IMAGE TECHNOLOGY LABORATORIES INC
Form 10QSB
November 13, 2003

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 SEPTEMBER 30, 2003

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.)

602 ENTERPRISE DR., 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 NOVEMBER 10, 2003 WAS 13,251,278

Image Technology Laboratories, Inc.

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Image Technology Laboratories, Inc.

Condensed Balance Sheet
September 30, 2003

ASSETS

Current assets:	
Cash and cash equivalents	$ 147,738
Prepaid expenses and other current assets	2,676
Total current assets	150,414
Equipment and improvements, net	181,781
Total	$ 332,195

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

Current liabilities:

Accounts payable and accrued expenses	$ 41,344
Notes payable to stockholders	5,200
Note payable - bank	70,833
Total current liabilities	117,377
Deferred revenues	128,333
Accrued compensation payable to stockholders	130,693
Total liabilities	376,403
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; 13,251,278 shares issued and outstanding	132,513
Additional paid-in capital	2,473,305
Accumulated deficit	(2,665,026)
Total stockholders' deficiency	(44,208)
Total	$ 332,195

See Notes to Condensed Financial Statements.

Image Technology Laboratories, Inc.

Condensed Statements of Operations
Nine and Three Months Ended September 30, 2003 and 2002
(Unaudited)

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	2003	2002	2003	2002
Revenues:				

Service income	$ 432,308	$ 207,800	$ 137,239	$ 131,250
Software license fees	105,000	11,667	35,000	11,667
Totals	537,308	219,467	172,239	142,917
Costs and expenses:				
Research and development	225,000	378,750	75,000	100,000
Sales and marketing	213,858	65,626	89,172	52,865
General and administrative	296,715	316,310	112,422	118,832
Totals	735,573	760,686	276,594	271,697
Net loss	$ (198,265)	$ (541,219)	$ (104,355)	$ (128,780)
Basic net loss per share	$ (.01)	$ (.04)	$ (.01)	$ (.01)
Basic weighted average shares outstanding	14,056,046	13,287,998	14,663,025	13,669,962

See Notes to Condensed Financial Statements.

Image Technology Laboratories, Inc.

Condensed Statement of Changes in Stockholders' Deficiency
Nine Months Ended September 30, 2003
(Unaudited)

PREFERRED STOCK		COMMON STOCK		
NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT	ADDITIO PAID- CAPIT

Balance, January 1, 2003	1,500,000	$ 15,000	12,232,462	$ 122,325	$ 1,827
Return of common stock in settlement of dispute			(200,000)	(2,000)	2
Issuance of common stock upon exercise of warrants			1,188,816	11,888	209
Accrued compensation contributed to capital					426
Issuance of common stock to directors			30,000	300	8
Net loss					
Balance, September 30, 2003	1,500,000	$ 15,000	13,251,278	$ 132,513	$ 2,473

See Notes to Condensed Financial Statements.

Image Technology Laboratories, Inc.

Condensed Statements of Cash Flows
Nine Months Ended September 30, 2003 and 2002
(Unaudited)

	2003	2002
Operating activities:		
Net loss	$(198,265)	$(541,219)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of equipment and improvements	7,892	6,896
Amortization of unearned compensation		125,000

Amortization of unearned marketing expenses		56,250
Issuance of common stock to directors	9,000	
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	7,320	
Accounts payable and accrued expenses	6,097	17,776
Deferred revenues	35,000	128,333
Accrued compensation payable to stockholders	6,655	109,539
Net cash used in operating activities	(126,301)	(97,425)
Investing activities - purchases of equipment	(150,342)	
Financing activities:		
Proceeds from note payable - bank	70,833	
Proceeds from exercise of warrants	221,094	16,375
Proceeds from private placement of common stock		121,000
Net cash provided by financing activities	291,927	137,375
Net increase in cash	15,284	39,950
Cash, beginning of period	132,454	151,730
Cash, end of period	$ 147,738	$ 191,680
Supplemental disclosure of cash flow information		
Interest paid	$ 772	
Supplemental disclosure of noncash investing and financing activities:		
Contribution of accrued compensation payable to stockholders to capital	$ 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 September 30, 2003, its results of operations for the nine and three months ended September 30, 2003 and 2002, changes in stockholders' deficiency for the nine months ended September 30, 2003 and cash flows for the nine months ended September 30, 2003 and 2002. Certain terms used herein are defined in the audited financial statements of the Company as of December 31, 2002 and for the years ended December 31, 2002 and 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 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 nine and three months ended September 30, 2003 are not necessarily indicative of the results of operations to be expected for the full year ending December 31, 2003.

