IMAGE TECHNOLOGY LABORATORIES INC
Form 10QSB
August 14, 2002

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

OR

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

COMMISSION FILE NUMBER

IMAGE TECHNOLOGY LABORATORIES, INC.

(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

DELAWARE	22-53531373
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(IRS EMPLOYER I.D. NO.)

167 SCHWENK DRIVE, KINGSTON, NEW YORK 12401
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(845) 338-3366

(ISSUER'S TELEPHONE NUMBER, INCLUDING AREA CODE)

CHECK WHETHER THE ISSUER: (1) FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PAST 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 |_|

APPLICABLE ONLY TO CORPORATE ISSUERS

THE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING AS OF JUNE 30, 2002 WAS 12,157,462

Item 1. Financial Statements

Image Technology Laboratories, Inc.
(A Development Stage Company)

INDEX TO FINANCIAL STATEMENTS

* * *

Image Technology Laboratories, Inc.

Condensed Balance Sheets
June 30, 2002 and December 31, 2001

ASSETS	June 30, 2002 (Unaudited)	Dece 31,
Current assets - cash and cash equivalents	$ 34,922	$ 1
Equipment, net	38,350	
Totals	$ 73,272	$ 1
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable and accrued expenses	$ 41,415	$
Notes payable to stockholders	5,200	
Total current liabilities	46,615	
Accrued compensation payable to stockholders	491,695	4
Total liabilities	538,310	4
Commitment		

Stockholders' deficiency:		
Preferred stock, par value $.01 per share; 5,000,000 shares authorized; 1,500,000 shares issued and outstanding	15,000	
Common stock, par value $.01 per share; 50,000,000 shares authorized; 12,157,462 and 11,272,712 shares issued and outstanding	121,575	1
Additional paid-in capital	1,807,145	1,5
Unearned compensation	(50,000)	(1
Unearned marketing expense	(112,500)	
Accumulated deficit	(2,246,258)	(1,8
Total stockholders' deficiency	(465,038)	(2
Totals	$ 73,272	$ 1

See Notes to Condensed Financial Statements.

Image Technology Laboratories, Inc.

Condensed Statements of Operations
Six and Three Months Ended June 30, 2002 and 2001
(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2002	2001	2002	2001
Revenues	$ 76,550	$ --	$ 69,250	$ --
Research and development expenses	278,750	319,908	100,000	168,14
Selling expenses	12,761		12,761	
General and administrative expenses	197,478	94,051	113,140	72,75
Totals	488,989	413,959	225,901	240,89
Net loss	$ (412,439)	$ (413,959)	$ (156,651)	$ (240,89
Basic net loss per share	$ (.03)	$ (.03)	$ (.01)	$ (.0

Basic weighted average shares outstanding	13,161,588	12,450,823	13,207,266	12,471,77

See Notes to Condensed Financial Statements.

Image Technology Laboratories, Inc.

Condensed Statement of Changes in Stockholders' Deficiency
Six Months Ended June 30, 2002
(Unaudited)

	Preferred Stock		Common Stock		A
	Number of Shares	Amount	Number of Shares	Amount	P C
Balance, January 1, 2002	1,500,000	$ 15,000	11,272,712	$ 112,727	$ 1
Sales of shares of common stock through private placement			400,000	4,000	
Issuance of common stock upon exercise of warrants			34,750	348	
Issuance of common stock for services to be rendered			450,000	4,500	
Amortization of unearned compensation					
Net loss					
Balance, June 30, 2002	1,500,000	$ 15,000	12,157,462	$ 121,575	$ 1

	Unearned Maketing Expense	Accumulated Deficit	Total Stockholders' Deficiency
Balance, January 1, 2002		$(1,833,819)	$ (268,974)
Sales of shares of common stock through private placement			100,000
Issuance of common stock upon exercise of warrants			16,375
Issuance of common stock for services to be rendered	$(112,500)		
Amortization of unearned compensation			100,000
Net loss		(412,439)	(412,439)
Balance, June 30, 2002	$ (112,500)	$(2,246,258)	$ (465,038)

See Notes to Condensed Financial Statements.

