IMAGE TECHNOLOGY LABORATORIES INC
Form 10QSB
November 15, 2005

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 SEPTEMBER 30, 2005 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 as required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES NO

As of November 15, 2005, there were 15,238,778 shares of the registrant's common stock outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS

	SEPTEMBER 30, 2005 (UNAUDITED)	DECEMBER 31, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	55,573	$ 4,212
Accounts receivable	182,199	61,048

Prepaid expenses and other current assets	35,982	17,067
TOTAL CURRENT ASSETS	273,754	82,327
Equipment and improvements, net of accumulated	185,685	196,233
Depreciation and amortization of $313,153 and $127,468		
TOTAL ASSETS	459,439	$ 278,560
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	354,524	$ 223,695
Current portion of long-term debt	95,327	93,633
Notes payable	106,297	65,407
Current portion of notes payable to stockholders	39,375	3,400
TOTAL CURRENT LIABILITIES	595,523	386,135
Long-term debt, less current maturities	41,486	107,130
Notes payable to stockholders, less current portion	69,025	105,000
Accrued compensation payable to stockholders	27,072	27,072
TOTAL LIABILITIES	733,106	625,337
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; 15,238,778 and 13,863,778 shares issued and outstanding	152,388	138,638
Additional paid-in capital	3,157,547	2,866,297
Accumulated deficit	(3,598,602)	(3,366,712)
TOTAL STOCKHOLDERS' EQUITY (DEFICIENCY)	(273,667)	(346,777)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	$ 459,439	$ 278,560

See Notes to Condensed Financial Statements

CONDENSED STATEMENTS OF OPERATIONS
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 2005	THREE MONTHS ENDED SEPTEMBER 30, 2004	NINE MONT[HS] ENDED SEPTEM[BER 30,] 2005
REVENUE:			
Systems / software: license fees and sales	$ 217,175	$ 23,333	581,408
Service income		216,264	
TOTAL REVENUE	217,175	239,597	581,408
COST OF REVENUE:	54,850	34,500	111,228
GROSS PROFIT	162,325	205,097	470,180
COSTS AND EXPENSES:			
Research and development	106,817	92,077	290,052
Sales and marketing	35,590	70,953	93,852
General and administrative	108,378	138,983	318,166
TOTAL COSTS AND EXPENSES	250,785	302,013	702,070
NET LOSS	$ (88,460)	$ (96,916)	$ (231,890)
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	16,738,778	15,360,893	16,194,822
Diluted	16,738,778	15,360,893	16,194,822

See Notes to Condensed Financial Statements.

CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIEN
NINE MONTHS ENDED SEPTEMBER 30, 2005
(UNAUDITED)

	PREFERRED STOCK NUMBER OF SHARES	PREFERRED STOCK AMOUNT	COMMON STOCK NUMBER OF SHARES	COMMON STOCK AMOUNT	ADDI-TIONA PAID-I CAPITA
Balance, January 1, 2005	1,500,000	$ 15,000	13,863,778	$ 138,638	$ 2,866,
Issuance of common stock					
in private placement			775,000	$ 7,750	$ 147,
In exercise of options			600,000	$ 6,000	$ 144,
Issuance of common stock and options for compensation					
Accrued compensation contributed to capital					
Net loss					
Balance, September 30, 2005	1,500,000	$ 15,000	15,238,778	$ 152,388	$ 3,157,

See Notes to Condensed Financial Statements.

