IMAGE TECHNOLOGY LABORATORIES INC
Form 10-Q
August 12, 2004

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 June 30, 2004 or

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

For the transition period from _______________ to ____________________

Commission File Number: 34-00031307

IMAGE TECHNOLOGY LABORATORIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware 22-53531373
(State or Other Jurisdiction (IRS Employer
of Incorporation or Organization) Identification No.)

602 Enterprise Drive
Kingston, New York 12401
(Address of Principal Executive Offices)

(845)338-3366
(Registrant's Telephone Number)

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

As of August 12, 2004, there were 13,863,778 shares of the registrant's common stock outstanding.

Image Technology Laboratories, Inc.

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

IMAGE TECHNOLOGY LABORATORIES, INC.

CONDENSED BALANCE SHEETS

	JUNE 30, 2004 (Unaudited)	DECEMBER 31, 2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 163,659	$ 195,257
Accounts receivable	69,391	66,380
Prepaid expenses and other current assets	26,659	1,555
TOTAL CURRENT ASSETS	259,709	263,192
Equipment and improvements, net of accumulated depreciation and amortization of $61,749 and $38,866	214,872	157,452
TOTAL ASSETS	$ 474,581	$ 420,644
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 120,203	$ 125,429
Current portion of long-term debt	82,728	--
Notes payable	55,827	66,952
Notes due to stockholders	3,400	3,400
TOTAL CURRENT LIABILITIES	262,158	195,781
Long-term debt, less current maturities	158,540	--
Deferred revenues	23,333	93,333
Accrued compensation payable to stockholders	7,885	142,000
TOTAL LIABILITIES	451,916	431,114
STOCKHOLDERS' EQUITY (DEFICIENCY):		
Preferred stock, par value $.01 per share; 5,000,000 shares authorized; 1,500,000 shares issued and outstanding	15,000	15,000
Common stock, par value $.01 per share; 50,000,000 shares authorized; 13,863,778 and 13,751,278 shares issued and outstanding	138,638	137,513
Additional paid-in capital	2,866,297	2,638,305
Accumulated deficit	(2,997,270)	(2,801,288)

TOTAL STOCKHOLDERS' EQUITY (DEFICIENCY)	22,665	(10,470)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	$ 474,581	$ 420,644

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS.

IMAGE TECHNOLOGY LABORATORIES, INC.

CONDENSED STATEMENTS OF OPERATIONS
SIX MONTHS AND THREE MONTHS ENDED JUNE 30, 2004 AND 2003
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,		THREE MONTH ENDED JUNE	
	2004	2003	2004	
REVENUES:				
Service income	$ 448,872	$ 295,069	$ 207,720	$
Software license fees	70,000	70,000	35,000	
TOTAL REVENUE	518,872	365,069	242,720	
COST OF REVENUES	64,629	55,000	37,129	
Net revenue	454,243	310,069	205,591	
COSTS AND EXPENSES:				
Research and development	41,200	150,000	22,200	
Sales and marketing	157,855	124,686	81,425	
General and administrative	451,170	120,293	293,195	
TOTAL COSTS AND EXPENSES	650,225	394,979	396,820	
NET LOSS	$ (195,982)	$ (84,910)	$ (191,229)	$
NET LOSS PER COMMON SHARE:				
Basic	$ (0.01)	$ (0.01)	$ (0.01)	$

Diluted	$ (0.01)	$ (0.01)	$ (0.01)	$
AVERAGE NUMBER OF SHARES USED IN COMPUTATION:				
Basic	15,313,229	13,747,366	15,360,893	
Diluted	15,313,229	13,747,366	15,360,893	

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS.

IMAGE TECHNOLOGY LABORATORIES, INC.

CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
SIX MONTHS ENDED JUNE 30, 2004
(UNAUDITED)

	PREFERRED STOCK		COMMON STOCK		ADDI-
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT	TIONA PAID-I CAPITA
Balance, January 1, 2004	1,500,000	$ 15,000	13,751,278	$ 137,513	$ 2,638,
Issuance of common stock in private placement			100,000	1,000	49,
Issuance of common stock and options for compensation			12,500	125	19,
Accrued compensation contributed to capital					159,

Net loss					
Balance, June 30, 2004	1,500,000	$ 15,000	13,863,778	$ 138,638	$ 2,866,

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS.

