manufacturing by producing aperture card media with a chemical free process. The chemistry and fumes involved with conventional photographic film development may be hazardous and the waste material resulting from the chemical process may be considered hazardous material. The Company's 4300 system does not use a chemical process and does not produce any hazardous material.

b) Basis of Accounting

The Company reports on the accrual basis of accounting for both financial statement and income tax purposes. Revenue from product

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

sales is recognized upon shipment of the product. Revenue from services is recognized as the service is provided using the straight-line method over the life of the contract. A related liability is recorded for the unearned portion of service revenue received.

c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reporting period. Actual results could differ from those estimates.

d) Major Customers

The Company had one customer that accounted for 54% of revenue. For the six months ended December 31, 2003, revenues from the Company's major customer amounted to approximately \$58,500. Accounts receivable from this major customer was approximately \$-0- at December 31, 2003.

e) Major Suppliers

There are currently only two known suppliers of aperture cards that use dry silver film. A continued supply of aperture card media is crucial to the success of the Company because without cards, customers have no use for the Company's equipment, services and software.

9

f) Accounts Receivable

The allowance for bad debt is established through a provision for bad debt charged to expense. Receivables are charged off against the allowance when management believes that the collectibility of the account is unlikely. Recoveries of amounts previously charged off are credited to the allowance.

g) Property, Equipment and Depreciation

Property and equipment are recorded at cost. Depreciation of property and equipment is provided using the straight-line and accelerated methods over the following estimated useful lives: Equipment-5 years, computers and office equipment-3-7 years and furniture and fixtures-7 years.

Expenditures and maintenance and repairs are charged against operations when incurred. Major renewals and betterments are capitalized.

h) Intangible Assets

The cost of patents and purchased proprietary processes acquired are being amortized using the straight-line method over their remaining useful lives of 4 years.

i) Payroll Taxes-Assumed in Merger

The Company assumed \$205,618 of payroll tax liabilities in the merger with Pacific Diagnostic Technologies, Inc. The balance at December 31, 2003 is \$107,950.

j) Research and Development

Research and development costs are charged to operations when

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

incurred and are included in operating expenses. The amount charged to operations for the six months ended December 31, 2003 was \$5,022.

k) Advertising

The Company expenses advertising costs as they are incurred. Advertising expense was \$143 for the six months ended December 31, 2003.

l) Income Taxes

The Company accounts for income taxes using the liability approach to financial accounting and reporting. Current income taxes are based on the year's income taxable for federal and state reporting purposes.

The Company has a deferred tax asset due to net operating loss carry forwards and temporary taxable differences due to stock-based compensation for income tax purposes. The deferred tax asset is \$2,480,092 as of December 31, 2003. However, due to the ongoing nature of the losses and the potential inability of the Company to ever realize the benefit, a valuation allowance has been established for 100% of the deferred tax asset. Net operating loss carry forwards expire at various times through the year 2021.

3. Going Concern

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern; however, the Company has sustained substantial operating losses. In view of this matter, realization of a major portion of the assets in the accompanying balance

10

sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements, and the success of its future operations.

The Company's management is unable to determine how long its cash flow will sustain its operations or whether certain creditors will initiate actions to collect amounts due. Accordingly, the Company will require an additional capital infusion or revenues from additional sales to continue operations. Management is not certain if additional capital or sales proceeds will become available and is considering other strategic alternatives, which may include a merger, asset sale, or another comparable transaction, or financial restructuring. If unsuccessful in completing a strategic transaction, the Company may be required to cease operations.

11

4. Net Loss Per Share

Basic net loss per share is based on the weighted average number of common shares outstanding of 47,758,001 and 40,455,008, for the six month periods ended December 31, 2003 and 2002, respectively. The basic and diluted net loss per share calculations are the same because potential dilutive securities would have had an antidilutive or immaterial effect.

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

5. Inventory
Inventory consists of aperture cards, parts and supplies, and completed machines, and is stated at the lower of cost or market. Cost is determined on a FIFO (first-in, first-out) basis.

Inventories are as follows:

	12/31/03 -----	6/30/03 -----
Parts and supplies	309,113	302,015
Reserve for obsolescence	(297,644)	(297,644)
	-----	-----
	11,469	4,371
	=====	=====

6. Convertible Bonds

Bonds payable with interest at 9%, due on various dates in 2001 and 2002, convertible to shares of common stock in increments of \$1,000 or more. 121,354

Bonds payable with interest at 12%, due July 2002, convertible to shares of common stock in increments of \$500 or more. 41,141

162,495
=====

Certain of the outstanding convertible bonds have matured as of December 31, 2002. The holders of the matured bonds do not wish to renew the bonds and have asked for payment; however, the Company does not have the cash to repay these bonds.

