

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

DALRADA FINANCIAL CORP

Form SB-2/A

September 28, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM SB-2
AMENDMENT NO. 3

Registration Statement
Under
The Securities Act of 1933

DALRADA FINANCIAL CORPORATION
(FORMERLY IMAGING TECHNOLOGIES CORPORATION)
(Name of small business issuer in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

33-0021693

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

7363

(Primary Standard Industrial
Classification Code Number)

9449 Balboa Avenue, Suite 211, San Diego, California

(Address of principal executive offices)

92123

(Zip code)

Registrant's Address and Telephone number, including area code:

Brian Bonar
Chief Executive Officer
9449 Balboa Avenue, Suite 211
San Diego, CA 92123
(858) 451-6120

(Name, address and telephone number of Agent for Service)

Copies of communications to:

Owen Naccarato, Esq.
Naccarato & Associates
18301 Von Karman, Suite 430
Irvine, California 92612
(949) 851-9261

Approximate date of commencement of proposed sale to the public: As soon as practicable after the registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. []

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per share (2)	Proposed maximum aggregate offering price	Exercise price per share (2)	Proceeds DRDF
Common Shares, par value \$.005 underlying secured convertible debenture	228,571,429 (3)	\$0.007	\$1,600,000		
Shares underlying warrant	16,000,000			\$0.011	\$176,000
Total Registration Fee	244,571,429				

* Previously paid

- 1) Includes shares of our common stock, par value \$0.005 per share, which may be offered pursuant to this registration statement, which shares are issuable upon conversion of a convertible debentures and the exercise of warrants held by the selling stockholders. In addition to the shares set forth in the table, the amount to be registered includes an indeterminate number of shares issuable upon conversion of the debentures and the exercise of the warrants as such number may be adjusted as a result of stock splits, stock dividends and similar transactions in accordance with Rule 416. The number of shares of common stock registered hereunder represents a good faith estimate by us of the number of shares of common stock issuable upon conversion of the debentures and upon exercise of the warrants. For purposes of estimating the number of shares of common stock to be included in this registration statement, we calculated a good faith estimate of the number of shares of our common stock that we believe will be issuable upon conversion of the debentures to account for market fluctuations and the number of shares of common stock that we believe will be issuable upon exercise of the warrants to account for antidilution and price protection adjustments. Should the conversion ratio of the

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

secured convertible debentures result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary. In addition, should a decrease in the exercise price as a result of an issuance or sale of shares below the then current market price, result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary.

- (2) Estimated solely for the purpose of determining the registration fee.
- (3) Includes a good faith estimate of the shares underlying the \$800,000 in convertible notes accounting for market fluctuations.
- (4) Common stock issuable upon the conversion of warrants issued in connection with the convertible note.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effectiveness date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said section 8(a), may determine.

2

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED September 27, 2005

Dalrada Financial Corporation
244,571,429 Shares of Common Stock

This prospectus relates to the resale by the selling stockholders of up to 244,571,429 shares of Dalrada Financial Corporation's ("DRDF") (Formerly Imaging Technologies Corporation) common stock, including up to 228,571,429 shares of common stock underlying convertible notes in a principal amount of \$800,000 and up to 16,000,000 shares of common stock issuable upon the exercise of common stock purchase warrants at \$.0187 a share. The convertible notes are basically convertible into common stock at the lower of \$0.02 or 70% of the average of the three lowest closing bid prices of the common stock on the principal market for the sixty trading days before but not including the conversion date. The selling stockholders may sell common stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions. These selling stockholders may be deemed underwriters of the shares of common stock which they are offering within the meaning of Section 2(a)(11) of the Securities Act. We will pay the expenses of registering these shares.

Our Common Stock is registered under Section 12(g) of the Securities Exchange Act of 1934 and is quoted on the OTC Bulletin Board under the symbol "DRDF.ob". On September 23, 2005, the closing bid price of our Common Stock on the OTC Bulletin Board was \$.003.

INVESTING IN THESE SECURITIES INVOLVES SIGNIFICANT RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 7 OF THIS PROSPECTUS.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is September 27, 2005

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

3

TABLE OF CONTENTS

Section Title	Page No.

Summary of Information in the Prospectus	5
Risk Factors	7
Dividend Policy	12
Use of Proceeds	13
Market for Common Equity and Related Stockholder Matters	14
Management's Discussion and Analysis or Plan of Operations	16
Our Business	26
Management	30
Executive Compensation	32
Security Ownership of Certain Beneficial Owners and Management	34
Certain Relationships and Related Transactions	35
Description of Securities	36
Selling Stockholders	37
Plan of Distribution	39
Legal Proceedings	40
Experts	42
Legal Matters	42
Other Available Information	42
Financial Statements	F-1
Indemnification	45

4

PROSPECTUS SUMMARY

This summary contains all material terms of the offering. To understand this offering fully, you should read the entire document carefully. Please pay particular attention to the section entitled "RISK FACTORS" and the section entitled "Financial Statements". Unless otherwise indicated, this Prospectus assumes that any of DRDF's outstanding options or warrants have not been exercised into shares of DRDF's Common Stock.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

DALRADA FINANCIAL CORPORATION

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

We provide a variety of financial services to small and medium-size businesses. These services allow our customers to outsource many human resources tasks, including payroll processing, workers' compensation insurance, health insurance, employee benefits, 401k investment services, personal financial management, and income tax consultation. In November 2001, we began to provide these financial services that relieve existing and potential customers of the burdens associated with personnel management and control. To this end, the Company, through strategic acquisitions, became a professional employer organization ("PEO").

DRDF provides financial services principally through its wholly-owned SourceOne Group, Inc. ("SOG") subsidiary, which includes several operating units, including ProSportsHR(TM), MedicalHR(TM), and, CallCenterHR(TM) (established subsequent to June 30, 2003). These units provide a broad range of financial services, including: benefits and payroll administration, health and workers' compensation insurance programs, personnel records management, employer liability management, and (in the case of MedicalHR and CallCenterHR), temporary staffing services, to small and medium-sized businesses.

In January 2003, we completed the acquisition of a controlling interest approximating 88% of the shares of Greenland Corporation. Greenland shares are traded on the NASD Electronic Bulletin Board under the symbol GRLC. Greenland is a financial services company, whose wholly-owned ExpertHR(TM) subsidiary provides the same services as SOG. Greenland's wholly-owned Check Central, Inc. subsidiary is an information technology company that has developed the Check Central Solutions' transaction processing system software and related MAXcash(TM) Automated Banking Machine(TM) (ABM(TM) kiosk designed to provide self-service check cashing and ATM-banking functionality). At present, there is no activity in this subsidiary; and management is evaluating its future. Subsequently, in March 2004, we entered into an agreement with Greenland to return most of our shares in Greenland in return for Greenland's forgiveness of certain DRDF indebtedness and business opportunities. Also see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION OR PLAN OF OPERATION - ACQUISITIONS, DISPOSITIONS AND SALE OF BUSINESS UNITS."

In January 2003, we completed the acquisition of a controlling interest (approximately 85%) in the shares of Quik Pix, Inc. ("QPI"). QPI shares are traded on the National Quotation Bureau Pink Sheets(R) under the symbol QPIX. QPI is a visual marketing support firm located in Buena Park, California. QPI's major source of revenues is in developing and mounting photographic and digital images for use in display advertising for tradeshow and customer building interiors. QPI also has a proprietary product PhotoMotion(TM), which is a patented, color medium of multi-image transparencies. The process uses existing originals to create the illusion of movement, and allows for three to five distinct images to be displayed with an existing lightbox.

In prior years, we were principally involved in the development and distribution of imaging products. Our core technologies are related to the design and development of software products that improve the accuracy of color reproduction. Our ColorBlind(R) software provides color management to improve the accuracy of color reproduction - especially as it relates to matching color between different devices in a network, such as monitors and printers. These

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

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

5

THE OFFERING

Securities Offered by Selling Shareholders	Up to 244,571,429 including i) up to 228,571,429 shares of common stock underlying convertible debentures (less reserve) in the aggregate amount of \$800,000 and ii) up to 16,000,000 shares of common stock issuable upon the exercise of purchase warrants at an exercise price per share equal to the Closing trade price as reported by Bloomberg or the OTC Bulletin Board for the trading day preceding the closing date.
Common Stock Outstanding after the offering...	Up to 991,675,358 Shares
Offering Price	The selling shareholders can sell the shares at a price of their choice.
Use of Proceeds	This prospectus relates to shares of DRDF's common stock which may be offered and sold from time to time by the selling shareholders. We will not receive any proceeds from the sale of shares by the selling shareholders. However, we will receive proceeds upon the exercise of any warrants issued by the selling shareholders. These proceeds will be used for ongoing operations.
Market for our Common Stock	Our Common Stock is quoted on the Over-the-Counter Market, also called OTCBB, under the trading symbol DALR. The market for our Common Stock is highly volatile and there is no assurance that there will be a market in our Common Stock.

The above information regarding common stock to be outstanding after the offering is based on 747,103,929 shares of common stock outstanding as of August 31, 2005 and assumes the subsequent conversion of the \$800,000 issued convertible debenture and the exercise of warrants.

On December 17, 2003, DRDF entered into a Subscription Agreement for \$800,000, whereby we issued convertible debentures bearing 8% annual interest rate, to the following: 1) \$225,000 to Alpha Capital Aktiengesellschaft, 2) \$200,000 to Gamma Opportunity Capital Partners, LP, 3) \$200,000 to the Longview Fund, L.P. and 4) \$150,000 to Stonestreet Limited Partnership. The convertible debentures can be converted into shares of common stock with the conversion price per share being the lower of (i) \$.02 or (ii) seventy percent (70%) of the average of the three lowest closing bid prices for the sixty (60) trading days prior to but not including the conversion date for the common stock.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

The holders of the 8% convertible debentures may not convert its securities into shares of DRDF's common stock if after the conversion such holder would beneficially own over 9.9% of the outstanding shares of DRDF's common stock. The holder may waive this percent ownership restriction upon not less than 61 days notice to DRDF. Since the number of shares of DRDF's common stock issuable upon conversion of the debentures will change based upon fluctuations of the market price of DRDF's common stock prior to a conversion, the actual number of shares of DRDF's common stock that will be issued under the debentures owned by the holders is based on a reasonable good faith estimate of the maximum amount needed.

DRDF issued in conjunction with these convertible debentures warrants to purchase 16,000,000 shares of common with at an exercise price of \$.0187 per share.

See the "Selling Stockholders" and "Risk Factors" sections for a complete description of the secured convertible notes.

6

RISK FACTORS

AN INVESTMENT IN SHARES OF DRDF'S COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING INFORMATION, WHICH SUMMARIZES ALL MATERIAL RISKS, TOGETHER WITH THE OTHER INFORMATION CONTAINED IN THIS PROSPECTUS, BEFORE YOU DECIDE TO BUY DRDF'S COMMON STOCK. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, DRDF'S BUSINESS WOULD LIKELY SUFFER. IN THESE CIRCUMSTANCES, THE MARKET PRICE OF DRDF'S COMMON STOCK COULD DECLINE, AND YOU MAY LOSE ALL OR PART OF YOUR INVESTMENT.

RISKS RELATING TO OUR BUSINESS:

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

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

To successfully execute our current strategy, we will need to improve our working capital position. The report of our independent auditors accompanying the Company's June 30, 2003 financial statements includes an explanatory paragraph indicating there is a substantial doubt about the Company's ability to continue as a going concern, due primarily to the decreases in our working capital and net worth. The Company plans to overcome the circumstances that impact our ability to remain a going concern through a combination of increased revenues and decreased costs, with interim cash flow deficiencies being

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

addressed through additional equity financing.

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

Our quarterly operating results can fluctuate significantly depending on a number of factors, any one of which could have a negative impact on our results of operations. We may experience significant quarterly fluctuations in revenues and operating expenses as we introduce new products and services. Accordingly, any inaccuracy in our forecasts could adversely affect our financial condition and results of operations. Demand for our products and services could be adversely affected by a slowdown in the overall demand for imaging products and/or financial and PEO services. Our failure to complete shipments during a quarter could have a material adverse effect on our results of operations for that quarter. Quarterly results are not necessarily indicative of future performance for any particular period.

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

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

The PEO industry is highly fragmented. While many of our competitors have limited operations, there are several PEO companies equal or substantially greater in size than ours. We also encounter competition from "fee-for-service" companies such as payroll processing firms, insurance companies, and human resources consultants. The large PEO companies have substantially more resources than us and provide a broader range of resources than we do.

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

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

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

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

Client satisfaction or performance problems with an acquired business could also have a material adverse effect on our reputation, and any acquired business could significantly under perform relative to our expectations. We cannot be certain that we will be able to integrate acquired businesses, products or technologies successfully or in a timely manner in accordance with our strategic objectives, which could have a material adverse effect on our overall financial performance.

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

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

The markets for our products are characterized by rapidly evolving technology, frequent new product introductions and significant price competition. Consequently, short product life cycles and reductions in product selling prices due to competitive pressures over the life of a product are common. Our future success will depend on our ability to continue to develop new versions of our ColorBlind software, and to acquire competitive products from other manufacturers. We monitor new technology developments and coordinate with suppliers, distributors and dealers to enhance our products and to lower costs. If we are unable to develop and acquire new, competitive products in a timely manner, our financial condition and results of operations will be adversely affected.

IF WE ARE FOUND TO BE INFRINGING ON A COMPETITOR'S INTELLECTUAL PROPERTY RIGHTS OR IF WE ARE REQUIRED TO DEFEND AGAINST A CLAIM OF INFRINGEMENT, WE MAY BE REQUIRED TO REDESIGN OUR PRODUCTS OR DEFEND A LEGAL ACTION AT SUBSTANTIAL COSTS TO US.

We currently hold only one patent through our QPI subsidiary for its Photomotion product. Our software products are copyrighted. However, copyright protection does not prevent other companies from emulating the features and benefits provided by our software. We protect our software source code as trade secrets and make our proprietary source code available to OEM customers only under limited circumstances and specific security and confidentiality constraints.

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

Our products are marketed and sold through a distribution channel of value added resellers, manufacturers' representatives, retail vendors, and systems integrators. We have a small network of dealers and distributors in the United States and internationally. We support our worldwide distribution network and end-user customers through operations headquartered in San Diego.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Portions of our sales are made through distributors, who may carry competing product lines. These distributors could reduce or discontinue sales of our products, which could adversely affect us. These independent distributors may not devote the resources necessary to provide effective sales and marketing support of our products. In addition, we are dependent upon the continued viability and financial stability of these distributors, many of which are small

8

organizations with limited capital. These distributors, in turn, are substantially dependent on general economic conditions and other unique factors affecting our markets.

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

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

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

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

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

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

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

other federal or state laws are ultimately applied to our PEO relationship with our worksite employees in a manner adverse to us, such an application could have a material adverse effect on our financial condition or results of operations.

While many states do not explicitly regulate PEOs, over 20 states have passed laws that have licensing or registration requirements for PEOs, and several other states are considering such regulation. Such laws vary from state to state, but generally provide for monitoring the fiscal responsibility of PEOs and, in some cases, codify and clarify the co-employment relationship for unemployment, workers' compensation, and other purposes under state law. There can be no assurance that we will be able to satisfy licensing requirements of other applicable relations for all states. Additionally, there can be no assurance that we will be able to renew our licenses in all states.

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

The current health and workers' compensation contracts are provided by vendors with whom we have an established relationship, and on terms that we believe to be favorable. While we believe that replacement contracts could be secured on competitive terms without causing significant disruption to our business, there can be no assurance in this regard.

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

Accordingly, the short-term nature of our client service agreements make us vulnerable to potential cancellations by existing clients, which could materially and adversely affect our financial condition and results of

9

operations. Additionally, our results of operations are dependent, in part, upon our ability to retain or replace client companies upon the termination or cancellation of our agreements.

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

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

IF THE SUPERIOR SECURITY INTEREST HELD BY IMPERIAL BANK IS REMOVED AND IF ALL OF THE LAWSUITS CURRENTLY FILED WERE DECIDED AGAINST US AND/OR ALL THE JUDGMENTS CURRENTLY OBTAINED AGAINST US WERE TO BE IMMEDIATELY COLLECTED, WE WOULD HAVE TO CEASE OUR OPERATIONS.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Throughout fiscal 2001, 2002 and 2003, and through the date of this filing, approximately fifty trade creditors have made claims and/or filed actions alleging the failure of us to pay our obligations to them in a total amount exceeding \$3 million. These actions are in various stages of litigation, with many resulting in judgments being entered against us. Several of those who have obtained judgments have filed judgment liens on our assets. These claims range in value from less than one thousand dollars to just over one million dollars, with the great majority being less than twenty thousand dollars. Should we be required to pay the full amount demanded in each of these claims and lawsuits, we may have to cease our operations. However, to date, the superior security interest held by Imperial Bank has prevented nearly all of these trade creditors from collecting on their judgments.

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

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

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

On August 20, 1999, at the request of Imperial Bank, our primary lender, the Superior Court, San Diego appointed an operational receiver to us. On August 23, 1999, the operational receiver took control of our day-to-day operations. On June 21, 2000, the Superior Court, San Diego issued an order dismissing the operational receiver as a part of a settlement of litigation with Imperial Bank pursuant to the Settlement Agreement effective as of June 20, 2000. The Settlement Agreement requires that we make monthly payments of \$150,000 to Imperial Bank until the indebtedness is paid in full. This agreement does not require us to pay any interest unless we default on the settlement agreement and fail to cure the default. Regardless, we have continued to accrue interest on this debt until it has been paid and there is no possibility that such interest will become due and payable. However, in the future, without additional funding sufficient to satisfy Imperial Bank and our other creditors, as well as providing for our working capital, there can be no assurances that an operational receiver may not be reinstated. If an operational receiver is reinstated, we will not be able to expand our products nor will we have complete control over sales policies or the allocation of funds.

The penalty for noncompliance of the Settlement Agreement is a stipulated judgment that allows Imperial Bank to immediately reinstate the operational receiver and begin liquidation proceedings against us. Our current arrangement with CoAmerica Bank (formerly Imperial Bank) reduces our monthly payments of \$50,000. The remaining balance due as of June 30, 2004, is \$3.1 million.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

OTHER PAYROLL-RELATED TAXES WITHHELD IN OUR PEO BUSINESS.

We have not been able to remain current in our payments of federal and state tax obligations related to our PEO operations. We are currently working with the Internal Revenue Service and state agencies to resolve these issues and establish repayment plans. If we are not able to establish repayment plans that allow us to continue our operations, we may be forced to cease doing business in the financial services marketplace. The amount due as of June 30, 2004 is approximately \$5.3 million.

RISKS RELATING TO OUR CURRENT FINANCING ARRANGEMENT:

THE CONTINUOUSLY ADJUSTABLE CONVERSION PRICE FEATURE OF OUR CONVERTIBLE NOTES COULD REQUIRE US TO ISSUE A SUBSTANTIALLY GREATER NUMBER OF SHARES, WHICH WILL CAUSE DILUTION TO OUR EXISTING STOCKHOLDERS.

There are a large number of shares underlying the convertible note and warrants in this offering that may be available for future sale and the sale of these shares may depress the market price of DRDF's common stock and may cause substantial dilution to DRDF's existing stockholders.

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

In addition, our obligation to issue shares upon conversion of our convertible notes is essentially limitless. The following gives examples of the number of shares that would be issued if the \$800,000 of convertible notes in this offering were converted at one time at prices representing 25%, 50%, and 75% below the current market price (assuming a market price of \$0.003). As of August 31, 2005, we had 747,103,929 shares of common stock outstanding.

% Below Market	Price Per Share	With Discount at 30%	Number of Shares Issuable	% of Outstanding Stock
-----	-----	-----	-----	-----
25%	\$0.00225	\$0.00158	506,329,114	68%
50%	\$0.0015	\$0.00105	761,904,762	102%
75%	\$0.00075	\$0.00053	1,509,433,962	202%

SEE THE "SECURITY OWNERSHIP TABLE", DESCRIPTION OF SECURITIES AND THE "SELLING SECURITY HOLDER TABLE" BEGINNING ON PAGE 31, 34 AND PAGE 35, RESPECTIVELY, OF THIS PROSPECTUS.

THERE ARE A LARGE NUMBER OF SHARES UNDERLYING OUR CONVERTIBLE NOTES AND WARRANTS THAT MAY BE AVAILABLE FOR FUTURE SALE AND THE SALE OF THESE SHARES MAY DEPRESS THE MARKET PRICE OF OUR COMMON STOCK

As of August 31, 2005, we had 747,103,929 shares of common stock issued and outstanding and convertible notes outstanding that may be converted into an estimated 380,952,381 shares of common stock at the current market prices of \$.003, and outstanding warrants to purchase 16,000,000 shares of common stock.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

In addition, the number of shares of common stock issuable upon conversion of the outstanding convertible notes may increase if the market price of our stock declines. All of the shares, including all of the shares issuable upon conversion of the notes and upon exercise of our warrants, may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock. As the market price declines, then the callable secured convertible notes will be convertible into an increasing number of shares of common stock resulting in dilution to our shareholders.

FUNDING BY ISSUING DEBT THAT CONVERTS AT EITHER A FIXED LOW PRICE OR AT A DISCOUNT MAY HAVE THE EFFECT OF SETTING A CEILING ON YOUR STOCK AS THE INVESTORS CONVERT AND SELL IN LARGE AMOUNTS.

11

Investors usually convert and sell at times when there is enough trading volume to absorb blocks of stock without driving the price of the stock down. This method of converting and selling into the market sometimes has the effect of preventing the price of the stock to rise, resulting in a temporary ceiling in the stock price. This ceiling has the possibility of remaining in place until the convertible note holders have fully converted out of their convertible notes.

RISKS RELATING TO OUR STOCK:

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

DRDF's shares of Common Stock are "penny stocks" as defined in the Exchange Act, which are quoted in the over-the-counter market on the OTC Bulletin Board. As a result, an investor may find it more difficult to dispose of or obtain accurate quotations as to the price of the shares of the Common Stock being registered hereby. In addition, the "penny stock" rules adopted by the Commission under the Exchange Act subject the sale of the shares of the Common Stock to certain regulations which impose sales practice requirements on broker-dealers. For example, broker-dealers selling such securities must, prior to effecting the transaction, provide their customers with a document that discloses the risks of investing in such securities. Included in this document are the following:

- o The bid and offer price quotes for the penny stock, and the number of shares to which the quoted prices apply.
- o The brokerage firm's compensation for the trade.
- o The compensation received by the brokerages firm's salesperson for the trade.

In addition, the brokerage firm must send the investor:

- o Monthly account statement that gives an estimate of the value of each penny stock in your account.
- o A written statement of your financial situation and investment goals.

Legal remedies, which may be available to you, are as follows:

- o If penny stocks are sold to you in violation of your rights

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

- listed above, or other federal or state securities laws, you may be able to cancel your purchase and get your money back.
- o If the stocks are sold in a fraudulent manner, you may be able to sue the persons and firms that caused the fraud for damages.
- o If you have signed an arbitration agreement, however, you may have to pursue your claim through arbitration.

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

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

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

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

DRDF anticipates that for the foreseeable future, earnings will be retained for the development of its business. Accordingly, DRDF does not anticipate paying dividends on the common stock in the foreseeable future. The payment of future dividends will be at the sole discretion of DRDF's Board of Directors and will depend on DRDF's general business condition.

12

INFORMATION ABOUT FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements, which involve substantial risks and uncertainties. These forward-looking statements can generally be identified because the context of the statement includes words such as "may," "will," "except," "anticipate," "intend," "estimate," "continue," "believe," or other similar words. Similarly, this prospectus also contains forward-looking statements about our future. Forward-looking statements include statements about our:

Plans, Objectives, Goals, Strategies, Expectations for the future, Future performance and events, Underlying assumptions for all of the above and other statements, which are not statements of historical facts.

These forward-looking statements involve risks and uncertainties discussed in the risk factor section (see page 7), which could cause our actual results to materially differ from our forward-looking statements. We make these

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

forward-looking statements based on our analysis of internal and external historical trends, but there can be no assurance that we will achieve the results set forth in these forward-looking statements. Our forward-looking statements are expressed in good faith and we believe that there is a reasonable basis for us to make them.

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

USE OF PROCEEDS

DRDF will not receive any of the proceeds from the sale of the shares of common stock offered by the selling shareholders under this prospectus. There are warrants being issued with the current funding. If the warrants were exercised, the maximum DRDF would receive are proceeds of approximately \$240,000.

If the resale of the warrant shares fails to be registered pursuant to an effective registration statement under the Securities Act, this warrant may affect a cashless exercise, including a calculation of the number of shares of Common Stock to be issued upon such exercise. In the event of a Cashless Exercise, in lieu of paying the Exercise Price in cash, the holder shall surrender this Warrant for that number of shares of Common Stock determined by multiplying the number of Warrant Shares to which it would otherwise be entitled by a fraction, the numerator of which shall be the difference between the then current market price per share of the common stock and the exercise price, and the denominator of which shall be the then current market price per share of common stock. For example, if the holder is exercising 100,000 warrants with a per warrant exercise price of \$0.75 per share through a cashless exercise when the Common Stock's current Market Price per share is \$2.00 per share, the holder will receive 62,500 shares of Common Stock.

The proceeds, if any, that DRDF receives from the exercise of warrants will be used for working capital in support of the growing business.

The foregoing represents DRDF's current best estimate of our use of the proceeds derived from the exercise of the warrants to purchase the shares of Common Stock offered in this prospectus, if any, based upon our present plans, the state of our business operations and current conditions in the industry in which we operate. DRDF reserves the right to change the use of the proceeds if unanticipated developments in our business, business opportunities, or changes in economic, regulatory or competitive conditions, make shifts in the allocations of proceeds necessary or desirable.