IMAGE TECHNOLOGY LABORATORIES, INC.

CONDENSED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(UNAUDITED)

	2004	2003
OPERATING ACTIVITIES:		
Net loss	$(195,982)	$ (84,910)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of equipment and improvements	22,883	5,836
Common stock and options issued for services	19,425	--
Changes in operating assets and liabilities:		
Accounts receivable	(3,011)	--
Prepaid expenses and other current assets	(25,104)	8,381
Accounts payable and accrued expenses	(5,226)	6,635
Deferred revenues	(70,000)	(70,000)

Accrued compensation payable to stockholders	25,577	(14,422)
NET CASH USED IN OPERATING ACTIVITIES	(231,438)	(148,480)
INVESTING ACTIVITIES - purchase of equipment and improvements	(80,303)	(14,036)
FINANCING ACTIVITIES:		
Proceeds from exercise of warrants	--	174,346
Proceeds from private placement of common stock	50,000	--
Proceeds from notes payable and long-term debt	252,872	--
Repayments of notes payable and long-term debt	(22,729)	--
NET CASH PROVIDED BY FINANCING ACTIVITIES	280,143	174,346
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(31,598)	11,830
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	195,257	132,454
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 163,659	$ 144,284
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Contribution of accrued compensation payable to stockholders to capital	$ 159,692	$ 426,004

SEE NOTES TO CONDENSED 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 June 30, 2004, its results of operations for the six and three months ended June 30, 2004 and 2003, changes in stockholders' equity (deficiency) for the six months ended June 30, 2004 and cash flows for the six months ended June 30, 2004 and 2003. Certain terms used herein are defined in the audited financial statements of the Company as of December 31, 2003 and for the years ended December 31, 2003 and 2002 (the "Audited Financial Statements") included in the Company's Annual Report on Form 10-KSB previously filed with the Securities and Exchange Commission (the "SEC"). Pursuant to rules and regulations of the SEC, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed in or omitted from these financial statements unless significant changes have taken place since the end of the most recent fiscal year. Accordingly, the accompanying unaudited condensed financial statements should be read in conjunction with the Audited Financial Statements and the other information included in the Form 10-KSB.

Although the Company has had recurring losses and negative cash flows from its operating activities since inception, at June 30, 2004 its cash and cash equivalents were approximately $164,000 and it had a working capital deficiency of approximately $2,500. A substantial portion of the Company's historical losses were attributable to non-cash charges. Management expects a reduction in the level of such losses now that sales of the Company's software products have commenced. As of June 30, 2004, the Company's principal stockholders had deferred approximately $168,000 of compensation due them pursuant to their employment agreements, of which approximately $160,000 was contributed to capital on April 9, 2004. These deferrals and capital contributions have helped and will continue to help preserve the Company's liquidity. Additionally, management expects to be raising capital through a proposed private placement of the Company's common stock, which will fund its future growth and provide working capital. There can be no assurance, however, that the Company will be successful in obtaining such additional capital.

Management believes that the Company's costs and expenses increases are related, in large part, to anticipated future growth and that the Company has the ability to control the pace of its expenditures relative to available resources. Included in such resources is the expectation of management that, if needed, the Company's principal stockholders will provide additional capital contributions and/or will purchase additional common stock. There can be no assurance, however, that, if needed, such contributions or purchases will be available.

The results of operations for the six and three months ended June 30, 2004 are not necessarily indicative of the results of operations to be expected for the full year ending December 31, 2004.

NOTE 2 - EARNINGS (LOSS) PER SHARE:

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

The rights of the Company's preferred and common stockholders are substantially equivalent. The Company has included the 1,500,000 outstanding preferred shares from the date of their issuance in the weighted average number of shares outstanding in the computation of basic loss per share for the six and three months ended June 30, 2004 and 2003, 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, 2004 and 2003, the assumed effects of the exercise of options to purchase 2,112,500 and 2,000,000 common shares outstanding at June 30, 2004 and 2003, respectively, and warrants to purchase 2,868,512 common shares outstanding at June 30, 2003 would be anti-dilutive and, therefore, they have not been considered in the calculations of diluted per share amounts in the accompanying condensed statements of operations for those periods.

