IMAGE TECHNOLOGY LABORATORIES INC
Form 10QSB
November 20, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006 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	22-3531373
(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 was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

As of November 20, 2006, there were 15,238,778 shares of the registrant's common stock outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

IMAGE TECHNOLOGY LABORATORIES, INC.

Condensed Balance Sheets

	SEPTEMBER 30, 2006 (UNAUDITED)	DECEM
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,105	$
Accounts receivable	195,447	1
Prepaid expenses and other current assets	10,541	
TOTAL CURRENT ASSETS	218,093	1
Equipment and improvements, net	131,728	1
Rent - deposit	1,496	
TOTAL ASSETS	$ 351,317	$ 3
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Loan payable to stockholder	$ 50,000	$
Loan: Bank line of credit	70,354	
Current portion of long-term debt	0	
Current portion of notes payable to stockholders	0	
Accrued Phelps arbitration award	0	1
Accounts payable and accrued expenses	194,867	2
Accrued compensation payable to stockholders	121,723	
TOTAL CURRENT LIABILITIES	436,944	6
Long-term debt, less current portion	0	
Notes payable to stockholders, less current portion	0	1
Accrued compensation payable to stockholders, less current portion	0	
TOTAL LIABILITIES	436,944	7
STOCKHOLDERS' DEFICIENCY:		
Preferred stock, par value $.01 per share; 5,000,000 shares authorized;		
1,500,000 shares issued and outstanding, Series A	15,000	
1,000 shares issued and outstanding, Series B	10	
Common stock, par value $.01 per share; 50,000,000 shares authorized; 15,238,778 and 15,238,778 shares issued and outstanding	152,388	1
Additional paid-in capital	3,605,533	3,1
Accumulated deficit	(3,858,558)	(3,7
TOTAL STOCKHOLDERS' DEFICIENCY	(85,627)	(4
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 351,317	$ 3

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

IMAGE TECHNOLOGY LABORATORIES, INC.

CONDENSED STATEMENTS OF OPERATIONS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 2006	THREE MONTHS ENDED SEPTEMBER 30, 2005	NIN ENDING 2006
REVENUE:			
Systems / software: license fees and sales	$ 98,786	$ 217,175	$ 515,24
Service Income	2,000		9,50
TOTAL REVENUE	100,786	217,175	524,74
COST OF REVENUE:	1,067	54,850	2,01
GROSS PROFIT	99,719	162,325	522,73
COSTS AND EXPENSES:			
Research and development	93,196	106,817	276,42
Sales and marketing	3,788	35,590	13,27
General and administrative (includes interest expense of $26,388 and $30,966 for the nine months ending September 30, 2006 and 2005, respectively; $8,990 and $14,426 for the three months ending September 30,2006 and 2005 respectively)	34,240	108,378	236,88
Stock based compensation	24,483		73,44
TOTAL COSTS AND EXPENSES	155,707	250,785	600,03
NET (LOSS)	$ (55,988)	$ (88,460)	$ (77,30
NET (LOSS) PER COMMON SHARE:			
Basic and diluted	$ (0.00)	$ (0.01)	$ (0.0
AVERAGE NUMBER OF SHARES USED IN COMPUTATION:			

Basic and diluted	16,739,778	16,240,976	16,739,77

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

IMAGE TECHNOLOGY LABORATORIES, INC.

CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
NINE MONTHS ENDED SEPTEMBER30, 2006
(UNAUDITED)

	PREFERRED STOCK,ALL SERIES		COMMON STOCK		ADDI-
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT	TIONA PAID-I CAPITA
Balance, January 1, 2006	1,500,000	$ 15,000	15,238,778	$ 152,388	$ 3,157
Issuance of options for compensation					73
Issuance of Common Stock			2,309,583	$ 23,095	$ 20
Redemption of Common Stock and cancellation			(2,309,583)	$ (23,095)	$ (20
Preferred Stock Series B	1,000	10			37
Net loss					
Balance, September 30, 2006	1,501,000	$ 15,010	15,238,778	$ 152,388	$ 3,605

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

IMAGE TECHNOLOGY LABORATORIES, INC.