The Company was a development stage company for accounting purposes, and was required to make certain related disclosures from January 1, 1998 (date of inception) through April 2002, at which time its "PACS" software product became available for sale (see Notes 1 and 2 to the financial statements in the Form 10-KSB). From time to time, the Company has and will continue to derive revenues from the provision of radiology and imaging services to affiliated and nonaffiliated companies. However, management expects that the Company will derive its revenues in the future primarily from sales of its software products. The Company obtained its first contract for the sale of its software product and related hardware and maintenance services in August 2002. Accordingly, the Company is no longer in the development stage.

Note 1 - Basis of presentation (concluded):

Although the Company has incurred recurring losses and negative cash flows from operating activities since its inception, the Company had cash and cash equivalents of approximately $148,000 and working capital of approximately $33,000 as of September 30, 2003. Management expects a reduction in the level of such losses now that sales of the Company's software products have commenced. A substantial portion of the Company's losses, historically, have been attributable to noncash charges. As of September 30, 2003, certain stockholders of the Company had agreed to defer approximately $131,000 of compensation due them under their employment agreements as of that date until October 1, 2004 and to defer certain additional amounts that will accrue after September 30, 2003 which has and will continue to preserve the Company's liquidity. Management believes that as a result of the additional cash flows from the software product sales and the Company's ability to defer payments to certain stockholders, the Company will be able to continue to meet its obligations as they become due through at least September 30, 2004. Management also believes, but cannot assure, 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.

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 nine and three months ended September 30, 2003 and 2002, 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 nine and three months ended September 30, 2003 and 2002, the assumed effects of the exercise of options to purchase 2,000,000 and 3,000,000 common shares outstanding at September 30, 2003 and 2002, respectively, and warrants to purchase 1,999,029 and 3,429,512 common shares outstanding at September 30, 2003 and 2002, respectively, therefore, diluted per share amounts have not been presented in the accompanying condensed statements of operations for those periods as the results would be anti-dilutive.

Note 3 - Warrants:

On February 11, 2003, the Company reduced the exercise price for its outstanding Class A and Class B warrants from $.40 and $.50 per share, respectively, to $.20 per share during the period from February 18, 2003 through July 1, 2003. The original exercise prices will remain in effect for the period from July 2, 2003 until the Class A and Class B warrants expire on October 15, 2003.

During the nine months ended September 30, 2003, the Company received $221,094 upon the exercise of Class A and Class B warrants for the purchase of 1,105,483 shares of common stock at $.20 per share. As of September 30, 2003, Class A and Class B warrants for the purchase of a total of 1,999,029 remained outstanding (see Note 5 in the Form 10-KSB) and expired unexercised on October 15, 2003. In addition, the Company issued 83,333 shares of common stock as compensation to the investment banker in accordance with the terms of the sale of units in the initial public offering.

Note 4 - Stock options:

During the nine months ended September 30, 2003, the Company cancelled options it had previously granted to one of its founders for the purchase of 1,000,000 shares of its common stock at $.33 per share in connection with the termination of his employment contract. In addition, the Company granted options to a newly-hired sales director for the purchase of 100,000 shares of its common stock at $.18 per share (the fair value at the date of grant) that are exercisable through January 2013.

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 consolidated financial statements for the stock options granted by the Company to its 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 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:

Notes to Condensed Financial Statements
(Unaudited)

Note 4 - Stock options (concluded):

	NINE MONTHS ENDED SEPTEMBER 30, 2003	NINE MONTHS ENDED SEPTEMBER 30, 2002	THREE MONTHS ENDED SEPTEMBER 30, 2003	THREE MONTHS ENDED SEPTEMBER 30, 2002
Net loss - as reported	$(198,265)	$(541,219)	$ (104,355)	$(128,780
Deduct total stock-based employee compensation expense determined under a fair value based method for all awards	(2,000)	(120,000)	--	(40,000
Net loss - pro forma	$(200,265)	$(661,219)	$ (104,355)	$(168,780
Net loss per share:				
Basic - as reported	$ (.01)	$ (.04)	$ (.01)	$ (.01
Basic - pro forma	$ (.01)	$ (.05)	$ (.01)	$ (.01

Note 5 - Shares for services:

During January 2002, the Company agreed to issue 450,000 shares of common stock and warrants to purchase 100,000 shares of common stock in exchange for the provision of marketing services by an investor relations firm. The Company recorded the fair value of the shares of $112,500 on the date of the agreement as unearned marketing expense. The shares and warrants became issuable and were issued in June 2002.