CONDENSED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004
(UNAUDITED)

	2005	2004

OPERATING ACTIVITIES:		
Net loss	$(231,890)	$(292,898)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of equipment and improvements	41,505	34,981
Common stock and options issued for services		19,425
Changes in operating assets and liabilities:		
Accounts receivable	(121,151)	(1,795)
Prepaid expenses and other current assets	(18,915)	(28,721)
Accounts payable and accrued expenses	209,388	(11,406)
Deferred revenues	--	(93,333)
Accrued compensation payable to stockholders	--	41,923
NET CASH USED IN OPERATING ACTIVITIES	(121,063)	(331,824)
INVESTING ACTIVITIES - purchase of equipment and improvements	(30,957)	(85,320)
FINANCING ACTIVITIES:		
Proceeds from exercise of options	150,000	--
Proceeds from private placement of common stock	155,000	50,000
Proceeds from notes payable and long-term debt		244,273
Repayments of notes payable and long-term debt	(101,619)	(42,752)
NET CASH PROVIDED BY FINANCING ACTIVITIES	203,381	251,521
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	51,361	(165,623)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,212	195,257
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 55,573	$ 29,634
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Contribution of accrued compensation payable to stockholders to Capital	$ 0	$ 159,692

See Notes to Condensed Financial Statements.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION:

In the opinion of management, the accompanying unaudited condensed financial statements reflect all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of Image Technology Laboratories, Inc. (the "Company") as of September 30, 2005, its results of operations for the three and nine months ended September 30, 2005 and 2004, changes in stockholders' equity (deficiency) for the nine months ended September 30, 2005 and cash flows for the nine months ended September 30, 2005 and 2004. Certain terms used herein are defined in the audited financial statements of the Company as of December 31, 2004 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.

The results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of the results of operations to be expected for the full year ending December 31, 2005.

These unaudited consolidated 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 consolidated financial statements included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004, contained an explanatory paragraph regarding the Company's ability to continue as a going concern.

NOTE 2 - EARNINGS (LOSS) PER SHARE:

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

The rights of the Company's preferred and common stockholders are substantially equivalent. The Company has included the 1,500,000 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 three and nine month periods ended September 30, 2005 and for the three and nine month periods ended September 30, 2004, 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 and nine month periods ended September 30, 2005 and for the three and nine month periods ended September 30, 2004, the assumed effects of exercisable options to purchase 1,575,000 and 1,600,000 common shares at September 30, 2005 and 2004, respectively, and warrants to purchase 180,000 common shares outstanding at September 30, 2005, 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:

Working Capital Loan Agreement:

During September 2002, the Company entered into a one-year working capital loan agreement with a financial institution for borrowings of up to $75,000. The agreement automatically renews annually unless one of the parties gives appropriate notice for cancellation. Outstanding borrowings bear interest payable monthly at 1% above the prime rate, and are guaranteed by the Estate of the Company's principal stockholder, Dr. David Ryon. At September 30, 2005, there was $55,905 outstanding under this agreement.

Bridge Loan Agreement:

In June 2005, the Company received a total of $180,000 in cash as part of a Bridge Loan Agreement that included the issuance of warrants to purchase 180,000 shares of Common Stock of the Company. $85,000 of these funds came from a member of the Company's Board of Directors, $85,000 from a related party to another member of the Company's Board of Directors and $10,000 from Alfus Financial Services. 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 entire amount was repaid, including $7,319 interest September 2005.

In September 2005, the Company received $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 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 gross proceeds of equity financing above $500,000.

NOTE 4 - 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 September 30, 2005, the outstanding balances on these loans aggregated $136,814. These loans are secured by the personal guarantee of the estate of Dr. David Ryon.

NOTE 5 - NOTES PAYABLE TO STOCKHOLDERS:

During November and December 2004, Dr. David Ryon, the Company's principal stockholder, President, and Chief Executive Officer, until his death in December 2004, loaned the Company an aggregate of $105,000. In December 2004, to memorialize this loan, he executed, as President and Chief Executive Officer, on behalf of the Company, a demand promissory note payable to himself and bearing interest at 10% per annum. He also executed a security agreement, for himself on behalf of the Company, granting to himself a security interest in all of the Company's assets not previously encumbered as security for full payment under the note. Prior to April 12, 2005, the Company negotiated with the Estate of Dr. David Ryon a 24-month payment schedule, beginning in January 2006. The Company's Board of Directors approved the revised terms of the promissory note on April 12, 2005. The entire principal amount of $105,000 was outstanding at September 30, 2005. Principal payments of $52,500 are required in each of years 2006 and 2007, and the Company is accruing interest payments during 2005.