CONDENSED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30, 2006	2005 (1)
OPERATING ACTIVITIES:		
Net loss	$ (77,300)	$(231,890)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of equipment and improvements	43,355	41,505
Stock based compensation	73,448	
Changes in operating assets and liabilities:		
Accounts receivable	(83,245)	(121,151)
Prepaid expenses and other current assets	(3,081)	(18,915)
Accounts payable and accrued expenses	(145,724)	209,388
Accrued compensation payable to stockholders	41,241	
NET CASH USED IN OPERATING ACTIVITIES	(151,306)	(121,063)
INVESTING ACTIVITIES - purchase of equipment and improvements	(3,826)	(30,957)
FINANCING ACTIVITIES:		
Proceeds from bank line of credit	11,004	
Proceeds from private placement of common stock	230,958	155,000
Redemption of common stock	(230,958)	
Proceeds from exercise of options		150,000
Proceeds from loans from stockholders	230,148	
Repayments of notes payable and long-term debt	(114,613)	(101,619)
NET CASH PROVIDED BY FINANCING ACTIVITIES	126,539	203,381
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(28,593)	51,361
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	40,698	4,212
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 12,105	$ 55,573

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 32,372	$ 21,594
	=========	=========
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Conversion of notes payable to stockholders to Preferred Stock Series B	$ 374,548	$ 0
	=========	=========

1. Certain items in the 2005 cash flow statement have been reclassified to conform with the 2006 presentation.

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

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 September 30, 2006, its results of operations for the three and nine months ended September 30, 2006 and 2005, changes in stockholders' deficiency for the nine months ended September 30, 2006 and cash flows for the nine months ended September 30, 2006 and 2005. Certain terms used herein are defined in the audited financial statements of the Company as of December 31, 2005 and for the years ended December 31, 2005 and 2004 (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 and nine months ended September 30, 2006 are not necessarily indicative of the results of operations to be expected for the full year ending December 31, 2006.

These unaudited financial statements have been prepared assuming that the Company will continue as a going concern and, accordingly, do not include any adjustments that might result from the outcome of this uncertainty. The Company's independent registered public accounting firm's report on the financial statements included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005, contained an explanatory paragraph regarding the Company's ability to continue as a going concern.

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 1,501,000 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 nine months ended September 30, 2006 and 2005, in accordance with the "two class" method of computing earnings (loss) per share set forth in SFAS 128.

The Company had a net loss for the three months ended September 30, 2006 and net losses for the nine months ended September 30, 2006 and 2005, and for the three months ended September 30, 2005. The assumed effects of the exercise of vested options to purchase 2,000,000 and 1,575,000 common shares at September 30, 2006 and 2005, respectively, and warrants to purchase 230,000 common shares outstanding at September 30, 2006 would be anti-dilutive or insignificant 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.

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 September 30, 2006, there was $70,354 outstanding under this agreement.

NOTE 4 - LONG-TERM DEBT:

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 September 30, 2006, the outstanding balances on these loans aggregated $0. The loans were secured by equipment owned by the Company located at two customer sites, and an assignment of a contract with one of these customers. In addition, the loans were secured by a personal guarantee of the Estate of Dr. David Ryon. In late August 2006, the remaining balance of these loans, $57,672, was paid. This payoff was funded by an additional loan by our largest stockholder.

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. In December 2005, the Estate of Dr. Ryon loaned the Company an additional $36,000 under an amendment to the December 2004 promissory note and the payment schedule was renegotiated to begin in January 2007.

In March 2006, the Estate of Dr. Ryon loaned the Company an additional $22,500 under an amendment to the December 2004 promissory note. In August 2006 our largest stockholder loaned the Company $57,672 and in September 2006 our largest stockholder loaned the Company an additional $153,375. In late September 2006, the entire principal amount of $374,548 was converted into preferred stock (series B), and all accrued interest was forgiven.