13

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the Over-the Counter Bulletin Board, also called the OTCBB, under the trading symbol "DRDF". The following table set forth the quarterly high and low bid prices per share for our common stock. The bid prices reflect inter-dealer prices, without retail markup, markdown, or commission and may not represent actual transactions.

	High ----	Low ---
Year ended June 30, 2002		
First quarter	\$ 0.07	\$ 0.03

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Second quarter		0.02	0.05
Third quarter		0.05	0.01
Fourth quarter		0.04	0.01
Year ended June 30, 2003			
First quarter	\$	0.05	\$ 0.01
Second quarter		0.04	0.01
Third quarter		0.02	0.01
Fourth quarter		0.02	0.01
Year ended June 30, 2004			
First quarter	\$	0.04	\$ 0.01
Second quarter		0.04	0.02
Third quarter		0.02	0.01
Fourth Quarter		0.01	0.01
Year Ended June 30, 2005			
First quarter	\$	0.01	\$ 0.01
Second quarter		0.00	0.00
Third quarter		0.00	0.00
Fourth quarter		0.00	0.00

As of August 31, 2005, there were approximately 498 registered shareholders of DRDF's Common Stock and 747,103,929 shares issued and outstanding.

DIVIDENDS

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

Holders of the 5% Convertible Preferred Stock are entitled to receive, when and as declared by the Board of Directors, but only out of amounts legally available for the payment thereof, cumulative cash dividends at the annual rate of \$50.00 per share, payable semi-annually, commencing on October 15, 1986. DRDF has never declared nor paid any cash dividends on the 5% Convertible Preferred Stock. Dividends in arrears at June 30, 2004 were \$421 thousand.

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

On August 9, 2002, pursuant to shareholder authorization, we implemented a 1-for-20 reverse split of our common stock. All share and per share data in this Form 10-K have been retroactively restated to reflect Year ended June 30, this Nine Months ended March 31, reverse stock split.

TRANSFER AGENT AND REGISTRAR

DRDF's transfer agent is Atlas Stock Transfer, 5899 South State Street,

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Salt Lake City, Utah 54107, with phone number of (801) 266-7151

SUMMARY FINANCIAL INFORMATION

The summary historical financial data should be read in conjunction with the financial statements (and notes thereto) of our Company and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus.

	Year ended June 30,		Nine Months ended March 31,	
	2004	2003	2005	2004
	-----	-----	-----	-----
	(Audited) *		(Unaudited)	
Gross Profit	\$ 3,224	\$ 1,665	\$ 2,005	\$ 1,389
Total Operating Costs	4,196	5,623	2,870	4,006
	-----	-----	-----	-----
Loss from Operations	(972)	(3,958)	(865)	(2,617)
Provision for Income Taxes	--	--		
Other income (expenses), net	1,053	(2,918)	192	(543)
Discontinued Operations				2,997
Net income(Loss)	\$ 81	\$ (6,876)	\$ (673)	\$ (163)
	=====	=====	=====	=====
Weighted average Common Shares outstanding	331,004	97,153	635,914	292,602
	=====	=====	=====	=====
Net income (loss) per share	\$ 0.00	\$ (0.07)	\$ (0.00)	\$ (0.00)
	=====	=====	=====	=====
Total Assets	\$ 2,852	\$ 7,595	\$ 3,810	\$ 2,013
Total Liabilities	\$ 23,777	\$ 31,575	\$ 25,015	\$ 24,037
Shareholders' equity	\$ (20,925)	\$ (23,980)	\$ (21,205)	\$ (22,524)

* AMOUNT IN THOUSANDS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION OR PLAN OF OPERATION

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto included in the Company Annual Report on Form 10-KSB for the year ended June 30, 2004. The statements contained in this Report on Form 10-QSB that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, hopes, intentions or strategies regarding the future. Forward-looking statements include statements regarding: future product or product development; future research and development spending and our product development strategies, and are generally identifiable by the use of the words "may", "should", "expect", "anticipate", "estimates", "believe", "intend", or "project" or the negative thereof or other variations thereon or comparable terminology. Forward-looking statements involve

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements (or industry results, performance or achievements) expressed or implied by these forward-looking statements to be materially different from those predicted. The factors that could affect our actual results include, but are not limited to, the following: general economic and business conditions, both nationally and in the regions in which we operate; competition; changes in business strategy or development plans; our inability to retain key employees; our inability to obtain sufficient financing to continue to expand operations; and changes in demand for products by our customers.

GENERAL OVERVIEW

We provide a variety of financial, staffing, and human resources services to small and medium-size businesses. These services allow our customers to outsource many human resources tasks, including payroll processing, workers' compensation insurance, health insurance, employee benefits, and investment services. These financial services relieve existing and potential customers of the burdens associated with personnel management and control.

DRDF provides services through its wholly-owned SourceOne Group, Inc. ("SOG"), and Master Staffing subsidiaries; and through The Solvis Group, Inc., ("Solvis") a 79%-owned subsidiary that includes several operating units, including CallCenterHR(TM), Heritage Staffing, Worldwide of California, and M&M Nursing. These companies and business units provide a broad range of financial services, including: benefits and payroll administration, health and workers' compensation insurance programs, personnel records management, employer liability management, and temporary staffing services, to small and medium-sized businesses.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discuss our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to allowance for doubtful accounts, value of intangible assets and valuation of non-cash compensation. We base our estimates and judgments on historical experiences and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our consolidated financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources, primarily allowance for doubtful accounts, estimated fair value of equity instruments used for compensation, estimated tax liabilities from PEO operations and estimated liabilities associated with Worker's Compensation liabilities. These accounting policies are described at relevant sections in this discussion and analysis and in the notes to the consolidated financial statements included in our Annual Report on Form 10-KSB for the fiscal year ended June 30, 2004.

REVENUE RECOGNITION

PEO SERVICE FEES AND WORKSITE EMPLOYEE PAYROLL COSTS

We recognize any revenues associated with our PEO business pursuant to EITF 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent." Our

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

revenues are reported net of worksite employee payroll cost (net method). Pursuant to discussions with the Securities and Exchange Commission staff, we

16

changed our presentation of revenues from the gross method to an approach that presents our revenues net of worksite employee payroll costs (net method) primarily because we are not generally responsible for the output and quality of work performed by the worksite employees.

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

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

SALES OF PRODUCTS

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

TEMPORARY STAFFING

We record gross revenue for temporary staffing. We have concluded that gross reporting is appropriate because we (i) have the risk of identifying and hiring qualified employees, (ii) have the discretion to select the employees and establish their price and duties and (iii) bear the risk for services that are not fully paid for by customers. Temporary staffing revenues are recognized when the services are rendered by our temporary employees. Temporary employees placed by us are our legal employees while they are working on assignments. We pay all related costs of employment, including workers' compensation insurance, state and federal unemployment taxes, social security and certain fringe benefits. We assume the risk of acceptability of our employees to our customers.

PLAN OF OPERATION

Our short-term objectives include reducing debt and achieving positive cash flow from operations. The infusion of new capital is expected to enable us to renegotiate certain indebtedness, which can then be paid. We have been increasing our internal organization to accommodate the recent growth of our business, which has been characterized by an increased number of client companies we serve and, by extension, an increase in the services we provide to those employees. We believe we can fund these objectives out of anticipated positive cash flow.

Our long-term objectives include (1) further reduction of debt with new capital; and (2) expanding our sales, marketing and operational efforts in order to achieve economies of scale that will reduce our dependence on growing our internal organization and provide greater operational profitability to our business.

RESULTS OF OPERATIONS
ANALYSIS IN THOUSANDS (\$000)

THREE MONTHS ENDED MARCH 31, 2005 COMPARED TO THREE MONTHS ENDED MARCH 31, 2004

17

REVENUES

Total revenues were \$5,449 and \$3,488 for the three months ended March 31, 2005 and 2004, respectively; an increase of \$1,961 (56%). The increase was due primarily to the addition of temporary staffing services, which contributed \$4,095 of revenues for the three months ended March 31, 2005 compared to \$2,892 for the three months ended March 31, 2004 and an increase in PEO service revenue which was \$1,208 for the three months ended March 31, 2005 compared to \$475 for the same period in 2004.

PEO SERVICES

PEO revenues were \$1,208 and \$475 for the three months ended March 31, 2005 and 2004, respectively; an increase of \$733 (154%) due primarily to the increase in our PEO customer base.

TEMPORARY STAFFING

In September 2003, we entered into an agreement to purchase a temporary staffing business through the organization of CallCenterHR and MedicalHR and the acquisition of Jackson Staffing. In June 2004, we entered into an agreement to purchase certain assets of M&M Nursing, a temporary staffing agency for nurses. Temporary Staffing revenues were \$4,095 and \$2,892 for the three months ended March 31, 2005 and 2004, respectively; an increase of \$1,203 (42%). The significant increase is due to the acquisition of Jackson Staffing and M&M Nursing.

PRODUCTS

Sales of products were generated principally from our QPI subsidiary. Products revenues were \$137 and \$91 for the three months ended March 31, 2005 and 2004,

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

respectively; an increase of \$46 (51%). The increase is principally due to additional sales of photographic and digital images through our QPI subsidiary.

SOFTWARE

Software revenues were \$9 and \$30 for the three months ended March 31, 2005 and 2004, respectively; a decrease of \$21 (70%). Revenues from licenses and royalties for the periods were insignificant.

Royalties and licensing fees vary from quarter to quarter and are dependent on the sales of products sold by OEM customers using our technologies. These revenues continue to decline as we have elected to transfer our ColorBlind software to QPI, which has accelerated product development and begun to implement a more aggressive product sales program.

COST OF PRODUCTS SOLD

Cost of PEO services for the three months ended March 31, 2005 and 2004 \$1,088 (90% of PEO revenues) and \$384 (81% of PEO revenues), respectively. The decrease in gross profit is due primarily to us incurring additional employee benefit related costs.

Costs of temporary staffing for the three months ended March 31, 2005 and 2004 was \$3,591 (88% of temporary staffing revenue) and \$2,663 (92% of temporary staffing revenue), respectively.

Cost of products sold for the three months ended March 31, 2005 and 2004 were \$23 (17% of product sales) and \$28 (31% of product sales), respectively.

Cost of software, licenses and royalties for the three months ended March 31, 2005 and 2004 were \$1 (11% of software, license and royalties revenue) and \$0 (0% of software, license and royalties revenue), respectively.

OPERATING EXPENSES

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

Operating expenses for the three months ended March 31, 2005 and 2004 were \$904 and \$(71), respectively; an increase of \$975. As disclosed in "Significant Accounting Policies and Estimates", we rely on estimates for such liabilities related to, among other areas, worker's compensation and accrued payroll taxes.

During the three month period ended March 31, 2004, we changed our estimate of workers' compensation and accrued payroll taxes, which resulted in a negative cost of PEO operations. The cumulative changes in estimates for these accounts aggregated approximately \$1.2 million in the quarterly period ended March 31, 2004.

OTHER INCOME AND EXPENSE

Interest expense and financing costs for the three months ended March 31, 2005 and 2004 was \$394 and \$434 respectively; a decrease of \$40 (9%). The decrease is

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

principally due to the write off of the unamortized debt discounts associated with the conversion of debentures into common stock for the three months ended March 31, 2004 (there were no conversion during the three months ended March 31, 2005) offset by an increase due to the amount of debt outstanding.

GAIN ON EXTINGUISHMENT OF DEBT

Gain on the extinguishment of debt was \$165 and \$228 for the three months ended March 31, 2005 and 2004, respectively. The amounts related to accounts payable, which had become stale and uncollectible under the Statute of Limitations in the State of California and upon obtaining a legal opinion with respect to the State of California Statute of Limitations.

GAIN FROM RECONCILIATION OF PAYROLL TAX LIABILITIES TO TAXING AUTHORITIES

During the three months ended March 31, 2005, we recorded as other income an adjustment of accrued PEO payroll taxes payable of \$454 resulting from reconciliations of certain liabilities with the Internal Revenue Service and certain State taxing authorities of amounts due for delinquent payment of payroll tax liabilities. We continually updates our estimate of the amount due related to delinquent payroll taxes and penalties as we receive correspondence or settlement agreements with the Internal Revenue Service and State taxing authorities.

NINE MONTHS ENDED MARCH 31, 2005 COMPARED TO NINE MONTHS ENDED MARCH 31, 2004

REVENUES

Total revenues were \$14,323 and \$9,485 for the nine months ended March 31, 2005 and 2004, respectively; an increase of \$4,838 (51%). The principal reason for the increase is due to a full nine months of revenue from our temporary staffing division for the nine months ended March 31, 2005 as compared to only seven months for the same period in 2004.

PEO SERVICES

PEO revenues were \$2,058 and \$2,545 for the nine months ended March 31, 2005 and 2004, respectively; a decrease of \$487 (19%) due primarily to the decrease in our PEO customer base in the first half of fiscal 2005 offset by an increase in the third fiscal quarter.

TEMPORARY STAFFING

In September 2003, we entered into an agreement to purchase a temporary staffing business through the organization of CallCenterHR and MedicalHR and the acquisition of Jackson Staffing. In June 2004, we entered into an agreement to purchase certain assets of M&M Nursing, a temporary staffing agency for nurses. Temporary Staffing revenues were \$11,749 and \$6,328 for the nine months ended March 31, 2005 and 2004, respectively; an increase of \$5,421 (86%). The significant increase is due to the acquisition of Jackson Staffing and M&M Nursing.

PRODUCTS

Sales of products were generated principally from our QPI subsidiary. Products revenues were \$468 and \$546 for the nine months ended March 31, 2005 and 2004, respectively; a decrease of \$78 (14%).

SOFTWARE

Software revenues were \$48 and \$66 for the nine months ended March 31, 2005 and

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

2004, respectively; a decrease of \$18 (27%). Revenues from licenses and royalties for the periods were insignificant.

19

Royalties and licensing fees vary from quarter to quarter and are dependent on the sales of products sold by OEM customers using our technologies. These revenues continue to decline as we have elected to transfer our ColorBlind software to QPI, which has accelerated product development and begun to implement a more aggressive product sales program.

COST OF PRODUCTS SOLD

Cost of PEO services for the nine months ended March 31, 2005 and 2004 \$1,716 (83% of PEO revenues) and \$2,280 (90% of PEO revenues), respectively. The increase in gross profit is due primarily to us being able to provide more profitable services to our PEO customers, offset by higher employee benefit costs in the quarter ended March 31, 2005.

Costs of temporary staffing for the nine months ended March 31, 2005 and 2004 was \$10,539 (90% of temporary staffing revenue) and \$5,657 (89% of temporary staffing revenue), respectively. The significant increase is due to the increase in temporary staffing revenue.

Cost of products sold for the nine months ended March 31, 2005 and 2004 were \$59 (13% of product sales) and \$156 (29% of product sales), respectively.

Cost of software, licenses and royalties for the nine months ended March 31, 2005 and 2004 were \$4 (8% of software, license and royalties revenue) and \$3 (5% of software, license and royalties revenue), respectively.

OPERATING EXPENSES

Operating expenses for the nine months ended March 31, 2005 and 2004 were \$2,870 and \$4,006, respectively; a decrease of \$1,136 (28%). The decrease is due to a reduction of payroll and related benefits due to a significant reduction in our personnel. Also, as disclosed in "Significant Accounting Policies and Estimates", we rely on estimates for such liabilities related to, among other areas, worker's compensation and accrued payroll taxes. During the nine months ended March 31, 2005, we changed our estimate of workers' compensation claims aggregating approximately \$700 and \$1,200 for the nine months ended March 31, 2005 and 2004, respectively.

OTHER INCOME AND EXPENSE

Interest expense and financing costs for the nine months ended March 31, 2005 and 2004 was \$1,208 and \$1,363 respectively; a decrease of \$155 (11%). The decrease is principally due to the write off of the unamortized debt discounts associated with the conversion of debentures into common stock for the nine months ended March 31, 2004 (there were fewer conversions during the nine months ended March 31, 2005) offset by an increase due to the amount of debt outstanding.

GAIN ON EXTINGUISHMENT OF DEBT

Gain on the extinguishment of debt was \$425 and \$853 for the nine months ended March 31, 2005 and 2004,, respectively. The amounts related to accounts payable, which had become stale and uncollectible under the Statute of Limitations in the

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

State of California and upon obtaining a legal opinion with respect to the State of California Statute of Limitations.

GAIN FROM RECONCILIATION OF PAYROLL TAX LIABILITES TO TAXING AUTHORITIES

During the nine months ended March 31, 2005, we recorded as other income an adjustment of accrued PEO payroll taxes payable of \$990 resulting from reconciliations of certain liabilities with the Internal Revenue Service and certain State taxing authorities of amounts due for delinquent payment of payroll tax liabilities. We continually updates our estimate of the amount due related to delinquent payroll taxes and penalties as we receive correspondence or settlement agreements with the Internal Revenue Service and State taxing authorities.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have financed our operations primarily through cash generated from operations, debt financing, and the sale of equity securities. Additionally, in order to facilitate our growth and future liquidity, we have made some strategic acquisitions.

20

As a result of some of our financing activities, there has been a significant increase in the number of issued and outstanding shares. During the nine months ended March 31, 2005 and the year ended June 30, 2004, we issued an additional 130,037,455 and 371,126,679 shares, respectively. These shares of common stock were issued primarily for corporate expenses in lieu of cash, for acquisition of businesses, for the conversion of convertible debentures and other debt, and for the exercise of warrants.

As of March 31, 2005, we had negative working capital of \$22,113, a decrease in working capital of \$245 since June 30, 2004.

Net cash used in operating activities was \$186 for the nine months ended March 31, 2005 as compared to net cash used in activities of \$1,560 for the prior-year period; a decrease of \$1,374.

Cash provided by financing activities was \$400 for the nine months ended March 31, 2005, a decrease of \$294 from the prior-year period.

We have no material commitments for capital expenditures. Our 5% convertible preferred stock (which ranks prior to our common stock), carries cumulative dividends, when and as declared, at an annual rate of \$50 per share. The aggregate amount of such dividends in arrears at March 31, 2005, was approximately \$498.

Our capital requirements depend on numerous factors, including market acceptance of our products and services, the resources we devote to marketing and selling our products and services, and other factors. The report of our independent auditors accompanying our June 30, 2004 financial statements includes an explanatory paragraph indicating there is a substantial doubt about our ability to continue as a going concern, due primarily to the decreases in our working capital and net worth.

CONTINGENT LIABILITY

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

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

Off-Balance Sheet Arrangements

There are no off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors, except for the following.. As of September 8, 2004, Warning Management Services, Inc. ("Warning") purchased all of the issued and outstanding shares of Employment Systems, Inc. ("ESI") for \$1,500. The purchase was \$750 cash paid at the closing and a \$750 note payable. In connection with this transaction, the Company agreed to be a guarantor of the \$750 note payable. Our CEO, Brian Bonar, is also the CEO of Warning. As inducement to enter into this guarantee, we were given a non-cancelable 2-year payroll processing contract with ESI. Currently the \$750 note payable is in dispute. Warning is claiming that certain representations made by ESI were not correct and is proposing that the purchase price be reduced, thus reducing the \$750 note payable to \$258. Management has evaluated this contingent liability and has determined that no loss is anticipated as a result of this guarantee.

We have no material commitments for capital expenditures. Our 5% convertible preferred stock (which ranks prior to our common stock), carries cumulative dividends, when and as declared, at an annual rate of \$50 per share. The aggregate amount of such dividends in arrears at December 31, 2004, was approximately \$473.

Our capital requirements depend on numerous factors, including market acceptance of our products and services, the resources we devote to marketing and selling our products and services, and other factors. The report of our independent auditors accompanying our June 30, 2004 financial statements includes an

explanatory paragraph indicating there is a substantial doubt about our ability to continue as a going concern, due primarily to the decreases in our working capital and net worth.

The important matters on which DRDF focuses in evaluating its financial condition and operating performance are as follows: 1) since we are a cash driven business, the speed in which cash is collected from our clients is crucial, and 2) since our margins are thin, the volume of our business is important, therefore acquiring new businesses and/or clients is very important.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

The fixed and ongoing expenses of DRDF are as follows:

Current Liabilities:

a) Borrowings under bank notes payable: This represents a bank note that is past due. We do not have the funds to currently satisfy this note. Dalrada intends to seek in the future, additional long term financing with the goal to negotiate and settle a substantial portion of the liabilities.

b) Lines of credit: The lines of credit are secured by the accounts receivable and will be paid as the receivables are collected.

c) Notes payable current portion: This consists of \$1.5 million due to the Dalrada's former chairman. We do not have the funds to currently satisfy this note. The remaining balance consists of \$275K due a third party and \$842K consists of various term loans obtained from banks by our various operating subsidiaries. It is the intention of management to pay approximately half of these down over time and to negotiate some sort of settlement on the remaining half.

d) Convertible debt: These will be converted into equity.

e) Accounts payable: Half of these are over four years old and will most likely be written off in the future and the remaining will be paid and/or a negotiated settlement will be reached.

f) Obligations under capital lease: This is a company car and will be paid according to the terms.

g) PEO payroll taxes and other payroll deductions: Dalrada is liable for this amount and is currently negotiating payment schedules with the Internal Revenue Service and various state taxing authorities.

Estimated future cash requirements (\$000)

DRDF's estimate of net cash requirements for operating costs for the next twelve months subsequent to March 31, 2005, is approximately \$3,282 a month for a twelve total of \$ 39,390. The Estimate of cash inflow from operations for that same time period is estimated to be approximately \$ 40,552. The excess cash will be used for the paydown of certain current liabilities as addressed above.

DRDF received funding from a private placement on December 17, 2003, issuing \$800 of convertible notes resulting in net proceeds to the Company of approximately \$681. The terms of the notes provide that the convertible debentures can be converted into shares of common stock with the conversion price per share being the lower of (i) \$.02 or (ii) seventy percent (70%) of the average of the three lowest closing bid prices for the sixty (60) trading days prior to but not including the conversion date for the common stock

DRDF'S future capital requirements will depend on numerous factors, including: 1) keeping existing and adding on new clients, 2) cash collection from clients and 3) the successful negotiation and paydown of our current liabilities. However, we will most likely need an additional capital contribution in the future therefore may need to seek one or more substantial new investors. We anticipate a need to raise up to \$3 million in the next few years for the purpose of retiring outstanding debt. These new investors could cause substantial dilution to existing stockholders.

YEAR ENDED JUNE 30, 2004 COMPARED TO YEAR ENDED JUNE 30, 2003

Revenues

Total revenues were \$13,526 and \$3,790 for the years ended June 30, 2004 and 2003, respectively; an increase of \$9,736 (257%). The increase was due primarily to the addition of temporary staffing services, which contributed \$10,119 of revenues for the year ended June 30, 2004.

PEO Services

PEO revenues were \$2,607 and \$2,499 for the years ended June 30, 2004 and 2003, respectively; an increase of \$108 (4%) due primarily to the small increase in our PEO customer base.

Temporary Staffing

In September 2003, we entered into an agreement to purchase a temporary staffing business through the organization of CallCenterHR and MedicalHR and the acquisition of Jackson Staffing. There were no revenues from temporary staffing in the 2003 fiscal year and \$10,119 for the year ended June 30, 2004.

Imaging Products

Sales of imaging products were generated principally from our QPI subsidiary. Imaging Products revenues were \$764 and \$924 for the years ended June 30, 2004 and 2003, respectively; a decrease of \$160 (17%) due primarily to the decrease in product sales as a result of the suspension of sales and marketing activities associated with the resale of office products in order to concentrate on color management products and services, including ColorBlind software and PhotoMotion Images.

Software

Software revenues were \$36 and \$367 for the years ended June 30, 2004 and 2003, respectively; a decrease of \$331 (90%). The reduction in software revenues was due to a delay in completing certain versions of our software which can be used with multiple computer operating systems. Revenues from licenses and royalties for the periods were insignificant.

Royalties and licensing fees vary from quarter to quarter and are dependent on the sales of products sold by OEM customers using our technologies. These revenues continue to decline as we have elected to transfer our ColorBlind software to QPI, which has accelerated product development and begun to implement a more aggressive product sales program.

COST OF PRODUCTS SOLD

Cost of PEO services for the years ended June 30, 2004 and 2003 \$894 (34% of PEO revenues) and \$1,639 (66% of PEO revenues), respectively. The increase in gross profit is due primarily to us being able to provide more profitable services to our PEO customers.

Costs of temporary staffing for the years ended June 30, 2004 was \$9,209 (91% of

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

temporary staffing revenue). There was no such cost of revenues in the prior-year period.

Cost of products sold for the year ended June 30, 2004 and 2003 were \$196 (26% of product sales) and \$396 (43% of product sales), respectively. Product sales continue to decline as we concentrate on other products and services. The increase in margins is due primarily to changes in product mix and our competitive position with customers.

Cost of software, licenses and royalties for the years ended June 30, 2004 and 2003 were \$3 and \$90, respectively. The decrease is due primarily to decreased business activity while awaiting the completion of new releases of ColorBlind software. This represented 8% of revenue in 2004 and 25% of revenue in 2003.

23

OPERATING EXPENSES

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

Operating expenses for the years ended June 30, 2004 and 2003 were \$4,196 and \$5,623, respectively; a decrease of \$1,427 (25%). The significant decrease is due to a reduction of payroll and related benefits of \$1,491 due to a significant reduction in our personnel. Also, as disclosed in "Significant Accounting Policies and Estimates", we rely on estimates for such liabilities related to, among other areas, worker's compensation and accrued payroll taxes. During the year ended June 30, 2004, we changed our estimate of workers' compensation and accrued payroll taxes aggregating approximately \$2,500, which resulted in a negative general and administrative expenses. These reduction in operating expenses were offset by an increase in consulting expenses of \$843 due to us using outside consultants since we have reduce the number of full-time personnel.