During April 2005, a related party to a member of the Company's Board of Directors loaned the Company an aggregate of $20,000. The entire amount was repaid, including interest of $500, during the same month.

NOTE 6 - COMMON STOCK:

In February 2005, the Company concluded a private placement of its common stock with each member of its Board of Directors and two key employees. Pursuant to such transaction, the Company sold an aggregate of 525,000 shares at $.20 per share, the approximate fair value on the date of closing, resulting in aggregate proceeds to the Company of $105,000.

In April 2005, the Company concluded a private placement of its common stock with Mr. Edwards, its Chairman of the Board of Directors. Pursuant to such transaction, the Company sold an aggregate of 250,000 shares at $.20 per share, the approximate fair valuation on the date of closing, resulting in aggregate proceeds to the Company of $50,000.

In June 2005, the company issued 600,000 shares of its common stock, pursuant to the exercise of stock options at $.25 per share, resulting in aggregate proceeds to the Company of $150,000.

NOTE 7 - OPTIONS

On January 24, 2005, the Company granted options under the Company's option plan to several key employees, for the purchase of 550,000 shares of its common stock at $.20 per share, its fair market value on the date of grant, which are exercisable through January 24, 2015.

On April 1, 2005, the Company granted options under the Company's option plan to Mr. Muradian, its Chief Executive Officer, for the purchase of 700,000 shares of its common stock at $.20 per share, its fair market value on the date of grant, which are exercisable through April 1, 2015. The options vest 25% on April 1, 2006, 25% on April 1, 2007, 25% on April 1, 2008 and 25% on April 1, 2009.

On April 14, 2005, the Company granted options under the Company's options plan to Mr. Edwards, its Chairman of the Board of Directors, for the purchase of 800,000 shares of its common stock at $.22 per share, 110% of its the fair market value on the date of grant, which are exercisable through April 14, 2015. The options vest 25% on January 1, 2006, 25% on January 1, 2007, 25% on January 1, 2008 and 25% on January 1, 2009.

On May 18, 2005, the Company granted options under the Company's option plan to several key employees, for the purchase of 750,000 shares of its common stock at $.26 per share, its fair market value on the date of grant, which are exercisable through May 18, 2015.

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 these employees, 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 2005 and 2004 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:

	THREE MONTHS ENDED SEPTEMBER 30, 2005	2004	
Net Loss as reported	$ (88,460)	$ (96,916)	$
Deduct total stock-based employee compensation expense determined under a fair value based method for all awards	(461,766)	--	
Net loss - pro forma	$ (550,226)	$ (96,916)	$
Net loss per share	$ (0.01)	$ (0.01)	
Basic - as reported			
Basic - pro forma	$ (0.01)	$ (0.01)	

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 nine months ended September 30, 2005 and 2004:

	2005	2004
Risk-free interest rate	4.22%	3.50%
Expected Volatility	110.0%	99.9%
Expected Years of option term	10	-
Expected Dividends	0.0%	0.0%

As a result of amendments to SFAS 123, the Company will be required to expense the fair value of employee stock options over the vesting period beginning with its fiscal quarter ending March 31, 2006.

The following table summarizes information about stock options outstanding at September 30, 2005.

Options Outstanding			Options Exercisable	
Number	Weighted Average	Weighted	Number	Weighte

Exercise Price RANGE	Outstanding at September 30, 2005	Remaining Contractual LIFE (YEARS)	Average Exercise PRICE	Outstanding at September 30, 2005	Averag Exercise PRICE
$ 0.33	1,000,000	3.9	$ 0.33	1,000,000	$ 0.33
$ 0.75	100,000	8.4	$ 0.75	25,000	$ 0.75
$ 0.20	550,000	9.4	$ 0.20	550,000	$ 0.20
$ 0.20	700,000	9.6	$ 0.20	-	$ 0.20
$ 0.22	800,000	9.6	$ 0.22	-	$ 0.22
$ 0.26	750,000	9.7	$ 0.26	-	$ 0.26
	3,900,000	8.2	$ 0.26	1,575,000	$ 0.29

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.

