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IMAGE TECHNOLOGY LABORATORIES INC
Form 10QSB
August 14, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

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 No

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares of common stock outstanding as of June 30, 2001 was 11,075,612.

PART I

Item 1. Financial Statements.

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

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* * *

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

Condensed Balance Sheets
June 30, 2001 and December 31, 2000

ASSETS	June 30, 2001 ----- (Unaudited)	December 31, 2000 -----
Current assets - cash and cash equivalents	\$ 466,543 =====	\$ 725,105 =====

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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:			
Accounts payable and accrued expenses		\$ 6,911	\$ 20,663
Accrued compensation payable to stockholders		341,118	297,945
Notes payable to stockholders		5,200	5,200
		-----	-----
Total liabilities		353,229	323,808
		-----	-----
Stockholders' equity:			
Preferred stock, par value \$.01 per share; 5,000,000 shares authorized; 1,500,000 shares issued and outstanding		15,000	15,000
Common stock, par value \$.01 per share; 50,000,000 shares authorized; 11,075,612 and 10,962,862 shares issued and outstanding		110,756	109,628
Additional paid-in capital		1,501,252	1,451,404
Common stock subscription receivable		(10,000)	(10,000)
Unearned compensation		(225,000)	(300,000)
Deficit accumulated in the development stage		(1,278,694)	(864,735)
		-----	-----
Total stockholders' equity		113,314	401,297
		-----	-----
Totals		\$ 466,543	\$ 725,105
		=====	=====

See Notes to Condensed Financial Statements.

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

Condensed Statements of Operations
Six and Three Months Ended June 30, 2001 and 2000
and Period From January 1, 1998
(Date of Inception) to June 30, 2001
(Unaudited)

SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
-----	-----	-----	-----
2001	2000	2001	2000
-----	-----	-----	-----

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Revenues	\$ --	\$ --	\$ --	\$ --	\$
Research and development expenses	319,908	300,000	168,144	150,000	
General and administrative expenses	94,051	96,795	72,752	16,067	
	-----	-----	-----	-----	
Net loss	\$ (413,959)	\$ (396,795)	\$ (240,896)	\$ (166,067)	\$
	=====	=====	=====	=====	
Basic net loss per share	\$ (.03)	\$ (.04)	\$ (.02)	\$ (.02)	
	=====	=====	=====	=====	
Basic weighted average shares outstanding	12,450,823	9,522,816	12,471,774	9,838,750	
	=====	=====	=====	=====	

See Notes to Condensed Financial Statements.

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

Condensed Statement of Changes in Stockholders' Equity
Six Months Ended June 30, 2001
and Period from January 1, 1998
(Date of Inception) to June 30, 2001
(Unaudited)

	PREFERRED STOCK		COMMON STOCK	
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT
	-----	-----	-----	-----
Issuance of shares effective as of				
January 1, 1998 to founders			7,288,750	\$ 72,887
Net loss				

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Balance, December 31, 1998			7,288,750	72,887
Net loss				
Balance, December 31, 1999			7,288,750	72,887
Issuance of preferred stock in exchange for services	1,500,000	\$ 15,000		
Issuance of common stock in exchange for services			250,000	2,500
Sales of units of common stock and warrants through private placement, net of expenses, in February 2000			799,729	7,997
Subscription for units of common stock and warrants through private placement			33,333	333
Sales of units of common stock and warrants through public offering completed in October 2000, net of expenses			2,591,050	25,911
Amortization of unearned compensation				
Net loss				
Balance, December 31, 2000	1,500,000	15,000	10,962,862	109,628
Issuance of common stock upon exercise of warrants			112,750	1,128
Amortization of unearned compensation				
Net loss				
Balance, June 30, 2001	1,500,000	\$ 15,000	11,075,612	\$ 110,756

	UNEARNED COMPENSATION	DEFICIT ACCUMULATED IN THE DEVELOPMENT STAGE	TOTAL STOCKHOLDERS' EQUITY
Issuance of shares effective as of January 1, 1998 to founders			\$ 21,250
Net loss		\$ (18,407)	(18,407)
Balance, December 31, 1998		(18,407)	2,843
Net loss		(733)	(733)
Balance, December 31, 1999		(19,140)	2,110
Issuance of preferred stock in exchange for services	\$ (450,000)		
Issuance of common stock in exchange for services			75,000
Sales of units of common stock and warrants through private placement, net of expenses, in February 2000			179,920
Subscription for units of common stock and warrants through private placement			
Sales of units of common stock and warrants through public offering completed in October			

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2000, net of expenses			839,862
Amortization of unearned compensation	150,000		150,000
Net loss		(845,595)	(845,595)

Balance, December 31, 2000	(300,000)	(864,735)	401,297
Issuance of common stock upon exercise of warrants			50,976
Amortization of unearned compensation	75,000		75,000
Net loss		(413,959)	(413,959)

Balance, June 30, 2001	\$ (225,000)	\$ (1,278,694)	\$ 113,314
	=====		

See Notes to Condensed Financial Statements.