OTHER INCOME AND EXPENSE

Other income and expense, net for the years ended June 30, 2004 and 2003 was \$1,923 and \$1,028 respectively; an increase in other expenses of \$895 (87%). The increase is principally due to a decrease in other income resulting from the gain on the settlement of debt. For the years ended June 30, 2004 and 2003, the gain on the settlement of debt was \$1,145 and \$2,343, respectively; a decrease of \$1,198 (51%). These gains are principally due to the write off of old, stale accounts payable that our attorneys have advised us that we have been released from these obligations. Pursuant to an opinion provided by counsel, we elected to record these gains pursuant to the Statute of Limitations in the State of California. Interest expense for the years ended June 30, 2004 and 2003 was \$1,930 and \$1,493 respectively; an increase of \$437 (29%). The increase is principally due to the write off of the unamortized debt discounts associated with the conversion of debentures into common stock. Penalties and interest for the years ended June 30, 2004 and 2003 was \$795 and \$2,023 respectively; a decrease of \$1,228 (61%). The decrease is due to the pay down of the outstanding payroll liabilities

LIQUIDITY AND CAPITAL RESOURCES

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Historically, we have financed our operations primarily through cash generated from operations, debt financing, and the sale of equity securities. Additionally, in order to facilitate our growth and future liquidity, we have made some strategic acquisitions.

As a result of some of our financing activities, there has been a significant increase in the number of issued and outstanding shares. During the year ended June 30, 2004, we issued an additional 371,126,679 shares. These shares of common stock were issued primarily for corporate expenses in lieu of cash, for acquisition of businesses, for the conversion of convertible debentures and other debt, and for the exercise of warrants.

As of June 30, 2004, we had negative working capital of \$21,936, an increase in working capital of \$6,510 since June 30, 2003. This increase was due primarily to our disposition of Greenland Corporation, gains on the disposition of debt, the conversion of debt to equity and a change in estimates as previously discussed.

Net cash used in operating activities was \$489 for the year ended June 30, 2004 as compared to net cash provided by operating activities of \$1,112 for the prior-year period; a decrease of \$1,601. The decrease was due primarily to a decrease in current liabilities.

Cash provided by investing activities was \$11 for the year ended June 30, 2004, an increase of \$56 from the previous year.

We have no material commitments for capital expenditures. Our 5% convertible preferred stock (which ranks prior to our common stock), carries cumulative dividends, when and as declared, at an annual rate of \$50 dollars per share. The aggregate amount of such dividends in arrears at June 30, 2004, was approximately \$420.

Our capital requirements depend on numerous factors, including market acceptance of our products and services, the resources we devote to marketing and selling our products and services, and other factors. The report of our independent auditors accompanying our June 30, 2004 financial statements includes an explanatory paragraph indicating there is a substantial doubt about our ability to continue as a going concern, due primarily to the decreases in our working capital and net worth.

OPERATING AND CAPITAL LEASES

DRDF owns no real property. Dalrada leases the facility at 9449 Balboa Avenue, Suite 211, San Diego, California, 92123. This is a four year lease entered into on August 26, 2002 by the Christianson Group. The facility is approximately 2,848 square feet and will serve as our new corporate headquarters. Payments under the lease are currently \$5.4 thousand per month and increase to \$5.8 thousand in 2005 and \$6 thousand in 2006.

Dalrada's, Employers Administration Group, Inc. subsidiary, leases the facility at 180 F. Main Street, Tustin California. This is a three year lease entered into on July 15, 2003 by the Christianson Group. The facility is approximately 1,700 square feet. Payments under the lease are currently \$2.3 thousand per month.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Dalrada's, Quick Pix, Inc subsidiary leases the facility at 7050 Village Drive, Suite E and F, Buena Park, California. This is three lease entered on July 1, 2001. The facility is approximately 8,602 square feet. Payments under the lease are currently \$5.8 thousand per month.

The Company leases other facilities and equipment under operating and capital short-term leases.

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

(In thousands)	Capital Leases	Operating Leases
Year ending June 30,		
2005	21	123
2006	15	116
2007	11	46
2008	11	-
2009	30	-
Net minimum lease payments	\$ 88	\$ 104
Less: Amounts representing interest	(15)	
Present value of net minimum lease payments	73	
Less: current portion	(10)	
Long-term portion	\$ 63	

ANNUAL MEETING OF STOCKHOLDERS HELD ON MAY 14, 2004

Notice was given and the 2004 Annual Meeting of Stockholders of DALRADA FINANCIAL CORPORATION, formerly Imaging Technologies Corporation, was held at 9449 Balboa Avenue, Suite 211, San Diego, California 92123, at 10 a.m., local time, to where upon the following proposals were approved by a majority of the shareholders:

1. The election of five persons named in the accompanying Proxy Statement to serve as directors on the Company's board of directors (the "Board") and until their successors are duly elected and qualified;
2. To approve an amendment to the Company's certificate of incorporation (the "Certificate of Incorporation") to increase the number of the Common Stock, authorized to be issued from 500,000,000 shares to 1,000,000,000 shares;
3. To ratify the appointment of Pohl, McNabola, Berg and Company, LLP, as the Company's independent auditors for the fiscal year ending June 30, 2004; and
4. To consider and transact such other business as may properly come before the Meeting or any adjournment(s) thereof.

OUR BUSINESS

Dalrada Financial Corporation (OTCBB symbol: DRDF) ("DRDF" or the "Company") was incorporated in March 1982 under the laws of the State of California, and reincorporated in May 1983 under the laws of the State of Delaware. The Company's principal executive offices are located at 9949 Balboa Avenue, Suite 210, San Diego, CA 92123. The Company's main phone number is (858) 451-6120.

We provide a variety of financial, staffing, and human resources services to small and medium-size businesses. These services allow our customers to outsource many human resources tasks, including payroll processing, workers' compensation insurance, health insurance, employee benefits, and investment services. These financial services relieve existing and potential customers of the burdens associated with personnel management and control.

DRDF provides services through its wholly-owned SourceOne Group, Inc. ("SOG"), and Master Staffing subsidiaries; and through The Solvis Group, Inc., ("Solvis") a 79%-owned subsidiary that includes several operating units, including CallCenterHR(TM), Heritage Staffing, Worldwide of California, and M&M Nursing. These companies and business units provide a broad range of financial services, including: benefits and payroll administration, health and workers' compensation insurance programs, personnel records management, employer liability management, and temporary staffing services, to small and medium-sized businesses.

In January 2003, we completed the acquisition of a controlling interest approximating 88% of the shares of Greenland Corporation, whose shares are traded on the NASD Electronic Bulletin Board under the symbol GRLC. Subsequently, in March 2004, due to disagreements with Greenland's management, we entered into an agreement with Greenland to return most of our shares in Greenland in return for Greenland's forgiveness of certain DRDF indebtedness and business opportunities. Greenland is not longer affiliated with Dalrada.

In January 2003, we completed the acquisition of a controlling interest in the shares of Quik Pix, Inc. ("QPI"), located in Anaheim, California. QPI shares are traded on the National Quotation Bureau Pink Sheets(R) under the symbol QPIX. At the time of acquisition, QPI's principal business was providing products and services associated with visual marketing support. At that time, QPI's major source of revenues is in developing and mounting photographic and digital images for use in display advertising for tradeshow and customer building interiors. QPI also has a proprietary product PhotoMotion(TM), which is a patented color medium of multi-image transparencies. The process uses existing originals to create the illusion of movement, and allows for three to five distinct images to be displayed with an existing lightbox.

In July 2005, QPI acquired Solvis from DRDF and changed its name to The Solvis Group and its trading symbol to SLVG. Solvis principally serves as a staffing company and provides extensive human resources services. At this time, DRDF owns 79% of Solvis. Also in July 2005, Solvis organized a wholly-owned subsidiary, Imaging Tech, Inc., in order to separately pursue its remaining imaging business.

On December 1, 2004, DRDF completed its acquisition of 70% of Info Services, Inc. ("Info"), but has subsequently reversed the transaction. (Also see, "Legal Matters".).

Market Overview - Financial and Human Resources Services

Our entry into the financial services and human resources business, in November 2001, was through the acquisition of professional employer organizations ("PEO"). We are expanding the services we provide beyond PEO services, including staffing. Our services cover a broad range of services including payroll management, workers' compensation insurance, and safety programs. Expanded products and services are made available to employers and employees, such as payroll debit cards, group health insurance, 401(k) and 125-Flex plans, supplemental insurance, payroll advances, and other value-added benefits.

The burdens placed on small and medium-sized employers by the complex legal and regulatory issues related to human resources management caused our industry segment to grow beginning in the 1980's. While various service providers have been available to assist these businesses with specific tasks, companies like ours emerged as providers of a more comprehensive range of services relating to the employer/employee relationship. Integral to our client relationships, we assume broad aspects of the employer/employee relationship.

26

Because we provide employee-related services to a large number of employees, we provide economies of scale that provide our clients employment-related functions more efficiently, provide a greater variety of employee benefits, and devote more attention to human resources management.

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

Market Overview - Imaging Products

We continue to operate a business unit (Imaging Tech, Inc., a wholly-owned subsidiary of The Solvis Group) to market our proprietary imaging products and to provide photographic services to selected clientele.

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

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

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

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

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

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

Business Strategy

Financial and Human Resources Services

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

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

Workers' Compensation. We provide workers' compensation insurance and coordinate rates, compliance, claims, safety programs, and medical review. We provide coverage through an A-rated national carrier and take responsibility for payment of premiums and the deposit of adequate reserves against claims.

Benefit Plans Administration. We sponsor benefit plans including individual and group health coverage, 401(k) and 125-Flex plans, and others. We are responsible for the costs and premiums associated with these plans, act as plan sponsor and administrator of the plans, negotiate the terms and costs of the plans, maintain the plans in accordance with applicable federal and state regulations, and serve as liaison for the delivery of such benefits to worksite employees.

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

27

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

Service Staffing and/or Services Agreement. All clients we serve sign a service staffing agreement and/or services agreement ("Client Agreement")t,

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

which establishes our service fee. The client agreement is subject to periodic adjustments to account for changes in the composition of the associated workforce and statutory changes that affect our costs. Our client agreement establishes the division of responsibilities between us and client management at the employee worksite. We are responsible for personnel administration and are liable for certain employment-related government regulation. In addition, we assume liability for payment of salaries, wages (including payroll taxes), and employee benefits of worksite employees. Client company management retains the employees' services and remains liable for the purposes of certain government regulations.

Our business represents a distribution channel for a wide variety of employer and employee benefit programs such as 401(k) plans, 125-Flex plans, legal services, tax consulting, payroll advances, and insurance programs. Our intention is to expand our business through offering a variety of financial services.

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

The income model for the service segment of our business generally revolves around fees charged per employee. While gross profit is low, gross revenues are generally substantial. To this end, the Company intends to pursue acquisitions of small firms and strategic alliances with similar companies as ours.

We evaluate our business as one segment even though our staffing and human resources services and products are offered under various brand names.

Imaging Products and Services

We continue to provide imaging products and services through the Imaging Tech subsidiary of The Solvis Group subsidiary. This business segment includes our proprietary ColorBlind color management software, our patented Photomotion visual images, and photographic services.

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

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

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

Photomotion Images(TM) are based upon patented technology. The

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

resulting product is a unique color medium that uses existing original images to create the illusion of movement or multiple static displays that allow three to five distinct images to be displayed in an existing light box. The images appear to change, or "morph," as a viewer passes the display. This ability to put multiple images in a single space, without the need for mechanical devices, allows for the creation of an active and entertaining display. The product is currently marketed in the U.S., Europe, Asia and Latin America.

28

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

Competition

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

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

Operations

Our corporate headquarters facility in San Diego, California houses most of our administrative operations. Human resource services operations are conducted from the Company's headquarters offices and small branch offices in Michigan and California.

Manufacturing, Production, and Sources of Supply

We manufacture our software products in-house and through selected outside vendors. Also see "Risks and Uncertainties."

Research and Development

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

Intellectual Property

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Our software products are copyrighted. However, copyright protection does not prevent other companies from emulating the features and benefits provided by our software. We protect our software source code as trade secrets and make our proprietary source code available to OEM customers only under limited circumstances and specific security and confidentiality constraints. Imaging Tech, Inc. (The Solvis Group) holds the patent for Photomotion Images. Technology products exist in a rapidly changing business environment. Consequently, we believe the effectiveness of patents, trade secrets, and copyright protection is less important in influencing long term success than the experience of our employees and our contractual relationships. Due to lack of sales in the Photomotion Imaging area, Dalrada intends to fully write-off the value of the related patent at fiscal June 2005 year end. The book value is approximately \$1.6 million.

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

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

29

Employees

Our Company (including subsidiaries, but not including employees pursuant to staffing and/or co-employer client contracts) employed a total of 50 individuals worldwide as of August 31, 2005. Of this number, 10 were involved in sales and marketing, 8 in corporate administration and finance, 30 were in human resources, payroll, and benefits administration, and 2 in engineering and technical support. There is no union representation for any of our employees.

Government Regulation

While many states do not explicitly regulate companies like ours, over 20 states have passed laws that have licensing or registration requirements for professional employer organizations ("PEO"), which is a component of our business. Such laws vary from state to state, but generally provide for monitoring the fiscal responsibility of PEOs and, in some cases, codify and clarify the co-employment relationship for unemployment, workers' compensation, and other purposes under state law. We estimate that the annual costs of compliance with these regulations is approximately \$250,000.

MANAGEMENT AND MEMBERS OF THE BOARD OF DIRECTORS

EXECUTIVE OFFICERS AND MEMBERS OF THE BOARD OF DIRECTORS

The directors and executive officers of the Company, their ages and positions with the Company as of June 30, 2005 are as follows:

Name	Age	Since	Director Title
------	-----	-------	----------------

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Brian Bonar	58	1995	Director and Chief Executive Officer
Richard H. Green	69	2000	Director
Robert A. Dietrich	60	2000	Director
Eric W. Gaer	57	2000	Director
Stephen J. Fryer	67	2000	Director
Randall Jones	51	2005	Chief Financial Officer

BRIAN BONAR has served as a director of the Company since August 1995 and became the Company's Chairman of the Board in December 1999. From August 1992 through April 1994, Mr. Bonar served as the Company's Director of Technology Sales and from April 1994 through September 1994 as the Company's Vice President, Sales and Marketing. In September 1994, Mr. Bonar became the Company's Executive Vice President and, in July 1997, was appointed as the Company's President and Chief Operating Officer. In April 1998 Mr. Bonar assumed the post of CEO. From 1991 to 1992, Mr. Bonar was Vice President of Worldwide Sales and Marketing for Bezier Systems, Inc., a San Jose, California-based manufacturer and marketer of laser printers. From 1990 to 1991, he was Worldwide Sales Manager for Adaptec, Inc., a San Jose-based laser printer controller developer. From 1988 to 1990, Mr. Bonar was Vice President of Sales and Marketing for Rastek Corporation, a laser printer controller developed located in Huntsville, Alabama. From 1984 to 1988, Mr. Bonar was employed as Executive Director of Engineering at QMS, Inc., an Alabama-based developer and manufacturer of high-performance color and monochrome printing solutions. Prior to these positions, Mr. Bonar was employed by IBM, U.K. Ltd. for approximately 17 years.

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

30

completed his bachelor's degree at Whitman College in 1958, his Master of Science at Washington State University in 1961, and his Ph.D. at Washington State University, under a United States Public Health Services Career Development Award, in 1965.

ROBERT A. DIETRICH has served as a director of the Company since January 2000. Mr. Dietrich is President and CEO of Cyberair Communications Inc., a privately-held telecommunications company with strategic interests in Internet communications and "bandwidth" expansion technologies, as well as domestic and international telephone services, in Irvine, California. Recently, Mr. Dietrich was named President and CEO of Semper Resources Corporation, a public natural resources holding company in Irvine, California. From 1996 to 2000, Mr. Dietrich was Managing Director and CFO of Ventana International, Ltd., Irvine,

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

California, a venture capital and private investment-banking firm. From 1990 to 1994, Mr. Dietrich was Vice President and Chief Financial Officer of CEI, Inc., in Santa Ana, California, a commercial furnishings firm, prior to joining Ventana. Mr. Dietrich is a graduate of the University of Notre Dame, with a bachelor's degree in accounting, and the University of Detroit, with a master's degree in finance. He served as a lieutenant in the U.S. Navy's Atlantic Command Operations Control Center.

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

STEPHEN J. FRYER has served as a director of the Company since March 2000. He is currently Chairman of the Board and CEO of Pen Interconnect, Inc. ("Pen"), a high technology company in Irvine, California. He began his employment service at Pen in 1997 as Senior Vice President of Sales and Marketing. At Pen, he became a director in 1995 and was appointed President and CEO in 1998. From 1989 to 1996, Mr. Fryer was a principal in Ventana International, Ltd., a venture capital and private investment-banking firm in Irvine, California. He has over 28 years experience in the computer industry in the United States, Asia and Europe. Mr. Fryer graduated from the University of California in 1960 with a bachelor's degree in mechanical engineering.

RANDALL JONES became the CFO for Dalrada in January of 2005. Mr Jones is also the CFO for Kaire Holdings Incorporated and Warning Management Services, Inc. Prior to that, Mr. Jones was CEO of South Coast Corporate Development since 1981. Mr. Jones has over twenty-five years experience as a financial executive. He has consulted to companies in a variety of industries, from aerospace, manufacturing, retail, employee staffing to banking. His area of specialty is consulting to companies that either want to enter the public marketplace or are already publicly held and need assistance in the reorganization of their accounting operations and public reporting.

31

EXECUTIVE COMPENSATION

The following table sets forth certain summary information regarding compensation paid for services rendered during the fiscal years ended June 30, 2004, 2003 and 2002, respectively, to Dalrada's Chief Executive Officer, President and Chief Financial Officer during such period.

Payouts	Annual Compensation (\$000)					Long Term Compens
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Name and Principal	Year	Salary	Bonus	Other	Restricted	Securities

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Position		Annual Compensa- tion(\$)	Stock Awards (\$)	Underlying Options/SAR (#) (2)
Brian Bonar, Chairman, Board of Directors, President and C.E.O.	2004 2003 2002	\$157 \$275 \$230	\$150 \$77	8,000,000 15,000,000 1,750,000
James R. Downey, Jr., Chief Operating Officer and Chief Accounting Officer (1)	2004 2003	\$100 \$79	\$20	

(1) Mr. Downey joined the Company effective January 6, 2003 and resigned effective January 31, 2004.

(2) Options granted

32

OPTIONS/SAR GRANTS IN THE LAST FISCAL YEAR

The following table provides information on Options granted in the 2004 Fiscal Year to the Named Officers.

Name	Number of Securities Underlying Options/SARs Granted (#)	Percent of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/share)	Expiration Date
Brian Bonar	8,000,000	23.2%	\$0.015	12/1/05
James R. Downey, Jr. (1)	0			

(1) Mr. Downey resigned effective January 30, 2004

Options/SAR Grants in the Last Fiscal Year

The following table provides information on option exercises in the 2004 Fiscal Year by the Named Officers and the value of such Named Officers' unexercised options at June 30, 2004. Warrants to purchase Common Stock are included as options. No stock appreciation rights were held by them at the end of the 2004 Fiscal Year.

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FY-END (#)	VA IN AT (2)
------	--	------------------------	---	-----------------------

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

			EXERCISABLE	UN-EXERCISABLE	EX
Brian Bonar	7,000,000	\$0	8,000,000	---	
James R. Downey, Jr. (1)	--	--	9,500,000	---	

(1) Mr. Downey resigned effective January 30, 2004

COMPENSATION OF DIRECTORS

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

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

None

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

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

AUDIT COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Audit Committee currently consists of Messrs. Green and Dietrich (the audit committee expert). Neither of these individuals was an officer or employee of the Company at any time during the 2004 Fiscal Year.

33

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known to DRDF with respect to the beneficial ownership of DRDF's common stock as of August 31, 2005 by (i) each person who is known by the Company to own beneficially more than 5% of the Company's common stock, (ii) each of DRDF's directors and executive officers, and (iii) all officers and directors of DRDF as a group. Except as otherwise listed below, the address of each person is c/o Dalrada Financial Corporation., 9449 Balboa Avenue, Suite 211, San Diego, CA 92123

Name and Address Of Beneficial Owner Owned (1)	Number of Shares Beneficially owned prior to resale offering	Percent of class prior Resale offering (2)	Percent of class after resale offeri (3)
ALPHA Capital AG (4) Pradafant 7 9490 Furstentums,	36,642,857 (13)	.05%	.04%

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Vaduz, Liechtenstein

Gamma Opportunity Capital (5) Partners, LP	36,642,857 (14)	.05%	.04%
British Colonial Centre of Commerce One Bay Street, Suite 401 Nassau (NP), The Bahamas			

LONGVIEW FUND, L.P. (6) 1325 Howard Avenue, #422 Burlingame, CA 94010	32,571,428 (15)	.04%	.03%

Stonestreet Limited Partnership (7) C/o Canaccord Capital Corporation 320 Bay Street, Suite 1300 Toronto, Ontario M5H 4A6, Canada	24,428,571 (16)	.03%	.02%

Directors and Officers			

Brian Bonar (8)	19,007,500	.03%	.02%

Robert A. Dietrich (9)	11,384,500	.01%	.01%

Stephen J. Fryer (10)	7,453,250	.01%	.01%

Eric W. Gaer (11)	9,936,000	.02%	.01%

Richard Green (12)	9,969,500	.02%	.01%

All current directors and Executive officers (group of 5)	58,003,750	.09%	.06%

(1) Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of August 31, 2005 are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person. Except as pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

(2) Percentage based on 747,103,929 shares of common stock outstanding as of August 31, 2005, plus shares underlying each shareholders convertible note.

(3) Percentage based on 991,675,358 shares of common stock outstanding after the offering.

(4) Alpha Capital Aktiengesellschaft: In accordance with Rule 13d-3 under the Securities Exchange Act of 1934, Konard Ackerman may be deemed the control person of the shares owned by such entity. ALPHA Capital AG is a private investment fund that is owned by all its investors and managed by Mr. Ackerman. Mr. Ackerman disclaims beneficial ownership of the shares of common stock being registered hereto.

(5) Gamma Opportunity Capital Partners, LP: In accordance with Rule 13d-3 under the Securities Exchange Act 1934, Gamma Capital Advisors, Ltd., an Anguilla, British West Indies company, is the general partner to the stockholder Gamma Opportunity Capital Partners, LP, a Cayman Islands registered limited partnership, with the power to vote and dispose of the common shares being registered on behalf of the stockholder. As such, Gamma Capital Advisors, Ltd. may be deemed to be the beneficial owner of said shares. Christopher Rossman and Jonathan P. Knight, PhD. are the Directors of Gamma Capital Advisors, Ltd., each possessing the power to act on its behalf. Gamma Capital Advisors, Ltd., Christopher Rossman and Jonathan P. Knight, PhD. each disclaim beneficial ownership of the shares of common stock being registered hereto.

(6) Longview Fund, LP is a private investment fund that is in the business of investing publicly-traded securities for their own accounts and is structured as a limited liability company whose members are the investors in the fund. The General Partner of the fund is Viking Asset Management, LLC, a California limited liability company which manages the operations of the fund. Peter T. Benz is the managing member of Viking Asset Management, LLC. As the control person of the shares owned by Longview Fund, LP, Peter T. Benz may be viewed as the beneficial owner of such shares pursuant to Rule 13d-3 under the Securities Exchange Act of 1934.

(7) Stonestreet Limited Partnership: In accordance with Rule 13d-3 under the Securities Exchange Act of 1934, Mr. Michael Finkelstein may be deemed the control person of the shares owned by such entity. Stonestreet Limited Partnership is a private investment fund that is owned by all its investors and managed by Ms. Libby Leonard.

(8) Includes 12,000,000 shares issuable upon exercise of warrants that are currently exercisable or will become exercisable within 60 days after April 30, 2005.

(9) Includes 9,125,000 shares issuable upon exercise of warrants that are currently exercisable or will become exercisable within 60 days after April 30, 2005.

(10) Includes 4,875,000 shares issuable upon exercise of warrants that are currently exercisable or will become exercisable within 60 days after April 30, 2005.

(11) Includes 7,375,000 shares issuable upon exercise of warrants that are currently exercisable or will become exercisable within 60 days after April 30, 2005.

(12) Includes 40,750,000 shares issuable upon exercise of warrants that are currently exercisable or will become exercisable within 60 days after April 30, 2005.

(13) Concerning Alpha Capital Aktiengesellschaft: Assuming \$225,000 of

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Convertible Debentures converted at \$0.007 plus 4,500,000 warrants.

(14) Concerning Gamma Opportunity Capital Partners, LP: Assuming \$225,000 of Convertible Debentures converted at \$0.007 plus 4,500,000 warrants.

(15) Concerning Longview Fund, LP: Assuming \$200,000 of Convertible Debentures converted at \$0.007 plus 4,000,000 warrants.

(16) Concerning Stonestreet Limited Partnership: Assuming \$150,000 of Convertible Debentures converted at \$0.007 plus 3,000,000 warrants.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the year ended June 30, 2004, the Company accrued consulting expenses of \$60,000 due Arroyo Development Corporation, owned by Mr. Eric Gaer, a member of the Board of Directors. There was no officer or director indebtedness to the Company.

35

DESCRIPTION OF SECURITIES

GENERAL

Our authorized capital stock consists of 1,000,000,000 shares of Common Stock at \$.005 par value, of which 747,103,929 shares are issued and outstanding at August 31, 2005.

The following is a description of the securities of DRDF taken from provisions of our Company's Articles of Incorporation and By-laws, each as amended. The following description is a summary of the material terms in our articles of incorporation and bylaws, as currently in effect.

COMMON STOCK

Holders of the common stock are entitled to one vote for each share held in the election of directors and in all other matters to be voted on by shareholders. Stockholders have cumulative voting rights in the election of directors. Holders of common stock are entitled to receive dividends as may be declared from time to time by our board of directors out of funds legally available. In the event of liquidation, dissolution or winding up, holders of common stock are to share in all assets remaining after the payment of liabilities.