For the three-month period ended September 30, 2005 we had net loss of $88,460, and have had recurring losses and negative cash flows from our operating activities since inception. We have cash of approximately $55,573 and a working capital deficiency of approximately $273,667 as of September 30, 2005. In February and April 2005, in private placements of the Company's common stock, all of the individual members of our Board of Directors and certain key employees purchased an aggregate of 775,000 shares of our common stock at $.20 per share, resulting in proceeds to the Company of $155,000. In June 2005 we received net proceeds of $150,000 from the exercise of stock options for 600,000 shares of our common stock at $.25 per share. Also in June 2005, the Company secured bridge loan funding of $180,000 for use in its operations, for which the entire amount was repaid, including $7,319 interest September 2005. In September 2005, the Company secured bridge loan funding of 50,000 for use in its operations.

The Company, in July 2005, signed an agreement with an Investment Banking firm to raise additional equity financing for the Company. We believe that as a result of the proceeds from our financing activities, as well as anticipated cash flow to be generated by fees from, and sales of, our RIS/PACS solution, we will be able to continue to meet our obligations as the become due through at least December 31, 2005. We also believe, but cannot assure, that if needed, we will be able to obtain additional capital resources from financing through financial institutions and other unrelated sources and/or through additional related party loans or equity transactions.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005 COMPARED WITH THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004

REVENUE:

For the three months ended September 30, 2005, our total revenue was $217,175, a $22,422 decrease from the $239,597 revenue in the prior year's comparable period. Revenues reflect continued delivery of the InMed Services contract and expansion of existing systems. For the nine months ended September 30, 2005, our total revenue was $581,408, a $204,061 decrease from the $785,469 revenue in the prior year's comparable period. The company continued to demonstrate strong performance in its core business RIS/PACS systems / software sales. The decrease in large part is attributable to the elimination of the service revenue provided by Dr. David Ryon, our former Chief Executive Officer.

COST OF REVENUE:

For the three months ended September 30, 2005, our cost of revenue was $54,850, an increase of $20,350 from the prior year's comparable period. The majority of the increase was due to the cost of systems hardware in support of existing contracts. For the nine months ended September 30, 2005, our cost of revenue was $111,228, an increase of $12,099 from the prior year's comparable period.

RESEARCH AND DEVELOPMENT EXPENSES:

During the three months ended September 30, 2005, we incurred research and development expenses of $106,817, an increase of $14,740 from the prior year's comparable period of $92,077. During the nine months ended September 30, 2005, we incurred research and development expenses of $290,052, an increase of $26,975 from the prior year's comparable period $263,077.

GENERAL AND ADMINISTRATIVE EXPENSES:

During the three months ended September 30, 2005, we incurred general and administrative expenses of $108,377, a decrease of $30,606 from $138,983 in G&A expenses for the comparable period in 2004. During the nine months ended September 30, 2005, we incurred General and Administrative expenses of $318,232, as compared with G&A expenses of $513,992 during the same period of 2004, a significant decrease of $195,760. The Company continues to control costs while focusing its efforts on revenue generating activities.

SALES AND MARKETING EXPENSES:

During the three months ended September 30, 2005, we incurred sales and marketing expenses of $35,590, as compared with sales and marketing expenses of $70,953 during the same period of 2004, a decrease of $35,363. The reduction in this category of expenses for this period was due to the savings incurred by having one less individual in the sales staff and the elimination of Dr. David Ryon's (former CEO of the Company) allocated expenses in the current period. During the nine months ended September 30, 2005 we incurred sales and marketing expenses of $93,851, as compared with sales and marketing expenses of $175,169 during the same period of 2004, a decrease of $81,418. 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.

