

Edgar Filing: IMAGE TECHNOLOGY LABORATORIES INC - Form 10QSB

IMAGE TECHNOLOGY LABORATORIES INC
Form 10QSB
June 14, 2005

IMAGE TECHNOLOGY LABORATORIES, INC.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended MARCH 31, 2005 or

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

For the transition period from _____ to _____

Commission File Number: 34-00031307

IMAGE TECHNOLOGY LABORATORIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

22-53531373

(State or Other Jurisdiction
of Incorporation or Organization)

(IRS Employer
Identification No.)

602 Enterprise Drive
Kingston, New York 12401

(Address of Principal Executive Offices)

(845) 338-3366

(Registrant's Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant as required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES NO

As of May 15, 2005, there were 14,638,778 shares of the registrant's common stock outstanding.

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IMAGE TECHNOLOGY LABORATORIES, INC.

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IMAGE TECHNOLOGY LABORATORIES, INC.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS

ASSETS

CURRENT ASSETS:

MARCH 31,
2005
(UNAUDITED)

DECEMBER 31,
2004
(UNAUDITED)

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Cash and cash equivalents	\$ 19,777	\$ 4
Accounts receivable	61,129	61
Prepaid expenses and other current assets	26,044	17
	-----	-----
TOTAL CURRENT ASSETS	106,950	82
Equipment and improvements, net of accumulated depreciation and amortization of \$98,703 and \$85,963	185,839	196
	-----	-----
TOTAL ASSETS	\$ 292,789	\$ 278
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 260,870	\$ 223
Current portion of long-term debt	92,450	93
Notes payable	63,252	65
Current portion of notes payable to stockholders	16,525	3
	-----	-----
TOTAL CURRENT LIABILITIES	433,097	385
Long-term debt, less current maturities	88,310	107
Notes payable to stockholders, less current portion	91,875	105
Accrued compensation payable to stockholders	27,072	27
	-----	-----
TOTAL LIABILITIES	\$ 640,354	625
	-----	-----
STOCKHOLDERS' EQUITY (DEFICIENCY):		
Preferred stock, par value \$.01 per share; 5,000,000 shares authorized; 1,500,000 shares issued and outstanding	15,000	15
Common stock, par value \$.01 per share; 50,000,000 shares authorized; 14,388,778 and 13,863,778 shares issued and outstanding	143,888	138
Additional paid-in capital	2,966,047	2,866
Accumulated deficit	(3,472,500)	(3,366)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY (DEFICIENCY)	(347,565)	(346)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	\$ 292,789	\$ 278
	=====	=====

See Notes to Condensed Financial Statements.

IMAGE TECHNOLOGY LABORATORIES, INC.

CONDENSED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(UNAUDITED)

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	THREE MONTHS ENDED MARCH 31,	
	2005	2004
	-----	-----
REVENUE:		
Service income	--	\$ 137,435
Systems / software: license fees and sales	\$ 98,048	138,717
	-----	-----
TOTAL REVENUE	98,048	276,152
COST OF REVENUE:	--	27,500
	-----	-----
GROSS PROFIT	98,048	248,652
	-----	-----
COSTS AND EXPENSES:		
Research and development	78,869	79,830
Sales and marketing	25,942	55,474
General and administrative	99,025	118,101
	-----	-----
TOTAL COSTS AND EXPENSES	203,836	253,405
	-----	-----
	\$ (105,788)	\$ (4,753)
	=====	=====
NET LOSS PER COMMON SHARE:		
Basic	\$ (0.01)	\$ (0.00)
Diluted	\$ (0.01)	\$ (0.00)
	=====	=====
AVERAGE NUMBER OF SHARES USED IN COMPUTATION:		
Basic	15,608,778	15,265,564
Diluted	15,608,778	15,265,564
	=====	=====

See Notes to Condensed Financial Statements.

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IMAGE TECHNOLOGY LABORATORIES, INC.

CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
THREE MONTHS ENDED MARCH 31, 2005
(UNAUDITED)

	PREFERRED STOCK		COMMON STOCK		ADDI- TIONA PAID-I CAPITA
	NUMBER OF SHARES -----	AMOUNT -----	NUMBER OF SHARES -----	AMOUNT -----	
Balance, January 1, 2005	1,500,000	\$ 15,000	13,863,778	\$ 138,638	\$ 2,866,
Issuance of common stock in private placement			525,000	5,250	99,
Issuance of common stock and options for compensation					
Accrued compensation contributed to capital					
Net loss	-----	-----	-----	-----	-----
Balance, March 31, 2005	<u>1,500,000</u>	<u>\$ 15,000</u>	<u>14,388,778</u>	<u>\$ 143,888</u>	<u>\$ 2,966,</u>

See Notes to Condensed Financial Statements.

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IMAGE TECHNOLOGY LABORATORIES, INC.

CONDENSED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(UNAUDITED)

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	2005	2004
OPERATING ACTIVITIES:		
Net loss	\$ (105,788)	\$ (4,753)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of equipment and improvements	12,743	10,908
Common stock and options issued for services	--	--
Changes in operating assets and liabilities:		
Accounts receivable	(81)	3,073
Prepaid expenses and other current assets	(8,977)	59
Accounts payable and accrued expenses	37,175	(46,687)
Deferred revenues	--	(35,000)
Accrued compensation payable to stockholders	--	17,692
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(64,928)	(54,708)
	-----	-----
INVESTING ACTIVITIES - purchase of equipment and improvements	(2,349)	(48,302)
	-----	-----
FINANCING ACTIVITIES:		
Proceeds from exercise of warrants		
Proceeds from private placement of common stock	105,000	50,000
Proceeds from notes payable and long-term debt	9,787	263,998
Repayments of notes payable and long-term debt	(31,945)	(3,376)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	82,842	310,622
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,565	207,612
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,212	195,257
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 19,777	\$ 402,869
	=====	=====
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Contribution of accrued compensation payable to stockholders to capital	\$ 0	\$ 159,692
	=====	=====

See Notes to Condensed Financial Statements.

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IMAGE TECHNOLOGY LABORATORIES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION:

In the opinion of management, the accompanying unaudited condensed financial statements reflect all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of Image Technology Laboratories, Inc. (the "Company") as of March 31, 2005, its results of operations for the three months ended March 31, 2005 and 2004, changes in stockholders' equity (deficiency) for the three months ended March 31, 2005 and cash flows for the three months ended March 31, 2005 and 2004. Certain terms used herein are defined in the audited financial statements of the Company as of December 31, 2004 and for the years ended December 31, 2003 and 2002 (the "Audited Financial Statements") included in the Company's Annual Report on Form 10-KSB previously filed with the Securities and Exchange Commission (the "SEC"). Pursuant to rules and regulations of the SEC, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed in or omitted from these financial statements unless significant changes have taken place since the end of the most recent fiscal year. Accordingly, the accompanying unaudited condensed financial statements should be read in conjunction with the Audited Financial Statements and the other information included in the Form 10-KSB.

The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the results of operations to be expected for the full year ending December 31, 2005.

NOTE 2 - EARNINGS (LOSS) PER SHARE:

The Company presents basic earnings (loss) per share and, if appropriate, diluted earnings per share in accordance with the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128") as explained in Note 1 to the financial statements in the Form 10-KSB.

The rights of the Company's preferred and common stockholders are substantially equivalent. The Company has included the 1,500,000 outstanding preferred shares from the date of their issuance in the weighted average number of shares outstanding in the computation of basic loss per share for the three months ended March 31, 2005 and 2004, in accordance with the "two class" method of computing earnings (loss) per share set forth in SFAS 128.

Since the Company had net losses for the three months ended March 31, 2005 and 2004, the assumed effects of the exercise of options to purchase 2,650,000 and 2,000,000 common shares outstanding at March 31, 2005 and 2004, respectively, would be anti-dilutive and, therefore, they have not been considered in the calculations of diluted per share amounts in the accompanying condensed statements of operations for those periods.

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IMAGE TECHNOLOGY LABORATORIES, INC.

NOTE 3 - WORKING CAPITAL LOAN AGREEMENT:

During September 2002, the Company entered into a one-year working capital loan agreement with a financial institution for borrowings of up to \$75,000. The agreement automatically renews annually unless one of the parties gives appropriate notice for cancellation. Outstanding borrowings bear interest payable monthly at 1% above the prime rate, and are guaranteed by the Estate of the Company's principal stockholder, Dr. David Ryon. At March 31, 2005, there was \$63,252 outstanding under this agreement.