Image Technology Laboratories, Inc.

Condensed Statements of Cash Flows
Six Months Ended June 30, 2002 and 2001
(Unaudited)

	2002	2001
Operating activities:		
Net loss	$(412,439)	$(413,959)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of unearned compensation	100,000	75,000
Depreciation	4,598	
Changes in operating assets and liabilities:		
Accrued compensation payable to stockholders	71,154	43,173
Accounts payable and accrued expenses	3,504	(13,752)
Net cash used in operating activities	(233,183)	(309,538)
Financing activities:		
Proceeds from exercise of stock options	16,375	50,976
Proceeds from private placement of common stock	100,000	
Net cash provided by financing activities	116,375	50,976
Net decrease in cash	(116,808)	(258,562)
Cash, beginning of period	151,730	725,105
Cash, end of period	$ 34,922	$ 466,543

See Notes to Condensed Financial Statements.

Image Technology Laboratories, Inc.

Notes to Condensed Financial Statements
(Unaudited)

NOTE 1 - UNAUDITED INTERIM FINANCIAL STATEMENTS:

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 June 30, 2002, its results of operations for the six and three months ended June 30, 2002 and 2001, changes in stockholders' deficiency for the six months ended June 30, 2002 and cash flows for the six months ended June 30, 2002 and 2001. Certain terms used herein are defined in the audited financial statements of the Company as of December 31, 2001 and for the years ended December 31, 2001 and 2000 and period from January 1, 1998 (date of inception) to December 31, 2001 (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 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 six and three months ended June 30, 2002 are not necessarily indicative of the results of operations for the full year ending December 31, 2002.

The Company was a development stage company from January 1, 1998 (date of inception) through April 2002, at which time its software was available for sale. During the six and three months ended June 30, 2002, the Company derived service revenue of $20,300 and $7,300, respectively, from a company owned by its principal stockholder.

As of June 30, 2002, the Company has cash and cash equivalents of approximately $35,000 and a working capital deficiency of approximately $12,000. However, since inception, the Company has incurred losses resulting in an accumulated deficit of approximately $2,246,000 at June 30, 2002. The Company currently expects to incur additional losses for the foreseeable future. In addition, the Company has only recently introduced its product to market and has just begun to generate revenues. Further, as of June 30, 2002, the stockholders have deferred approximately $492,000 of compensation due them under their employment agreements until 2003.

On April 4, 2002, the Company entered into a letter of intent with a company for the purchase of one of the Company's systems at fair market value and a service agreement. The Company is anticipating generating approximately $700,000 in annual fees under this agreement. The agreements are currently at the contract stage and closing is anticipated to occur as soon as administratively feasible. In addition, the Company is currently negotiating similar agreements with other companies.

Image Technology Laboratories, Inc.

Notes to Condensed Financial Statements
(Unaudited)

NOTE 1 - UNAUDITED INTERIM FINANCIAL STATEMENTS (CONCLUDED):

If the aforementioned contract does not close as anticipated, the Company estimates that it will need additional financing of $200,000, either by debt or equity, to fund its planned operations beyond its current level over the next 12 months. At the present time, except for the commitment of the Company's principal stockholder to fund the $200,000, the Company has no commitments for additional financing and there can be no assurance that such financing will be available on satisfactory terms, if at all. Management believes that even if the aforementioned contract does not close, the funding by the principal stockholder of $200,000 will enable the Company to meet its obligations and fund its operations through at least June 30, 2003.

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").

The rights of the Company's preferred and common stockholders are substantially equivalent. The Company has included the 1,500,000 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 six and three months ended June 30, 2002 and 2001 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 six and three months ended June 30, 2002, the assumed effects of the exercise of 3,000,000 options and 3,429,512 and 3,561,362 warrants outstanding at June 30, 2002 and 2001, respectively, would have been anti-dilutive.

NOTE 3 - EXERCISE OF WARRANTS:

During the six months ended June 30, 2002, warrantholders redeemed 24,750 warrants and received 24,750 shares of common stock at a redemption price of $.50 per share or $12,375 and also exercised 10,000 warrants and received 10,000 shares of common stock at a price of $.40 per share or $4,000. As of June 30, 2002, 3,329,512 warrants are outstanding.