The holders of common stock have no preemptive or conversions rights and are not subject to further calls or assessments. There are no redemption or sinking fund provisions applicable to the common stock. The rights of the holders of the common stock are subject to any rights that may be fixed for holders of preferred stock. All of the outstanding shares of common stock are fully paid and non-assessable.

The holders of the outstanding shares of common stock are entitled to receive dividends out of assets legally available at such times and in such amounts as the Board of Directors may from time to time determine, subject to the rights of the holders of our preferred stock. Upon our liquidation, dissolution, or winding up, our assets, which are legally available for distribution to the stockholders, will be distributed equally among the holders of the shares.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

We have never paid any cash dividends on the common stock. Future cash dividends, if any, will be at the discretion of our Board of Directors and will depend upon, among other things, our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, and such other factors as the Board of Directors may deem relevant.

WARRANTS AND OPTIONS:

On December 17, 2003, DRDF issued four Warrants to purchase an aggregate of 16,000,000 shares of common stock of DRDF with an exercise price per share of 110% of the Closing trade price as reported by Bloomberg L.P. for the OTC Bulletin Board for the trading day preceding but not including the closing date to the following: 1) Alpha Capital Aktiengesellschaft for 4,500,000 shares, 2) Gamma Opportunity Capital Partners, LP for 4,500,000 shares, 3) Longview Fund, L.P. for 4,000,000 shares and Stonestreet Limited Partnership for 3,000,000 shares. These warrants will expire in five years. The underlying shares of these warrants are being registered in this registration statement.

PENNY STOCK DISCLOSURE REQUIREMENTS:

See discussion in risk factor section, page 8, with the heading "Penny Stock issues may be difficult for an investor to dispose of."

SELLING SHAREHOLDERS

SHARES ELIGIBLE FOR FUTURE SALE

As of August 31, 2005, DRDF has 747,103,929 shares of Common Stock outstanding. Sales of a substantial number of shares of DRDFs Common Stock in the public market following this offering could adversely affect the market price of the Common Stock. DRDF is registering with this document 244,571,429 shares of Common Stock for resale, all of which will be freely tradable without restriction or further registration under the Securities Act. The Shares being offered for resale by our Selling Stockholders are issuable in accordance with ss. 4(2) and Rule 506 under the Securities Act of 1933, as amended (the "Securities Act").

36

SELLING SHAREHOLDER TABLE

The table below sets forth information concerning the resale of shares of Common Stock by the Selling Stockholder. We will not receive any proceeds from the resale of the Common Stock by the Selling Stockholder nor will we receive proceeds from the exercise of the warrants.

Assuming the Selling Stockholder sells all the shares registered below, the Selling Stockholder will no longer continue to own any shares of our Common Stock.

The following table also sets forth the name of the person who is offering shares of common stock by this prospectus, the number of shares of common stock beneficially owned by such person, the number of shares of common stock that may

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

be sold in this offering and the number of shares of common stock such person will own after the offering, assuming he sells all of the shares offered.

Selling Stockholder -----	Shares Beneficially Owned Prior to the Offering -----		Shares Offered For Sale (6) -----	Shares Ben If All Off -----
	Number of Shares -----	Percentage(5) -----		
Alpha Capital Aktiengesellschaft (1)	68,785,714	9.2%	68,785,714	0
Gamma Opportunity Capital Partners LP(2)	68,785,714	9.2%	68,785,714	0
Longview Fund, LP(3)	61,142,857	8.2%	61,142,857	0
Stonestreet Limited Partnership (4)	45,867,143	6.1%	45,867,143	0

* The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rule, beneficial ownership includes any shares as to which the selling stockholder has sole or shared voting power or investment power and also any shares, which the selling stockholder has the right to acquire within 60 days. The actual number of shares of common stock issuable upon the conversion of the debentures and exercise of the debenture warrants is subject to adjustment depending on, among other factors, the future market price of the common stock, and could be materially less or more than the number estimated in the table.

The above investors do not hold any position or office, or has had any material relationship with us or any of our affiliates within the past three years

The selling shareholders are not a broker-dealers or affiliates of a broker-dealer.

- (1) Alpha Capital Aktiengesellschaft: In accordance with Rule 13d-3 under the Securities Exchange Act of 1934, Konard Ackerman may be deemed the control person of the shares owned by such entity. ALPHA Capital AG is a private investment fund that is owned by all its investors and managed by Mr. Ackerman. Mr. Ackerman disclaims beneficial ownership of the shares of common stock being registered hereto.
- (2) Gamma Opportunity Capital Partners, LP: In accordance with Rule 13d-3 under the Securities Exchange Act of 1934, Gamma Capital Advisors, Ltd., an Anguilla, British West Indies company, is the general partner to the stockholder Gamma Opportunity Capital Partners, LP, a Cayman Islands registered limited partnership, with the power to vote and dispose of the common shares being registered on behalf of the stockholder. As such, Gamma Capital Advisors, Ltd. may be deemed to be the beneficial owner of said shares. Christopher Rossman and Jonathan P. Knight, PhD. are the Directors of Gamma Capital Advisors, Ltd., each possessing the power to act on its behalf. Gamma Capital Advisors, Ltd., Christopher Rossman and Jonathan P. Knight, PhD. each disclaim beneficial ownership of the shares of common stock being registered hereto.

- (3) Longview Fund, L.P. is a private investment fund that is in the business of investing publicly-traded securities for their own accounts and is structured as a limited liability company whose members are the investors in the fund. The General Partner of the fund is Viking Asset Management, LLC, a California limited liability company which manages the operations of the fund. Peter T. Benz is the managing member of Viking Asset Management, LLC. As the control person of the shares owned by Longview Fund, LP, Peter T. Benz may be viewed as the beneficial owner of such shares pursuant to Rule 13d-3 under the Securities Exchange Act of 1934.
- (4) Stonestreet Limited Partnership: In accordance with Rule 13d-3 under the Securities Exchange Act of 1934, Mr. Michael Finkelstein may be deemed the control person of the shares owned by such entity. Stonestreet Limited Partnership is a private investment fund that is owned by all its investors and managed by Ms. Libby Leonard.
- (5) Percentages are based on 747,103,929 shares of our common stock outstanding as of August 31, 2005.
- (6) This column represents the total number of shares of common stock that each selling security holder intends to sell based on the current market price at the time the registration statement was first filed.

TERMS OF THE CONVERTIBLE NOTES

On December 17, 2003, DRDF entered into a Securities Purchase Agreement with four accredited investors for the sale of (i) \$800,000 in Convertible Debentures and (ii) warrants to buy 16,000,000 shares of our common stock. This prospectus relates to the resale of the common stock underlying these convertible notes and warrants.

The convertible notes bear interest at 8% per annum, mature two years from the date of issuance, and are convertible into our common stock at the investors option, at the lower of (i) \$.02 (maximum price") or (ii) seventy percent (70%) of the average of the three lowest closing bid prices for the sixty (60) trading days prior to but not including the conversion date for the common stock. The full principal amount of the convertible notes is due upon default under the terms of secured convertible notes. The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.0187 per share. In addition, the conversion price of the convertible notes and the exercise price of the warrants will be adjusted in the event that we issue common stock at a price below the fixed conversion price or below market price, with the exception of any securities issued in connection with the Securities Purchase Agreement. The conversion price of the convertible notes and the exercise price of the warrants may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the selling stockholder's position..

The warrants are exercisable until five years from the date of issuance at a purchase price of \$0.0187 per share. The selling stockholders will be entitled to exercise the warrants on a cashless basis if the shares of common stock underlying the warrants are not then registered pursuant to an effective

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

registration statement. In the event that the selling stockholder exercises the warrants on a cashless basis, then we will not receive any proceeds. In addition, the exercise price of the warrants will be adjusted in the event we issue common stock at a price below market, with the exception of any securities issued as of the date of this warrant or issued in connection with the callable secured convertible notes issued pursuant to the Securities Purchase Agreement, dated December 17, 2003.

The holders of the 8% convertible debentures may not convert its securities into shares of DRDF's common stock if after the conversion such holder would beneficially own over 9.9% of the outstanding shares of DRDF's common stock. The holder may waive this percent ownership restriction upon not less than 61 days notice to DRDF. Since the number of shares of DRDF's common stock issuable upon conversion of the debentures will change based upon fluctuations of the market price of DRDF's common stock prior to a conversion, the actual number of shares of DRDF's common stock that will be issued under the debentures owned by the holders is based on a reasonable good faith estimate of the maximum amount needed.

If DRDF issues any shares of common stock for a price less than the purchase price of the warrants, prior to the complete exercise of the above warrants, the exercise price for future purchased will be reduced accordingly. The warrant purchase price shall be reduced as follows: (i) the number of shares of our common stock outstanding immediately prior to such issue shall be multiplied by the purchase price in effect at the time of such issue and the product shall be added to the aggregate consideration, if any, received by us upon such issue of additional shares of common stock; and (ii) the sum so obtained shall be divided by the number of shares of common stock outstanding immediately after such issue. The resulting figure shall be the adjusted purchase price.

38

The conversion price of the convertible notes and the exercise price of the warrants may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the selling shareholder's position.

The selling stockholders have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 9.99% of the then issued and outstanding shares of common stock. The Subscriber may void this conversion limitation effective after (sixty-one) 61 days upon prior written notice to the Company.

The notes were issued to the following: Alpha Capital Aktiengesellschaft, a \$225,000 secured convertible debenture, Gamma Opportunity Capital Partners, LP, a \$225,000 secured convertible debenture, Longview Fund, L.P., a \$200,000 secured convertible debenture and Stonestreet Limited Partnership, a \$150,000 in secured convertible debenture. None of the investors are affiliated.

SAMPLE CONVERSION CALCULATION

The following gives examples of the number of shares that would be issued if the \$800,000 of convertible notes in this offering were converted at one time at prices representing 25%, 50%, and 75% below the current market price (assuming a

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

conversion price to the note holders of \$0.003). As of August 31, 2005, we had 747,103,929 shares of common stock outstanding.

% Below Market -----	Price Per Share -----	With Discount at 30% -----	Number of Shares Issuable -----	% of Outstanding Stock -----
25%	\$0.00225	\$0.00158	506,329,114	68%
50%	\$0.0015	\$0.00105	761,904,762	102%
75%	\$0.00075	\$0.00053	1,509,433,962	202%

PLAN OF DISTRIBUTION

Each selling stockholders will most likely sell their shares on the open market. Our stock is quoted on the OTCBB under the symbol DRDF.

Therefore, the selling stockholders may, from time to time, sell any or all of their shares of common stock on any stock exchange, market, or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. There is no assurance that the selling stockholders will sell any or all of the common stock in this offering. The selling stockholders may use any one or more of the following methods when selling shares:

- o Ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers.
- o Block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction.
- o Purchases by a broker-dealer as principal and resale by the broker-dealer for its own account.
- o An exchange distribution following the rules of the applicable exchange
- o Privately negotiated transactions
- o Short sales or sales of shares not previously owned by the seller

39

- o Broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share
- o A combination of any such methods of sale any other lawful method

The selling stockholders may also engage in

- o Short selling against the box, which is making a short sale when the seller already owns the shares.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

- o Other transactions in our securities or in derivatives of our securities and the subsequent sale or delivery of shares by the stockholder.
- o Pledging shares to their brokers under the margin provisions of customer agreements. If a selling stockholder defaults on a margin loan, the broker may, from time to time, offer to sell the pledged shares.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from selling stockholders in amounts to be negotiated. If any broker-dealer acts as agent for the purchaser of shares, the broker-dealer may receive commission from the purchaser in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The selling stockholders may pledge their shares to their brokers under the margin provisions of customer agreements. If a selling stockholders defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares. The selling stockholders and any other persons participating in the sale or distribution of the shares will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations under such act, including, without limitation, Regulation M. These provisions may restrict certain activities of, and limit the timing of purchases and sales of any of the shares by, the selling stockholders or any other such person. In the event that the selling stockholders are deemed affiliated purchasers or distribution participants within the meaning of Regulation M, then the selling stockholders will not be permitted to engage in short sales of common stock. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or exemptions. In regards to short sells, the selling stockholder can only cover its short position with the securities they receive from us upon conversion. In addition, if such short sale is deemed to be a stabilizing activity, then the selling stockholder will not be permitted to engage in a short sale of our common stock. All of these limitations may affect the marketability of the shares.

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be considered to be "underwriters" within the meaning of the Securities Act for such sales. An underwriter is a person who has purchased shares from an issuer with a view towards distributing the shares to the public. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be considered to be underwriting commissions or discounts under the Securities Act.

We are required to pay all fees and expenses incident to the registration of the shares in this offering. However, we will not pay any commissions or any other fees in connection with the resale of the common stock in this offering. We have agreed to indemnify the selling shareholders and their officers, directors, employees and agents, and each person who controls any selling shareholder, in certain circumstances against certain liabilities, including liabilities arising under the Securities Act. Each selling shareholder has agreed to indemnify DRDF and its directors and officers in certain circumstances against certain liabilities, including liabilities arising under the Securities Act.

If the selling stockholder notifies us that they have a material arrangement with a broker-dealer for the resale of the common stock, then we would be required to amend the registration statement of which this prospectus is a part, and file a prospectus supplement to describe the agreements between the selling

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

stockholder and the broker-dealer.

LEGAL PROCEEDINGS

In October 1999, the law firms of Weiss & Yourman and Stull, Stull & Brody made a public announcement that they had filed a lawsuit against the Company and certain current and past officers and/or directors, alleging violation of federal securities laws and, in November 1999, the lawsuit, filed in the name of Nahid Nazarian Behfarin, on her own behalf and others purported to be similarly situated, was served on the Company. In January 2003, the Company entered into a

40

Stipulation of Settlement with the plaintiffs. It agreed to pay the plaintiffs 5,000,000 shares of common stock and \$200 in cash. The Parties have accepted the settlement. DRDF has issued the shares, and its insurance carrier has paid the \$200 cash payment. Pursuant to a hearing in May 2003 the Court provided approval to the settlement, which has been satisfied.

On August 22, 2002, the Company was sued by its former landlord, Carmel Mountain #8 Associates, L.P. or past due rent on its former facilities at 15175 Innovation Drive, San Diego, CA 92127. A judgment was entered against the Company for \$56 in February 2003. The debt is still outstanding.

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

DRDF is one of dozens of companies sued by The Massachusetts Institute of Technology, et al., related to a patent held by the plaintiffs that may be related to part of the Company's ColorBlind software. Subsequent to the period reported in this filing, in June 2003, the Company entered into a settlement with the plaintiffs who have agreed to dismiss their claims against DRDF with prejudice in exchange for a settlement fee payment of \$10, which has been paid.

The Company and its SourceOne Group ("SOG") subsidiary have been sued by the Arena Football 2 Operating Company, LLC ("Arena") in Wayne County Circuit Court, Michigan. The claims made by Arena against the Company and SOG are that SOG failed to perform under an agreement to procure and furnish workers' compensation insurance and that Arena incurred alleged damages in an amount no less than \$709 as a result. Management has vigorously contested the claims made by Arena. In addition, the Company has filed claims against Arena and Arena's agent, Thilman and Filippini, based on, among other things, the representations made to SOG that let it to enter into the agreement with Arena. The case remains in the discovery phase.

The Company and SOG have been sued by Liberty Mutual Insurance Company ("Liberty") in the United States District Court for the Northern District of Illinois. The nature of the specific claims made by Liberty against the Company and SOG are that the Company and SOG were and are obligated to make additional premium payments to Liberty for workers' compensation insurance, which is related to the Arena litigation described above. The initial claim by Liberty was estimated by Liberty to be \$829 and is now claimed to exceed \$1,000. Management has vigorously contested the claims made by Liberty. The case remains in the discovery phase.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

On February 10, 2005, Berryman & Henigar Enterprises ("Plaintiff"), filed a complaint in the Superior Court of California, County of San Diego, Case No. GIC842610, against Warning Model Management, Inc. for breach of a promissory note issued pursuant to terms and conditions of a certain stock purchase and sale agreement dated September 9, 2004. The Company and its subsidiary, Employment Systems, Inc. ("ESI"), each allegedly guaranteed payments on the underlying promissory note. Plaintiff seeks principal damages of \$750,000.00 in that regard. Warning Model Management, Inc. has taken the position that Plaintiff failed to disclose certain material information in the underlying transaction which thereby negates the promissory note. As such, the guarantees allegedly provided by the Company and ESI could thereby be invalidated. Discovery has commenced but is not complete at this time. Trial has not been set. Management has fully cooperated in our investigation of the facts and we intend to defend against the claims asserted. This case is currently in arbitration.

On March 17, 2005, Greenland Corporation ("Plaintiff"), filed an amended complaint in the Superior Court of California, County of San Diego, Case No. GIC842605, against the Company and multiple other individuals and entities resulting from a transaction as evidenced by the "Agreement to Acquire Shares" dated August 9, 2002, whereby the Company obtained a controlling equity interest in Plaintiff. Plaintiff contends that the Company engaged in various forms of wrongdoing including breach of fiduciary duty, conversion, conspiracy and aiding and abetting. Discovery has commenced but is not complete at this time. Trial has not been set. Management has fully cooperated in our investigation of the facts and we intend to continue with vigorous defense against the claims asserted.

On August 29, 2005, United Bank & Trust filed suit against the Company and other parties. The allegations of the lawsuit are that the Company guaranteed certain debt owed by InfoServices, Inc. and is liable in the amount of \$678. The case is in its early stages and discovery has not yet commenced. However, the Company intends to vigorously defend itself against the claims asserted.

41

Throughout fiscal 2003 and 2004, and through the date of this filing, trade creditors have made claims and/or filed actions alleging the failure of the Company to pay its obligations to them in a total amount exceeding \$3,000. These actions are in various stages of litigation, with many resulting in judgments being entered against the Company. Several of those who have obtained judgments have filed judgment liens on the Company's assets. These claims range in value from less than one thousand dollars to just over one million dollars, with the great majority being less than twenty thousand dollars.

EXPERTS

The financial statements of DRDF at June 30, 2004 and 2003, appearing in this Prospectus and Registration Statement have been audited by Pohl, McNabola, Berg & Company, LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

LEGAL MATTERS

Legal matters concerning the issuance of shares of common stock offered in this registration statement will be passed upon by Naccarato & Associates, Owen Naccarato, Esq.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

OTHER AVAILABLE INFORMATION

We are subject to the reporting requirements of the Securities and Exchange Commission (the "Commission"). We file periodic reports, proxy statements and other information with the Commission under the Securities Exchange Act of 1934. We will provide without charge to each person who receives a copy of this prospectus, upon written or oral request, a copy of any information that is incorporated by reference in this Prospectus (not including exhibits to the information that is incorporated by reference unless the exhibits are themselves specifically incorporated by reference). Requests should be directed to: Brian Bonar

We have filed a registration statement on Form SB-2 under the Securities Act of 1933 Act with the Commission in connection with the securities offered by this Prospectus. This Prospectus does not contain all of the information that is the registration statement, you may inspect without charge, and copy our filings, at the public reference room maintained by the Commission at 450 Fifth Street, N.W. Washington, D.C. 20549. Copies of this material may also be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W. Washington, D.C. 20549, at prescribe rates.

Information about the public reference room is available from the commission by calling 1-800-SEC-0330.

The commission maintains a web site on the Internet that contains reports, proxy and information statements and other information regarding issuers that file electronically with the commission. The address of the site is www.sec.gov. Visitors to the site may access such information by searching the EDGAR archives on this web site.

We have not authorized anyone to provide you with any information that is different.

The selling security holders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where such offers and sales are permitted.

The information contained in this Prospectus is accurate as of the date of this prospectus. We will keep this prospectus up to date and accurate.

FINANCIAL STATEMENTS

OUR FINANCIAL STATEMENTS BEGIN ON PAGE F-1

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

1. On September 3, 2003, the Registrant appointed Pohl, McNabola, Berg & Company, LLP ("PMBC") as Imaging Technologies Corporation's ("ITEC," the "Registrant", or the "Company") independent auditors upon the recommendation of its Audit Committee.

The Dalrada (formerly ITEC) Audit Committee interviewed a number of candidates, including Stonefield Josephson, Inc., its prior independent auditors. The Audit Committee determined that it was in the best interests of the Company to engage a new independent auditor to perform services for ITEC and its subsidiaries, two

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

of whose shares are publicly traded.

Stonefield Josephson's audit report on the financial statements of the Company as of June 30, 2002 expressed its uncertainty as to the Company's ability to continue as a going concern. They cited recurring losses from operations, the Company's working capital deficiency, and limited cash resources. These circumstances were also present in the financial statements of the Company as of March 31, 2003 and in financial statements for several consecutive reporting periods. The Company expects that this condition will be reported in its audited financial statements for the fiscal year ended June 30, 2003. PMBC has been engaged to perform the audit for this fiscal year ended June 30, 2003.

The Registrant believes there were no disagreements with Stonefield Josephson within the meaning of Instruction 4 to Item 304 of Regulation S-K on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure in connection with the audit of the Company's financial statements for the period ended June 30, 2002, or for any subsequent interim period, which disagreements, if not resolved to their satisfaction, would have caused Stonefield Josephson to make reference to the subject matter of the disagreements in connection with its report.

During the fiscal years ended June 30, 2000, 2001, 2002, and through the present, there have been no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K) of the type required to be disclosed by that section. The Company has not consulted with any other independent auditors regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's financial statements; or (ii) any matter that was either the subject matter of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (as defined in Item 304(a)(1)(v) of Regulation S-K).

A letter of Stonefield Josephson addressed to the Securities and Exchange Commission is included as Exhibit 16 to this Form 8-K. Such letter states that such firm agrees with the statements made by the Company in this Item 4.

2. On August 23, 2002, the Registrant appointed Stonefield Josephson, Inc. ("SJI") as Imaging Technologies Corporation's ("ITEC," the "Registrant", or the "Company") independent auditors because the Company and its prior auditors, Merdinger, Fruchter, Rosen & Corso, PC ("MFRC").

The Registrant stated that the Company and MFRC "mutually agreed that it was in the best interests of the Company to have auditors with offices closer to the Company's corporate offices". However, MFRC disagrees.

MFRC was appointed as ITEC auditors on April 22, 2002, Boros & Farrington, PC ("BF"). Since the appointment, MFRC has had staff changes, which the Registrant believes would have adversely affected services provided to the Registrant. MFRC disagrees with this assessment.

Other than those disagreements noted above, The Registrant believes there were no other disagreements with MFRC within the meaning of Instruction 4 to Item 304 of Regulation S-K on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure with regard to its services to the Registrant, which disagreements, if not resolved to their satisfaction, would have caused MFRC to make reference to the subject matter of the disagreements.

On August 23, 2002, the Company engaged SJI as the Company's independent auditors for the year ended June 30, 2002, replacing the firm of MFRC. The change has been approved by the Company's audit committee.

3. On April 22, 2002, the Registrant appointed Merdinger, Fruchter, Rosen & Corso, PC ("MFRC") as Imaging Technologies Corporation's ("ITEC," the "Registrant", or the "Company") independent auditors because the Company and its prior auditors, Boros & Farrington, PC ("BF") have mutually agreed that BF may not be able to adequately serve the continuing auditing requirements of the Company.

ITEC's acquisition of SourceOne Group, Inc., which is located in Virginia, has created the need for auditing services on a larger scope than those provided by BF.

BF's audit report on the financial statements of the Company as of June 30, 2001 expressed its uncertainty as to the Company's ability to continue as a going concern. They cited recurring losses from operations, the Company's working capital deficiency, and limited cash resources. These circumstances were also present in the financial statements of the Company as of September 30, 2001 and December 31, 2000 and 2001; and will be reported in the Company's financial statements as of March 31, 2002. The Registrant has not yet filed its Form 10-Q for the period ended March 31, 2002.

The Registrant believes there were no disagreements with BF within the meaning of Instruction 4 to Item 304 of Regulation S-K on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure in connection with the audit of the Company's financial statements for the periods ended June 30, 1999, 2000, and 2001, or for any subsequent interim period, which disagreements, if not resolved to their satisfaction, would have caused BF to make reference to the subject matter of the disagreements in connection with its report.

During the fiscal year ended June 30, 1999, 2000, 2001, and through the present, there have been no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K) of the type required to be disclosed by that section. The Company has not consulted with any other independent auditors regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's financial statements; or (ii) any matter that was either the subject matter of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (as defined in Item 304(a)(1)(v) of Regulation S-K).

On April 22, 2002, the Company engaged MFRC as the Company's independent auditors for the year ended June 30, 2002, replacing the firm of BF. The change has been approved by the Company's audit committee.

A letter of BF addressed to the Securities and Exchange Commission is included as Exhibit 16 to this Form 8-K. Such letter states that such firm agrees with the statements made by the Company in this Item 4.

INDEMNIFICATION OF DIRECTORS AND OFFICER

Section 145 of the General Corporation Law of the State of Delaware provides, in general, that a corporation incorporated under the laws of the State of Delaware, such as the registrant, may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than a derivative action by or in the right of the corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another enterprise, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. In the case of a derivative action, a Delaware corporation may indemnify any such person against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery of the State of Delaware or any other court in which such action was brought determines such person is fairly and reasonable entitled to indemnity for such expenses.

Our certificate of incorporation provides that directors shall not be personally liable for monetary damages to our company or our stockholders for breach of fiduciary duty as a director, except for liability resulting from a breach of the director's duty of loyalty to our company or our stockholders, intentional misconduct or willful violation of law, actions or inactions not in good faith, an unlawful stock purchase or payment of a dividend under Delaware law, or transactions from which the director derives improper personal benefit. Such limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission. Our certificate of incorporation also authorizes us to indemnify our officers, directors and other agents to the fullest extent permitted under Delaware law. Our bylaws provide that the registrant shall indemnify our officers, directors and employees. The rights to indemnity thereunder continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors, and administrators of the person. In addition, expenses incurred by a director or officer in defending any action, suit or proceeding by reason of the fact that he or she is or was a director or officer of our company shall be paid by the registrant unless such officer, director or employee is adjudged liable for negligence or misconduct in the performance of his or her duties.