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NET LOSS:

During the three months ended September 30, 2005, we incurred a net loss of $88,460, a decrease of $8,456, or 9%, from the loss of $96,916 for the comparable period in 2004. The reduced net loss for the third quarter 2005 was due to increased systems / software sales revenues from the implementation of InMed Services contract along with expansion of existing customers during the 2005 period and reduced sales and marketing and G&A expenses, offset by a loss of service income provided by Dr. David Ryon, our former CEO. The cost of system hardware associated with existing contracts contributed as well. During the nine months ended September 30, 2005, we reduced our net loss as compared to the same period in 2004 by $61,008, or 21%. Net loss for the nine months ended September 30, 2005 was $251,390 as compared with a net loss of $251,390 for same period in 2004. The Company continues to aggressively manage costs while it focuses on increasing revenues from sales of systems / software.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2005, our total assets were $459,439, a 65% increase over the total assets of $278,560 as of December 31, 2004, an increase of $180,879. The majority of the increase in total assets was in the category of cash and cash equivalents and in accounts receivable.

The Company's liquidity and capital resources improved during the nine months ended September 30, 2005 compared to December 31, 2004, including:

1. Cash and cash equivalents increased by $51,361 to $55,573.
2. Accounts receivable increased by $121,151 to $182,199.
3. Total current assets increased by $191,427 to $273,754.
4. Stockholder's equity improved by $73,110.

Even though the Company used net cash of $121,063 in its operating activities for the nine months ended September 30, 2005, its liquidity and capital resources continued to show improvement. Investing activities (purchase of equipment and improvements) for the period ended September 30, 2005 totaled $30,957. In addition to the $305,000 raised in equity capital and $180,000 raised in a one year bridge note during the six months ended June 30, 2005, the Company also raised $50,000 in a one year bridge note during September 2005.

The foregoing activities, i.e., operating, investing and financing, still resulted in our net cash increase of $51,361 for the nine months ended September 30, 2005, after the payment of the payment of the $180,000 bridge loan and interest.

During September 2002, we obtained a $75,000 working capital loan from a financial institution. As of September 30, 2005, we have approximately $55,904 outstanding under that loan. Additionally, in February and March 2004, we obtained two loans from a different financial institution that provided us with an aggregate principal amount of approximately $264,000. As of September 30, 2005, we had approximately $136,814 outstanding under these arrangements. In December 2004, we borrowed $105,000 from our former Chief Executive Officer, which will be repaid over 24 months, beginning in January 2006. Principal payments are $52,500 in each of the years 2006 and 2007.

In January 2004, we closed a five-year contract for the WarpSpeed system with St. Anthony Community Hospital, Warwick, NY. St. Anthony Community Hospital is a member of Bon Secours Charity Health System, which owns and operates 32 health care facilities.

In March 2005, the Company signed a contract for the sale of three of its WarpSpeed RIS/PACS systems to InMed Diagnostic Services, LLC, at multi-modality imaging centers. In addition to implementing our solution at the largest InMed site in Columbia, SC, we have installed at two Massachusetts sites specializing in women's health care.

In July 2005, the Company completed the second phase of its agreement with St. Anthony Community Hospital in Warwick, NY at the hospital's new Women's Health Center.

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, two notes payable which call for aggregate monthly payments of approximately $8,300 through March 2007, one note with monthly payments of approximately $4800 through December 2007, and $800 per month pursuant to a five-year lease commitment ending in October 2007 for our operations center in Kingston, New York. At times, in order to help in maximizing our working capital, our directors, officers and employees have contributed to capital or deferred compensation due under their agreements. It is anticipated, but not assured, that, should the need arise, such contributions or deferrals might be available to us in the future. Additionally, we have signed an agreement with an Investment Banking firm to raise equity financing 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, 2005. 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. As a result of the aforementioned, our financial statements have been prepared assuming the Company will continue as a going concern and they do not include any adjustments from the outcome of this uncertainty. Accordingly, the 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 February 2005, the Company concluded a private placement of its common stock with each member of its Board of Directors and two key employees. Pursuant to such transaction, the Company sold an aggregate of 525,000 shares at $.20 per share, the approximate and fair value on the date of closing, resulting in aggregate proceeds to the Company of $105,000.