Under the agreement, the investor relations firm was required to provide the marketing services over the six month period that commenced in July 2002, and the Company amortized the unearned marketing expense over that period. However, during that period, disputes arose related to those services. On December 31, 2002, the disputes were resolved and the investor relations firm agreed to return 200,000 shares of common stock and allow the Company to cancel the warrants it had issued for the purchase of 100,000 shares. During the nine months ended September 30, 2003, the investor relations firm returned the 200,000 shares of common stock and the Company cancelled them.

Note 6 - Directors fees:

During September 2003, the Company agreed to issue to its

Board of Directors 30,000 shares of common stock as directors' fees. The Company recorded the fair value of the shares of $9,000 on the date they agreed to issue them as directors' fees.

Image Technology Laboratories, Inc.

Notes to Condensed Financial Statements
(Unaudited)

Note 7 - Accrued compensation payable to stockholders:

During the nine months ended September 30, 2003, the Company's principal stockholder contributed $426,004 of compensation owed to him to capital.

* * *

OPERATIONS

OVERVIEW

THE FOLLOWING IS A DISCUSSION OF CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS, LIQUIDITY, AND CAPITAL RESOURCES. YOU SHOULD READ THE FOLLOWING DISCUSSION AND ANALYSIS IN CONJUNCTION WITH OUR UNAUDITED CONDENSED FINANCIAL STATEMENTS AND RELATED NOTES, WHICH ARE INCLUDED ELSEWHERE IN THIS FILING. WE HAVE 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", 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 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.

WE WERE A DEVELOPMENT STAGE COMPANY FOR ACCOUNTING PURPOSES, AND WERE REQUIRED TO MAKE CERTAIN RELATED DISCLOSURES FROM JANUARY 1, 1998 (DATE OF INCEPTION) THROUGH APRIL 2002, AT WHICH TIME OUR WARPSPEED PACS/RIS SYSTEM BECAME AVAILABLE FOR SALE. FROM TIME TO TIME, WE HAVE AND WILL CONTINUE TO DERIVE REVENUES FROM THE PROVISION OF RADIOLOGY AND IMAGING SERVICES TO AFFILIATED AND NONAFFILIATED COMPANIES. HOWEVER, MANAGEMENT EXPECTS THAT WE WILL DERIVE OUR REVENUES IN THE FUTURE PRIMARILY FROM SALES OF OUR SYSTEMS. WE OBTAINED OUR FIRST CONTRACT FOR THE SALE OF OUR SOFTWARE PRODUCT AND RELATED HARDWARE AND MAINTENANCE SERVICES IN AUGUST 2002. ACCORDINGLY, WE ARE NO LONGER IN THE DEVELOPMENT STAGE.

ALTHOUGH WE HAVE INCURRED RECURRING LOSSES AND NEGATIVE CASH FLOWS FROM OUR OPERATING ACTIVITIES SINCE INCEPTION, WE HAVE CASH AND CASH EQUIVALENTS OF APPROXIMATELY $148,000 AND WORKING CAPITAL OF APPROXIMATELY $33,000 AS OF SEPTEMBER 30, 2003. WE EXPECT A REDUCTION IN THE LEVEL OF OUR OPERATING LOSSES NOW THAT SALES OF OUR SOFTWARE PRODUCTS HAVE COMMENCED. A SUBSTANTIAL PORTION OF OUR HISTORIC OPERATING LOSSES HAVE BEEN ATTRIBUTABLE TO NON-CASH CHARGES. AS OF SEPTEMBER 30, 2003, CERTAIN OF OUR STOCKHOLDERS HAD AGREED TO DEFER APPROXIMATELY $131,000 OF COMPENSATION DUE THEM UNDER THEIR EMPLOYMENT AGREEMENT AS OF THAT DATE UNTIL OCTOBER 1, 2004 AND TO DEFER CERTAIN ADDITIONAL AMOUNTS THAT WILL ACCRUE AFTER SEPTEMBER 30, 2003, IF NECESSARY. DURING SEPTEMBER 2002, WE OBTAINED A $75,000 WORKING CAPITAL LINE OF CREDIT FROM M AND T BANK. THE PROCEEDS OF THIS LOAN WERE UTILIZED FOR THE PURCHASE OF CAPITAL EQUIPMENT FOR THE PARK AVENUE INSTALLATION, WHICH WAS COMPLETED IN THE THIRD QUARTER. MANAGEMENT BELIEVES THAT AS A RESULT OF THE ADDITIONAL CASH FLOWS FROM THE SOFTWARE PRODUCT SALES AND OUR ABILITY TO DEFER PAYMENTS TO CERTAIN STOCKHOLDERS, WE WILL BE ABLE TO CONTINUE TO MEET OUR OBLIGATIONS AS THEY BECOME DUE THROUGH AT LEAST SEPTEMBER 30, 2004. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