NOTE 4 - PRIVATE PLACEMENT OF SHARES:

During January 2002, the Company completed a private placement of 400,000 shares of common stock to its principal stockholder at $.25 per share, the approximate fair value, and received proceeds of $100,000.

Image Technology Laboratories, Inc.

Notes to Condensed Financial Statements
(Unaudited)

NOTE 5 - ISSUANCE OF COMMON STOCK FOR SERVICES:

During January 2002, the Company entered into an agreement with an investor relations firm. In exchange for marketing services, the Company granted 450,000 shares of common stock and 100,000 two-year warrants with a $3.00 exercise price.

The services which are to be provided over a six month period were valued at approximately $112,500 based on the fair value of the shares of common stock on the date the agreement was entered into. The services will commence upon issuance of the shares of common stock.

During June 2002, the Company issued these shares to the investor relation firm, which will commence its marketing services during July 2002. The aforementioned transaction is a noncash activity and, as such, is not reflected in the Company's condensed statement of cash flows for the six months ended June 30, 2002.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

OVERVIEW

The following is a discussion of certain factors affecting Image Technology Laboratories, Inc.'s results of operations, 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. has entered the medical image management segment of the healthcare information systems market. We were incorporated in Delaware on December 5, 1997. Image Technology has developed a fully integrated "radiology information system/picture archiving and communications", known as RIS/PACS for use in the management of medical diagnostic images and patient information by hospitals. The PACS portion of the system inputs and stores diagnostic images in digital format from original imaging sources such as: Computerized tomography, or CT scans Magnetic resonance imaging, or MRIs Ultrasound, nuclear imaging Digital fluoroscopy The RIS portion of the system inputs and stores patient demographics, along with the appropriate insurance, billing and scheduling information required to complete the patient visit. All of the data is retained in standard formats, including DICOM and HL-7 standards. As of June 30, 2002, the Company has cash and cash equivalents of approximately $35,000 and working capital of approximately $12,000. However, since inception, the Company has incurred losses resulting in an accumulated deficit of approximately $2,246,000 at June 30, 2002. The company currently expects to incur additional losses for the foreseeable future. In addition, the Company has only recently introduced its product to market and has just begun to generate revenues. Further, as of June 30, 2002, the founding stockholders have deferred until 2003 approximately $492,000 of compensation due them under their employment agreements.

On April 4, 2002, the Company entered into a letter of intent with a company for the purchase of one of the Company's systems at fair market value and a service agreement. The Company is anticipating to generate approximately $700,000 in annual fees under this agreement. The agreements are currently at the contract stage and closing is anticipated to occur as soon as administratively feasible. In addition, the Company is currently negotiating similar agreements with other companies. If the aforementioned contract does not close, as anticipated, the

Company estimates that it will need additional financing of $200,000, either by debt or equity financing to fund its planned operations beyond its current level over the next 12 months. At the present time, except for the commitment of the Company's principal stockholder to fund the $200,000, the Company has no commitments for additional financing and there can be no assurance that such financing will be available on satisfactory terms, if at all. Management believes that if the principal stockholder funds the additional working capital of $200,000 it will enable the Company to meet its obligations and fund its operations through at least June 30, 2003.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED June 30, 2002 COMPARED TO THE SIX MONTHS ENDED June 30, 2001

REVENUES:

The Company was a development stage company from January 1, 1998 (date of inception) through April 2002, at which time its software was available for sale. During the six and three moths ended June 30,2002, the Company derived service revenue of $76,550 and $69,250, respectfully, of which $20,300 and $7,300 was derived from a company owned by its principal stockholder.

As of March 31, 2002, we had not generated any significant revenues from operations and, accordingly, we were still in the development stage. We do not expect to generate any significant revenue from our planned operations prior to the second quarter of 2002.