In September 2005, the Company received a total of $50,000 in cash as part of a Bridge Loan Agreement that included the issuance of warrants to purchase 50,000 shares of Common Stock of the Company. All $50,000 of these funds came from a member of the Company's Board of Directors. The five-year warrants have an exercise price of $0.33 per share. The Bridge Loan has an annual interest rate of 14%, a maturity of 12 months and can be prepaid upon certain events such as receipt of a certain level of funds from the InMed Services agreement and gross proceeds of equity financing above $500,000.

NOTE 6 - COMMON STOCK:

In September of 2006, the Company sold 2,309,583 shares of common stock at a price of $0.10 to a group of seven accredited investors in a private placement under Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D thereunder. These unregistered shares of common stock were issued with registration rights. The proceeds of this sale of common stock were used to repurchase 2,309,583 shares of common stock at a price of $0.10 from Dr. Carlton Phelps, our former vice president of finance, chief financial officer, secretary and treasurer. The 2,309,583 shares of stock repurchased from Dr. Phelps by the Company were cancelled upon their tender. An 8-K was filed with the Securities and Exchange Commission on October 4, 2006.

NOTE 7 - STOCK OPTIONS

The Company did not grant any options under the Company's option plan during the quarter ended September 30, 2006.

Prior to January 1, 2006 the Company measured 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 provisions of Statement of Financial Accounting Standards No. 123R ("SFAS 123R"), "Accounting For Stock-Based Compensation." As a result of SFAS 123R, the Company began expensing the fair value of employee stock options over the vesting period beginning with its fiscal quarter ending March 31, 2006. For the quarter ending September 30, 2006, the Company expensed $24,483 due to stock options. For the quarter ending September 30, 2005, the pro forma stock option expense was $461,766, which would have resulted in a pro forma net loss of $550,226 (net loss per share of $0.01).

IMAGE TECHNOLOGY LABORATORIES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

The following table summarizes information about stock options outstanding at September 30, 2006.

Exercise Price RANGE	Options Outstanding: Number Outstanding at Sept. 30, 2006	Weighted Average Remaining Contractual LIFE (YEARS)	Weighted Average Exercise PRICE	Options: Number Outstanding at Sept. 30, 2006
$ 0.33	1,000,000		$ 0.33	1,000,000
$ 0.20	550,000	8.3	$ 0.20	550,000
$ 0.22	800,000	8.5	$ 0.22	200,000
$ 0.26	750,000	8.6	$ 0.26	250,000
	3,100,000	6.8	$ 0.26	2,000,000

The 25,000 $0.75 vested options of Mr. Muradian, our former President/CEO, were cancelled on April 20, 2006.

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 $12,105 and a working capital deficiency of $218,851 as of September 30, 2006.

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IMAGE TECHNOLOGY LABORATORIES, INC.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED WITH THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005

REVENUE:

For the three months ended September 30, 2006, our total revenue was $100,786, a decrease of $116,389 from the $217,175 in the prior year's comparable period, For the nine months ended September 30,2006, our total revenue was $524,749, a $56,659 decrease from the $581,408 revenue in the prior year's comparable period, largely attributed to variations in the billed usage fees.

COST OF REVENUE:

For the three and nine months ended September 30, 2006, direct cost of revenue for $1,067 and $2,017 was incurred. For the three and nine months ending September 30,2005, our cost of revenue was $54,850 and $111,228, a decrease of $53,783 and $109,211 from the prior year's comparable periods, largely attributable to a lack of systems hardware purchases during this period.

SALES AND MARKETING EXPENSES:

During the three months ended September 30, 2006, we incurred sales and marketing expenses of $3,788, as compared with sales and marketing expenses of $35,590 during the same period of 2005, a decrease of $31,802. The Company has focused its efforts on controlling costs while identifying appropriate sales personnel and resources. These costs are expected to grow as the company executes its business plan. During the nine months ended September 30, 2006 we incurred sales and marketing expenses of $13,278, as compared with sales and marketing expenses of $93,852 during the same period of 2005, a decrease of $80,574.