This means that our certificate of incorporation provides that a director is not personally liable for monetary damages to us or our stockholders for breach of his or her fiduciary duties as a director. A director will be held liable for a breach of his or her duty of loyalty to us or our stockholders, his or her intentional misconduct or willful violation of law, actions or inactions not in good faith, an unlawful stock purchase or payment of a dividend under Delaware law, or transactions from which the director derives an improper personal benefit. This limitation of liability does not affect the availability of equitable remedies against the director including injunctive relief or rescission. Our certificate of incorporation authorizes us to indemnify our officers, directors and other agent to the fullest extent permitted under Delaware law. We have entered into indemnification agreements with all of our

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

officers and directors. In some cases, the provisions of these indemnification agreements may be broader than the specific indemnification provisions contained in our certificate of incorporation or otherwise permitted under Delaware law. Each indemnification agreement may require us to indemnify an officer or director against liabilities that may arise by reason of his status or service as an officer or director, or against liabilities arising from the director's willful misconduct of a culpable nature.

Commission Policy

Insofar as indemnification for liabilities arising under the Act may be permitted to directors, officers or persons controlling DRDF. DRDF has been informed that in the opinion of the Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

45

OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

Related to the securities being registered. The expenses shall be paid by the Registrant.

SEC Registration Fee	\$243.26
Printing and Engraving Expenses	\$5,000.00
Legal Fees and Expenses	\$20,000.00
Accounting Fees and Expenses	\$15,000.00
Transfer Agent Fees	\$5,000.00
Blue Sky Fees	\$1,000.00
Miscellaneous	\$5,000.00

Total	\$51,243.26

RECENT SALES OF UNREGISTERED SECURITIES

DRDF made the following sales of stock without registration using the exceptions available under the Securities Act of 1933, as amended, including unregistered sales made pursuant to Section 4(2) of the Securities Act of 1933, as follows:

Fiscal Year 2001

On March 6, 2001, 5,067,568 shares were issued to the Celeste Trust for the conversion of a convertible debenture at \$0.056 per share. These shares were valued at \$283,784. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that the Celest Trust, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

Fiscal Year 2002

On January 28, 2002, 166,667 shares were issued to Lucan Allen Cline at \$0.46 per share in payment of consulting services valued at \$76,667. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

1933, as amended. We made a determination that Lucan Allen Cline, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On April 3, 2002, 35,000,000 shares were issued to American Industries at \$.033 per shares for a legal settlement valued at \$1,155,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that American Industires, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

Fiscal Year 2003

On July 8, 2002, 450,000 shares were issued to Technipower, Inc. at \$0.16 per share in settlement of debt valued at \$72,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Technipower, Inc., was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On October 10, 2002, 250,000 shares were issued to Gary Fong at \$0.013 per share for payment of rent, valued at \$3,250. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Gary Fong, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On November 11, 2002, 1,000,000 shares were issued to Michael Belletini at \$0.013 per share for employee compensation valued at \$13,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Michael Belletini, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On November 11, 2002, 1,000,000 shares were issued to David Stone at \$0.013 per share for employee compensation valued at \$13,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that David Stone, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On November 11, 2002, 1,000,000 shares were issued to David Valade at \$0.013 per share for employee compensation valued at \$13,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that David Valade, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On November 14, 2002, 500,000 shares were issued to Hiichiro Ogawa at \$0.012 per share for consulting services valued at \$6,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Hiichiro Ogawa, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

On November 14, 2002, 437,500 shares were issued to Sayakp Torihara at \$0.012 per share for consulting services valued at \$6,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Sayakp Torihara, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On November 18, 2002, 198,379 shares were issued to Balmore Funds at \$0.008 per share for conversion of a convertible debenture valued at \$1,666. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Balmore S.A., was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On December 20, 2002, 45,000,000 shares were issued to Mr. Kim Guardtec, Inc. for foreign services rendered valued at \$490,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Mr. Kim, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On January 9, 2003 3,125,000 shares were issued to Sid Berman at \$0.013 for the acquisition of QPI, valued at \$40,625. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Sid Berman, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On January 9, 2003 1,250,000 shares were issued to Lee Finger at \$0.013 for the acquisition of QPI, valued at \$16,250. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Lee Finger, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On January 9, 2003 1,250,000 shares were issued to Hal Kirsch at \$0.013 for the acquisition of QPI, valued at \$16,250. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Hal Kirsch was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On January 9, 2003, 500,000 shares were issued to Edie Youngman at \$0.013 for the acquisition of QPI, valued at \$6,500. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Mr. Youngman, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On January 14, 2003, 5,000,000 shares were issued to Eun Hee Chung at \$0.012 for consulting services valued at \$60,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Eun Hee Chung, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On January 14, 2003, 5,000,000 shares were issued to W.Y. Kim at \$0.012 for \$60,000 in cash. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that W.Y. Kim was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On March 3, 2003, 300,000 shares were issued to Steven Reid at \$0.011 for consulting services valued at \$60,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Steven Reid, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On April 21, 2003, 1,000,000 shares were issued to Lester Brann at \$0.011 per share for employee compensation valued at \$11,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Lester Brann, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

Fiscal Year 2004

On July 18, 2003, 5,945,946 shares were issued to Bristol Investment Fund at \$0.019 per share for conversion of a convertible debenture valued at \$112,378. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Bristol Capital, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On August 1, 2003, 5,000,000 shares were issued to MarketByte LLC at \$0.025 for consulting services valued at \$125,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that MarketByte, LLC., was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On October 2, 2003, 12,402,597 shares were issued to Bristol Investment Fund at \$0.025 per share for conversion of a convertible debenture valued at \$312,545. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Bristol Capital, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On October 9, 2003, 175,000 shares were issued to Stull, Stull & Brody at \$0.032 for legal services valued at \$5,600. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Stull, Stull & Brody, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On October 9, 2003, 1,075,000 shares were issued to Weiss & Youngman at \$0.032 for legal services valued at \$34,400. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Weiss & Youngman was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On October 2, 2003, 5,876,872 shares were issued to Bristol Investment Fund at \$0.021 per share for conversion of a convertible debenture valued at \$123,414. These shares were issued pursuant to the exempt provided by Section 4(2) of the

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Securities Act of 1933, as amended. We made a determination that Bristol Capital, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On December 18, 2003, 2,454,146 shares were issued to Bristol Investment Fund at \$0.013 per share for conversion of a convertible debenture valued at \$32,640. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended.

On January 4, 2004, 75,000 shares were issued to Gary Fong at \$0.015 for rent valued at \$1,125. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Gary Fong was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

48

On January 7, 2004, 75,000 shares were issued to Gary Fong at \$0.02 for services valued at \$1,500. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Gary Fong, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On January 7, 2004, 150,000 shares were issued to Karim Alami at \$0.02 for services valued at \$3,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Karim Alami was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On January 15, 2004, 7,481,989 shares were issued to Amro at \$0.0124 per share for the conversion of convertible debentures and accrued interest of \$92,777. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Amro, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On February 2, 2004, 4,523,810 shares were issued to Bristol Capital at \$0.0084 per share for the conversion of convertible debentures of \$38,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Bristol Capital, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On February 4, 2004, 12,000,000 shares were issued (Bonar 7,000,000, Dietrich and Gaer both 2,500,000) pursuant to the exercise of stock options with an exercise price of \$0.006. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that these individuals were sophisticated investors with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On February 19, 2004, 7,500,000 shares were issued (Fryer 5,000,000 and Green 2,500,000) pursuant to the exercise of stock options with an exercise price of \$0.006. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended.

On March 1, 2004, 12,852,603 shares were issued to Bristol Capital at \$0.007 per

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

share for the conversion of convertible debentures of \$89,968. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Bristol Capital, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On March 5, 2004, 10,000,000 shares were issued (Green and Fryer both 4,875,000 and Dietrich Green 250,000) pursuant to the exercise of stock options with an exercise price of \$0.006 per share. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended.

On March 8, 2004, 2,747,287 shares were issued to Stonestreet at \$0.0073 per share for the conversion of convertible debentures of \$20,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Stonestreet Limited Partnership was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On March 15, 2004, 13,121,275 shares were issued to Bristol Capital at \$0.0049 per share for the conversion of convertible debentures of \$64,294. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Bristol Capital, was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On March 16, 2004, 6,911,011 shares were issued to Balmore S.A at \$0.0088 per share for the conversion of convertible debentures of \$60,817. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Balmore S.A., was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On May 25, 2004, 13,954,855 shares were issued to Stonestreet Limited Partnership at \$0.00475 per share for conversion of a convertible debenture valued at \$65,000 plus \$1,285.56 in interest. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Stonestreet Limited Partnership was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

49

On May 25, 2004, 36,771,937 shares were issued to Balmore S.A at \$0.0046526 per share for conversion of a convertible debenture valued at \$140,000 and \$31,087.79 in interest. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Balmore S.A., was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On May 25, 2004, 27,500,000 shares were issued to Howard Schraub at \$0.008 per share for conversion of a convertible debenture valued at \$220,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Bristol Investment Fund, Ltd., was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On May 25, 2004, 7,500,000 shares were issued to Blue Fin Corporation at \$0.008

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

per share for conversion of a convertible debenture valued at \$60,000. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended.

On September 22, 2004, Bristol Investment Fund, Ltd., was issued as a partial conversion of \$17,500 of principal and \$3,728.22 of interest at \$0.0021 per share into 10,108,706 shares of Dalrada common stock. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended.

On October 22, 2004, Bristol Investment Fund, Ltd., was issued as a conversion of \$35,000 of principal and \$7,640.55 of interest at \$0.00147 per share into 28,427,032 shares of Dalrada common stock. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Bristol Investment Fund, Ltd., was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On December 3, 2004, Bristol Investment Fund, Ltd., was issued as a conversion of \$29,000 of principal and \$6,635.84 of interest at \$0.00154 per share into 23,757,224 shares of Dalrada common stock. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Bristol Investment Fund, Ltd., was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On December 9, 2004, 21,121,413 shares were issued to Stonestreet Limited Partnership at \$0.00157 per share for conversion of a convertible debenture valued at \$30,000 plus \$1893.56 in interest. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Stonestreet Limited Partnership was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

From October 1, 2004 through December 31, 2004 the following shares were issued for services rendered:

Whiteford Brann, Michael Brann and Jason Brann were issued 375,000, 576,950 and 576,950 shares of Dalrada common stock respectively valued at \$.00458 a shares for they service they performed in relation to the acquisition of Jackson Staffing. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Whiteford Brann, Michael Brann and Jason Brann were sophisticated investors with enough knowledge and experience in business to evaluate the risks and merits of the investment.

Anne Woelk was issued 144,000 shares valued at \$.00500 a share for administrative services rendered. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Anne Woelk was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

Dominick Zack was issued 4,000,000 shares valued at \$.00500 a share for accounting services rendered in relation to the Jackson Staffing subsidiary. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Dominick Zack was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

Deborah McNeil was issued 1,000,000 shares valued at \$.00500 a share for accounting services rendered in relation to the Jackson Staffing subsidiary.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Deborah McNeil was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

50

On April 1, 2005, 6,823,960 shares were issued to Longview Fund, LP for a partial conversion of a convertible debenture valued at \$8,645.90. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Longview Fund, LP was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On April 5, 2005, 8,298,277 shares were issued to Longview Fund, LP for a partial conversion of a convertible debenture valued at \$10,513.94. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Longview Fund, LP was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On April 8, 2005, 46,852,671 shares were issued to Balmore S.A. at \$0.00181 per share for conversion of a convertible debenture valued at \$65,000 plus \$19,803.33 in interest. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Balmore S.A. was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On July 12, 2005, 17,659,540 shares were issued to Bristol Investment Fund, Ltd. at \$0.001267 per share for conversion of a convertible debenture valued at \$22,374.67. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Bristol Investment Fund, Ltd was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

On July 12, 2005, 6,820,000 shares were issued to Longview Fund, LP for a partial conversion of a convertible debenture valued at \$27,280. These shares were issued pursuant to the exempt provided by Section 4(2) of the Securities Act of 1933, as amended. We made a determination that Longview Fund, LP was a sophisticated investor with enough knowledge and experience in business to evaluate the risks and merits of the investment.

51

EXHIBITS

Exhibit Number -----	Description -----
----------------------------	----------------------

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

- 3(c) Certificate of Amendment of Certificate of Incorporation of the Company, filed May 23, 1997, as amended, and currently in effect (Incorporated by reference to 1997 Form 10-K)
- 3(d) Certificate of Amendment of Certificate of Incorporation, filed January 12, 1999, as amended and currently in effect (Incorporated by reference to Form 10-Q for the period ended December 31, 1998)
- 3(e) Certificate Eliminating Reference to Certain Series of Shares of Stock from the Certificate of Incorporation, filed January 12, 1999, as amended and currently in effect (Incorporated by reference to Form 10-Q for the period ended December 31, 1998)
- 3(f) By-Laws of the Company, as amended, and currently in effect (Incorporated by reference to Exhibit 3(b) to 1987 Form 10-K)
- 3(g) Certificate of Amendment of Certificate of Incorporation, filed May 12, 2000, as amended and currently in effect (Incorporated by reference to Exhibit 3(g) to 2001 Form 10-K)
- 4(a) Amended Certificate of Designation of Imaging Technologies Corporation with respect to the 5% Convertible Preferred Stock (Incorporated by reference to Exhibit 4(d) to 1987 Form 10-K)
- 4(b) Amended Certificate of Designation of Imaging Technologies Corporation with respect to the 5% Series B Convertible Preferred Stock (Incorporated by reference to Exhibit 4(b) to 1988 Form 10-K)
- 4(c) Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock of Imaging Technologies Corporation (Incorporated by reference to Exhibit 4(c) to 1998 Form 10-K)
- 4(d) Certificate of Designation, Powers, Preferences and Rights of the Series of Preferred Stock to be Designated Series D Convertible Preferred Stock, filed January 13, 1999 (Incorporated by reference to Form 10-Q for the period ended December 31, 1998)
- 4(e) Certificate of Designation, Powers, Preferences and Rights of the Series of Preferred Stock to be Designated Series E Convertible Preferred Stock, filed January 28, 1999 (Incorporated by reference to Form 10-Q for the period ended December 31, 1998)
- 5.1 Opinion re: Legality
- 10(a) Private Equity Line of Credit Agreement by and among certain Investors and the Company (Incorporated by reference to Form 8-K, filed July 26, 2000)
- 10(b) Convertible Note Purchase Agreement dated December 12, 2000 between the Company and Amro International, S.A., Balmore Funds, S.A., and Celeste Trust Reg. (Incorporated by reference to Form 8-K, filed January 19, 2001.
- 10(c) Convertible Note Purchase Agreement dated July 26, 2001 between the Company and Balmore Funds, S.A. (Incorporated by reference to Form 8-K filed August 2, 2001.
- 10(d) Share Purchase Agreement, dated December 1, 2000, between ITEC and EduAdvantage.com, Inc. (Incorporated by reference to Form 10-Q for the period ended September 30, 2000)

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

- 10(e) Agreement to Acquire Shares, dated December 1, 2000, between ITEC and Quik Pix, Inc. (Incorporated by reference to Form 10-Q for the period ended September 30, 2000) and subsequently cancelled.
- 10(f) Agreement to Acquire Shares, dated December 17, 2000, between ITEC and Pen Internconnect, Inc. (Incorporated by reference to Form 10-Q for the period ended September 30, 2000) and subsequently cancelled.
- 10(g) Share Purchase Agreement, dated December 1, 2000, between ITEC and EduAdvantage.com, Inc. (Incorporated by reference to Form 10-Q for the period ended September 30, 2000)
- 10(h) Convertible Promissory Note dated September 21, 2001 between the Company and Stonestreet Limited Partnership. (Incorporated by reference to Exhibit 10(u) of 2001 Form 10-K)
- 10(i) Convertible Note Purchase Agreement dated September 21, 2001 between the Company and Stonestreet Limited Partnership. (Incorporated by reference to Exhibit 10(v) of 2001 Form 10-K)
- 10(j) Registration Rights Agreement dated September 21, 2001 between the Company and Stonestreet Limited Partnership. (Incorporated by reference to Exhibit 10(w) of 2001 Form 10-K)
- 10(k) Form of Warrant to Purchase 11,278,195 Shares of Common Stock of ITEC, dated September 21, 2001, between ITEC and Stonestreet Limited Partnership. (Incorporated by reference to Exhibit 10(x) of 2001 Form 10-K)
- 10(l) Asset Purchase Agreement, dated October 25, 2001, among the Company and Lisa Lavin, Gary J. Lavin, and Roland A. Fernando. (Incorporated by reference to Exhibit 10(a) to September 2001 Form 10-Q) *
- 10(m) Audited Financial Statements of SourceOne Group, LLC. (Incorporated by reference to Form 8-K filed on January 25, 2002)
- 10(n) Secured Convertible Debenture issued by the Company to Bristol Investment Fund, Ltd., dated January 22, 2002. (Incorporated by reference to Exhibit 10(a) of December 2001 Form 10-Q)
- 10(o) Securities Purchase Agreement between the Company and Bristol Investment Fund, Ltd., dated January 22, 2002. (Incorporated by reference to Exhibit 10(b) of December 2001 Form 10-Q)
- 10(p) Registration Rights Agreement between the Company and Bristol Investment Fund, Ltd., dated January 22, 2002. (Incorporated by reference to Exhibit 10(c) of December 2001 Form 10-Q)
- 10(q) Transaction Fee Agreement between the Company and Alexander Dunham Securities, Inc., dated January 22, 2002. (Incorporated by reference to Exhibit 10(d) of December 2001 Form 10-Q)
- 10(r) Stock Purchase Warrant issued to Alexander Dunham Securities, Inc., dated January 22, 2002. (Incorporated by reference to Exhibit 10(e) of December 2001 Form 10-Q)
- 10(s) Stock Purchase Warrant issued to Bristol Investment Fund, Ltd., dated January 22, 2002. (Incorporated by reference to Exhibit 10(f) of December 2001 Form 10-Q)

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

- 10(t) Security Agreement between the Company and Bristol Investment Fund, Ltd., dated January 22, 2002. (Incorporated by reference to Exhibit 10(g) of December 2001 Form 10-Q)
- 10(u) Convertible Promissory Note between the Company and Stonestreet Limited Partnership, dated November 7, 2001. (Incorporated by reference to Exhibit 10(h) of December 2001 Form 10-Q)
- 10(v) Convertible Note Purchase Agreement between the Company and Stonestreet Partnership, dated November 7, 2001. (Incorporated by reference to Exhibit 10(i) of December 2001 Form 10-Q)
- 10(w) Registration Rights Agreement between the Company and Stonestreet Limited Partnership, dated November 7, 2001. (Incorporated by reference to Exhibit 10(j) of December 2001 Form 10-Q)

53

- 10(x) Stock Purchase Warrant issued to Stonestreet Limited Partnership, dated November 7, 2001. (Incorporated by reference to Exhibit 10(k) of December 2001 Form 10-Q)
- 10(y) Acquisition Agreement between the Company and Dream Canvas, Inc., dated May 17, 2002; subject to completion of its terms. (Incorporated by reference to Exhibit 10(y) of Form 10-K filed November 18, 2002.)
- 10(z) Closing Agreement between the Company and Quik Pix, Inc., dated July 23, 2002, subject to completion of its terms. (Incorporated by reference to Exhibit 10(z) of Form 10-K filed November 18, 2002.)
- 10(aa) Agreement to Acquire Shares between the Company and Greenland Corporation, dated August 5, 2002, subject to completion of its terms. (Incorporated by reference to Exhibit 10(aa) to Form 10-K filed November 18, 2002.)
- 10(ab) Acquisition Agreement, dated December 13, 2002, between the Company and Baseline Worldwide, Limited. (Incorporated by reference to Exhibit 99.3 of Form 8-K filed December 19, 2002.)
- 10(ac) Secured Promissory Note in the amount of \$2,250,000 issued by the Company to Greenland Corporation, dated January 7, 2003. (Incorporated by reference to Exhibit 99.1 of Form 8-K filed January 21, 2003.)
- 10(ad) Security Agreement, dated January 7, 2003, between the Company and Greenland Corporation. (Incorporated by reference to Exhibit 99.2 of Form 8-K filed January 21, 2003.)
- 10(ae) Agreement to Acquire Shares, dated August 9, 2002 between the Company and Greenland Corporation. (Incorporated by reference to Exhibit 99.3 of Form 8-K filed January 21, 2003.)
- 10(af) Closing Agreement, dated January 7, 2003, between the Company and Greenland Corporation. (Incorporated by reference to Exhibit 99.4 of Form 8-K filed January 21, 2003.)
- 10(ag) Share Acquisition Agreement, dated June 12, 2002, between the Company and Quik Pix, Inc. (Incorporated by reference to Exhibit 99.5 of Form 8-K filed January 21, 2003.)
- 10(ah) Closing Agreement, dated July 23, 2002, between the Company and Quik Pix, Inc.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

(Incorporated by reference to Exhibit 99.6 of Form 8-K filed January 21, 2003.)

- 10(ai) Stock Purchase Agreement among the Company, Greenland Corporation, and ExpertHR-Oklahoma, dated March 18, 2003. (Incorporated by reference to Exhibit 10(j) to Form 10-Q filed May 20, 2003).
- 10(aj) Assignment of Patent between John Capezzuto and Quik Pix, Inc. dated January 14, 2003.
- 10(ak) Promissory Note between the Company and John Capezzuto dated June 1, 2003 (signed June 9, 2003).
- 10(al) Promissory Note between the Company and John Capezzuto dated June 9, 2003
- 10(am) Agreement and Assignment of Rights, dated February 1, 2003, between Accord Human Resources, Inc. and Greenland Corporation, and Imaging Technologies. (Incorporated by reference to Exhibit 10(k) of Form 10-KSB filed April 7, 2003 by Greenland Corporation.)
- 10(an) Agreement and Assignment of Rights, dated March 1, 2003, between StaffPro Leasing 2, Greenland Corporation, and ExpertHR. (Incorporated by reference to Exhibit 10(l) of Form 10-KSB filed April 7, 2003 by Greenland Corporation.)
- 10(ao) Promissory Note, dated March 1, 2003, payable to StaffPro Leasing 2 by Greenland Corporation. (Incorporated by reference to Exhibit 10(k) of Form 10-KSB filed April 7, 2003 by Greenland Corporation.)

54

- 10(ap) Agreement to Acquire Shares between the Company and The Christensen Group, et al, dated April 1, 2003.
- 10(aq) Agreement and Assignment of Rights, dated October 24, 2003, between SourceOne Group, Inc. and ePEO Link, incorporated by reference to Exhibit 10(a) of Form 10-Q, filed November 24, 2003.
- 10(ar) Alpha Capital Aktiengesellschaft December 17, 2003 convertible note, incorporated by reference to Exhibit 10(a) to Form 10-QSB, filed February 13, 2004.
- 10(ar) Alpha Capital Aktiengesellschaft December 17, 2003 warrant, incorporated by reference to Exhibit 10(b) to Form 10-QSB, filed February 13, 2004.
- 10(as) Gamma Opportunity Capital Partners, LP December 17, 2003 convertible note, incorporated by reference to Exhibit 10(c) to Form 10-QSB, filed February 13, 2004.
- 10(at) Gamma Opportunity Capital Partners, LP December 17, 2003 warrant, incorporated by reference to Exhibit 10(d) to Form 10-QSB, filed February 13, 2004.
- 10(au) Longview Fund, LP December 17, 2003 convertible note, incorporated by reference to Exhibit 10(e) to Form 10-QSB, filed February 13, 2004.
- 10(av) Longview, LP December 17, 2003 warrant, incorporated by reference to Exhibit 10(f) to Form 10-QSB, filed February 13, 2004.
- 10(aw) Stonestreet Limited Partnership December 17, 2003 convertible note, incorporated by reference to Exhibit 10(g) to Form 10-QSB, filed February 13, 2004.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

- 10(ax) Stonestreet Limited Partnership December 17, 2003 warrant, incorporated by reference to Exhibit 10(h) to Form 10-QSB, filed February 13, 2004.
- 10(ay) Subscription Agreement December 17, 2003, incorporated by reference to Exhibit 10(i) to Form 10-QSB, filed February 13, 2004.
- 10(az) Agreement of Acquisition between the Company and Quik Pix, Inc., dated April 16, 2004, incorporated by reference to Exhibit 10.1 to Form 10-QSB, filed May 19, 2004.
- 23.1 Consent of Naccarato & Associates (Included in opinion filed as Exhibit 5.1)
- 23.2 Consent of Pohl, McNabola, Berg & Company LLP

All exhibits except those followed by an asterisk (*) are incorporated by reference only and a copy is not included in this Form 10-K filing. Those exhibits followed by a double asterisk (**) are included as part of this filing.

55

(b) REPORTS ON FORM 8-K

The Company's report on Form 8-K dated March 4, 2004

Item 2. Disposition of Assets

In January 2003, the Registrant ("ITEC" or the "Company") and Greenland Corporation ("GRLC") completed a stock purchase transaction whereby ITEC became the majority shareholder of GRLC. Since January 2003, GRLC has been a subsidiary of ITEC.

The Company's report on Form 8-K dated June 3, 2005

Item 2.01 Acquisition or Disposition of Assets

On December 31, 2004 documents were drafted for the transfer of Dalrada Financial Corporation's ("Dalrada") SOLVIS GROUP, a Michigan corporation (the "Company") which includes all of the assets owned or leased by the Company and used in the business of the Company including, but not limited to Client lists, its subsidiaries, Vendor lists, Computer lists and/or programs and the liabilities of the business, to Quik Pix Inc. ("QPIX"), a wholly owned subsidiary of Dalrada. The effective date of the transfer was May 25, 2005.