NOTE 4 - NOTES PAYABLE TO VALLEY COMMERCIAL CAPITAL LLC:

In February 2004, the Company borrowed \$125,000 from Valley Commercial Capital, LLC ("Valley"). This loan is evidenced by a promissory note, which provides for interest at 8% per annum and calls for monthly payments of principal and interest of \$3,917 through February 2, 2007. In March 2004, the Company borrowed an additional \$138,997 from Valley, also evidenced by a promissory note, which provides for interest at 8% per annum and calls for monthly payments of principal and interest of \$4,356 through March 29, 2007. As of March 31, 2005, the outstanding balances on these loans aggregated \$179,825.71. These loans are secured by the personal guarantee of the estate of Dr. David Ryon.

NOTE 5 - NOTES PAYABLE TO STOCKHOLDERS:

During November and December 2004, Dr. David Ryon, the Company's principal stockholder, President, and Chief Executive Officer, until his death in December 2004, loaned the Company an aggregate of \$105,000. In December 2004, to memorialize this loan, he executed, as President and Chief Executive Officer, on behalf of the Company, a demand promissory note payable to himself and bearing interest at 10% per annum. He also executed a security agreement, for himself on behalf of the Company, granting to himself a security interest in all of the Company's assets not previously encumbered as security for full payment under the note. Prior to April 12, 2005, the Company negotiated with the Estate of Dr. David Ryon a 24 month payment schedule, beginning in January 2006. The Company's Board of Directors approved the revised terms of the promissory note on April 12, 2005. The entire principal amount of \$105,000 was outstanding at March 31, 2005. Principal payments of \$52,500 are required in both 2006 and 2007, and the Company is accruing interest payments during 2005.

NOTE 6 - COMMON STOCK:

In February 2005, the Company concluded a private placement of its common stock with each member of its Board of Directors and two key employees. Pursuant to such transaction, the Company sold an aggregate of 525,000 shares at \$.20 per share, the approximate fair value on the date of closing, resulting in aggregate proceeds to the Company of \$105,000.

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IMAGE TECHNOLOGY LABORATORIES, INC.

NOTE 7 - OPTIONS

On January 24, 2005, the Company granted options under the Company's option plan to several key employees, for the purchase of 550,000 shares of its common stock at \$.20 per share, its fair market value on the date of grant, which are exercisable through January 24, 2015.

The Company continues to measure compensation cost related to stock options issued to employees using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting For Stock Issued To Employees". The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting For Stock-Based Compensation." Accordingly, no earned or unearned compensation cost was recognized in the accompanying condensed financial statements for the stock options granted by the Company to these employees, since all of those options have been granted at exercise prices that equaled or exceeded the market value at the date of grant. The Company's historical net loss and loss per share and pro forma net loss and loss per share, assuming compensation cost had been determined in 2005 and 2004 based on the fair value at the grant date for all awards by the Company consistent with the provisions of SFAS 123, are set forth below:

	THREE MONTHS ENDED	
	MARCH 31, 2005	MARCH 31, 2004
	-----	-----
Net loss, as reported	\$ (105,788)	\$ (4,753)
Deduct total stock-based employee compensation expense determined under a fair value based method for all awards	(102,734)	--
	-----	-----
Net loss - pro forma	\$ (208,522)	\$ (-)
	=====	=====
Net loss per share		
Basic - as reported	\$ (0.01)	\$ (0.00)
	=====	=====
Basic - pro forma	\$ (0.01)	\$ (0.00)
	=====	=====

The fair value of options granted were determined using a Black-Scholes pricing model in accordance with SFAS 123, with the following assumptions used during the three months ended March 31, 2005 and 2004:

	March 31, 2005	March 31, 2004
	----	----
Risk-free interest rate	4.22%	-
Expected Volatility	110%	-
Expected Years of option term	10	-
Expected Dividends	0%	-

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As a result of amendments to SFAS 123, the Company will be required to expense the fair value of employee stock options over the vesting period beginning with its fiscal quarter ending March 31, 2006.