OUR DISCUSSION AND ANALYSIS OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS ARE BASED UPON OUR CONDENSED FINANCIAL STATEMENTS, WHICH HAVE BEEN PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA. THE PREPARATION OF THESE FINANCIAL STATEMENTS REQUIRES US TO MAKE ESTIMATES AND JUDGEMENTS THAT AFFECT THE REPORTED AMOUNTS OF ASSETS, LIABILITIES, REVENUES AND EXPENSES, AND RELATED DISCLOSURE OF CONTINGENT ASSETS AND LIABILITIES. ON AN ON-GOING BASIS, WE EVALUATE OUR ESTIMATES, INCLUDING THOSE RELATED TO DEPRECIATION AND DEFERRAL OF REVENUE. WE BASE OUR ESTIMATES ON HISTORICAL EXPERIENCE AND ON VARIOUS OTHER ASSUMPTIONS THAT ARE BELIEVED TO BE REASONABLE UNDER THE CIRCUMSTANCES, THE RESULTS OF WHICH FORM THE BASIS FOR MAKING JUDGMENTS ABOUT THE CARRYING VALUES OF ASSETS AND LIABILITIES THAT ARE NOT READILY APPARENT FROM OTHER SOURCES. ACTUAL RESULTS MAY DIFFER FROM THOSE ESTIMATES UNDER DIFFERENT ASSUMPTIONS OR CONDITIONS.

RESULTS OF OPERATIONS FOR THE NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO THE NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 2002.

REVENUES:

WE WERE A DEVELOPMENT STAGE COMPANY FROM JANUARY 1, 1998 (DATE OF INCEPTION) THROUGH APRIL 2002, AT WHICH TIME OUR SOFTWARE WAS AVAILABLE FOR SALE. DURING THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2003, WE DERIVED SERVICE REVENUE OF APPROXIMATELY $432,000 AND $137,000 RESPECTIVELY AS COMPARED TO APPROXIMATELY $208,000 AND $131,000 FOR THE COMPARABLE PRIOR PERIODS. IN ADDITION, DURING THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2003, WE EARNED APPROXIMATELY $105,000 AND $35,000 RESPECTIVELY, FROM THE SALE OF OUR INITIAL UNIT, AS WELL AS DEFERRING APPROXIMATELY $35,000 OF ADDITIONAL REVENUE (OR $128,000 IN TOTAL) RELATING TO THE SALE OF OUR INITIAL UNIT WHICH WILL BE RECOGNIZED RATABLY OVER THE PERIOD IN WHICH WE ARE REQUIRED TO PROVIDE MAINTENANCE AND OTHER SERVICES.

RESEARCH AND DEVELOPMENT EXPENSES:

DURING THE NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 2003, WE INCURRED RESEARCH AND DEVELOPMENT EXPENSES OF APPROXIMATELY $225,000 AND $75,000, RESPECTIVELY, AS COMPARED WITH APPROXIMATELY $379,000 AND $100,000 IN THE COMPARABLE PRIOR PERIODS. THESE EXPENSES CONSISTED PRIMARILY OF COMPENSATION TO OUR FOUNDERS UNDER THEIR EMPLOYMENT CONTRACTS. IN ADDITION, $75,000 OF THESE EXPENSES IN THE FIRST QUARTER OF 2002 WAS ATTRIBUTABLE TO COMPENSATION ASSOCIATED WITH THE ISSUANCE OF THE SHARES OF PREFERRED STOCK TO THE FOUNDERS, A NON-CASH CHARGE. DURING THE FIRST QUARTER OF 2002, ONE OF OUR FOUNDERS WAS TERMINATED FOR CAUSE FOR BREACH OF HIS EMPLOYMENT AGREEMENT. AS A RESULT, OUR RESEARCH AND DEVELOPMENT EXPENSES WERE REDUCED AND SHOULD REMAIN AT THIS REDUCED LEVEL FOR THE FORESEEABLE FUTURE.