Bondholders have been asked to exchange their bonds for Series B preferred stock. As of December 31, 2003, holders of \$198,000 of the bonds including accrued interest had acted on this. The \$198,000 is included in the liability section of the financials under "Liabilities in Process of Conversion to Stock," since the preferred stock has not been issued.

7. Notes Payable

Notes payable, due on demand, unsecured, with interest at 12% per annum. 132,300

=====

8. Commitments and Contingencies

- a) Operating Leases

The Company leases its California office facility under a noncancelable operating lease that requires total monthly rental payments of \$2,846. The lease expired on March 31, 2002 and the Company has exercised the option to extend the lease an additional 24 months. The lease contains a rental payment escalation clause.

The Company leases its Idaho office facility under a month-to-month rental agreement at \$1,384 per month.

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

For the six months ended December 31, 2003, rent expense for these operating leases totaled \$25,211.

Minimum future rental payments under the noncancelable operating lease is as follows:

Year ended June 30, 2004	25,614
	=====

- b) Purchase Obligation
The Company has established a licensing agreement with Qtek Aperture Card AB. Under the agreement, the Company is required to purchase at least 25 of the Q4305 units at approximately \$18,000 each before June 30, 2004. As of December 31, 2003, the Company had purchased 15 units under the agreement.
- c) Income Tax Return Filings
The Company has not filed income tax returns for several years. Due to operating losses, income tax liability and penalties would not be substantial. However, the State of California could potentially revoke the Company's charter if the Company does not become current on its income tax return filings.
- d) Securities and Exchange Commission Inquiry On September 17, 2002, the Company was advised by the staff of the U.S. Securities and Exchange Commission that they will recommend that the Commission file civil injunctive lawsuits against the Company and its president, Thomas W. Sims. The suits would allege that the Company violated Section 17(a) of the Securities Act of 1933 and Sections 10(b) and 13(a) of the Securities Exchange Act of 1934 and Rules 10b-5, 13a-1, and 13a-13, based on false and misleading statements in press releases disseminated by the Company on October 22, 2001 and October 25, 2001, regarding the Company's investment in PanaMed Corp. and the press releases disseminated on January 8, 2002 and March 20, 2002, and failure to timely file annual and quarterly reports with the Commission. On March 25, 2003, the Company signed, without admitting or denying the allegations, a proposed settlement agreement with the U.S. Securities and Exchange Commission, which permanently restrains and enjoins the Company from engaging in acts which would constitute violations of these regulations in the future. On August 6, 2003, a final judgment was entered by the U.S. District Court, Central District of California, against the Company which permanently enjoined the Company from violating Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by using any means or instrumentality of interstate commerce, or of the mails, or of any national securities exchange: (A) to employ any device, scheme or artifice to defraud; (B) to make any untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (C) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security. Further, the final judgment permanently enjoined the Company from violating Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13

promulgated thereunder, by failing to file with the Commission in accordance with Commission rules and regulations, information and

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

documents required by the Commission to keep current information and documents required in or with an application or registration statement filed pursuant to Section 12 of the Exchange Act or annual or quarterly reports as the Commission has prescribed.

e) Lawsuit

On September 19, 2002, First Horizon Loan Corp. filed suit for damages for breach of a lease agreement for the Company's former sales offices in Fairfax, Virginia. The suit alleges that the Company breached the lease when the Fairfax office was closed in July 2000 and lease payments were stopped. In May 2003, the Company and First Horizon reached a settlement in which the total sum of \$20,000 is to be paid to First Horizon over a nine-month period of time.

9. Stockholders' Deficit

a. Common Stock and Warrants

The Company has authorized 50 million shares of \$0.01 par value common stock. Each share entitles the holder to one vote. There are no dividend or liquidation preferences, participation rights, call prices or rates, sinking fund requirements, or unusual voting rights associated with these shares. At June 30, 2003, there were 46,762,008 shares of common stock issued and outstanding. During the year ended June 30, 2003, the Company established the Class L warrants and initiated the process of establishing the Series A Preferred stock which underlies these warrants.