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IMAGE TECHNOLOGY LABORATORIES, INC.

The following table summarizes information about stock options outstanding at March 31, 2005.

EXERCISE PRICE RANGE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT MARCH 31, 2005	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OUTSTANDING AT MARCH 31, 2005	WEIGHTED AVERAGE EXERCISE PRICE
\$ 0.33	2,000,000	5.3	\$ 0.33	2,000,000	\$ 0.33
\$ 0.75	100,000	9.1	\$ 0.75	--	\$ 0.75
\$ 0.20	550,000	9.9	\$ 0.20	550,000	\$ 0.20
	2,650,000	6.4	\$ 0.32	2,550,000	\$ 0.30
	=====	=====	=====	=====	=====

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IMAGE TECHNOLOGY LABORATORIES, INC.

NOTE 8 - SUBSEQUENT EVENTS:

In April 2005, the Company concluded a private placement of its common stock with Mr. Edwards, its Chairman of the Board of Directors. Pursuant to such transaction, the Company sold an aggregate of 250,000 shares at \$.20 per share, the approximate fair valuation on the date of closing, resulting in aggregate proceeds to the Company of \$50,000.

On April 1, 2005, the Company granted options under the Company's option plan to Mr. Muradian, its Chief Executive Officer, for the purchase of

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700,000 shares of its common stock at \$.20 per share, its fair market value on the date of grant, which are exercisable through April 1, 2015. The options vest 25% on April 1, 2006, 25% on April 1, 2007, 25% on April 1, 2008 and 25% on April 1, 2009.

On April 14, 2005, the Company granted options under the Company's options plan to Mr. Edwards, its Chairman of the Board of Directors, for the purchase of 800,000 shares of its common stock at \$.22 per share, 110% of its the fair market value on the date of grant, which are exercisable through April 14, 2015. The options vest 25% on January 1, 2006, 25% on January 1, 2007, 25% on January 1, 2008 and 25% on January 1, 2009.

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IMAGE TECHNOLOGY LABORATORIES, INC.

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

OVERVIEW

The following is a discussion of certain factors affecting Image Technology Laboratories, Inc.'s results of operations, assets, liquidity and capital resources. You should read the following discussion and analysis in conjunction with Image Technology Laboratories, Inc.'s unaudited condensed financial statements and related notes, which are included elsewhere in this filing.

Image Technology Laboratories, Inc. ("we", "our" or the "Company") is a medical image and information management company in the healthcare information systems market. We were incorporated in Delaware on December 5, 1997. The Company has developed a single database "Radiology Information System and Picture Archiving and Communications System" known as RIS/PACS for use in the secure management of patient information and diagnostic images. Our lead product is the WarpSpeed system. Through its unique, modular architecture the Company has created a total radiology business solution that is readily scaled and easily upgraded. These features will allow the Company to provide products tailored to the size of its customers and to keep its customers at the forefront of future technological advances by enabling the Company to easily update existing systems.

We expect that we will derive our future revenues primarily from sales of our WarpSpeed system and associated maintenance charges along with Application Service Provider (ASP) usage fees. We obtained our first contract for the sale of WarpSpeed and related hardware and maintenance services in August 2002. Accordingly, we are no longer in the development stage for accounting purposes, but we continue to refine and enhance the capabilities of our WarpSpeed system.

We have had recurring losses and negative cash flows from our operating activities since inception. We have cash of approximately \$19,777 and a working capital deficiency of approximately \$326,147 as of March 31, 2005. In February and April 2005, in private placements of its common stock, all of the individual members of our Board of Directors and certain key employees purchased an aggregate of 775,000 shares of our common stock at \$.20 per share, resulting in

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proceeds to the Company of \$155,000.

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IMAGE TECHNOLOGY LABORATORIES, INC.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2005 COMPARED WITH THE THREE MONTHS ENDED MARCH 31, 2004

REVENUE:

For the three months ended March 31, 2005, our total revenue was \$98,048, a decrease of \$178,104 from the \$276,152 in the prior year's comparable period. This decrease is in large part attributable to elimination of service revenue provided by Dr. David Ryon, our former Chief Executive Officer, pursuant to his employment agreement. Additionally, during the quarter ended March 31, 2004, revenues included \$66,000 from the sale of our initial unit recognized ratably, completed during fourth quarter of 2004.