GENERAL AND ADMINISTRATIVE EXPENSES:

DURING THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2003, WE INCURRED GENERAL AND ADMINISTRATIVE EXPENSES OF APPROXIMATELY $297,000 AND $112,000, RESPECTIVELY, AS COMPARED TO APPROXIMATELY $316,000 AND $119,000 IN THE COMPARABLE PRIOR PERIODS. THE DECREASE IN THESE PERIODS IS PRIMARILY ATTRIBUTABLE TO US INITIALLY BUILDING OUR INFRASTRUCTURE DURING 2002 AND THEN IDENTIFYING AND ELIMINATING CERTAIN NON-CRITICAL POSITIONS OR EXPENDITURES AT OUR CURRENT STAGE. IN THE FUTURE, CERTAIN OF THESE COSTS WILL BE INCURRED OR INCREASED.

SALES AND MARKETING EXPENSES:

DURING THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2003, WE BEGAN TO INCUR MARKETING EXPENSES AS WE INTRODUCED OUR PRODUCT FOR SALE. DURING THIS PERIOD, WE INCURRED APPROXIMATELY $214,000 AND $89,000, RESPECTIVELY, AS COMPARED TO APPROXIMATELY $66,000 AND $53,000 IN THE COMPARABLE PRIOR PERIODS.

NET LOSS:

AS A RESULT OF THE AFOREMENTIONED, WE INCURRED A LOSS OF APPROXIMATELY $198,000

($.01 PER SHARE) AND $104,000 ($.01 PER SHARE) FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2003, RESPECTIVELY, AS COMPARED TO A LOSS OF APPROXIMATELY $541,000 ($.04 PER SHARE) AND $129,000 ($.01 PER SHARE) FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2002.

LIQUIDITY AND CAPITAL RESOURCES:

AS OF SEPTEMBER 30, 2003, WE HAD CASH AND CASH EQUIVALENTS OF $148,000 AND WORKING CAPITAL SURPLUS OF $33,000. TO DATE, THE PRINCIPAL SOURCES OF OUR CAPITAL RESOURCES INCLUDE PROCEEDS FROM ISSUANCE OF SHARES OF COMMON STOCK TO OUR FOUNDERS OF $21,250 AND THE NET PROCEEDS FROM THE PRIVATE PLACEMENT OF UNITS OF COMMON STOCK AND WARRANTS DURING 2000 OF APPROXIMATELY $180,000. ON OCTOBER 15, 2000, WE COMPLETED AN INITIAL PUBLIC OFFERING, WHEREBY WE SOLD UNITS CONSISTING OF ONE SHARE OF COMMON STOCK AND ONE WARRANT TO PURCHASE ONE SHARE OF COMMON STOCK AND RECEIVED AGGREGATE PROCEEDS OF APPROXIMATELY $840,000. IN ADDITION, IN JANUARY 2002, WE SOLD 400,000 SHARES OF OUR COMMON STOCK TO THE PENSION FUND OF OUR PRINCIPAL STOCKHOLDER AT $.25 PER SHARE (THE APPROXIMATE FAIR VALUE OF THE SHARES AT THE TIME OF SALE) AND RECEIVED PROCEEDS OF $100,000. THEN, DURING SEPTEMBER 2002, WE SOLD AN ADDITIONAL 75,000 SHARES OF OUR COMMON STOCK TO THE SAME PENSION FUND FOR $.28 PER SHARE (THE APPROXIMATE FAIR VALUE OF THE SHARES AT THE TIME OF SALE) AND RECEIVED PROCEEDS OF $21,000. IN THE FIRST NINE MONTHS OF 2003, WE RAISED APPROXIMATELY $221,000 FROM THE EXERCISE OF OUR WARRANTS. WE ALSO RECEIVED NET PROCEEDS OF $71,000 DRAWN UNDER A $75,000 BANK LOAN FROM M & T BANK. THE AFOREMENTIONED PROCEEDS HAVE BEEN USED FOR WORKING CAPITAL, CAPITAL EQUIPMENT, AND GENERAL CORPORATE PURPOSES. IN ADDITION TO THE AFOREMENTIONED EQUITY TRANSACTIONS, WE HAVE FUNDED A PART OF OUR ACCUMULATED LOSS OF APPROXIMATELY $2,665,000 BY HAVING OUR FOUNDERS DEFER APPROXIMATELY $557,000 OF COMPENSATION DUE THEM UNDER THEIR EMPLOYMENT AGREEMENTS. OF THAT AMOUNT, THE PRINCIPAL SHAREHOLDER HAS AGREED TO CONTRIBUTE APPROXIMATELY $426,000 TO OUR CAPITAL. WE HAVE EXECUTED A FIVE-YEAR LEASE (AT $700 PER MONTH) FOR OFFICE SPACE AT "TECH CITY", FORMALLY THE IBM FACILITY IN KINGSTON, NY. TECH CITY HAS BECOME THE HOME OF MANY HIGH TECHNOLOGY FIRMS IN THE HUDSON VALLEY. THE SPACE IS SUFFICIENT FOR BOTH OUR GROWING RESEARCH AND DEVELOPMENT TEAM AND A SALES/MARKETING FORCE.