During the third quarter of the fiscal year ended June 30, 2003, the Company established the Class L warrants with the following general terms; 1) exercise price of 25 cents per share, 2) expiration date of January 14, 2005, and 3) Series A Preferred stock designated as underlying stock. During this same period, the Company initiated an exchange program with the existing Class J Warrant holders in which the Company offered to exchange one Class L Warrant for two Class J warrants, with the exchange number rounded up to the next whole number in cases where an odd number of Class J warrants were submitted for exchange. For each class, the number of warrants outstanding, the strike price and the expiration dates are as follows:

Class J- 6,458,384 warrants on restricted stock with a strike price of \$1.00 per share, expiring on January 14, 2004.

Class L- warrants were established in March 2003, with an exercise price of \$.25 per share, an expiration date of January 14, 2005 and Series A Preferred as underlying stock. As of June 30, 2003, holders of Class J warrants totaling 6,126,861 shares of common stock have agreed to exchange their warrants for 3,063,431 Class L warrants (a two for one exchange ratio).

Warrants E, F, G, and I expired on March 31, 2002. Warrants B, C, and D expired on July 31, 2002. Warrants H expired October 1, 2002.

14

b. Common Stock Reserved

At June 30, 2003, common stock was reserved for the following reasons:

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

Conversion of bonds	1,695,728 shares
Exercise of Class J warrants classified as stock options	3,063,431 shares
Exercise of Class J warrants	331,523 shares

c. Stock Option Agreements

The Company has granted fixed employee stock-based compensation options. The fixed option agreements typically have a maximum term of 5 years and are fully vested at the date of grant. The fair value of each option granted is estimated on the grant date using the Black-Scholes Model. The following assumptions were made in estimating fair value.

	Fixed Options -----
Dividend yield	0.00%
Risk-free interest rate	3.40%
Expected life	5 years
Expected volatility	180%

Had compensation cost been determined on the basis of fair value pursuant to FASB Statement No. 123, net loss and loss per share would not have been reduced because no options were issued during the years ended June 30, 2003 and 2002.

The Company applies APB Opinion 25 in accounting for its fixed stock compensation. Compensation cost charged to operations for the three months ended December 31, 2003 was \$-0-.

Following is a summary of the status of the stock option agreements during the year ended June 30, 2003 and December 31, 2003:

	Number of Shares -----	Weighted Average Exercise Price -----
Outstanding at July 1, 2002	2,015,000	\$1.01
Granted	--	--
Exercised	--	--
Forfeited	--	--
	-----	-----
Outstanding at June 30, 2003	2,015,000	1.01
	-----	-----
Options exercisable at December 31, 2003	2,015,000 =====	1.01 =====

Following is a summary of the status of the stock option agreements

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

outstanding at December 31, 2003:

Exercise Price Range	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
-----	-----	-----	-----
\$1.00 - \$4.00	2,015,000	19 months	\$1.01

Pending stock transactions needing shareholder approval:

Series A Preferred Stock

During the third quarter of the fiscal year ended June 30, 2003, the board of directors allocated 7,000,000 shares out of an authorized 10,000,000 shares of Preferred stock to be used to establish Series A Preferred stock with general terms as defined below: Par value - \$0.00; Liquidation Preference - \$0.25 per share plus any unpaid accumulated dividends; Dividends - cumulative annual rate of \$0.005 per share; Conversion Rights - convertible to common stock at a 1:1 ratio if and when a majority of the Company's shareholders vote to approve an increase in authorized common shares from 50,000,000 to 200,000,000; Redemption Rights - the Company has the right to redeem part or all of the stock upon 30 days written notice at a rate of \$0.25 per share plus all accumulated and unpaid dividends; Voting Rights - one vote per share on all matters requiring shareholder vote.

Prior to issuing the Series A Preferred stock, the Company will need to modify its articles of incorporation and obtain approval on such changes from a majority of the shareholders. A shareholder meeting is scheduled for later this year to vote on this and other corporate matters.

Series B Preferred Stock

During the third quarter of fiscal year ended June 30, 2003, the board of directors allocated 1,613,680 shares out of a remaining authorized 3,000,000 shares of Preferred stock to be used to establish Series B Preferred stock with the following terms: Par Value - \$0.00; Liquidation Preference - \$0.25 per share plus any unpaid accumulated dividends; Dividends - cumulative annual rate of \$0.0005 per share when and as declared by our Board of Directors; Conversion Rights - convertible to common stock at a 1:5 ratio (i.e. 1 share of Preferred Series B stock is convertible to 5 shares of common stock) if and when a majority of the Company's shareholders vote to approve an increase in authorized common shares from 50,000,000 to 200,000,000; Redemption Rights - the Company has the right to redeem part or all of the stock upon 30 days written notice at a rate of \$0.25 per share plus all accumulated and unpaid dividends; Voting Rights - one vote per share on all matters requiring shareholder vote.