RESEARCH AND DEVELOPMENT EXPENSES:

During the six months ended June 30, 2002, the Company incurred research and development expenses of $278,750 and $100,000, respectively, as compared with $319,908 and $168,144 in the comparable prior periods. These expenses consisted primarily of compensation to the Company's three founders under their employment contracts. In addition, $100,000, $25,000, $75,000 and $37,500 of these expenses during the six months period ended June 30, 2002 and 2001, respectfully, were attributable to compensation associated with the issuance of the shares of preferred stock to the founders, a non-cash charge. During the first quarter 2002, one of our founders was terminated for cause for breach of his employment agreement; therefore, we accelerated the remaining unamortized compensation ($37,500) associated with the issuance of the Preferred Stock to that founder. Also, as a result of this, our research and development costs should be reduced in the future.

GENERAL AND ADMINISTRATIVE EXPENSES:

During the six and three months ended June 30, 2002, the Company incurred general and administrative expenses of $197,478 and $$113,140, respectfully, as compared to $94,051 and $72,752 in the comparable prior periods. The increase was primarily attributable to an increase in payroll and other overhead items as well as incurring additional costs as it built up its infrastructure.

SELLING EXPENSE:

During the second quarter of 2002, the Company began to incur marketing expenses ($12,761) as it introduced its product for sale.

NET LOSS:

As a result of the aforementioned, the Company incurred a loss of approximately $412,000 ($.03 per share) and $157,000 ($.01 per share) for the six and three months ended June 30,2002, as compared to the approximately$414,000 ($.03 per share) and $241,000 ($.02 per share) for the six and three months ended June 30,2002.

LIQUIDITY AND CAPITAL RESOURCES:

As of June 30, 2002, we had cash and a working capital deficiency of approximately $35,000 and $12,000, respectively. To date, the principal sources of capital resources have been proceeds from issuance of shares of common stock to our founders of $21,250, the net proceeds from private placements of units of common stock and warrants during 2000 of approximately $180,000. Then on October 15, 2002, we completed an initial public offering whereby we sold 2,591,050 units at $.40 per unit and received net proceeds of approximately $840,000. Each unit consisted of one share of common stock and one warrant. The proceeds from this offering were used for working capital and general corporate purposes. To date, we received approximately $166,000 upon the exercise of warrants and the issuance of shares of common stock. In addition, in January 2002, we sold 400,000 shares of our common stock to one of our principal stockholders for $100,000 or $.25 per share, which approximates fair value.

During January 2002, the Company entered into an agreement with an investor relations firm. In exchange for marketing services, the Company granted 450,000 shares of common stock and 100,000 two-year warrants with a $3.00 exercise price. The services which are to be provided over a six month period were valued at approximately $112,500 based on the fair market value of the shares of common stock on the date the agreement was entered into. The services will commence upon issuance of shares of common stock. During June 2002 the Company issued these shares to the investor relations firm, who will commence its marketing services during July 2002.

CAUTIONARY STATEMENT FOR THE PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES ACT OF 1935

The Statements contained in the section captioned Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent the Company's present expectations or beliefs concerning future events. The Company cautions that such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the uncertainty as to the Company's future profitability, the uncertainty as to the demand for the Internet virtual communities; increasing competition; the ability to hire, train, and retrain sufficient qualified personnel; the ability to obtain financing on acceptable terms to finance the Company's growth.

PART II

Item 1. Legal Proceedings. None

Item 2. Changes in Securities.

During January 2002, Image Technology issued 400,000 shares of common stock to Kingston Diagnostic Radiology, P.C. pension fund, the sole beneficiary of which is Dr. Ryon, our President, Chief Executive Officer and Principal Accounting and Financial Officer.

Item 3. Defaults Upon Senior Securities. None.

Item 4. Submission of Matters to a Vote of Security Holders. There are no reportable events relating to this item .

Item 5. Other Information. There are no reportable events relating to this item.

Item 6. Exhibits and Reports on Form 8-K.

(A) Not applicable.
(B) None

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

IMAGE TECHNOLOGY LABORATORIES, INC.
Date: June 6, 2002

/S/ DAVID RYON

David Ryon, CEO, President and
Principal Financial and
Accounting Officer