NOTE 3 - NOTES PAYABLE TO VALLEY COMMERCIAL CAPITAL LLC:

In February 2004, the Company borrowed $125,000 from Valley Commercial Capital, LLC ("Valley"). This loan is evidenced by a promissory note, which provides for interest at 8% per annum and calls for monthly payments of principal and interest of $3,917 through February 2, 2007. In March 2004, the Company borrowed an additional $138,997 from Valley, also evidenced by a promissory note, which provides for interest at 8% per annum and calls for monthly payments of principal and interest of $4,356 through March 29, 2007. As of June 30, 2004, the outstanding balances on these loans aggregated $241,268. These loans are secured by the personal guarantee of the Company's principal stockholder.

NOTE 4 - COMMON STOCK:

In March 2004, in a private transaction, the Company issued to Robert Carpenter, a member of its Board of Directors, 100,000 shares of its common stock. The purchase price was $.50 per share (which approximates market value), resulting in aggregate proceeds to the Company of $50,000.

In April 2004, the Company agreed to issue to Richard L.

Feinstein, a consultant, as its Chief Financial Officer, 50,000 shares of its common stock as compensation. Pursuant to an employment agreement with Mr. Feinstein, such shares vest and are to be issued 25% as of April 20, 2004, (the "Effective Date") and 25% on each of the first, second and third anniversaries of the Effective Date. Accordingly, the Company recorded a compensation charge of $10,625 in the second quarter of 2004 for the vested 12,500 shares at $.85 per share, the closing price of the Company's common stock on the Effective Date.

IMAGE TECHNOLOGY LABORATORIES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 5 - STOCK OPTIONS:

Also, in connection with his employment, the Company has agreed to issue Mr. Feinstein options to purchase 50,000 shares of its common stock. The options are to be issued and vest 25% as of the Effective Date and 25% on each of the first, second and third anniversaries of the Effective Date. The exercise price of the options is $.85 per share, the closing price of the Company's common stock on the Effective Date. In this connection the Company has recorded a compensation charge of $8,800 in the second quarter of 2004 for the fair value of such vested options.

Effective May 5, 2004 (the "Start Date"), the Company engaged Barry Muradian as its Chief Operating Officer as evidenced by an employment agreement. Pursuant to the terms of such agreement, the duration of which is four years from the Start Date, Mr. Muradian will be paid an annual base salary, initially, of $125,000, increasing to $150,000 by August 1, 2004 and subject to subsequent periodic reviews. Mr. Muradian is eligible to participate in all of the Company's incentive plans. Additionally, the Company is issuing to Mr. Muradian options to purchase 100,000 shares of its common stock. The options vest 25% on the first anniversary of the Start Date and 25% on each of the succeeding three anniversaries of the Start Date. The exercise price of the options is $.75 per share, the opening price of the Company's common stock on the Start Date.

The Company continues to measure compensation cost related to stock options issued to employees using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting For Stock Issued To Employees". The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting For Stock-Based Compensation." Accordingly, no earned or unearned compensation cost was recognized in the accompanying condensed financial statements for the stock options granted by the Company to Mr. Muradian, since all of those options have been granted at exercise prices that equaled or exceeded the market value at the date of grant. The Company's historical net loss and loss per share and pro forma net loss and loss per share, assuming compensation cost had been determined in 2003 and 2002 based on the fair value at the grant date for all awards by the Company consistent with the provisions of SFAS 123, are set forth below:

	SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003	THREE MONTHS ENDED JUNE 30, 2004	THREE MONTHS ENDED JUNE 30, 2003
Net loss, as reported	$(195,982)	$ (84,910)	$(191,229)	$ (48,164)
Deduct total stock-based employee compensation expense determined under a fair value based method for all awards	(30,000)	(2,000)	(30,000)	--
Net loss - pro forma	$(225,982)	$ (86,910)	$(221,229)	$ (48,164)
Net loss per share				
Basic - as reported	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.00)
Basic - pro forma	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.00)

The fair value of options granted were determined using a Black-Scholes pricing model in accordance with SFAS 123, with the following assumptions used during the six and three months ended June 30, 2004 and 2003:

Risk-free interest rate	3.5%
Volatility	99.9%
Dividend yield	0.0%

NOTE 6 - CONTRIBUTIONS TO CAPITAL:

Effective April 9, 2004, the two principal stockholders of the Company contributed to capital the balance of the amounts of compensation owing to them at March 31, 2004, an aggregate of $159,692. Such aggregate amount has been included in additional paid-in capital on the Company's balance sheet at June 30, 2004.

