

Edgar Filing: IMAGE TECHNOLOGY LABORATORIES INC - Form 10QSB

IMAGE TECHNOLOGY LABORATORIES INC  
Form 10QSB  
May 15, 2007

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, 2007 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  NO

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

As of March 31, 2007, there were 15,238,778 shares of the registrant's common stock outstanding.

IMAGE TECHNOLOGY LABORATORIES, INC.

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### IMAGE TECHNOLOGY LABORATORIES, INC.

#### PART I - FINANCIAL INFORMATION

##### ITEM 1 - FINANCIAL STATEMENTS

##### CONDENSED BALANCE SHEETS

	MARCH 31, 2007 (UNAUDITED)	D
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 21,386	\$
Accounts receivable	129,441	
Prepaid expenses and other current assets	20,953	
	-----	
TOTAL CURRENT ASSETS	171,780	
Equipment and improvements, net	104,757	
Rent - deposit	1,496	
	-----	
TOTAL ASSETS	\$ 278,033	\$
	=====	=
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Loan payable to stockholder	\$ 50,000	\$
Loan: Bank line of credit	72,069	
Accounts payable and accrued expenses	204,070	
Accrued compensation payable to stockholders	130,211	
	-----	
TOTAL LIABILITIES, ALL CURRENT	456,350	

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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
1,012 and 1,000 shares issued and outstanding, Cumulative Convertible Series B		5,194
Common stock, par value \$.01 per share; 50,000,000 shares authorized; 15,238,778 shares issued and outstanding		152,388
Additional paid-in capital		3,654,498
Accumulated deficit		(4,005,397)
		-----
TOTAL STOCKHOLDERS' DEFICIENCY		(178,317)
		-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$	278,033
		=====

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

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IMAGE TECHNOLOGY LABORATORIES, INC.

CONDENSED STATEMENTS OF OPERATIONS

	(UNAUDITED) THREE MONTHS ENDED MARCH 31,	
	2007	2006
	-----	-----
REVENUE:		
Systems / software: license fees and sales	\$ 104,700	\$ 154,480
Service Income	256	7,500
	-----	-----
TOTAL REVENUE	104,956	161,980
COST OF REVENUE:	56	0
	-----	-----
GROSS PROFIT	104,900	161,980
	-----	-----
COSTS AND EXPENSES:		
Research and development	80,750	86,531
Sales and marketing	3,283	6,375
General and administrative (includes interest expense of \$1,777 and \$8,125 for the three months ending March 31, 2007 and 2006)	71,632	110,781
Stock based compensation	24,483	24,483
	-----	-----
TOTAL COSTS AND EXPENSES	180,148	228,170

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NET LOSS	\$ (75,248)	\$ (66,190)
NET LOSS PER COMMON SHARE:		
Basic and diluted	\$ (0.00)	\$ (0.00)
AVERAGE NUMBER OF SHARES USED IN COMPUTATION:		
Basic and diluted	16,739,790	16,738,778

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

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IMAGE TECHNOLOGY LABORATORIES, INC.

CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY  
THREE MONTHS ENDED MARCH 31, 2007  
(UNAUDITED)

	PREFERRED STOCK SERIES A AND B		COMMON STOCK		ADDI- TIONAL PAID-IN CAPITAL	
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT		
Balance, January 1, 2007	1,501,000	\$15,010	15,238,778	\$152,388	\$3,630,015	\$ (3
Stock based compensation					24,483	
Cumulative Convertible Preferred Series B, dividend accumulation	12	5,184				
Net loss						
Balance, March 31, 2007	1,501,012	\$20,194	15,238,778	\$ 152,388	\$3,654,498	\$ (4

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

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IMAGE TECHNOLOGY LABORATORIES, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