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IN MAY 2003, WE SIGNED A FIVE YEAR CONTRACT WITH PARK AVENUE ASSOCIATES IN RADIOLOGY, P.C. TO INSTALL AND MAINTAIN OUR WARPSPEED PACS/RIS SYSTEM IN ONE OF THEIR OUTPATIENT IMAGING CENTERS. THIS INSTALLATION WAS COMPLETED AND WE SHOULD COMMENCE EARNING REVENUE UNDER THE AFOREMENTIONED CONTRACT DURING THE FORTH QUARTER OF 2003. WE HAVE ENTERED INTO LETTER OF INTENT WITH ST. ANTHONY'S HOSPITAL, WARWICK, NY. MANAGEMENT EXPECTS THE FINAL CONTRACT TO CLOSE BY THE END OF THE FORTH QUARTER. WE EXPECT TO COMMENCE EARNING REVENUES UNDER THIS AGREEMENT DURING THE FIRST QUARTER OF 2004.

ITEM 3.

CONTROLS AND PROCEDURES

UNDER THE SUPERVISION AND WITH THE PARTICIPATION OF OUR MANAGEMENT, INCLUDING

OUR PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER, WE HAVE EVALUATED THE EFFECTIVENESS OF THE DESIGN AND OPERATION OF OUR DISCLOSURE CONTROLS AND PROCEDURES PURSUANT TO EXCHANGE ACT RULE13A-15 AS OF THE END OF THE PERIOD COVRED BY THIS QUARTERLY REPORT. BASED UPON THEIR EVALUATION, OUR PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER HAVE CONCLUDED THAT OUR DISCLOSURE CONTROLS AND PROCEDURES ARE EFFECTIVE IN TIMELY ALERTING THEM TO MATERIAL INFORMATION RELATING TO US REQUIRED TO BE INCLUDED IN OUR PERIODIC SEC FILINGS. THERE WERE NO SIGNIFICANT CHANGES IN OUR INTERNAL CONTROLS OR IN FACTORS THAT COULD SIGNIFICANTLY AFFECT THESE CONTROLS SUBSEQUENT TO THE DATE OF THE EVALUATION. 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.

DURING THE THIRD QUARTER, THE COMPANY ENTERED INTO, AND HAS SINCE CONCLUDED, BINDING ARBITRATION WITH CARLTON PHELPS PERTAINING TO CERTAIN PROVISIONS OF HIS EMPLOYMENT AGREEMENT EXECUTED DECEMBER 1999. A DECISION IS PENDING AND IS SCHEDULED FOR RELEASE BY THE ARBITRATOR ON JANUARY 14, 2004. IT IS THE OPINION OF MANAGEMENT THAT THE COMPANY WILL PREVAIL IN THESE MATTERS, AND THERE WILL BE NO MATERIAL EFFECT ON THE COMPANY, OR ITS OPERATIONS.

ITEM 2.

CHANGES IN SECURITIES.

DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2003, WE RECEIVED APPROXIMATELY $221,000 UPON THE EXERCISE OF CLASS A AND B WARRANTS FOR THE PURCHASE OF APPROXIMATELY 1,189,000 SHARES OF COMMON STOCK AT $.20 PER SHARE. ALL OF WHICH WERE ISSUED AND OUTSTANDING AS OF SEPTEMBER 30, 2003.

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) 31.1 AND 31.2. (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: NOVEMBER 14, 2003

/S/ DAVID RYON

DAVID RYON, CEO, PRESIDENT AND
PRINCIPAL FINANCIAL AND
ACCOUNTING OFFICER