The Company's report on Form 8-K dated September 14, 2005

Item 5.02 Appointment of Principal Officer

On January 1, 2005, Randall Jones was appointed Chief Financial Officer of Dalrada Financial Corporation.

56

UNDERTAKINGS

The undersigned registrant hereby undertakes that it will:

Undertaking (a)

(1) File, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act");

(ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information set forth in the registration statement; and arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) under the Securities Act if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of the Registration Fee" table in the effective registration statement.

(iii) Include any additional or changed material information on the plan of distribution.

(2) For determining any liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(4) For purposes of determining any liability under the Securities Act, treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Company pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act as part of this registration statement as of the time it was declared effective.

(5) For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

In the event that a claim for indemnification against such liabilities (other than the payment by the small business issuer of expenses incurred or paid by a director, officer or controlling person of the small business issuer in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the small business issuer will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

57

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, in the City of San Diego, CA, 92127.

Registrant: Dalrada Financial Corporation

Signature	Title	Date
-----	-----	----
By: /s/ Brian Bonar ----- Brian Bonar	Chief Executive Officer and Director	September 27, 2005

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form SB2 has been signed below by the following persons in the capacities and on the dates indicated.

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

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

/s/ Brian Bonar ----- Brian Bonar	Chairman of the Board of Directors, Chief Executive Officer, and (Principal Executive Officer)	September 27, 20
/s/ Robert A. Dietrich ----- Robert A. Dietrich	Director	September 27, 20
/s/ Eric W. Gaer ----- Eric W. Gaer	Director	September 27, 20
/s/ Stephen J. Fryer ----- Stephen J. Fryer	Director	September 27, 20
/s/ Richard H. Green ----- Richard H. Green	Director	September 27, 20
/s/ Randall Jones ----- Randall Jones	CFO and Principal Accounting Officer	September 27, 20

58

PART I - FINANCIAL INFORMATION

- ITEM 1. Consolidated Financial Statements
- Consolidated Balance Sheet - March 31, 2005 (unaudited)
 - Consolidated Statements of Operations - 3 and 9 months ended March 31, 2005 and 2004 (unaudited)
 - Consolidated Statements of Cash Flows - 9 months ended March 31, 2005 and 2004 (unaudited)
 - Notes to Consolidated Financial Statements (unaudited)
- ITEM 2. Management's Discussion and Analysis or Plan of Operations
- ITEM 3. Controls and Procedures

PART II - OTHER INFORMATION

- ITEM 1. Legal Proceedings
- ITEM 2. Unregistered Sale of Equity Securities and Use of Proceeds
- ITEM 3. Defaults Upon Senior Securities
- ITEM 4. Submission of Matters To A Vote of Security Holders
- ITEM 5. Other Information
- ITEM 6. Exhibits

SIGNATURES
 CERTIFICATIONS

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

PART I. - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

DALRADA FINANCIAL CORPORATION AND SUBSIDIARIES (formerly Imaging Technologies Corporation) CONSOLIDATED BALANCE SHEET (IN THOUSANDS, EXCEPT SHARE DATA) (UNAUDITED)

	MARCH 31, 2005

	(unaudited)
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 295
Accounts receivable, net of allowance of \$96	1,139
Inventories, net of reserve of \$15	--
Prepaid expenses and other current assets	761

TOTAL CURRENT ASSETS	2,195

PATENT, net of accumulated amortization of \$270	1,348
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$2,021	267

TOTAL ASSETS	\$ 3,810
	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Borrowings under bank notes payable	\$ 3,220
Lines of credit	209
Notes payable, current portion (including related party note of \$1,561)	2,113
Convertible debentures, net of discount of \$5	809
Accounts payable	805
Obligations under capital lease	10
PEO payroll taxes and other payroll deductions	6,723
Other accrued expenses	10,419

TOTAL CURRENT LIABILITIES	24,308

CONVERTIBLE DEBENTURES, net of current portion and net of discounts of \$198	163
NOTES PAYABLE, net of current portion (including related party note of \$282)	500
CAPITAL LEASE, net of current portion	44

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

TOTAL LIABILITIES	25,015
MINORITY INTEREST	--
COMMITMENTS AND CONTINGENCIES	--
STOCKHOLDERS' DEFICIT	
Series A convertible, redeemable preferred stock, \$1,000 par value, 7,500 shares authorized 420.5 shares issued and outstanding	420
Common stock; \$0.005 par value; 1,000,000,000 shares authorized; 682,396,197 shares issued and outstanding	3,412
Common stock warrants	475
Additional paid-in capital	82,823
Accumulated deficit	(108,335)
TOTAL STOCKHOLDERS' DEFICIT	(21,205)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 3,810

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

3

DALRADA FINANCIAL CORPORATION AND SUBSIDIARIES (formerly Imaging Technologies Corporation) CONSOLIDATED STATEMENTS OF OPERATIONS THREE AND NINE MONTHS ENDED MARCH 31, 2005 AND 2004 (IN THOUSANDS, EXCEPT SHARE DATA) (UNAUDITED)

	THREE MONTHS ENDED		
	MARCH 31, 2005	MARCH 31, 2004	
	(unaudited)	(unaudited)	(u
REVENUES			
Sales of products	\$ 137	\$ 91	\$
Software sales, licenses and royalties	9	30	
Temporary staffing services	4,095	2,892	
PEO Services	1,208	475	
TOTAL REVENUES	5,449	3,488	
COST OF REVENUES			
Cost of products sold	23	28	
Cost of software sales, licenses and royalties	1	--	

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Cost of temporary staffing	3,591	2,663	
Cost of PEO services	1,088	384	
	-----	-----	---
TOTAL COST OF REVENUES	4,703	3,075	
	-----	-----	---
GROSS PROFIT	746	413	
	-----	-----	---
OPERATING EXPENSES			
Selling, general and administrative	904	(71)	
Research and development	--	--	
	-----	-----	---
TOTAL OPERATING EXPENSES	904	(71)	
	-----	-----	---
INCOME (LOSS) FROM OPERATIONS	(158)	484	
	-----	-----	---
OTHER INCOME (EXPENSES):			
Interest and financing costs, net	(394)	(434)	
Gain on extinguishment of debt	165	228	
Gain resulting from reconciliation of payroll tax liabilities to taxing authorities	454	--	
Other, net	--	1	
	-----	-----	---
TOTAL OTHER INCOME (EXPENSE)	225	(205)	
	-----	-----	---
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES AND DISCONTINUED OPERATIONS	67	279	
PROVISION FOR INCOME TAXES	--	--	
	-----	-----	---
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	67	279	
	-----	-----	---
DISCONTINUED OPERATON:			
Gain on disposition of discontinued operations	--	5,049	
Loss from operations of discontinued operation	--	(693)	
	-----	-----	---
	--	4,356	
	-----	-----	---
NET INCOME (LOSS)	67	4,635	
PREFERRED STOCK DIVIDENDS	(5)	(5)	
	-----	-----	---
NET INCOME (LOSS) ATTRIBUTED TO COMMON STOCKHOLDERS	\$ 62	\$ 4,630	\$
	=====	=====	=====
NET INCOME (LOSS) PER SHARE - BASIC			
Continuing operations	\$ 0.00	\$ 0.00	\$
Discontinued operations	--	0.01	
	-----	-----	---
	\$ 0.00	\$ 0.01	\$
	=====	=====	=====
WEIGHTED AVERAGE COMMON EQUIVALENT SHARES			

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

OUTSTANDING - BASIC

682,396

348,926

=====

=====

=====

The accompanying notes are an integral part of these consolidated financial s

4

DALRADA FINANCIAL CORPORATION AND SUBSIDIARIES (formerly Imaging Technologies Corporation) CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED MARCH 31, 2005 AND 2004 (IN THOUSANDS, EXCEPT SHARE DATA) (UNAUDITED)

	NINE
	MARCH 31, 2005
	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss from continuing operations	\$ (65)
Adjustment to reconcile net loss to net cash used in operating activities	
Depreciation and amortization	13
Stock issued for services	4
Amortization of debt discounts	30
Gain on forgiveness of inter-company debt from Greenland	-
Gain resulting from reconciliation of payroll tax liabilities to taxing authorities	(99)
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(55)
Prepaid expenses and other current assets	(31)
Other assets	-
Increase (decrease) in:	
Accounts payable and accrued expenses	(70)
PEO liabilities	2,56
Net cash provided by (used in) operating activities from continuing operations	(18)
Net cash used in operating activities from discontinued operations	-
Net cash used in operating activities	(18)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of furniture and equipment	(14)
Net cash used in investing activities from continuing operations	(14)
Net cash used in investing activities from discontinued operations	-

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Net cash used in investing activities	(14)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Change in cash overdraft, net	-
Line of credit, net	20
Net borrowings under bank notes payable	-
Proceeds from sale of common stock	-
Proceeds from convertible debentures	-
Proceeds from notes payable	33
Repayments of notes payable	(12)
Repayments of capital lease obligations	(1)
Net cash provided by (used in) financing activities from continuing operations	40
Net cash used in financing activities from discontinued operations	-
Net cash provided by (used in) investing activities	40
NET DECREASE IN CASH AND CASH EQUIVALENTS	6
CASH AND CASH EQUIVALENTS, Beginning of period	22
CASH AND CASH EQUIVALENTS, End of period	\$ 29

The accompanying notes are an integral part of these consolidated financial stat

5

DALRADA FINANCIAL CORPORATION AND SUBSIDIARIES (formerly Imaging Technologies Corporation) CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) NINE MONTHS ENDED MARCH 31, 2005 AND 2004 (IN THOUSANDS, EXCEPT SHARE DATA) (UNAUDITED)

NON-CASH INVESTING AND FINANCING ACTIVITIES

During the nine months ended March 31, 2005, the Company issued: (1) 8,623,110 shares of its common stock for services valued at \$42; (2) 20,880,130 shares of its common stock for debt of \$38; (3) 62,534,215 shares of its common stock for penalties of \$94; and (4) 38,000,000 shares of its common stock for the conversion of convertible debentures in the amount of \$175.

During the nine months ended March 31, 2004, the Company issued: (1) 7,445,000 shares of its common stock for services valued at \$160,150; (2) 10,272,110 shares of its common stock for compensation valued at \$140,332; (3) 25,297,220 shares of its common stock for debt of \$471,542; and (4) 141,204,581 shares of its common stock for the conversion of convertible debentures in the amount of \$1,342,464.

DALRADA FINANCIAL CORPORATION AND SUBSIDIARIES
(formerly Imaging Technologies Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Dalrada Financial Corporation and Subsidiaries (the "Company" or "DRDF") have been prepared pursuant to the rules of the Securities and Exchange Commission (the "SEC") for quarterly reports on Form 10-QSB and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. These financial statements and notes herein are unaudited, but in the opinion of management, include all the adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for the periods presented. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the years ended June 30, 2004 included in the Company's annual report on Form 10-KSB filed with the SEC. Interim operating results are not necessarily indicative of operating results for any future interim period or for the full year. The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All inter-company transactions have been eliminated.

RECLASSIFICATIONS

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

Comprehensive Income

The Company has adopted SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. During the nine months ended March 31, 2005 and 2004, the Company had no elements of comprehensive income.

NOTE 2. GOING CONCERN CONSIDERATIONS

The accompanying unaudited consolidated financial statements have been prepared assuming that the Company will continue as a going concern. For the nine months ended March 31, 2005, the Company had a net loss of \$658. As of March 31, 2005, the Company had a negative working capital deficiency of \$22,113 and had a stockholders' deficit of \$21,205. In addition, the Company is in default on certain note payable obligations, is being sued by numerous trade creditors for nonpayment of amounts due and is late on its filings of payroll tax returns in certain of its PEO division. The Company is also deficient in its payments relating to payroll tax liabilities. These conditions raise substantial doubt

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

about the Company's ability to continue as a going concern.

The Company must obtain additional funds to provide adequate working capital and finance operations. However, there can be no assurance that the Company will be able to complete any additional debt or equity financings on favorable terms or at all, or that any such financings, if completed, will be adequate to meet the Company's capital requirements including compliance with the Imperial Bank settlement agreement. Any additional equity or convertible debt financings could result in substantial dilution to the Company's stockholders. If adequate funds are not available, the Company may be required to delay, reduce or eliminate some or all of its planned activities, including any potential mergers or acquisitions. The Company's inability to fund its capital requirements would have a material adverse effect on the Company. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

7

NOTE 3. STOCK BASED COMPENSATION

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

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

The Company applies Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for its stock option plans. The Company has opted under SFAS No. 123 to disclose its stock-based compensation with no financial effect. The pro forma effects of applying SFAS No. 123 in this initial phase-in period are not necessarily representative of the effects on reported net income or loss for future years. Had compensation expense for the Company's stock option plans been determined based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed under SFAS No. 123, the Company's pro forma net loss and net loss per share would have been as follows for the nine months ended March 31, 2005 and 2004:

(In thousands, except share amounts)	2004 -----	2003 -----
Net loss attributed to common stockholders		
As reported	\$ (673)	\$ (163)

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Compensation recognized under APB No. 25	--	--
Compensation recognized under SFAS No. 123	--	(825)
	-----	-----
Pro forma	\$ (673)	\$ (988)
	=====	=====
Basic earnings (loss) per share		
As reported	\$ (0.00)	\$ (0.00)
Pro forma	\$ (0.00)	\$ (0.03)

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

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

	2004	2003
	-----	-----
Fair Value of options granted	N/A	\$ 0.015
Risk free interest rate	N/A	3.5%
Expected life (years)	N/A	3
Expected volatility	N/A	421%
Expected dividends	N/A	0%

No options have been issued during fiscal year 2005.

NOTE 4. EARNINGS (LOSS) PER COMMON SHARE

The Company reports earnings (loss) per share in accordance with SFAS No. 128, "Earnings per Share." Basic earnings (loss) per share are computed by dividing income (loss) available to common stockholders by the weighted average number of common shares available. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted earnings (loss) per share have not been presented since the effect of the assumed conversion of options and warrants to purchase common shares would have an anti-dilutive effect. The following potential common shares have been excluded from the computation of diluted net loss per share for the nine months ended March 31, 2005: warrants - 26,563,435 and stock options - 39,150,000.

Below is a computation of earnings per share for the three months ended March 31, 2004. Basic and diluted loss per share are the same for the nine months ended March 31, 2004 and the three and nine months ended March 31, 2005:

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

	THREE MONTHS ENDED MARCH			
	2005			
	INCOME/ (LOSS)	SHARES	PER SHARE	INCOM (LOS
BASIC EARNINGS (LOSS) PER SHARE				
Net income (loss) from continuing operations	\$ 67			\$
Preferred stock dividends	(5)			
	62			
Discontinued operations	--			4,
Net income (loss) attributed to common stockholders	\$ 62			\$ 4,
	=====			=====
Weighted shares outstanding		682,396		
		=====		
Continuing operations			\$ 0.00	
Discontinued operations			\$ --	

			\$ 0.00	
			=====	
DILUTED EARNINGS (LOSS) PER SHARE				
Net income (loss) from continuing operations	\$ 67			\$
Preferred stock dividends	(5)			
Interest on convertible debentures	25			
Amortization of discounts on convertible debentures	41			
	128			
Discontinued operations	--			4,
Net income (loss) attributed to common stockholders	\$ 128			\$ 4,
	=====			=====
Weighted shares outstanding		682,396		
		=====		
Conversion of convertible debentures into common stock		729,689		

		1,412,085		
		=====		

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Continuing operations	\$ 0.00
Discontinued operations	\$ --

	\$ 0.00
	=====

9

	NINE MONTHS ENDED MARCH		
	2005		
	INCOME/ (LOSS)	SHARES	PER SHARE
BASIC EARNINGS (LOSS) PER SHARE			
Net income (loss) from continuing operations	\$ (658)		\$ (3,
Preferred stock dividends	(15)		
	-----		-----
	(673)		(3,
Discontinued operations	--		2,
	-----		-----
Net income (loss) attributed to common stockholders	\$ (673)		\$ (
	=====		=====
Weighted shares outstanding		635,914	
Continuing operations			\$ (0.00)
Discontinued operations			\$ --

			\$ (0.00)
			=====

DILUTED EARNINGS (LOSS) PER SHARE -- N/A

NOTE 5. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued SFAS No. 151, entitled INVENTORY COSTS -- AN AMENDMENT OF ARB NO. 43, CHAPTER 4. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, entitled INVENTORY PRICING [June 1953], to clarify the accounting for "abnormal amounts" of idle facility expense, freight, handling costs, and wasted material [spoilage]. Before revision by SFAS No. 151, the guidance that existed in ARB No. 43 stipulated that these type items may be "so abnormal" that the appropriate accounting treatment would be to expense these costs as incurred [i.e., these costs would be current-period charges]. SFAS No. 151 requires that these type items be recognized as current-period charges WITHOUT REGARD to whether the "so abnormal" criterion has been met. Additionally, SFAS No. 151

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of SFAS 151 did not impact the consolidated financial statements.

10

In December 2004, the FASB issued SFAS No. 152, entitled ACCOUNTING FOR REAL ESTATE TIME-SHARING TRANSACTIONS -- AN AMENDMENT OF FASB STATEMENTS NO. 66 AND 67. SFAS No. 152 amends SFAS No. 66 to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position 04-2. SFAS No. 152 also amends SFAS No. 67 to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance of SOP 04-2. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. The adoption of SFAS 152 did not impact the consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, entitled EXCHANGES OF NONMONETARY ASSETS -- AN AMENDMENT OF APB OPINION No.29. SFAS No. 153 amends Opinion 29 to eliminate the exception for nonmonetary exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of SFAS 153 did not impact the consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (Revised), entitled SHARE-BASED PAYMENT. This revised Statement eliminates the alternative to use APB Opinion No. 25's intrinsic value method of accounting that was provided in SFAS No. 123 as originally issued. Under Opinion 25, issuing stock options to employees generally resulted in recognition of no compensation cost. This Statement requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. For public companies that file as a small business issuer, this Statement is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The adoption of SFAS 123 (Revised) will impact the consolidated financial statements as the Company in the future if it continues to issue equity instruments to employees.

NOTE 6. FACTORING LINES OF CREDIT

The Company's temporary staffing division entered into a factoring agreement that expires in January 2007 and is renewable for successive periods of 12 months assuming certain conditions are met. The agreement provides for the Company to sell to the factor accounts receivables at a discount of approximately 2% for each 30 day period the balances remain unpaid.

NOTE 7. CONVERTIBLE NOTES PAYABLE

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

(In Thousands)

Balance at June 30, 2004	\$	871
--------------------------	----	-----

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Issuance of convertible debentures during the six months ended March 31, 2005	--
Increase in debt discount and beneficial conversion feature	--
Converted into common stock	(175)
Amortization of value of warrants and preferential conversion feature	276

Balance at March 31, 2005	\$ 972
	=====

11

NOTE 8. NOTES PAYABLE

On July 1, 2004, the Company entered into two note payable obligations aggregating \$275,000 that bear interest at an annual rate of 40% and are due on September 30, 2004. During the three months ended March 31, 2005, the Company repaid \$85,000 on these two notes. In addition, in connection with these two notes payable, the Company issued to the holder a total of 5,000,000 warrants to purchase shares of the Company's common stock for \$0.005 per share. The estimated value of the warrants of \$28,500 was determined using the Black-Scholes option pricing model and the following assumptions: term of 5 years, a risk free interest rate of 3.5%, a dividend yield of 0% and volatility of 426%. As of September 30, 2004, the entire \$28,500 has been amortized to financings costs in the accompanying consolidated statements of operations.

NOTE 9. STOCKHOLDERS' DEFICIENCY

Stock Issuances

During the nine months ended March 31, 2005, DRDF issued the following:

- o 8,623,110 shares of its common stock for legal, accounting and consulting services valued at \$42.
- o 20,880,130 shares of its common stock for debt of \$38;
- o 62,534,215 shares of its common stock for penalties of \$94; and
- o 38,000,000 shares of its common stock for the conversion of convertible debentures in the amount of \$175.

The value of the common stock issued was determined as follows:

- o for services - the market value of the Company's common stock at the date of issuance;
- o for debt conversions - at contractually obligated amounts.

NOTE 10. SEGMENT INFORMATION

The Company managed and internally reported the Company's business has four

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

reportable segments, principally, (1) products and accessories, (2) software, (3) temporary staffing, and (4) PEO services.

Segment information for the nine months ended March 31, 2005 is as follows:

(IN THOUSANDS)

	PRODUCTS -----	SOFTWARE -----	TEMPORARY STAFFING -----	PEO SERVICES -----	TOTAL -----
9-months ended 3/31/05 -----					
Revenues	\$ 468	\$ 48	\$ 11,749	\$ 2,058	\$ 14,323
Operating income (loss)	(237)	(357)	(103)	(168)	(865)
9-months ended 3/31/04 -----					
Revenues	\$ 546	\$ 66	\$ 6,328	\$ 2,545	\$ 9,485
Operating income (loss)	(733)	(2,999)	204	911	(2,617)

12

NOTE 11. DISPOSITION OF GREENLAND CORPORATION

In January 2004, the Company determined to discontinue operations of Greenland Corporation, its professional employment business division, and sold its shares in Greenland, back to Greenland. Effective March 1, 2004, the Company completed the sale of Greenland. Effective March 1, 2004, four new directors were elected to serve on Greenland's Board of Directors due to the resignation of the four directors nominated by DRDF. The operations of Greenland have been shown as discontinued operations in the accompanying consolidated statements of operations.

The operations of Greenland for the six month period ended March 31, 2004 are shown as discontinued operations.

NOTE 12. RELATED PARTY TRANSACTIONS

Warning Management Services, Inc.

The Company CEO and Chairman, Mr. Brian Bonar, is also the CEO and Chairman of Warning Management, Inc. Warning a public company, located in Southern California. Warning's operations consist of a modeling agency and providing temporary staffing services to government agencies and private companies.

GUARANTEE OF INDEBTEDNESS OF WARNING

As of September 8, 2004, Warning Management Services, Inc. ("Warning") purchased all of the issued and outstanding shares of Employment Systems, Inc. ("ESI") for \$1,500. The purchase was \$750 cash paid at the closing and a \$750 note payable. In connection with this transaction, the Company agreed to be a guarantor of the \$750 note payable. As inducement to enter into this guarantee, the Company was

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

given a non-cancelable 2-year payroll processing contract with ESI. Management has evaluated this contingent liability and has determined that no loss is anticipated as a result of this guarantee.

WARNING HAS A MONTH-TO-MONTH LEASE WITH THE COMPANY

Warning leases offices for its ESI subsidiary, on a month-to-month basis from the Company that started in October 2004. Monthly rental expense will be approximately \$3 per month.

PEO SERVICES AGREEMENT WITH WARNING PROVIDES FOR A FEE AT PREVAILING MARKET RATE

In April 2004, the Company entered into an Agreement to provide PEO services for Warning. The Company receives from Warning a monthly administrative fee. The Company recorded revenue totaling approximately \$154 during the nine months ended March 31, 2005

NOTE 13. GAIN RESULTING FROM RECONCILIATION OF PAYROLL TAX LIABILITES TO TAXING AUTHORITIES

During the three and nine months ended March 31, 2005, the Company recorded an adjustment to earnings of \$454 and \$990, respectively, resulting from a reconciliation with the Internal Revenue Service and certain State taxing authorities of the amounts due for delinquent payment of payroll tax liabilities. The Company continually updates its estimate of the amount due related to delinquent payroll taxes and penalties as it receives correspondence or settlement agreements with the Internal Revenue Service and State taxing authorities.

13

NOTE 14. OTHER ACCRUED EXPENSES

Other accrued expenses at March 31, 2005 consisted of the following as of:

Interest	\$ 3,655
Payroll and sales tax payable	658
IRS levy penalties and interest	387
Accrued salaries and related liabilities	624
Other	1,296

	\$10,419
	=====

NOTE 15. LITIGATION

On February 10, 2005, Berryman & Henigar Enterprises ("Plaintiff"), filed a complaint in the Superior Court of California, County of San Diego, Case No. GIC842610, against Warning Model Management, Inc. for breach of a promissory note issued pursuant to terms and conditions of a certain stock purchase and sale agreement dated September 9, 2004. The Company and its subsidiary, Employment Systems, Inc. ("ESI"), each allegedly guaranteed payments on the

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

underlying promissory note. Plaintiff seeks principal damages of \$750,000.00 in that regard. Warning Model Management, Inc. has taken the position that Plaintiff failed to disclose certain material information in the underlying transaction which thereby negates the promissory note. As such, the guarantees allegedly provided by the Company and ESI could thereby be invalidated. Discovery has commenced but is not complete at this time. Trial has not been set. Management has fully cooperated in our investigation of the facts and we intend to defend against the claims asserted.

On March 17, 2005, Greenland Corporation ("Plaintiff"), filed an amended complaint in the Superior Court of California, County of San Diego, Case No. GIC842605, against the Company and multiple other individuals and entities resulting from a transaction as evidenced by the "Agreement to Acquire Shares" dated August 9, 2002, whereby the Company obtained a controlling equity interest in Plaintiff. Plaintiff contends that the Company engaged in various forms of wrongdoing including breach of fiduciary duty, conversion, conspiracy and aiding and abetting. The Company and each of its co-defendants have challenged the legal sufficiency of Plaintiff's claims and allegations. However, the court has not yet ruled on the multiple challenges although we believe that the claims generally lack merit. Discovery has commenced but is not complete at this time. Trial has not been set. Management has fully cooperated in our investigation of the facts and we intend to continue with vigorous defense against the claims asserted.