Prior to issuing the Series B Preferred stock, the Company will need to modify its articles of incorporation and obtain approval on such changes from a majority of the shareholders. A shareholder meeting is scheduled for later this year to vote on this and other corporate matters.

Liabilities in process of conversion to stock:

The Company has entered into agreements with various vendors and employees to convert their liabilities into the above, two preferred series of stock pending approval of same. The conversion rate varies.

10. Related Party Transactions

During the year ended June 30, 2003, the Company sold aperture cards to Qtek Aperture Card AB, a related party, for \$13,397.

During the year ended June 30, 2002, the Company sold aperture cards to Qtek Aperture Card AB, a related party, for \$1,884.

Included in factoring payable at December 31, 2003 is \$20,000 due to a stockholder.

11. Factoring Payable

The Company has entered into an agreement with a factoring company ("the Factor") to factor purchase orders with recourse. The Factor funds 97% or 90% based upon the status of the purchase order. The Factor has agreed to purchase up to \$4,800,000 of qualified purchase orders over the term of the agreement; however, the Factor does not have to purchase more than \$200,000 in any given month. The agreement term is from June 2, 2003 to June 2, 2005. The Company will pay a late fee of 3% for payments not made within 30 days and 5% for those not made in 60 days. At the option of the Factor, the late fees may be paid with Company stock. If paid by Company stock, the stock bid price will be discounted 50% in computing the shares to be issued in payment of the late fee.

The Company has agreed to issue the Factor 1,500,000 warrants to purchase the Company's stock as a fee for the factoring agreement. The stock issued under the warrants can be purchased at the average closing price of the Company's stock for the 90 days prior to the factoring agreement. The Company has also issued the Factor bonus warrants. The Factor will receive two (2) bonus warrants for each dollar of purchase orders purchased. The bonus warrants will be exercisable at the average closing price of the Company's common stock for the 90 days prior to the purchase order transactions they represent or a 50% discount to the closing price of the Company's stock at the time exercised at the option of the Factor. Both warrants are for a five year period.

At December 31, 2003, the Company had a factoring payable balance of \$20,000.

12. Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and Cash Equivalents. The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts Receivable and Accounts Payable. The carrying amount of accounts receivable and accounts payable in the balance sheet approximates fair value.

Short-Term and Long-Term Debt (including factoring payable). The carrying amount of the revolving credit facility approximates fair value.

The carrying amounts of the Company's financial instruments at December 31, 2003, approximate fair value.

Item 2. Management's Discussion and Analysis

2.1 Results of Operations

Our revenues totaled \$185,425 and \$222,611 for the six months ended December 31, 2003 and 2002, respectively, a decrease of \$37,186 (17%) in 2003, primarily due to a decrease in machine sales. Revenues in both periods resulted primarily from sales of equipment, aperture card media, and maintenance services.

For the six months ended December 31, 2003 and 2002, cost of sales was \$113,583 and \$112,953, respectively, an increase of \$630(0.6%) in 2003. The cost of sales for both periods consisted primarily of labor and production costs.

Operating expenses totaled \$427,458 for the six month period ended December 31, 2003 as compared to \$303,645 for the six month period ended December 31, 2002, a \$123,813(41%) increase in 2003, primarily due to a increase in overhead expenses.

During the three months ended December 31, 2003, we sold 70,000 aperture cards, and renewed 8 maintenance contracts.

2.2 Liquidity and capital resources

We have historically financed operations from the issuance of debt, the sale of common stock and the conversion of common stock warrants. On December 31, 2003, we had cash on hand of \$2,649 and working capital of (\$1,571,482) as compared to cash on hand of \$773 and working capital of (\$1,200,427) at period-ending December 31, 2002.

Net cash used in operating activities of (\$115,131) and (\$100,751) for the six months ended December 31, 2003 and 2002, respectively, is attributed primarily to payroll, payables and accounts receivable.

Net cash used for investing activities of (\$15,712) for the six months ended December 31, 2003 and (\$10,215) for the six months ended December 31, 2002 is primarily related to an increase in other assets.

Net cash provided by financing activities of \$112,330 for the six months ended December 31, 2003 is based primarily on proceeds from factoring offset by notes payable to stockholders. Net cash provided by financing activities of \$109,137 for the six months ended December 31, 2002 is based primarily on notes payable-stockholders and factoring payable.