COST OF REVENUE:

Our cost of revenue has been recognized as the direct expense incurred in revenue generation. In 2004 this included the direct expense associated with the service revenue of Dr. David Ryon, our former Chief Executive Officer. Cost of revenue decreased by \$27,500 for the quarter ended March 31, 2005 from the same quarter 2004.

RESEARCH AND DEVELOPMENT EXPENSES:

During the three months ended March 31, 2005, we incurred research and development expenses of \$78,869, approximately equal to research and development expenses of \$79,830 during the same period of 2004.

GENERAL AND ADMINISTRATIVE EXPENSES:

During the three months ended March 31, 2005, we incurred general and administrative expenses of \$99,025, as compared with general and administrative expenses of \$118,101 during the same period of 2004, a decrease of \$19,076, or 16%.

SALES AND MARKETING EXPENSES:

During the three months ended March 31, 2005 we incurred sales and marketing expenses of \$25,942, as compared with sales and marketing expenses of \$55,474 during the same period of 2004, a decrease of \$29,532. The Company has focused its efforts on controlling costs while identifying appropriate sales personnel

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and resources. These costs are expected to grow as the company executes its business plan.

NET LOSS:

We incurred a loss of approximately \$105,788 (\$.01 per share) for the three months ended March 31, 2005 as compared with a loss of \$4,753 (less than \$.01 per share) for the three months ended March 31, 2004. The majority of the increased loss can be attributable to the elimination of service revenue provided by Dr. David Ryon, offset by a reduction in operating expenses, mainly General & Administrative and Sales & Marketing expenses.

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IMAGE TECHNOLOGY LABORATORIES, INC.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2005, our total assets were \$292,789, an increase of \$14,229 from total assets of \$278,560 on December 31, 2004.

As of March 31, 2005, we had cash and cash equivalents and a working capital deficiency of \$19,777 and \$326,147, respectively. The capital deficiency was mostly due to \$130,000 owed to a former officer and Director of the Company as a result of an arbitration proceeding, \$92,450 for the current portion of two bank loans and \$63,252 for a revolving line of credit with a bank.

Net cash used in our operating activities for the 3 months ending March 31, 2005 of \$64,928 was substantially attributable to our net loss of \$105,788, offset mostly by an increase in accounts payable and accrued expenses of \$37,175. This net cash used in our operating activities was financed with \$105,000 resulting from a private placement of our common stock, offset by approximately \$23,000 in net repayments of bank debt. Investing activities (purchase of equipment and improvements) for the quarter ending March 31, 2005 totaled only \$2,349.

The foregoing activities, i.e., operating, investing and financing, resulted in our net cash increase of \$15,565 for the three months ended March 31, 2005.

During September 2002, we obtained a \$75,000 working capital loan from a financial institution. As of March 31, 2005, we have approximately \$63,252 outstanding under that loan. Additionally, in February and March 2004, we obtained two loans from a different financial institution that provided us with an aggregate principal amount of approximately \$264,000. As of March 31, 2005, we had approximately \$179,825 outstanding under these arrangements. In December 2004, we borrowed \$105,000 from our former Chief Executive Officer, which will be repaid over 24 months, beginning in January 2006. Principal payments are \$52,500 in 2006 and 2007.

In January 2004, we closed a five-year contract for the WarpSpeed system with St. Anthony Community Hospital, Warwick, NY. St. Anthony Community Hospital is a member of Bon Secours Charity Health System, which owns and operates 32 health care facilities.

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In March 2005, the Company signed a contract for the sale of three of its WarpSpeed RIS/PACS systems to InMed Diagnostic Services, LLC, at multi-modality imaging centers. In addition to implementing our solution at the largest InMed site in Columbia, SC, we are installing at two Massachusetts sites specializing in women's health care.