14

DALRADA FINANCIAL CORPORATION AND SUBSIDIARIES (F/K/A IMAGING TECHNOLOGIES CORPORATION) CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

CONTENTS

	Page

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	
Report on Audited Consolidated Financial Statements	F-1
CONSOLIDATED FINANCIAL STATEMENTS:	
Consolidated Balance Sheet as of June 30, 2004	F-2
Consolidated Statements of Operations for the years ended June 30, 2004 and 2003	F-4
Consolidated Statements of Stockholders' Deficit for the years ended June 30, 2004 and 2003	F-6
Consolidated Statements of Cash Flows for the years ended June 30, 2004 and 2003	F-7
Notes to Consolidated Financial Statements	F-9

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders
Dalrada Financial Corporation
San Diego, California

We have audited the accompanying consolidated balance sheet of Dalrada Financial Corporation and Subsidiaries as of June 30, 2004, and the related consolidated statements of operations, stockholders' deficit and cash flows for years ended June 30, 2004 and 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dalrada Financial Corporation and Subsidiaries as of June 30, 2004 and the consolidated results of their operations and their consolidated cash flows for each of the years ended June 30, 2004 and 2003, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the accompanying consolidated financial statements, for the year ended June 30, 2004 the Company experienced a net loss from operations of \$4,355,000 and as of June 30, 2004, the Company had a negative working capital deficit of \$21,760,000 and had a negative stockholders' deficit of \$20,844,000. In addition, the Company is in default on certain note payable obligations and is being sued by numerous trade creditors for nonpayment of amounts due. The Company is also deficient in its payments relating to payroll tax liabilities. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also discussed in Note 1. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

San Francisco, California
October 1, 2004

F-1

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

(F/K/A IMAGING TECHNOLOGIES CORPORATION)
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2004

	(in thousands) 2004 -----
ASSETS	
Current assets	
Cash	\$ 228
Accounts receivable (net of reserve for bad debt of \$66)	582
Inventories, net	--
Prepaid expenses and other current assets	444

Total Current Assets	1,254
Property and equipment, net of accumulated depreciation of \$1,994 and \$2,607, respectively	160
Goodwill, net	--
Patent, net of accumulated amortization of \$180	1,438
Investment - PEO contracts	--
Workers' compensation deposit and other assets	--

	1,598

Total Assets	\$2,852 =====

(continued)

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

F-2

DALRADA FINANCIAL CORPORATION AND SUBSIDIARIES
(F/K/A IMAGING TECHNOLOGIES CORPORATION)
CONSOLIDATED BALANCE SHEET (CONTINUED)
AS OF JUNE 30, 2004

	(in thousands) 2004 -----
LIABILITIES AND SHAREHOLDERS' DEFICIT	
Current Liabilities	
Borrowings under bank notes payable	\$ 3,220
Cash overdraft	--
Short-term notes payable, including amounts due to related parties of \$1,525	1,847

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Convertible debentures, net of discounts of \$55 and \$473, respectively	759
Shareholder advances	--
Accounts payable	1,350
PEO payroll taxes and other payroll deductions	5,151
PEO accrued worksite employee	
Capital lease - current	10
Other accrued expenses	10,853

Total Current Liabilities	23,190

Long Term Liabilities	
Capital lease - long term portion	63
Convertible debentures - long term portion	112
Long-term notes payable, including amounts due to related parties	412

Total Long Term Liabilities	587

Total Liabilities	23,777

Preferred stock minority interest in subsidiary	--

Shareholders' Deficit	
Series A convertible, redeemable preferred stock, \$1 par value, 7,500 shares authorized, 4205 shares issued and outstanding	420
Common stock, \$0.005 par value, 1,000,000,000 shares authorized; 552,358,742 shares issued and outstanding	2,762
Common stock warrants	475
Paid-in capital	83,095
Accumulated deficit	(107,677)

Total Shareholders' Deficit	(20,925)

Total Liabilities and Shareholders' Deficit	\$ 2,852
	=====

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

F-3

DALRADA FINANCIAL CORPORATION AND SUBSIDIARIES
(F/K/A IMAGING TECHNOLOGIES CORPORATION)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

(in thousands)

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

	2004	2003
	-----	-----
Revenues		
Sales of products	\$ 764	\$ 924
Software sales, licenses and royalties	36	367
Temporary staffing services	10,119	--
PEO services	2,607	2,499
	-----	-----
Total Revenues	13,526	3,790
	-----	-----
Cost of Sales		
Cost of products sold	(196)	(396)
Cost of software sales, licenses and royalties	(3)	(90)
Cost of temporary staffing	(9,209)	--
Cost of PEO services	(894)	(1,639)
Freight	--	--
	-----	-----
Total Cost of Sales	(10,302)	(2,125)
	-----	-----
Gross Profit	3,224	1,665
	-----	-----
Operating Expenses		
Selling, general and administrative	4,196	5,623
	-----	-----
Total Operating Expenses	4,196	5,623
	-----	-----
Income (loss) from operations	(972)	(3,958)
	-----	-----

(continued)

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

F-4

DALRADA FINANCIAL CORPORATION AND SUBSIDIARIES
(F/K/A IMAGING TECHNOLOGIES CORPORATION)
CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	(in thousands)	
	2004	2003
	-----	-----
Other Income/(Expense) :		
Other	19	(2)
Interest income	--	--
Gain/(Loss) on sale of assets	(341)	27

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Gain on settlement of debt	1,145	2,343
Gain on sale of securities	--	--
Other expenses	(11)	(12)
Interest expense	(1,930)	(971)
Bad debt	(10)	(285)
Penalties and interest	(795)	(2,023)
Income tax levy	--	(105)
	-----	-----
Total Other Income/(Expense)	(1,923)	(1,028)
	-----	-----
Loss before income taxes and discontinued operations	(2,895)	(4,986)
Income tax expense	--	--
	-----	-----
Net loss from continuing operations	(2,895)	(4,986)
	-----	-----
Discontinued Operation:		
Loss from operations of discontinued operation	(2,052)	(1,869)
Gain on disposition of discontinued operation	5,049	--
	-----	-----
Net income (loss)	102	(6,855)
Preferred stock dividends	(21)	(21)
	-----	-----
Net income (loss) attributed to common stockholders	\$ 81	(6,876)
	=====	=====
Earnings (loss) per common share		
Continuing operations	\$ (0.01)	\$ (0.05)
Discontinued operations	0.01	(0.02)
	=====	=====
	\$ 0.00	\$ (0.07)
	=====	=====
Weighted average common shares, basic and diluted	331,004	97,153
	=====	=====

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

F-5

DALRADA FINANCIAL CORPORATION AND SUBSIDIARIES
(F/K/A IMAGING TECHNOLOGIES CORPORATION)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

	SERIES A PREFERRED STOCK SHARES	AMOUNT	COMMON STOCK SHARES	AMOUNT
	-----	-----	-----	-----
		(thousands)		(thousands)
BALANCE, JUNE 30, 2002	4,205	\$ 420	21,929,365	\$
Issuance of common stock for:				
Cash - exercise of options and warrants	--	--	750,000	
Business acquisition	--	--	12,500,000	
Compensation	--	--	4,190,000	
Services	--	--	92,733,499	
Conversion of liabilities	--	--	46,549,199	
Exercise of warrants for services	--	--	2,580,000	
Beneficial conversion on notes	--	--	--	
Value of warrants issued for services	--	--	--	
Net loss	--	--	--	
	-----	-----	-----	-----
BALANCE, JUNE 30, 2003	4,205	420	181,232,063	
Issuance of common stock for:				
Cash - exercise of options	--	--	29,500,000	
Business acquisition	--	--	6,329,478	
Compensation	--	--	10,272,110	
Services	--	--	7,745,000	
Conversion of liabilities	--	--	317,280,091	1
Beneficial conversion on notes	--	--	--	
Value of warrants issued with notes	--	--	--	
Value of repriced options/warrants	--	--	--	
Net income	--	--	--	
	-----	-----	-----	-----
BALANCE, JUNE 30, 2004	4,205	\$ 420	552,358,742	2
	=====	=====	=====	=====

(CONTI

	COMMON STOCK WARRANTS	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOT
	-----	-----	-----	-----
	(thousands)	(thousands)	(thousands)	(thou
BALANCE, JUNE 30, 2002	\$ 475	\$ 79,492	\$ (100,924)	\$ (2
Issuance of common stock for:				
Cash - exercise of options and warrants	--	29	--	
Business acquisition	--	63	--	
Compensation	--	21	--	
Services	--	783	--	
Conversion of liabilities	--	46	--	
Exercise of warrants for services	--	121	--	
Beneficial conversion on notes	--	273	--	

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Value of warrants issued for services	--	70	--	
Net loss	--	--	(6,855)	(
	-----	-----	-----	-----
BALANCE, JUNE 30, 2003	475	80,898	(107,779)	(2
Issuance of common stock for:				
Cash - exercise of options	--	29	--	
Business acquisition	--	30	--	
Compensation	--	89	--	
Services	--	123	--	
Conversion of liabilities	--	1,014	--	
Beneficial conversion on notes	--	557	--	
Value of warrants issued with notes	--	214	--	
Value of repriced options/warrants	--	141	--	
Net income	--	--	102	
	-----	-----	-----	-----
BALANCE, JUNE 30, 2004	\$ 475	\$ 83,095	\$ (107,677)	\$ (2
	=====	=====	=====	=====

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

F-6

DALRADA FINANCIAL CORPORATION AND SUBSIDIARIES (F/K/A IMAGING TECHNOLOGIES CORPORATION) CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	(in thousands)	
	2004	2003
	-----	-----
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss from continuing operations	\$ (2,895)	\$ (4,986)
Net income (loss) from discontinued operations	2,997	(1,869)
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	164	142
Write-down of fixed assets	--	54
Stock issued for services	302	1,318
Amortization of debt discounts	1,011	857
Value of services for exercise of warrants	--	133
Value of warrants issued for services	--	41
Value of repriced options/warrants	141	--
Gain on extinguishment of debt	(1,145)	(2,343)
Other	--	(37)
Changes in operating assets and liabilities:		
(Increase) decrease in:		

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Accounts receivable	(180)	1,149
Inventories	15	136
Prepaid expenses and other current assets	(424)	(6)
Other assets	21	(25)
Increase (decrease) in:		
Accounts payable and accrued expenses	585	593
PEO liabilities	787	3,030
	-----	-----
Net cash used in operating activities from continuing operations	1,379	(1,803)
Net cash provided by (used in) operations of discontinued operations	(1,868)	2,915
	-----	-----
Net cash used in operating activities	(489)	1,112
	-----	-----
CASH FLOW FROM INVESTING ACTIVITIES:		
Cash paid for acquisition	--	(45)
Cash acquired with acquisition	104	--
Purchase of furniture and equipment	(93)	--
	-----	-----
Net cash used in investing activities from continuing operations	11	(45)
Net cash used in investing activities of discontinued operations	--	--
	-----	-----
Net cash provided by (used in) investing activities	11	(45)
	-----	-----
CASH FLOW FROM FINANCING ACTIVITIES:		
Change in cash overdraft, net	(87)	87
Net borrowings under bank notes payable	(25)	--
Proceeds from sale of common stock	177	58
Proceeds from convertible debentures	800	100
Repayments of notes payable	(72)	(125)
Repayments of capital lease obligations	(267)	--
	-----	-----
Net cash provided by financing activities from continuing operations	526	120
Net cash used in financing activities of discontinued operations	--	(7)
	-----	-----
Net cash provided by financing activities	526	113
	-----	-----
CASH OF DISCONTINUED OPERATION	--	(1,043)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48	137
CASH AND CASH EQUIVALENTS, Beginning of period	180	43
	-----	-----
CASH AND CASH EQUIVALENTS, End of period	\$ 228	\$ 180
	=====	=====

(continued)

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

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

DALRADA FINANCIAL CORPORATION AND SUBSIDIARIES (F/K/A IMAGING TECHNOLOGIES CORPORATION) CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest Paid	\$ --	\$ --
	=====	=====
Income taxes paid	\$ --	\$ --
	=====	=====

SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:

Conversion of convertible debentures into common stock	\$ 2,026	\$ 164
	=====	=====
Conversion of accounts payable and accrued liabilities into common stock	\$ 575	\$ 115
	=====	=====
Net assets acquired in business combinations:		
Cash	\$ 104	\$ --
Receivables	261	268
Other current assets	--	34
Property and equipment	25	101
Goodwill and other intangible assets	--	4,736
Accounts payable and accrued liabilities	(102)	(4,186)
Notes payable and capital lease	(227)	(846)

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

F-8

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Dalrada Financial Corporation ("DRDF" or the "Company"), f/k/a Imaging Technologies Corporation, incorporated under the laws of the state of California during March 1982 and subsequently reincorporated under the laws of the state of Delaware during May 1983, and its following active wholly-owned subsidiaries (there are ten inactive subsidiaries not listed):

- a) SourceOne Group, Inc., ("SourceOne");

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

- b) Jackson Staffing, Inc. ("Jackson"); and
- c) The Christianson Group ("TCG");

Additionally, the Company operates one majority-owned subsidiary, Quik Pix, Inc. ("QPI", owned 85% by the Company).

All significant intercompany accounts and transactions have been eliminated.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. For the year ended June 30, 2004, the Company experienced a net loss from operations of \$972 and as of June 30, 2004, the Company had a negative working capital deficit of \$21,936 and had a negative stockholders' deficit of \$20,925. In addition, the Company is in default on certain note payable obligations and is being sued by numerous trade creditors for nonpayment of amounts due. The Company is also delinquent in its payments relating to payroll tax liabilities. These conditions raise substantial doubt about its ability to continue as a going concern.

NATURE OF BUSINESS

The Company business operations are as follows:

- a) The Company is a financial services provider and a professional employer organization (PEO) that provides comprehensive personnel management services including benefits and payroll administration, medical and workers' compensation insurance programs, personnel records management, and employer liability management;
- b) The Company also develops and mounts photographic and digital images for use in display advertising for tradeshow, building interiors, and other point-of-sale locations; and
- c) The Company is a provider of temporary staffing services.

USE OF ESTIMATES

F-9

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

REVENUE RECOGNITION

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

PEO SERVICE FEES AND WORKSITE EMPLOYEE PAYROLL COSTS

The Company recognizes its revenues associated with its PEO business pursuant to EITF 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent." The Company's revenues are reported net of worksite employee payroll cost (net method). Pursuant to discussions with the Securities and Exchange Commission staff, the Company changed its presentation of revenues from the gross method to an approach that presents its revenues net of worksite employee payroll costs (net method) primarily because the Company is not generally responsible for the output and quality of work performed by the worksite employees.

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

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

SALES OF PRODUCTS

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

F-10

TEMPORARY STAFFING

The Company records gross revenue for temporary staffing. The Company has concluded that gross reporting is appropriate because the Company (i) has the risk of identifying and hiring qualified employees, (ii) has the discretion to select the employees and establish their price and duties and (iii) bears the risk for services that are not fully paid for by customers. Temporary staffing revenues are recognized when the services are rendered by the Company's temporary employees. Temporary employees placed by the Company are the Company's

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

legal employees while they are working on assignments. The Company pays all related costs of employment, including workers' compensation insurance, state and federal unemployment taxes, social security and certain fringe benefits. The Company assumes the risk of acceptability of its employees to its customers.

CONTINGENT LIABILITIES

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

RECLASSIFICATIONS

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

CASH AND CASH EQUIVALENTS

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

CONCENTRATION OF CREDIT RISK

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

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

F-11

Additionally, during 2004, all revenue derived from temporary staffing was from one client.

Allowance Method Used to Record Bad Debts

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of \$66 at June 30, 2004.

INVENTORY

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

LONG-LIVED ASSETS

PROPERTY AND EQUIPMENT

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

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

GOODWILL AND INTANGIBLE ASSETS

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

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Patent Costs

Patent costs include direct costs of obtaining the patent. Costs for new patents are capitalized and amortized over the estimated useful life of the patent, generally over the life of the patent on a straight-line method. The cost of patents in process is not amortized until issuance. In the event of a patent being superseded, the unamortized costs are written off immediately. Accumulated amortization relating to the patent was approximately \$180 and \$60 for the years ended June 30, 2004 and 2003, respectively.

ADVERTISING COSTS

The Company expenses advertising and promotion costs as incurred. During fiscal 2004 and 2003, the Company incurred advertising and promotion costs of approximately \$76 and \$22, respectively.

RESEARCH AND DEVELOPMENT

Research and development costs are charged to expense as incurred.

LOSS PER COMMON SHARE

The Company reports earnings (loss) per share in accordance with SFAS No. 128, "Earnings per Share." Basic earnings (loss) per share are computed by dividing income (loss) available to common shareholders by the weighted average number of common shares available. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted earnings (loss) per share have not been presented since the effect of the assumed conversion of options and warrants and convertible debt securities to purchase common shares would have an anti-dilutive effect. The following potential common shares have been excluded from the computation of diluted net loss per share for the years ended June 30, 2004 and 2003, respectively: warrants - 21,563,430 and 6,002,350; stock options - 39,150,000 and 34,158,100; and convertible securities of 210,896,000 and 174,530,000. The Company has no dilutive shares due to having a loss from operations.

Below is a computation of earning (loss) per share:

YEAR ENDED JUNE 30,				

2004				

INCOME/ (LOSS)	SHARES	PER SHARE	INCOME/ (LOSS)	
-----	-----	-----	-----	
BASIC EARNINGS (LOSS) PER SHARE				
Net income (loss) from continuing operations	\$ (2,895)	--	--	\$ (4,986)
Preferred stock dividends	(21)	--	--	(21)
-----	-----	-----	-----	-----

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

	(2,916)	--	--	(5,007)
Discontinued operations	2,997	--	--	(1,869)
	-----			-----
Net income (loss) attributed to common stockholders	\$ 81	--	--	\$ (6,876)
	=====			=====
Weighed shares outstanding	--	331,004,306	--	--
Continuing operations	--	--	\$ (0.01)	--
Discontinued operations	--	--	\$ 0.01	--
	--	--	-----	--
			\$ 0.00	
			=====	

F-13

DEBT DISCOUNTS

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

INCOME TAXES

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

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

Stock Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," establishes and encourages the use of the fair value based method of accounting for stock-based compensation arrangements under which compensation cost is determined using the fair value of stock-based compensation determined as of the date of grant and is recognized over the periods in which the related services are rendered. The statement also permits companies to elect to continue using the current intrinsic value accounting method specified in Accounting Principles Board

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for stock-based compensation. The Company has elected to use the intrinsic value based method and has disclosed the pro forma effect of using the fair value based method to account for its stock-based compensation issued to employees. For options granted to employees where the exercise price is less than the fair value of the stock at the date of grant, the Company recognizes an expense in accordance with APB 25. For non-employee stock based compensation the Company

F-14

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

If the Company had elected to recognize compensation expense based upon the fair value at the grant date for awards under the Stock Option Plan consistent with the methodology prescribed by SFAS No. 123, the Company's net loss and loss per share would be reduced to the pro forma amounts indicated below for the years ended June 30, 2004 and 2003:

	2004	2003
	-----	-----
Net income (loss) attributed to common stockholders:		
As reported	\$ 81	\$ (6,876)
Compensation recognized under APB 25	--	--
Compensation recognized under SFAS 123	(825)	(425)
	-----	-----
Pro forma	\$ (744)	\$ (7,301)
	=====	=====
Basic loss per common share		
As reported	\$ 0.00	\$ (0.07)
Pro forma	\$ (0.00)	\$ (0.08)

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

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

	2004	2003
	-----	-----
Fair Value of options granted	\$ 0.025	\$ 0.015
Risk free interest rate	3.5%	3.5%
Expected life (years)	3	3

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Expected volatility	426%	421%
Expected dividends	-	-

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

F-15

COMPREHENSIVE LOSS

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

SEGMENT DISCLOSURE

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

Recent Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (an interpretation of Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements). Interpretation 46 addresses consolidation by business enterprises of entities to which the usual condition of consolidation described in ARB-51 does not apply. The Interpretation changes the criteria by which one company includes another entity in its consolidated financial statements. The general requirement to consolidate under ARB-51 is based on the presumption that an enterprise's financial statement should include all of the entities in which it has a controlling financial interest (i.e., majority voting interest). Interpretation 46 requires a variable interest entity to be consolidated by a company that does not have a majority voting interest, but nevertheless, is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A company that consolidates a variable interest entity is called the primary beneficiary of that entity. In December 2003, the FASB concluded to revise certain elements of FIN 46, primarily to clarify the

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

required accounting for interests in variable interest entities. FIN-46R replaces FIN-46 that was issued in January 2003. FIN-46R exempts certain entities from its requirements and provides for special effective dates for entities that have fully or partially applied FIN-46 as of December 24, 2003. In certain situations, entities have the option of applying or continuing to apply FIN-46 for a short period of time before applying FIN-46R. In general, for all entities that were previously considered special purpose entities, FIN 46 should be applied for registrants who file under Regulation SX in periods ending after March 31, 2004, and for registrants who file under Regulation SB, in periods ending after December 15, 2004. The Company does not expect the adoption to have a material impact on the Company's financial position or results of operations.

During April 2003, the FASB issued SFAS 149 - "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", effective for contracts entered into or modified after September 30, 2003, except as stated below and for hedging relationships designated after September 30, 2003. In addition, except as stated below, all provisions of this Statement should be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their

F-16

respective effective dates. In addition, paragraphs 7(a) and 23(a), which relate to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after September 30, 2003. The adoption of this statement had no impact on the Company's consolidated financial statements.

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

In December 2003, the FASB issued a revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" which replaces the previously issued Statement. The revised Statement increases the existing disclosures for defined benefit pension plans and other defined benefit postretirement plans. However, it does not change the measurement or recognition of those plans as required under SFAS No. 87, "Employers' Accounting for Pensions," SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Specifically, the revised Statement requires companies to provide additional disclosures about pension plan assets, benefit obligations, cash flows, and benefit costs of defined benefit pension plans and other defined benefit postretirement plans. Also, companies are required to provide a breakdown of

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

plan assets by category, such as debt, equity and real estate, and to provide certain expected rates of return and target allocation percentages for these asset categories. The Company has implemented this pronouncement and has concluded that the adoption has no material impact to the consolidated financial statements.

In December 2003, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition." SAB 104 supersedes SAB 101, "Revenue Recognition in Consolidated Financial Statements." SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Additionally, SAB 104 rescinds the SEC's Revenue Recognition in Consolidated Financial Statements Frequently Asked Questions and Answers ("the FAQ") issued with SAB 101 that had been codified in SEC Topic 13, Revenue Recognition. Selected portions of the FAQ have been incorporated into SAB 104. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104, which was effective upon issuance. The adoption of SAB 104 did not impact the consolidated financial statements.

NOTE 2 - PROPERTY AND EQUIPMENT

The cost of property and equipment at June 30, 2004 consisted of the following:

Computer and other equipment	\$ 1,932
Office furniture and fixtures	151
Leasehold improvements	71

	2,154
Less accumulated depreciation and amortization	(1,994)

	\$ 160
	=====

Depreciation expense for the years ended June 30, 2004 and 2003 was \$44 and \$82, respectively.

F-17

NOTE 3 - RELATED PARTY TRANSACTIONS

Transactions with a Director of the Company

A director of the Company is a majority shareholder in a consulting firm that provides management and public relations services to the Company. The Company accrued consulting fees and expenses to this consulting firm in the amount of approximately \$120 and \$120 for the years ended June 30, 2004 and 2003, respectively.

Transactions with Officers and Key Executives

During the years ended June 30, 2004 and 2003, common stock with an aggregate

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

fair market value of \$8 and \$60, respectively, was awarded to key executives as compensation and advances.

During the year ended June 30, 2004, the Company issued 7,272,110 shares of common stock to the Company's CEO as payment for accrued expenses and a note payable in the aggregate amount of \$109.

Transactions with a Related Party

In April 2004, the Company had a PEO services client whose Chairman of the Board is the Company's current CEO and Chairman. The Company received fees of \$7 during 2004. The transaction is at fair value.

NOTE 4 - ACQUISITIONS AND DISPOSITIONS

Jackson Staffing, Inc.

On September 1, 2003, DRDF completed its acquisition of 100% of the issued and outstanding shares of common stock of Jackson Staffing, Inc. ("Jackson"). The purchase price was 1,329,478 shares of DRDF common stock valued at \$30. Established in 2003, Jackson is a temporary staffing agency.

The operating results of Jackson beginning September 1, 2003 are included in the accompanying consolidated statements of operations.

The total purchase price was valued at approximately \$30 and is summarized as follows in accordance with SFAS No. 141 and 142:

Cash	\$ 104
Receivables	28
Property and equipment	23
Accounts payable	(19)
Accrued expenses	(83)
Notes payable	(23)

Purchase price	\$ 30
	=====

M&M Nursing

F-18

On June 28, 2004, DRDF completed its acquisition of certain assets of M&M Nursing (M&M"). The purchase price was 5,000,000 shares of DRDF common stock valued at \$31 plus the assumption of \$204 of liabilities. M&M is a temporary staffing agency primarily for nurses.

The operating results of M&M beginning July 1, 2004 will included in the accompanying consolidated statements of operations.

The total purchase price was valued at approximately \$235 and is summarized as

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

follows in accordance with SFAS No. 141 and 142:

Receivables	\$	233
Property and equipment		2

Purchase price	\$	235
		=====

The pro forma financial information that the consolidated operations of the Company as if the Jackson and M&M acquisitions had occurred as of the beginning of the periods presented is not presented since the operations of Jackson and M&M prior to the acquisition by DRDF as immaterial.

GREENLAND CORPORATION

Acquisition

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

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

On January 14, 2003, four new directors were elected to serve on Greenland's Board of Directors as nominees of DRDF

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

F-19

Greenland's ExpertHR subsidiary provides professional employer services (PEO) to niche markets. Greenland's Check Central subsidiary is an information technology company that has developed the Check Central Solutions' transaction processing system software and related MAXcash(TM) Automated Banking Machine(TM) (ABM(TM) kiosk designed to provide self-service check cashing and ATM-banking functionality. Greenland's common stock trades on the OTC Bulletin Board under

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

the symbol GRLC.