NET LOSS:

We incurred a net loss of $55,988 (less than $.01 per share) for the three months ended September 30, 2006 as compared with a loss of $88,460 for the three months ended September 30, 2005. Net loss for the nine months ended September 30, 2006 was $77,300 as compared with a net loss of $231,890 for the same period in 2005. The Company continues to aggressively manage costs while it focuses on increasing revenues from sales of systems / software

IMAGE TECHNOLOGY LABORATORIES, INC.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2006, our total assets were $351,317, an increase of $18,205 from total assets of $333,112 on December 31, 2005.

As of September 30, 2006, we had cash and cash equivalents and a working capital deficiency of $12,105 and $218,851, respectively.

Net cash provided (used) in our operating activities for the 9 months ending September 30, 2006 of ($151,306) was substantially attributable to our net loss of $77,300 offset by $41,241 in accrued compensation payable to stockholders. Of the net loss of $77,300, $73,448 was stock option compensation expense. The net cash used in our operating activities was financed with $230,148 resulting from an additional loan from the Estate of Dr. David Ryon and a net of $11,004 from our bank line of credit. Investing activities (purchase of equipment and improvements) for the nine months ending September 30, 2006 totaled only $3,826.

The foregoing activities, i.e., operating, investing and financing, resulted in our net cash decrease of $28,593 for the nine months ended September 30, 2006.

During September 2002, we obtained a $75,000 working capital loan from a financial institution. As of September 30, 2006, we have $70,354 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 September 30, 2006, we had $0 outstanding under these arrangements. In late August 2006, the remaining balance of these loans, $57,672, was paid. This payoff was funded by an additional loan by our largest stockholder.

In December 2004, we borrowed $105,000 from our former Chief Executive Officer Dr. David Ryon, which was to be repaid over 24 months, beginning in January 2007. An additional $36,000 and $22,500 were borrowed from the Estate of Dr. Ryon in December 2005 and March 2006, respectively. In August 2006 our largest stockholder loaned the Company $57,672 and in September 2006 our largest stockholder loaned the Company an additional $153,375. In late September 2006, the entire principal amount of $374,548 was converted into preferred stock series B and all accrued interest was forgiven.

In September 2005, the Company received a total of $50,000 in cash as part of a Bridge Loan Agreement that included the issuance of warrants to purchase 50,000 shares of Common Stock of the Company. All $50,000 of these funds came from a member of the Company's Board of Directors. The five-year warrants have an exercise price of $0.33 per share. The Bridge Loan has an annual interest rate of 14%, a maturity of 12 months and can be prepaid upon certain events such as receipt of a certain level of funds from the InMed Services agreement and gross proceeds of equity financing above $500,000.

In January 2004, the Company closed a five-year contract for the WarpSpeed system with St. Anthony Community Hospital, Warwick, NY. St. Anthony is a member of Bon Secours Charity Health System, which owns and operates 32 health care facilities. ITL expanded it's installation to an off-campus Women's Center in May 2005, for digital mammography and ultrasound, and again in November 2005 at the hospital with the installation of Computed Radiography (CR) modalities as St. Anthony Community Hospital became essentially film-less. Our installation at

St. Anthony Community Hospital also includes a fully redundant hot-standby server.

In March 2005, the Company signed a contract for the sale of two of its WarpSpeed RIS/PACS systems to InMed Diagnostic Services of Massachusetts, LLC at multi-modality imaging centers specializing in women's health care spread across three sites, and one WarpSpeed system to InMed Diagnostics Services of South Carolina, LLC in Columbia. The Columbia, South Carolina site is the largest imaging center of the InMed affiliates.

In March 2006, the Company executed an amendment to its contract with Park Avenue Associates in Radiology PC, Binghamton NY to extend the term of the original RIS/PACS contract through December 31, 2006.