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	THREE MONTHS ENDED MARCH 31	
	----- 2007	2006
OPERATING ACTIVITIES:		
Net loss	\$ (75,248)	\$ (66,190)
Adjustments to reconcile net loss to net cash provided (used) in operating activities:		
Depreciation and amortization of equipment and improvements	13,510	14,877
Stock based compensation	24,483	24,483
Changes in operating assets and liabilities:		
Accounts receivable	65,398	(43,133)
Prepaid expenses and other current assets	(10,351)	(9,335)
Accounts payable and accrued expenses	(13,332)	(3,304)
Accrued compensation payable to stockholders	8,488	34,361
	-----	-----
NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES	12,948	(48,241)
	-----	-----
INVESTING ACTIVITIES - purchase of equipment and improvements	0	(1,890)
	-----	-----
FINANCING ACTIVITIES:		
Proceeds from bank line of credit	5,174	12,064
Proceeds from loans from stockholders	0	22,500
Repayments of notes payable and long-term debt	0	(22,672)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	5,174	11,892
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18,122	(38,239)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,264	40,698
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 21,386	\$ 2,459
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 8,125	\$ 2,857
	=====	=====

The accompanying notes are an integral part of the 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,

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necessary to present fairly the financial position of Image Technology Laboratories, Inc. (the "Company") as of March 31, 2007, its results of operations for the three months ended March 31, 2007 and 2006, changes in stockholders' deficiency for the three months ended March 31, 2007 and cash flows for the three months ended March 31, 2007 and 2006. Certain terms used herein are defined in the audited financial statements of the Company as of December 31, 2006 and for the years ended December 31, 2006 and 2005 (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, 2007 are not necessarily indicative of the results of operations to be expected for the full year ending December 31, 2007.

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, 2006, 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 common share and, if applicable, "diluted" earnings (loss) per common share pursuant to the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). Basic earnings (loss) per common share is calculated by dividing net income or loss applicable to common stock by the weighted average number of common shares outstanding during each period. The calculation of diluted earnings (loss) per common share is similar to that of basic earnings (loss) per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, such as those issuable upon the exercise of stock options and warrants, were issued during the period. The rights of the Company's preferred and common stockholders are substantially equivalent. The Company has included the 1,500,000 Preferred Series A shares and the 1,012 Cumulative Convertible Preferred Series B shares outstanding in the weighted average number of common shares outstanding in the computation of basic loss per share for the year ended December 31, 2006 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, 2007 and 2006, the assumed effects of the exercise of outstanding options, warrants or the conversion of preferred stock into common shares at March 31, 2007 and 2006, respectively, were not considered in the computation of loss per share as they would have been anti-dilutive. However, these common stock equivalents could have potentially dilutive effects in the future. As of March 31, 2007 and 2006, potentially full dilutive shares totaled 6,062,400 and 3,355,000 respectively.

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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, 2007, there was \$72,069 outstanding under this agreement.

### NOTE 4 - 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. Additional amounts were loaned to the Company in March 2006 for \$22,500, in August 2006 for \$57,672 and in September 2006 for \$153,375. These amounts, along with other previous loans to the Company by the largest stockholder totaling \$374,548 were converted to 1000 shares of Cumulative Convertible Preferred Stock Series B in late September 2006, and all accrued interest was forgiven. Cumulative Convertible Preferred Stock Series B can be converted to common stock of Image Technology Laboratories at a ratio of one share of Cumulative Convertible Preferred Stock Series B to 2,700 shares of common stock. Either the stockholder or the Company may elect to force conversion after two years in units of 100 shares of Cumulative Convertible Preferred Stock Series B. The Company may also elect to repurchase the Cumulative Convertible Preferred Stock Series B in units of 100 shares of Cumulative Convertible Preferred Stock Series B at any time for \$432 per share of Cumulative Convertible Preferred Stock Series B. Fixed dividend is accumulated as 12.5 additional shares of Cumulative Convertible 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 Cumulative Convertible Preferred Stock Series B.