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"), has entered the medical image management segment of the healthcare information systems market. We were incorporated in Delaware on December 5, 1997. We have developed a fully integrated "radiology information system/picture archiving and communications system," known as RIS/PACS for use in the management of medical diagnostic images and patient information by hospitals and diagnostic centers. 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 and 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.

Although we have had recurring losses and negative cash flows from our operating activities since inception, we have cash and cash equivalents of approximately $164,000 and a working capital deficiency of approximately $2,500 as of June 30, 2004. A substantial portion of our historical losses has been attributable to non-cash charges. We expect a reduction in the level of such losses now that sales of the Company's software products have commenced. As of June 30, 2004, our principal stockholders had deferred approximately $168,000 of compensation due them pursuant to their employment agreements, of which approximately $160,000 was contributed to capital on April 9, 2004. These deferrals and capital contributions have helped and will continue to help preserve our liquidity. Additionally, we expect to be raising capital through a proposed private placement of our common stock, which will fund our future growth and provide working capital. There can be no assurance, however, that we will be successful in obtaining such additional capital.

Our costs and expenses increases are related, in large part, to our anticipated future growth. We believe, however, that we have the ability to control the pace of our expenditures relative to our available resources. Included in such resources is the expectation of additional capital contributions and/or purchases of additional common stock by our principal stockholders. There can be no assurance, however, that, if needed, such contributions or purchases will be available.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2004 COMPARED WITH THE SIX MONTHS ENDED JUNE 30, 2003 AND FOR THE THREE MONTHS ENDED JUNE 30, 2004 COMPARED WITH THE THREE MONTHS ENDED JUNE 30, 2003

REVENUES:

During the six months ended June 30, 2004, our total revenue increased approximately $154,000, or 42.2% to approximately $519,000 from approximately $365,000 in the prior year's comparable period. For the three months ended June 30, 2004, our total revenue was approximately $243,000, an increase of $64,000, or 35.8%, from approximately $179,000 in the prior year's comparable period. These increases are attributable to our service revenue, which grew to $449,000 in the 2004 six-month period, an increase of 52.2% from $295,000 in the first half of 2003. In the second quarter of 2004, our service revenue was approximately $208,000 compared with $144,000 of service revenues in the 2003 second quarter, an increase of $64,000, or 44.4%. We intend to sell and install additional units that will generate increased service revenues in future periods.

In addition, during each of the six months and three months ended June 30, 2004 and 2003, we earned $70,000 and $35,000, respectively, from the sale of our initial unit as we are recognizing such ratably over the period in which we are required to provide maintenance and other services. It is our intention to continue to grow our service revenue.

COST OF REVENUES:

Our cost of revenues is comprised of the direct expense we incur in providing service in connection with the products we sell and the services we provide.

RESEARCH AND DEVELOPMENT EXPENSES:

During the six months ended June 30, 2004, we incurred research and development expenses (primarily attributable to our founders compensation pursuant to their employment contracts) of $41,000 as compared with research and development expenses of $150,000 during the first half of 2003, a decrease of $109,000, or 72.7%. The amounts for the second quarter of 2004 and 2003 were $22,000 and $75,000, respectively, a decrease of $53,000, or 70.7%. These decreases are reflective of our shift in focus from our development activities, after having developed a successful product, towards the sales, marketing and servicing of such product.

GENERAL AND ADMINISTRATIVE EXPENSES:

During the six months ended June 30, 2004, our general and administrative expenses increased approximately $331,000, or 275.8%, to $451,000 from general and administrative expenses of approximately $120,000 during the first half of 2003. The increase in general and administrative expenses in the second quarter of 2004 from the prior year's comparable period was approximately $253,000, or 632.5% to $293,000 in 2004 from $40,000 in 2003. These increases are substantially attributable to costs incurred, primarily compensation, travel and infrastructure-related, as we continue our transition from a development orientation to a product and sales driven organization and included the addition of two executive officers during the second quarter of 2004. We expect that these costs will continue to grow as we position ourselves to promote and administer our anticipated growth. We believe, however, that such expenditures are largely scalable and controllable based on current and anticipated revenue streams and cash availability.