We require cash to fund our working capital needs and capital expenditures, as well as to meet existing commitments. Such commitments include payments to our officers who have employment contracts, payments of existing loans including our line of credit, two notes payable which call for aggregate monthly payments of approximately \$8,300 through March 2007, one note with monthly payments of approximately \$4800 through December 2007, and \$800 per month pursuant to a five-year lease commitment ending in October 2007 for our operations center in Kingston, New York. At times, in order to help in maximizing our working capital, our directors, officers and employees have contributed to capital or deferred compensation due under their agreements. It is anticipated, but not assured, that, should the need arise, such contributions or deferrals might be available to us in the future. Additionally, we are considering outside sources of equity funds and other types of financing in order to help support our anticipated growth. There can be no assurance that such efforts will be successful.

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IMAGE TECHNOLOGY LABORATORIES, INC.

Management believes that as a result of the proceeds from financing activities, as well as anticipated cash flow generated by sales of its RIS/PACS solution (in addition to the current cash flow resulting from our installed ASP base), the Company will be able to continue to meet its obligations as they become due through at least December 31, 2005. Management also believes, that if needed, the Company will be able to obtain additional capital resources from financing through financial institutions and other unrelated sources and/or through additional related party loans and private placements. However, there can be no assurance that the Company will become profitable or that financing will be available. Accordingly, the accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amount and classification of liabilities that may result from the outcome of this uncertainty.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In February 2005, the Company concluded a private placement of its common stock with each member of its Board of Directors and two key employees. Pursuant to such transaction, the Company sold an aggregate of 525,000 shares at \$.20 per share, the approximate and fair value on the date of closing, resulting in aggregate proceeds to the Company of \$105,000.

In April 2005, the Company concluded a private placement of its common stock with the Chairman of its Board of Directors. Pursuant to such transaction, the Company sold an aggregate of 250,000 shares at \$.20 per share, the approximate fair value on the date of closing, resulting in aggregate proceeds to the company of \$50,000.

FORWARD-LOOKING STATEMENTS

When used in the Quarterly Report on Form 10-QSB, the words "may", "will",

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"should", "expect", "believe", "anticipate", "continue", "estimate", "project", "intend" and similar expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act regarding events, conditions and financial trends that may affect our future plans of operations, business strategy, results of operations and financial condition. We wish to ensure that such statements are accompanied by meaningful cautionary statements pursuant to the safe harbor established in the Private Securities Litigation Reform Act of 1995. Prospective investors are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and that actual results may differ materially from those included within the forward-looking statements as a result of various factors including our ability to consummate, and the terms of, acquisitions, if any. Such forward-looking statements should, therefore, be considered in light of various important factors, including those set forth herein and others set forth from time to time in our reports and registration statements filed with the Securities and Exchange Commission (the "Commission"). We disclaim any intent or obligation to update such forward-looking statements.

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IMAGE TECHNOLOGY LABORATORIES, INC.

ITEM 3 - CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our Chief Executive Officer who is our Principal Accounting Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c) and 15d-14(c) as of the end of the period covered by this report (the "Evaluation Date")), have concluded that as of the Evaluation Date, our disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would be made known to them by others within the Company, particularly during the period in which this quarterly report on Form 10-QSB was being prepared.

CHANGES IN INTERNAL CONTROLS

There were no significant changes in our internal controls or in other factors that could significantly affect our disclosure controls and procedures subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such disclosure controls and procedures requiring corrective actions. As a result, no corrective actions were taken.

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IMAGE TECHNOLOGY LABORATORIES, INC.

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PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

During the quarter, there were no significant developments in our legal proceedings. For a detailed discussion of our legal proceedings, please refer to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004.

ITEM 2 - CHANGES IN SECURITIES

During the quarter, we issued 525,000 shares of our common stock in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, for \$.20 per share, resulting in aggregate proceeds of \$105,000 to be used for working capital purposes.

Subsequently, in April 2005 we issued 250,000 shares of our common stock in a private placement exempt from registration purposes pursuant to Section 4(2) of the Securities Act of 1933, as amended, for \$.20 per share, resulting in aggregate proceeds of \$50,000 to be used for working capital purposes.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF

SECURITY HOLDERS

None

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS.

- 31.1 Certification of Chief Executive Officer and Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) REPORTS ON FORM 8-K.

None.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

/S/ BARRY C. MURADIAN

BARRY C. MURADIAN, CHIEF EXECUTIVE OFFICER
AND PRINCIPAL ACCOUNTING OFFICER
JUNE 13, 2005