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

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

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

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

Purchase price	\$	--
		=====

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

The pro forma consolidated results of operations have not been presented as if the acquisition of Greenland, Inc. had occurred at July 1, 2002, due to the sale of Greenland stock back to Greenland effective March 1, 2004. The pro forma information is not meaningful due to sale of Greenland.

ExpertHR of Oklahoma

Effective April 1, 2003, the Company formed a wholly-owned subsidiary of Greenland Corporation, ExpertHR Oklahoma. Subsequent to its formation, the new Company purchased a group of PEO clients for \$921 of convertible preferred stock of Greenland Corporation. ExpertHR of Oklahoma, Inc., at that time, was a newly formed corporation whose only asset was the PEO contracts purchased by Greenland. The entire purchase price of the purchased contracts of \$921 was allocated to contracts and was amortized over the expected life of the contracts of 5 years.

DISPOSITION

In January 2004, the Company determined to discontinue operations of Greenland, Inc., its professional employment business division, and sold its shares in Greenland, Inc., back to Greenland. Effective March 1, 2004, the Company completed the sale of Greenland. Effective March 1, 2004, four new directors were elected to serve on Greenland's Board of Directors due to the resignation of the four directors nominated by DRDF

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

The terms of the sale are as follows: the Company returned all common shares of Greenland except for 19,183,390 restricted common shares; assign or grant all rights, title and interest the Company had in acquiring any or all interest in ePEO Link, Inc. to Greenland; Greenland canceled a convertible promissory note in the amount of \$2.225 issued by the Company to Greenland; and Greenland agreed to forgive and cancel the inter-company transfer debt of the Company to Greenland of approximately \$1,300.

Greenland's revenues were \$5,211 for the period starting July 1, 2003 to February 29, 2004, and were \$400 for the period January 14, 2003 to June 30, 2003. The results of operations of Greenland have been reported separately as discontinued operations.

The assets sold consisted primarily of accounts receivable, deposits, property and equipment, and other assets. The Greenland also assumed all accounts payable and accrued liabilities.

The following is a summary of the net assets sold at February 29, 2004:

	February 29, 2004

Assets:	
Cash	\$ --
Accounts receivable	406
Other current assets	135
Property and equipment, net	77
Other assets	3,830

Total assets	\$ 4,448
Liabilities:	
Accounts payable	\$ 1,237
Notes payable	830
PEO payroll taxes and payroll deduction	3,993
Accrued liabilities	1,265
Other non-current liabilities	798

Total liabilities	\$ 8,123

Net liabilities of discontinued operations	\$ 3,675
	=====

Quik Pix, Inc.

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

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

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

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

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

F-21

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

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

Other current assets	\$ 280
Property and equipment	11
Other non-current assets	18
Accounts payable and accrued	
expenses, and other current liabilities	(865)
Other long-term liabilities	(892)
Patent	1,618

Purchase price	\$ 170
	=====

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

Dream Canvas Technology, Inc.

The Company completed the acquisition of Dream Canvas Technology, Inc. (DCT) in October 2002 and paid the sum of \$40 with the issuance of 100,000 shares of its common stock. In December 2002 the Company sold DCT to Baseline Worldwide Limited for \$75 in cash.

NOTE 5 - OTHER ACCRUED EXPENSES

Other accrued expenses at June 30, 2004 consisted of the following as of:

Interest	\$ 3,220
Payroll and sales tax payable	591
IRS levy penalties and interest	387
Accrued judgments	3,674
Other taxes	948
Accrued salaries and related liabilities	923
Other	1,130

	\$10,873
	=====

F-22

NOTE 6 - DEBT

BORROWINGS UNDER BANKS NOTES PAYABLE

On June 6, 2000, the Company entered into a settlement agreement with Imperial Bank ("Imperial"). Under this agreement, the Company would pay \$150 per month until the balance was paid in full. Payments have been reduced to \$100 per month through January 2002 and further reduced to \$50 subsequent to January 2002. During the year ended June 30, 2002, the Company paid \$1,023 toward this obligation. Due to the uncertainty regarding the Company's ability to meet its obligations and certain defaults under this agreement, the debt has been classified as current. The debt is accruing interest at 5.75% per annum, which will be waived if all principal payments are made timely. The debt is collateralized by substantially all assets of the Company.

As of June 30, 2004, the Company owed Export-Import Bank ("ExIm") \$1,730 plus interest under a Working Capital Guarantee Facility whereby Imperial made a demand upon ExIm who responded by making a claim payment to Imperial. The note bears interest at 10% per annum. ExIm has made a demand for immediate payment and note is currently in default.

The following is a summary of the borrowings under bank notes payable at June 30, 2004:

Imperial	\$1,490
Export-Import Bank	1,730

Total	\$3,220
	=====

NOTES PAYABLE, INCLUDING AMOUNTS DUE TO RELATED PARTIES

The following summarizes notes payable at June 30, 2004:

Payable to investor, 8%	\$ 76
Payable in connection with QPI acquisition	376
Payable to individual, 10%	14
Payable to related party	293
Payable to a former director, 16%	1,500

	2,259
Less current portion	(1,847)

Long-term portion	\$ 412
	=====

Notes payable mature as follows:

During the years ended June 30,	
2005	\$ 1,847
2006	412
2007	--

	\$ 2,259
	=====

Convertible Debentures

On December 12, 2000, the Company entered into a Convertible Note Purchase Agreement with Amro International, S.A., Balmore Funds, S.A. and Celeste Trust Reg. Pursuant to this agreement, the Company sold to each of the purchasers convertible promissory notes in the aggregate principal amount of \$850 bearing

F-23

interest at the rate of eight percent (8%) per annum, due December 12, 2003, each convertible into shares of the Company's common stock. Interest shall be payable, at the option of the purchasers, in cash or shares of common stock. At any time after the issuance of the notes, each note is convertible into such number of shares of common stock as is determined by dividing (a) that portion of the outstanding principal balance of the note as of the date of conversion by (b) the lesser of (x) an amount equal to seventy percent (70%) of the average closing bid prices for the three (3) trading days prior to December 12, 2000 and (y) an amount equal to seventy percent (70%) of the average closing bid prices for the three (3) trading days having the lowest closing bid prices during the thirty (30) trading days prior to the conversion date. The Company has recognized interest expense of \$364 relating to the beneficial conversion feature of the above notes. Additionally, the Company issued a warrant to each of the purchasers to purchase 502,008 shares of the Company's common stock at an exercise price equal to \$1.50 per share.

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

On September 21, 2001, the Company entered into a convertible note purchase agreement with an investor whereby the Company sold to the investor a convertible promissory note in the aggregate principal amount of \$300 bearing interest at the rate of eight percent (8%) per annum, due September 21, 2004, convertible into shares of the Company's common stock. Interest is payable, at the option of the investor, in cash or shares of the Company's common stock. The note is convertible into such number of shares of the Company's common stock as is determined by dividing (a) that portion of the outstanding principal balance of the note by (b) the conversion price. The conversion price equals the lesser

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

of (x) \$0.532 And (y) 70% of the average of the 3 lowest closing bid prices during the 30 trading days prior to the conversion date. Additionally, the Company issued a warrant to the investor to purchase 565,410 shares of the Company's common stock at an exercise price equal to \$0.76 Per share. The investor may exercise the warrant through September 21, 2006. In December 2001, \$70 of this note was converted into 209,039 shares of common stock. In accordance with EITF 00-27, the Company first determined the value of the note and the fair value of the detachable warrants issued in connection with this convertible debenture. The proportionate value of the note and the warrants is \$106 and \$194, respectively. The value of the note was then allocated between the note and the preferential conversion feature, which amounted to \$0 and \$106, respectively.

On November 7, 2001, the Company entered into a convertible note purchase agreement with an investor whereby the Company sold to the investor a convertible promissory note in the aggregate principal amount of \$200 bearing interest at the rate of eight percent (8%) per annum, due November 7, 2004, convertible into shares of the Company's common stock. Interest is payable, at the option of the investor, in cash or shares of the Company's common stock. The note is convertible into such number of shares of the Company's common stock as is determined by dividing (a) that portion of the outstanding principal balance of the note by (b) the conversion price. The conversion price equals the lesser of (x) \$0.532 and (y) 70% of the average of the 3 lowest closing bid prices

F-24

during the 30 trading days prior to the conversion date. Additionally, the Company issued a warrant to the investor to purchase 413,534 shares of the Company's common stock at an exercise price equal to \$0.76 per share. The investor may exercise the warrant through November 7, 2006. In accordance with EITF 00-27, the Company first determined the value of the note and the fair value of the detachable warrants issued in connection with this convertible debenture. The proportionate value of the note and the warrants is \$92 and \$108, respectively. The value of the note was then allocated between the note and the preferential conversion feature, which amounted to \$0 and \$92, respectively.

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

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

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

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

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

F-25

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

On December 17, 2003, the Company entered into convertible note purchase agreements with four investor, whereby the Company sold to the investors convertible promissory notes in the aggregate principal amount of \$800 bearing interest at the rate of eight percent (8%) per annum, due December 17, 2006, convertible into shares of the Company's common stock. Interest is payable, at the option of the investor, in cash or shares of the Company's common stock. The note is convertible into such number of shares of the Company's common stock as is determined by dividing (a) that portion of the outstanding principal balance of the note by (b) the conversion price. The conversion price equals the lesser of (x) \$0.02 and (y) 70% of the average of the 3 lowest closing bid prices

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

during the 30 trading days prior to the conversion date. Additionally, the Company issued a warrant to the investor to purchase 16,000 shares of the Company's common stock at an exercise price equal to \$0.02 per share. The investor may exercise the warrant through December 17, 2008. In accordance with EITF 00-27, the Company first determined the value of the notes and the fair value of the detachable warrants issued in connection with these convertible debentures. The proportionate value of the notes and the warrants is \$586 and \$214, respectively. The value of the notes was then allocated between the notes and the preferential conversion feature, which amounted to \$30 and \$556, respectively.

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

Balance at June 30, 2002	\$ 803
Issuance of convertible debentures during the year	640
Converted into common stock	(164)
Value of preferential conversion feature	(274)
Amortization of value of warrants	477
Amortization of value of preferential conversion feature	375

Balance at June 30, 2003	1,857
Issuance of convertible debentures during the year	800
Converted into common stock	(2,026)
Value of preferential conversion feature	(557)
Value of warrants issued with convertible debentures	(214)
Amortization of value of warrants	388
Amortization of value of preferential conversion feature	623

Balance at June 30, 2004	\$ 871
	=====

The weighted average interest rate on notes payable outstanding at June 30, 2004 and 2003, was 8.7% and 8.7%, respectively.

NOTE 7 - STOCKHOLDERS' DEFICIT

Amendment to the Certificate of Incorporation.

On September 28, 2001, the Company's shareholders authorized an amendment to the Certificate of Incorporation to: (i) effect a stock combination (reverse split) of the Company's common stock in an exchange ratio to be approved by the Board, ranging from one (1) newly issued share for each ten (10) outstanding shares of common stock to one (1) newly issued share for each twenty (20) outstanding shares of common stock (the "Reverse Split"); and (ii) provide that no

F-26

fractional shares or scrip representing fractions of a share shall be issued, but in lieu thereof, each fraction of a share that any shareholder would otherwise be entitled to receive shall be rounded up to the nearest whole share. There will be no change in the number of the Company's authorized shares of common stock and no change in the par value of a share of Common Stock.

On September 28, 2001, the Company's shareholders approved a Board proposal to

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

amend the Certificate of Incorporation to increase the number of shares of common stock that the Company is authorized to issue from 200,000,000 to 500,000,000 shares.

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

On May 14, 2004, the Company's shareholders approved a Board proposal to amend the Certificate of Incorporation to increase the number of shares of common stock that the Company is authorized to issue from 500,000,000 to 1,000,000,000 shares.

5% SERIES A CONVERTIBLE, REDEEMABLE PREFERRED STOCK

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

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

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

The 5% convertible preferred stock is callable, at the Company's option, at call prices ranging from \$1,050 to \$1,100 per share. No call on the 5% convertible preferred stock was made during fiscal 2004 and 2003. As of June 30, 2004, the accumulated dividend in arrears was approximately \$432 on the Series A.

COMMON STOCK WARRANTS

In fiscal 2003, the Company also issued 2,830,300 warrants to certain consultants. The exercise prices of the warrants range from \$0.05 to \$0.10. All these warrants were exercised during fiscal 2003. The value of these warrants was estimated at \$70 using the Black-Scholes option-pricing model. The following assumptions were used: average risk-free interest rate of 3.5%; expected life of 0.25 years; dividend yield of 0%; and expected volatility of 179%.

F-27

In connection with certain convertible debentures issued during fiscal 2004, the Company issued to the debenture holders warrants to purchase up to 16,000,000 shares of its common stock at an exercise price of \$0.02. The warrants expire on December 17, 2008. The value of these warrants was estimated at \$305. The Black-Scholes option-pricing model was used to determine the value of these warrants. The following assumptions were used: average risk-free interest rate

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

of 3.5%; expected life of 5 years; dividend yield of 0%; and expected volatility of 426%. The value was then compared to the value of the underlying convertible debenture and the proportionate value was assigned to the detachable warrants and the underlying convertible debenture.

The following is a summary of the warrant activity:

	PRICE PER SHARE -----	UNDERLYING COMMON SHARES -----
JUNE 30, 2002	\$0.20 - \$11.40	6,102,350
Granted	\$0.05 - \$0.10	2,830,000
Exercised	\$0.05 - \$0.10	(2,830,000)
Canceled	\$11.40	(100,000)

JUNE 30, 2003	\$0.20 - \$10.00	6,002,350
Granted	\$0.02	16,000,000
Exercised		(0)
Canceled	\$0.20 - \$10.00	(438,920)

EXERCISABLE AT JUNE 30, 2004	\$0.02 - \$1.50	21,563,430

The weighted average remaining contractual life of warrants outstanding at June 30, 2004 is 4.24 years. Of the warrants exercisable at June 30, 2004, 16,000,000 have an exercise price of \$0.02 And the remaining 5,563,430 have an exercise price ranging from \$0.33 To \$1.50.

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

F-28

COMMON STOCK OPTION PLANS

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

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

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

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

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

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

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

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

F-29

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

2001 Stock Option and Stock Purchase Plans.

The Company's shareholders approved the 2001 Stock Option Plan, pursuant to which 5,000,000 shares of common stock are reserved for issuance to eligible

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

employees and directors of, and consultants to, the Company or any of its subsidiaries. Upon expiration, cancellation or termination of unexercised options, the shares of the Company's Common Stock subject to such options will again be available for the grant of options under the 2001 Stock Option Plan. Options granted under the 2001 Stock Option Plan may either be incentive or nonqualified stock options.

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

STOCK OPTION ACTIVITY

The following is a summary of the stock option activity:

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

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

F-30

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

JUNE 30, 2003	\$0.01 - \$28.20	34,158,100
Granted	\$0.01 - \$0.025	34,500,000
Exercised	\$0.01 - \$0.025	(29,500,000)
Canceled	\$28.20	(8,100)

EXERCISABLE AT JUNE 30, 2004	\$0.01 - \$0.025	39,150,000

The weighted average remaining contractual life of options outstanding issued under the Stock Option Plans is 1.98 years at June 30, 2004.

For options granted during the year ended June 30, 2004 where the exercise price was equal to the stock price at the date of the grant, the weighted-average fair value of such options was \$0.025 and the weighted-average exercise price of such

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

options was \$0.025. In connection with the issuance of these options, the Company recognized an expense of \$0 related since the exercise price was equal to the value of the Company's stock at the date of issuance. During the year ended June 30, 2004, the Company repriced certain options that were previously issued and recorded a charge to earnings in the amount of \$141.

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

COMMON STOCK ISSUED FOR SERVICES AND COMPENSATION

The table below shows all the issuances of common stock for services during the year ended June 30, 2004 and 2003. The value of the services was derived by multiplying the market value of the Company's common stock at the date a transaction for services was entered into by the number of shares issued.

FISCAL 2004

ISSUE DATE	DESCRIPTION	SHARES ISSUED	VALUE
1/7/2004	Strategic planning/marketing	75,000	\$ 1,500
6/1/2004	Strategic planning/marketing	300,000	1,500
7/31/2003	Strategic planning/marketing	100,000	2,000
9/17/2003	Strategic planning/marketing	120,000	2,400
12/29/2003	Strategic planning/marketing	250,000	2,500
12/10/2003	Professional services	175,000	2,625
1/7/2004	Strategic planning/marketing	150,000	3,000
12/31/2003	Strategic planning/marketing	500,000	5,000
12/10/2003	Professional services	1,075,000	16,125
8/1/2003	Strategic planning/marketing	5,000,000	125,000
		-----	-----
		7,745,000	\$ 161,650
		=====	=====

F-31

FISCAL 2003

ISSUE DATE	DESCRIPTION	SHARES ISSUED	VALUE
07/01/02	Strategic planning/marketing	450,000	\$ 72,000
07/08/02	Strategic planning/marketing	79,688	12,431
08/15/02	Strategic planning/marketing	500,000	25,000
08/19/02	Strategic planning/marketing	150,000	7,500
09/09/02	Strategic planning/marketing	1,500,000	79,500
09/18/02	Strategic planning/marketing	3,000,000	93,000
09/23/02	Strategic planning/marketing	100,000	2,200
09/24/02	Strategic planning/marketing	250,000	4,750

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

10/10/02	Strategic planning/marketing	2,310,900	23,109
10/10/02	Strategic planning/marketing	3,000,000	30,000
10/29/02	Strategic planning/marketing	15,000,000	150,000
11/12/02	Strategic planning/marketing	937,500	18,750
12/13/02	Strategic planning/marketing	400,000	12,000
12/17/02	Professional services	1,000,000	10,000
12/17/02	Strategic planning/marketing	4,000,000	40,000
12/17/02	Strategic planning/marketing	45,000,000	450,000
01/03/03	Strategic planning/marketing	500,000	5,000
01/07/03	Strategic planning/marketing	686,667	10,300
01/08/03	Strategic planning/marketing	2,000,000	30,000
02/10/03	Professional services	533,333	8,000
03/03/03	Strategic planning/marketing	300,000	3,000
04/10/03	Strategic planning/marketing	1,000,000	10,000
06/10/03	Strategic planning/marketing	4,333,333	65,000
06/23/03	Strategic planning/marketing	5,702,079	85,531
		-----	-----
		92,733,500	\$1,247,071
		=====	=====

NOTE 8 - SEGMENT AND GEOGRAPHIC INFORMATION

During fiscal 2004 and 2003, the Company managed and internally reported the Company's business as four (4) reportable segments as follows:

F-32

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

Segment information for the fiscal year ended June 30, 2004 and 2003, was as follows:

	PEO BUSINESS	TEMPORARY STAFFING	IMAGING PRODUCTS	IMAGING SOFTWARE	TOTAL
SELECTED STATEMENT OF OPERATIONS ACTIVITY:					
Fiscal year ended June 30, 2004					
Revenues	\$ 2,607	\$ 10,119	\$ 764	\$ 36	\$ 13,52
Cost of revenues	(894)	(9,209)	(196)	(3)	(10,30
Gross profit	1,713	910	568	33	3,22
Fiscal year ended June 30, 2003					
Revenues	\$ 2,499	\$ --	\$ 924	\$ 367	\$ 3,79
Cost of revenues	(1,639)	--	(396)	(90)	(2,12

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

Gross profit	860	--	528	277	1,66
--------------	-----	----	-----	-----	------

As of and during the years ended June 30, 2004 and 2003, no customer accounted for more than 10% of consolidated accounts receivable or total consolidated revenues. During 2004, all revenue derived from temporary staffing was from one client.

Net sales from principal geographic areas were as follows:

	2004	2003
	-----	-----
Europe	\$ --	\$ 367
Domestic sales	13,526	3,423
	-----	-----
Total sales	\$13,526	\$ 3,790
	=====	=====

NOTE 9 - INCOME TAXES

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

F-33

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

	2004	2003
	-----	-----
Current - State	\$ --	\$ --
Deferred benefit	--	--
	-----	-----
	\$ --	\$ --
	=====	=====

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

	2004	2003
	-----	-----
Deferred tax assets		
Net operating loss carryforwards	\$ 37,600	\$ 37,100
Other	500	500
	-----	-----
	38,100	37,600
Valuation allowance	(38,100)	(37,600)
	-----	-----

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

\$ -- \$ --
=====

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

The provision for income taxes results in an effective rate that differs from the federal statutory rate. Reconciliation between the actual tax provision and taxes computed at the statutory rate is as follows for the years ended June 30, 2004:

	Tax	Percentage
Federal Tax	\$ 35,360	34.0%
State tax	6,240	6.0%
Penalties	304,300	292.6%
Reserves	5,100	4.9%
Discontinued operations	(551,480)	(530.3%)
Repriced options	47,940	46.1%
Net operating loss	152,540	146.7%
	-----	-----
	\$ --	0%
	=====	=====

Reconciliation between the actual tax provision and taxes computed at the statutory rate is as follows for the years ended June 30, 2003:

	Tax	Percentage
Federal Tax	\$ (2,331)	(34.0%)
State tax	(411)	(6.0%)
Penalties	688	10.0%
Reserves	157	2.4%
Discontinued operations	552	8.0%
Repriced options	65	0.9%
Net operating loss	1,280	18.7%
	-----	-----
	\$ --	0%
	=====	=====

F-34

NOTE 10 - COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENT

The Company leases its operating facilities under a lease agreement that expires in March 2007. In addition, the Company leases other facilities and equipment under operating and capital short-term leases.

Total rental expense was approximately \$242 and \$306 for the years ended June 30, 2004 and 2003, respectively.

Future minimum lease payments under non-cancelable capital and operating leases

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

with initial or remaining terms of one year or more are as follows:

	Capital Leases	Operating Leases
	-----	-----
YEAR ENDING JUNE 30,		
2005	\$ 21	\$ 123
2006	15	116
2007	11	46
2008	11	--
2009	30	--
	-----	-----
Net Minimum Lease Payments	\$ 88	\$ 104
		=====
Less: Amounts Representing Interest	(15)	

Present Value of Net Minimum Lease Payments	73	
Less: Current Portion	(10)	

Long-Term Portion	\$ 63	
	=====	

LEGAL MATTERS

In October 1999, the law firms of Weiss & Yourman and Stull, Stull & Brody made a public announcement that they had filed a lawsuit against the Company and certain current and past officers and/or directors, alleging violation of federal securities laws and, in November 1999, the lawsuit, filed in the name of Nahid Nazarian Behfarin, on her own behalf and others purported to be similarly situated, was served on the Company. In January 2003, the Company entered into a Stipulation of Settlement with the plaintiffs. It agreed to pay the plaintiffs 5,000,000 shares of common stock and \$200 in cash. The Parties have accepted the settlement. DRDF has issued the shares, and its insurance carrier has paid the \$200 cash payment. Pursuant to a hearing in May 2003 the Court provided approval to the settlement.

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

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

F-35

DRDF is one of dozens of companies sued by The Massachusetts Institute of Technology, et al., related to a patent held by the plaintiffs that may be related to part of the Company's ColorBlind software. Subsequent to the period reported in this filing, in June 2003, the Company entered into a settlement with the plaintiffs who have agreed to dismiss their claims against DRDF with prejudice in exchange for a settlement fee payment of \$10, which has been paid.

The Company has been sued in Illinois state court along with AIA/Mirriman, its

Edgar Filing: DALRADA FINANCIAL CORP - Form SB-2/A

insurance brokers by the Arena Football League-2 ("AFS"). Damages payable to AF2, should they win the suit, could exceed \$700. The Company expects to defend its position and rely on representations of its insurance brokers.

Throughout fiscal 2003 and 2004, and through the date of this filing, trade creditors have made claims and/or filed actions alleging the failure of the Company to pay its obligations to them in a total amount exceeding \$3,000. These actions are in various stages of litigation, with many resulting in judgments being entered against the Company. Several of those who have obtained judgments have filed judgment liens on the Company's assets. These claims range in value from less than one thousand dollars to just over one million dollars, with the great majority being less than twenty thousand dollars.

In connection with the Company's controlling interest of Quik Pix, Inc., the Company is not aware of any pending litigation.

From time to time, the Company is involved in litigation relating to claims arising out of their operations in the normal course of business.

NOTE 11 - GAIN ON EXTINGUISHMENT OF DEBT

During the year ended June 30, 2004, the Company recognized a gain on extinguishment of debt of \$1,145. This gain resulted primarily from the write off of stale accounts payable. The Company, based upon an opinion provided by independent legal counsel, has been released as the obligator of these liabilities. Accordingly, management has elected to adjust its accounts payable and to classify such adjustments as extinguishment of debt.

During the year ended June 30, 2003, the Company recognized a gain on extinguishment of debt of \$2,367. This gain resulted primarily from the write off of stale accounts payable as discussed below, as well as a gain on a settlement of a long-term note payable of \$702, which was settled for \$274 in cash resulting in a gain of \$428. With respect to the write-off of accounts payable, the Company reviewed its accounts payable and determined that \$1,942 was associated with unsecured creditors. The Company, based upon an opinion provided by independent legal counsel, has been released as the obligator of these liabilities. Accordingly, management has elected to adjust its accounts payable and to classify such adjustments as extinguishment of debt.

NOTE 12 - SUBSEQUENT EVENTS

From July 1, 2004 to September 30, 2004, the Company issued 50,058,676 shares of its common stock to consultants, for warrant exercises, for conversion of convertible debt, and for the reduction of debt.

The Company also borrowed \$245 from an investor to fund the acquisition of M&M Nursing.

Quik Pix, Inc., issued 1,000,000 shares of its common stock for settlement of a debt.