In September 2006, the Company entered into a settlement agreement with Dr. Carlton Phelps, our former vice president of finance and administration, chief financial officer, secretary and treasurer. Pursuant to the Settlement Agreement, the Company paid Dr. Phelps a total of $153,375.26 consisting of attorneys' fees awarded by the arbitrator and confirmed by the court plus interest calculated at a rate of nine percent per annum from September 4, 2004 until September 1, 2006. In September 2006, the Company's largest stockholder loaned the Company $153,375.26, the proceeds of which were used to satisfy the $153,375.26 settlement with Dr. Phelps. This amount, along with other previous loans to the Company by the largest stockholder, was converted to preferred stock series B in late September 2006.

We require cash to fund our working capital needs and capital expenditures, as well as to meet existing commitments. Such commitments include payments of existing loans including our line of credit, and $900 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.

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, 2006. 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 March 2006, the Estate of Dr. Ryon loaned the Company an additional $22,500 under an amendment to the December 2004 promissory note. Additional loans were made to the Company by the largest stockholder in August and September 2006 totaling $211,048.

The Company's largest shareholder has converted a total of $374,548 in debt owed by the Company to 1000 shares of Preferred Stock Series B. Details of the terms of Preferred Stock Series B are described in Item 2, "Changes in Securities".

FORWARD-LOOKING STATEMENTS

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

ITEM 3 - CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our Chief Technology 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.

IMAGE TECHNOLOGY LABORATORIES, INC.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

By decision and judgment dated June 4, 2006, Justice Teresi of the Supreme Court, Albany County confirmed the award of the arbitrator issued on September 4, 2004, and denied the Company's motion to vacate or modify that award with respect to the award of attorneys' fees and expenses to Dr. Phelps. A detailed discussion of the arbitration award was included in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005.

In September 2006, the Company entered into a Settlement Agreement with Dr. Phelps whereby the Company paid Dr. Phelps a total of $153,375.26, consisting of attorneys' fees awarded by the arbitrator and confirmed by the court plus interest calculated at a rate of nine percent per annum from September 4, 2004 until September 1, 2006. Additionally, as part of the Settlement Agreement, Dr. Phelps resold 2,309,583 shares of common stock of Image Technology Laboratories to the Company at $0.10 per share. An 8-K was filed with the Securities and Exchange Commission on October 4, 2006 detailing this event.

ITEM 2 - CHANGES IN SECURITIES

The net effect of the repurchase and subsequent cancellation of 2,309,583 shares of common stock as described in Item 1 in combination with the sale of 2,309,583 shares of common stock as described in Note 6 of the financials resulted in no change to the number of shares of common stock outstanding.

The Company converted a total of $374,548 of debt owed to our largest shareholder to 1000 shares of Image Technology Laboratories Preferred Stock Series B issued to same shareholder in late September 2006. Preferred Stock Series B can be converted to common stock of Image Technology Laboratories at a ratio of one share of Preferred Stock Series B to 2,700 shares of common stock. Either the shareholder or the Company may elect to force conversion after two years in units of 100 shares of Preferred Stock Series B. The Company may also elect to repurchase the Preferred Stock Series B in units of 100 shares of Preferred Stock Series B at any time for $432 per share of Preferred Stock Series B. Fixed interest is accumulated as 12.5 additional shares of Preferred Stock Series B per quarter. The underlying common stock, should the Company or shareholder elect to convert, is unregistered. The voting rights are set at one vote per share of Preferred Stock Series B.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

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

None

ITEM 5 - OTHER INFORMATION

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IMAGE TECHNOLOGY LABORATORIES, INC.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS.

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

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

(b) REPORTS ON FORM 8-K.

None.

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IMAGE TECHNOLOGY LABORATORIES, INC.

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/ LEWIS M. EDWARDS

LEWIS M. EDWARDS,
CHAIRMAN,
EXECUTIVE VICE-PRESIDENT,
CHIEF TECHNOLOGY OFFICER, AND PRINCIPAL
ACCOUNTING OFFICER
NOVEMBER 20, 2006