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

Condensed Statements of Cash Flows
Six Months Ended June 30, 2001 and 2000
and Period from January 1, 1998
(Date of Inception) to June 30, 2001
(Unaudited)

	SIX MONTHS ENDED JUNE 30,		
	2001	2000	CUMULATIVE
	-----	-----	-----
Operating activities:			
Net loss	\$ (413,959)	\$ (396,795)	\$ (1,278,694)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of unearned compensation	75,000	75,000	225,000
Common stock issued for services		75,000	75,000
Amortization of capitalized software costs			2,000
Changes in operating assets and liabilities:			
Prepaid professional fees		(60,000)	
Other current assets		(45)	
Accrued compensation payable to stockholders	43,173	200,000	341,173
Accounts payable and accrued expenses	(13,752)		6,421
	-----	-----	-----
Net cash used in operating activities	(309,538)	(106,840)	(628,378)

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Investing activities - software costs capitalized		(4,966)	(2)
Financing activities:			
Proceeds from issuance of notes payable to stockholders		100	5
Proceeds from issuance of common stock	50,976		72
Net proceeds from private placement of units of common stock and warrants		185,000	1,024
Payments of deferred private placement costs			(5)
Net cash provided by financing activities	50,976	185,100	1,097
Net increase (decrease) in cash	(258,562)	73,294	466
Cash, beginning of period	725,105	24	
Cash, end of period	\$ 466,543	\$ 73,318	\$ 466

See Notes to Condensed Financial Statements.

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

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, 2001, its results of operations for the six and three months ended June 30, 2001 and 2000, changes in stockholders' equity for the six months ended June 30, 2001 and cash flows for the six months ended June 30, 2001 and 2000 and the related cumulative amounts for the period from January 1, 1998 (date of inception) to June 30, 2001. Certain terms used herein are defined in the audited financial statements of the Company as of December 31, 2000 and for the years ended December 31, 2000 and 1999 and period from January 1, 1998 (date of inception) to December 31, 2000 (the "Audited Financial Statements") included in the Company's Annual Report

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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, 2001 are not necessarily indicative of the results of operations for the full year ending December 31, 2001.

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, 2001 and 2000 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, 2001, the assumed effects of the exercise of 3,000,000 options and 3,561,362 and 1,083,062 warrants outstanding at June 30, 2001 and 2000, respectively, would have been anti-dilutive.

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

Notes to Condensed Financial Statements
(Unaudited)

Note 3 - Exercise of warrants:

During the six months ended June 30, 2001, warrant holders exercised 58,750 warrants and received 58,750 shares of common stock at a price of \$.50 per share or \$29,375 and also exercised 54,000 warrants and received 54,000 shares of common stock at a price of \$.40 per share or \$21,600. As of June 30, 2001, 3,561,362 warrants are outstanding.

* * *

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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, 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. was incorporated on December 5, 1997 and commenced operations on January 1, 1998. We are in the process of developing software to manage the entire practice of radiology, including the scheduling of patient examinations, display of images on workstations, generation of worklists for all members of the enterprise, production and distribution of illustrated radiologic reports, and billing for the services provided.

At the heart of the system are software modules referred to as the WorkLoadExecutive and WorkLoadRouter. This software equitably distributes the work to be done, and ensures its timely completion. Images are displayed for the radiologist on a proprietary, multimonitor workstation controlled with a unique touchscreen controller. The combination of the backoffice software and the versatile workstation increase the accuracy and efficiency of diagnosis. Such software is applicable to any setting of a radiology practice, including hospitals and free standing imaging centers.

RESULTS OF OPERATIONS FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO THE SIX AND THREE MONTHS ENDED JUNE 30, 2000

REVENUES:

As of June 30, 2001, we had not generated any revenues from operations and, accordingly, we were still in the development stage. We do not expect to generate any revenues from our planned operations before the end of the third quarter of 2001.

RESEARCH AND DEVELOPMENT EXPENSES;

During the six and three months ended June 30, 2001, the Company incurred research and development expenses of \$319,908 and \$168,144, respectively, as compared to \$300,000 and \$150,000 in the comparable prior periods. These expenses consisted primarily of compensation to the Company's three founders under their employment contracts. In addition, \$75,000 and \$37,500 of these expenses in both the six and three month period ending June 30, 2001 and 2000, were attributable to compensation associated with the issuance of

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the shares of preferred stock to the founders, a non-cash charge.

GENERAL AND ADMINISTRATIVE EXPENSES:

During the Six months ended June 30, 2001, General and Administrative Expenses was approximately \$94,000 as compared to \$97,000 during the six months ended June 30, 2000. Although the General and Administrative expenses are comparable for the periods, the Company's spending has increased while it is building its infrastructure. During the first quarter of 2000, the Company incurred a \$75,000 charge for legal services, which was associated with the issuance of common stock for services, a non-cash charge.

During the Three months ended June 30, 2001, General and Administrative Expenses increased by approximately \$57,000 to approximately \$73,000 from approximately \$16,000 for the three months ended June 30, 2000. The increase was primarily associated with approximately \$38,000 more in professional fees being incurred and as well as \$29,000 in compensation during the three months ended June 30, 2001 as compared to the three months ended June 30, 2000.

NET LOSS:

As a result of the aforementioned, the Company incurred a loss of approximately \$414,000 (\$.03 per share) and approximately \$241,000 (\$.02 per share) for the six and three months ended June 30, 2001, respectively, as compared to approximately \$397,000 (\$.04 per share) and approximately \$166,000 for the six and three months ended June 30, 2000. The loss was based on the basic weighted average shares outstanding of 12,450,823 and 12,471,774 for the six and three months ended June 30, 2001, respectively, as compared to 9,522,816 and 9,838,750 for the comparable prior period.

CAUTIONARY STATEMENT FOR THE PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES REFORM ACT OF 1995

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 retain sufficient qualified personnel; the ability to obtain financing on acceptable terms to finance the Company's growth.

PART II

Item 1. Legal Proceedings. None

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Item 2. Changes in Securities. None.

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: Aug 10, 2001

/S/ DAVID RYON

David Ryon, CEO and President