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. The principal and accrued interest associated with this loan is still outstanding, and the maturity date has been extended to September 2007.

IMAGE TECHNOLOGY LABORATORIES, INC.

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### NOTE 5 - STOCK OPTIONS

The Company did not grant any options under the Company's option plan during the quarter ended March 31, 2007.

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 March 31, 2007, the Company expensed \$24,483 due to stock options.

### NOTE 6 - WARRANTS

As of March 31, 2007, the Company had 230,000 warrants outstanding at an exercise price of \$0.33 per share. The warrants expire in 2010.

### NOTE 7 - FIXED DIVIDENDS

The Company's largest stockholder accumulated 12 additional shares of Cumulative Convertible Preferred Stock Series B on January 1, 2007 as Fixed Dividends.

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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.



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We have had recurring losses and negative cash flows from our operating activities since inception. We have cash of \$21,386 and a working capital deficiency of \$284,570 as of March 31, 2007.

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### IMAGE TECHNOLOGY LABORATORIES, INC.

#### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2007 COMPARED WITH THE THREE MONTHS ENDED MARCH 31, 2006

##### REVENUE:

For the three months ended March 31, 2007, our total revenue was \$104,956, a decrease of \$57,024 from the \$161,980 in the year's comparable period, largely attributed to variations in the billed usage fees.

##### COST OF REVENUE:

For the three months ended March 31, 2007 direct cost of revenue for \$56 was incurred. For the three months ending March 31, 2006, our cost of revenue was \$0, largely attributable to a lack of systems hardware purchases during this period.

##### SALES AND MARKETING EXPENSES:

During the three months ended March 31, 2007, we incurred sales and marketing expenses of \$3,283, as compared with sales and marketing expenses of \$6,375 during the same period of 2006, a decrease of \$3,092. 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.

##### NET LOSS:

We incurred a net loss of \$75,248 (less than \$.01 per share) for the three months ended March 31, 2007 as compared with a loss of \$66,190 for the three months ended March 31, 2006. The Company continues to aggressively manage costs while it focuses on increasing revenues from sales of systems / software

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### IMAGE TECHNOLOGY LABORATORIES, INC.

#### LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2007, our total assets were \$278,033, a decrease of \$50,435 from total assets of \$328,468 on December 31, 2006.

As of March 31, 2007, we had cash and cash equivalents and a working capital deficiency of \$21,386 and \$284,570, respectively.

Net cash provided in our operating activities for the three months ending March 31, 2007 of \$12,948 was substantially attributable to our net loss of \$75,248 offset by \$8,488 in accrued compensation payable to stockholders. Of the net loss of \$75,248, \$24,483 was stock based compensation expense. The net cash provided by our financing activities was a net of \$5,174 from our bank line of credit. Investing activities (purchase of equipment and improvements) for the

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three months ending March 31, 2007 totaled \$ 0.

The foregoing activities, i.e., operating, investing and financing, resulted in our net cash increase of \$18,122 for the three months ended March 31, 2007.

In September 2002, we applied for, and received, a line of credit from M & T Bank, renewable annually, in the amount of \$75,000. As of March 31, 2007, we have \$72,069 outstanding under that loan.

In February and March 2004, we borrowed an aggregate of \$264,000 from Valley Commercial Capital, LLC ("Valley"). These loans required aggregate monthly payments of principal and interest of \$8,273 through February 2007 and \$4,682 in March 2007. In late August 2006, the remaining balance of these loans, \$57,672, was paid. This payoff was funded by a loan from our largest stockholder and was converted to Cumulative Convertible Preferred Series B stock issued to our largest stockholder in late September 2006.

In December 2004, we borrowed \$105,000 from our former Chief Executive Officer, and was to be repaid over 24 months, beginning in January 2007. This amount was converted to Cumulative Convertible Preferred Series B stock issued to our largest stockholder in late September 2006.

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. The principal and accrued interest associated with this loan is still outstanding, and the maturity date has been extended to September 2007.