We assumed certain payroll tax liabilities as the result of the merger with Pacific Diagnostic Technologies, Inc., on January 14, 1999. We have negotiated a payment plan with the Internal Revenue Service to pay the payroll taxes assumed in the merger.

We believe that the receipt of net proceeds from the issuance of debt, the sale of the common stock and the exercise of common stock warrants plus cash generated internally from sales will be sufficient to satisfy our future operations, working capital and other cash requirements for the remainder of the fiscal year. However, if we are unable to raise sufficient capital, we may need sell certain assets, enter into new strategic partnerships, reorganize the company, or merge with another company to effectively maintain operations. Our

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

audit for the years ended June 30, 2003 and 2002 contained a going concern qualification.

18

Item 3. Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for the Company. Such officers have concluded (based on their evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in this report is accumulated and communicated to the Company's management, including its principal executive officers as appropriate, to allow timely decisions regarding required disclosure. The Certifying Officers also have indicated that there were no significant changes in the Company's internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

Common Stock Transactions

During the six month period ending December 31, 2003, we issued 1,987,987 shares of our common stock in the transactions summarized below:

(a) In August 2003 we issued 200,000 shares of common stock pursuant to a registration statement on Form S-8 to a company as compensation for consulting services related to sales of our products. The stock had a market value of \$15,000.

(b) In October 2003 we issued 1,773,695 shares of restricted common stock to one individual in return for converting to equity the principal (\$89,200) and accrued interest (\$17,222) of a convertible bond. The convertible bond had been held for over 2 years and this caused the shares issued on the principal amount to become immediately eligible for legend removal under Rule 144(k).

(c) In October 2003 we issued 14,291 shares of restricted common stock to one individual as a late fee incurred during a purchase order financing transaction. The stock had a market value of \$1,372.

Unless otherwise noted, the sales set forth above involved no underwriter's discounts or commissions and are claimed to be exempt from registration with the Securities and Exchange Commission pursuant to Section 4 (2) of the Securities Act of 1933, as amended, as transactions by an issuer not involving a public offering. The issuance and sale by the Company of shares of its common stock was to financially sophisticated individuals who are fully aware of the Company's activities, as well as its business and financial condition, and who acquired said securities for investment purposes and understood the ramifications of same.

19

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

On January 14, 2004, our Class J Warrants expired.

Item 3. Defaults Upon Senior Securities

During the three month period ended March 31, 2003, we made offers to all holders of our promissory notes and convertible bonds to convert their bond principal and accrued interest into Preferred stock. As of December 31, 2003, we received commitments to convert \$198,268 of debt (\$159,000 in principal + \$39,268 in accumulated interest) into 724,077 shares of Series A Preferred stock and 648,256 shares of Series B Preferred stock. During October 2003, a convertible bond with a principal amount of \$89,200 and accumulated interest of \$17,222 was converted into 1,773,695 shares of common stock. The balance of related debt, consisting of \$82,495 in principal and \$26,768 in accrued interest, still remains outstanding. Interest continues to accrue against the principal of all outstanding bonds. The convertible bonds are unsecured, general obligations of the Company which are convertible into common stock at the option of the holders. The holders of the bonds that are in default have indicated that they do not want to convert their debt to stock and wish to be repaid in cash. At present we do not have funds to repay the indebtedness. We do not know whether we will be able to repay or renegotiate the debt. If we are unable to cure the default or renegotiate our debt, we may not be able to continue as a going concern.

Item 4. Submission of Matters to a Vote of Security Holders

During the three month period ending December 31, 2003, no matters were submitted to a vote of security holders.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 31.1 Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer
- 31.2 Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer

20

(b) Reports on Form 8-K -

On January 14, 2004 we filed a Report on Form 8-K that described our Board of

Edgar Filing: QUINTEK TECHNOLOGIES INC - Form 10QSB

Directors decision to repeal our existing corporate Bylaws and adopt an entire set of new Bylaws which are better suited for use by a public company.

On February 9, 2004 we filed a Report on Form 8-K that described a recent presentation to the Southern California Investors Association in which we disclosed future plans for expanding the business, which includes; positioning our company as a mass storage vendor, acquiring an experienced mass storage sales force, integrating our product line with other products, forming new partnerships, and acquiring existing service bureau operations.

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.

QUINTEK TECHNOLOGIES, INC.

Date: February 19, 2003

/s/ ROBERT STEELE

Robert Steele, President & CEO

Date: February 19, 2003

/s/ ANDREW HAAG

Andrew Haag, Chief Financial Officer