In April 2005, the Company concluded a private placement of its common stock with the Chairman of its Board of Directors. Pursuant to such transaction, the Company sold an aggregate of 250,000 shares at $.20 per share, the approximate fair value on the date of closing, resulting in aggregate proceeds to the company of $50,000.

During April 2005, a related party to a member of the Company's Board of Directors loaned the Company an aggregate of $20,000. The entire amount was repaid, including interest of $500, during the same month.

In June 2005, the company issued 600,000 shares of its common stock, pursuant to the exercise of stock options at $.25 per share, resulting in aggregate proceeds to the Company of $150,000.

In June 2005, the Company received a total of $180,000 in cash as part of a Bridge Loan Agreement that included the issuance of warrants to purchase 180,000 shares of Common Stock of the Company. $85,000 of these funds came from a member of the Company's Board of Directors, $85,000 from a related party to another member of the Company's Board of Directors and $10,000 from Alfus Financial Services. The five-year warrants have an exercise price of $0.33 per share. The entire amount of this Bridge Loan has been repaid, including $7,319 interest September 2005.

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. The five-year warrants have an exercise price of $0.33 per share.

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 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.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

With respect to the Company's arbitration with Dr. Carlton Phelps (which was discussed in detail in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004), during the three months ended September 30, 2005, Dr. Phelps commenced a proceeding in New York State Supreme Court, Albany County, to confirm the arbitrator's award. The Company has moved to dismiss the proceeding on grounds of improper notice, and the matter is now pending before the court."

ITEM 2 - CHANGES IN SECURITIES

In April 2005 we issued 250,000 shares of our common stock in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, for $.20 per share, resulting in aggregate proceeds of $50,000 to be used for working capital purposes.

In June 2005, the company issued 600,000 shares of its common stock, pursuant to the exercise of stock options at $.25 per share, resulting in aggregate proceeds to the Company of $150,000.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

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

None

ITEM 5 - OTHER INFORMATION - CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

At the Annual Meeting of the Stockholders of Image Technology Laboratories, Inc., the proposal to ratify the appointment of J.H. Cohn LLP ("JH Cohn") as the Company's independent auditors was defeated. Therefore, effective June 23, 2005, the Board of Directors of the Company elected to discontinue its engagement of

JH Cohn as the Company's independent registered accounting firm and notified JH Cohn of its decision on that same date. JH Cohn will not be auditing or reviewing any of the Company's financial statements for the balance of the year ending December 31, 2005 and did not review the financial statements for the three months ended March 31, June 30, and September 30, 2005. An 8-K report was filed on June 29, 2005. The Company received a comment letter from the SEC on August 5, 2005 to which the Company anticipates replying within the quarter.

There was no disagreement with JH Cohn on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of JH Cohn, would have caused JH Cohn to make reference to the subject of that disagreement in its reports on the Company's financial statements except as follows: The Company's interim financial statements for the three months ended March 31, 2005 were reviewed by an independent public accountant prior to filing, which the Company believed satisfied the reporting requirements under the Securities Exchange Act of 1934 and Regulation S-B Item 310(b). JH Cohn disagreed with this position and expressed to the Company its belief that such a review of the interim financial statements was required to be completed by a PCAOB-registered accounting firm. Securities counsel for the Company subsequently received affirmation of the Company's position from a representative of the PCAOB. The Company requested JH Cohn furnish it with a letter, directed to the Security and Exchange Commission, whether or not it agreed with the statements in the Company's filing. This letter was subsequently received and an 8-K/A report filed on July 19, 2005.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS.

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

32.1 Certification of Chief Executive Officer and Principal Accounting 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.

/S/ BARRY C. MURADIAN

BARRY C. MURADIAN, CHIEF EXECUTIVE
OFFICER
AND PRINCIPAL ACCOUNTING OFFICER
NOVEMBER 15, 2005