SALES AND MARKETING EXPENSES:

Sales and marketing expense increased approximately $33,000, or 26.4%, to approximately $158,000 during the six months ended June 30, 2004 from approximately $125,000 of such costs in the comparable prior period. For the second quarter of 2004 such expenses aggregated approximately $81,000, a decrease of $4,000, or 4.7%, from sales and marketing expenses incurred during the comparable period in 2003. These expenses are also expected to increase as we make the investments in infrastructure, personnel and other marketing expenditures that we believe are necessary for us to achieve our revenue goals.

NET LOSS:

As described above, although our revenues increased in the first half and second quarter of 2004 from the comparable periods in 2003, such increases were more than offset by increases in expenses in such periods. As a result, we incurred a loss of approximately $196,000 ($.01 per share) for the six months ended June 30, 2004 as compared with a loss of $85,000 (less than $.01 per share) for the six months ended June 30, 2003 and a loss of $191,000 ($.01 per share) in the second quarter of 2004 as compared with a loss of $48,000 (less than $.01 per share) in the prior year's comparable period.

LIQUIDITY AND CAPITAL RESOURCES:

At June 30, 2004, our total assets were approximately $475,000, an increase of approximately $54,000 from total assets of $421,000 at December 31, 2003. This aggregate increase is primarily related to an increase in net fixed assets of approximately $57,000 and an increase of $25,000 in prepaid expenses and other current assets, as partially offset by a decrease in cash of $32,000.

As of June 30, 2004, we had cash and cash equivalents and a working capital deficiency of $164,000 and $2,500, respectively. Historically, the principal sources of our capital resources include proceeds from issuance of shares of common stock to our founders and in private placements. These proceeds have been used for working capital and general corporate purposes.

The net decrease in cash and cash equivalents of $32,000 in the first half of 2004 was primarily attributable to the net cash used in our operating activities of approximately $232,000. Of this amount, approximately $196,000 is related to our net loss.

Our investing activities, i.e. the purchase of fixed assets, used an additional $80,000 of cash.

These uses of cash, aggregating $312,000, were partially offset by the cash generated through our financing activities of $280,000, primarily from the proceeds of long-term debt.

The foregoing activities, i.e., operating, investing and financing, resulted in our net cash decrease of $32,000 for the six months ended June 30, 2004.

During September 2002, we obtained a $75,000 working capital loan from a financial institution. As of June 30, 2004, we have approximately $56,000 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 June 30, 2004, we had approximately $241,000 outstanding under these arrangements.

In the first quarter of 2004, we sold 100,000 shares of our common stock, in a private transaction, to a member of our Board of Directors. The sales price was $.50 per share, resulting in gross proceeds to the Company of $50,000.

During the six months ended June 30, 2004, our principal stockholders contributed an aggregate of approximately $160,000 of previously deferred compensation to the Company's capital. Since that time through June 30, 2004, the Company's principal stockholder has deferred receipt of an additional $8,000 of compensation owed to him.

In April 2004, we entered into an engagement agreement with an investment advisory firm to assist us in raising capital by acting as a financial advisor and placement agent for a proposed private placement of our common stock.

We require cash to fund our working capital needs and capital expenditures, as well as to meet existing commitments. Such commitments include payments to our officers who have employment contracts, payments of existing loans including our line of credit and two notes payable, which call for aggregate monthly payments of approximately $8,300 through March 2007 and $700 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 officers 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 going to the marketplace with an offer to sell additional shares of our common stock to raise funds to help support our anticipated growth. There can be no assurance that such efforts will be successful.

We believe that the cash generated from existing operations, together with cash on hand, available credit from our current lenders, including banks and, if the need arises, our principal stockholder, will be sufficient to finance our debt and lease obligations, employment commitments, current operations and internal growth for at least the next twelve months.

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 Executive Officer and Chief Financial 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.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

During the quarter, there were no significant developments in our legal proceedings. For a detailed discussion of our legal proceedings, please refer to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003.

ITEM 2. CHANGES IN SECURITIES.

During the quarter, we issued 12,500 shares of our common stock as compensation, in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, representing the vested portion of a 50,000 share stock grant, for $.85 per share, to Richard L. Feinstein, our Chief Financial Officer.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) REPORTS ON FORM 8-K.

None.

SIGNATURES

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

IMAGE TECHNOLOGY LABORATORIES, INC.

Date: August 12, 2004

/s/ DAVID RYON

David Ryon
Chief Executive Officer