In December 2005, our largest stockholder loaned the Company an additional \$36,000 under an amendment to the December 2004 promissory note. An additional \$22,500 was borrowed from our largest stockholder in March 2006. These amounts were converted to Cumulative Convertible Preferred Series B stock issued to our largest stockholder in late September 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 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. The Company filed an 8-K detailing this event with the Securities and Exchange Commission on October 4, 2006. In September 2006, the Company's largest stockholder loaned the Company \$153,375, the proceeds of which were used to satisfy the \$153,375 settlement with Dr. Phelps. This amount was converted to Cumulative Convertible Preferred Series B stock issued to our largest stockholder 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 of 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,

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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, 2007. 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 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. The principal and accrued interest associated with this loan is still outstanding, and the maturity date has been extended to September 2007.

In December 2005, the Estate of Dr. Ryon loaned the Company an additional \$36,000 under an amendment to the December 2004 promissory note. Additional amounts were loaned to the Company in March 2006 for \$22,500, in August 2006 for \$57,672 and in September 2006 for \$153,375.26. These amounts, along with other previous loans to the Company by the largest stockholder totaling \$374,548 were converted to 1000 shares of Cumulative Convertible Preferred Series B stock in late September 2006, and all accrued interest was forgiven. Cumulative Convertible Preferred Stock Series B can be converted to common stock of Image Technology Laboratories at a ratio of one share of Cumulative Convertible Preferred Stock Series B to 2,700 shares of common stock. Either the stockholder or the Company may elect to force conversion after two years in units of 100 shares of Cumulative Convertible Preferred Stock Series B. The Company may also elect to repurchase the Cumulative Convertible Preferred Stock Series B in units of 100 shares of Cumulative Convertible Preferred Stock Series B at any time for \$432 per share of Cumulative Convertible Preferred Stock Series B. Fixed dividend is accumulated as 12.5 additional shares of Cumulative Convertible 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 Cumulative Convertible Preferred Stock Series B.

IMAGE TECHNOLOGY LABORATORIES, INC.

On January 17 2006, Barry C. Muradian informed the Company of his resignation as

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President, Chief Executive Officer and Principal Accounting Officer, effective January 20 2006. An 8-K was filed with the Securities and Exchange Commission on January 20 2006. In May 2006, the Company and Mr. Muradian signed a "Confidential Separation Agreement, Waiver and General Release". As part of this agreement, Mr. Muradian was paid a total of approximately \$22,500, which represents all guaranteed payments due and owing to Mr. Muradian for salary and expenses.

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 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. The Company filed an 8-K detailing this event with the Securities and Exchange Commission on October 4, 2006.

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 there under. 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. The net effect of the repurchase and subsequent cancellation of 2,309,583 shares of common stock as described above in combination with the sale of 2,309,583 shares of common stock as described above resulted in no change to the number of shares of common stock outstanding due to this transaction.

### 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.

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### 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.

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IMAGE TECHNOLOGY LABORATORIES, INC.

### PART II - OTHER INFORMATION

#### ITEM 1 - LEGAL PROCEEDINGS

None

#### ITEM 2 - CHANGES IN SECURITIES

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

Our largest stockholder accumulated 12 additional shares of Cumulative Convertible Preferred Stock Series B on January 1, 2007 under the terms described above as Fixed Dividends.

#### ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

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

None

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ITEM 5 - OTHER INFORMATION

In April 2007, 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, 2008 and for the purchase of additional equipment to provide internet / web access to their images and reports by referring physicians.

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.

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IMAGE TECHNOLOGY LABORATORIES, INC.

(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

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LEWIS M. EDWARDS,  
CHAIRMAN, EXECUTIVE VICE-PRESIDENT,  
CHIEF TECHNOLOGY OFFICER, AND PRINCIPAL  
ACCOUNTING OFFICER  
MAY 15, 2007

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