IMAGE TECHNOLOGY LABORATORIES INC
Form 10QSB/A
June 07, 2002

AMENDMENT NO. 1

TO

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 MARCH 31, 2002

OR

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

COMMISSION FILE NUMBER

IMAGE TECHNOLOGY LABORATORIES, INC.

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

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

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

(845) 338-3366

(ISSUER'S TELEPHONE NUMBER, INCLUDING AREA CODE)

CHECK WHETHER THE ISSUER: (1) FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PAST 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.
YES |X| NO |_|

APPLICABLE ONLY TO CORPORATE ISSUERS

THE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING AS OF MARCH 31, 2002 WAS 11,706,212

Item 1. Financial Statements

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

INDEX TO FINANCIAL STATEMENTS

* * *

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

Condensed Balance Sheets
March 31, 2002 and December 31, 2001

ASSETS

	March 31, 2002 (Unaudited)	December 31, 2001
Current assets - cash and cash equivalents	$ 118,798	$ 151,730
Equipment, net	40,649	42,948
Totals	$ 159,447	$ 194,678

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued expenses	$ 26,332	$ 37,911
Notes payable to stockholders	5,200	5,200
Total current liabilities	31,532	43,111
Accrued compensation payable to stockholders	460,926	420,541
Total liabilities	492,458	463,652
Commitment		
Stockholders' 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; 11,706,212 and 11,272,712 shares issued and outstanding	117,062	112,727
Additional paid-in capital	1,698,533	1,587,118
Unearned compensation	(75,000)	(150,000)
Deficit accumulated in the development stage	(2,088,606)	(1,833,819)
Total stockholders' deficiency	(333,011)	(268,974)
Totals	$ 159,447	$ 194,678

See Notes to Condensed Financial Statements.

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

Condensed Statements of Operations
Three Months Ended March 31, 2002 and 2001
and Period From January 1, 1998
(Date of Inception) to March 31, 2002
(Unaudited)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001	Period from January 1, 1998 to March 31, 2002
Revenues - related party	$ 7,300	$ --	$ 28,675
Research and development expenses	178,750	151,764	1,448,242
General and administrative expenses	83,337	21,299	669,039
Totals	262,087	173,063	2,117,281
Net loss	$ (254,787)	$ (173,063)	$ (2,088,606)
Basic net loss per share	$ (.02)	$ (.01)	
Basic weighted average shares outstanding	12,987,956	12,462,973	

See Notes to Condensed Financial Statements.

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

Condensed Statement of Changes in Stockholders' Equity (Deficiency)
Three Months Ended March 31, 2002
and Period from January 1, 1998
(Date of Inception) to March 31, 2002
(Unaudited)

Preferred Stock Common

	Number of Shares	Amount	Number of Shares
Issuance of shares effective as of January 1, 1998 to founders			7,288,750
Net loss			
Balance, December 31, 1998			7,288,750
Net loss			
Balance, December 31, 1999			7,288,750
Issuance of preferred stock in exchange for services	1,500,000	$ 15,000	
Issuance of common stock in exchange for services			250,000
Sales of units of common stock and warrants through private placement, net of expenses, in February 2000			799,729
Subscription for units of common stock and warrants through private placement			33,333
Sales of units of common stock and warrants through public offering completed in October 2000, net of expenses			2,591,050
Amortization of unearned compensation			
Net loss			
Balance, December 31, 2000	1,500,000	15,000	10,962,862
Issuance of common stock upon exercise of warrants			309,850
Amortization of unearned compensation			
Receipt of subscription receivable			
Net loss			
Balance, December 31, 2001	1,500,000	$ 15,000	11,272,712
Sales of shares of common stock through private placement			400,000
Issuance of common stock upon exercise of warrants			33,500
Amortization of unearned compensation			
Net loss			
Balance, March 31, 2002	1,500,000	$ 15,000	11,706,212

Deficit

	Common Stock Subscription Receivable	Unearned Compensation	Accumulated in the Development Stage
Issuance of shares effective as of January 1, 1998 to founders			
Net loss			$ (18,407)
Balance, December 31, 1998			(18,407)
Net loss			(733)
Balance, December 31, 1999			(19,140)
Issuance of preferred stock in exchange for services		$ (450,000)	
Issuance of common stock in exchange for services			
Sales of units of common stock and warrants through private placement, net of expenses, in February 2000			
Subscription for units of common stock and warrants through private placement	$ (10,000)		
Sales of units of common stock and warrants through public offering completed in October 2000, net of expenses			
Amortization of unearned compensation		150,000	
Net loss			(845,595)
Balance, December 31, 2000	(10,000)	(300,000)	(864,735)
Issuance of common stock upon exercise of warrants			
Amortization of unearned compensation		150,000	
Receipt of subscription receivable	10,000		
Net loss			(969,084)
Balance, December 31, 2001	$ --	$ (150,000)	$ (1,833,819)
Sales of shares of common stock through private placement			
Issuance of common stock upon exercise of warrants			
Amortization of unearned compensation		$ 75,000	
Net loss			$ (254,787)
Balance, March 31, 2002	$ --	$ (75,000)	$ (2,088,606)

See Notes to Condensed Financial Statements.

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

Condensed Statements of Cash Flows
Three Months Ended March 31, 2002 and 2001
and Period from January 1, 1998
(Date of Inception) to March 31, 2002
(Unaudited)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001	Peri fro Janu 1, 1 to Ma 31, 2
Operating activities:			
Net loss	$ (254,787)	$ (173,063)	$(2,088
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of unearned compensation	75,000	37,500	375
Depreciation	2,299		6
Common stock issued for services			75
Amortization of capitalized software costs			2
Changes in operating assets and liabilities:			
Accounts payable and accrued expenses	(11,579)	(11,998)	26
Accrued compensation payable to stockholders	40,385	28,490	460
Net cash used in operating activities	(148,682)	(119,071)	(1,142
Investing activities:			
Software costs capitalized			(2
Purchase of equipment			(47
Net cash used in investing activities			(49
Financing activities:			
Proceeds from issuance of notes payable to stockholders			5
Proceeds from issuance of common stock	15,750	625	185
Net proceeds from private placements and public offering of units of common stock and warrants	100,000		1,124
Payments of deferred private placement costs			(5
Net cash provided by financing activities	115,750	625	1,310

Net increase (decrease) in cash and cash equivalents	(32,932)	(118,446)	118
Cash and cash equivalents, beginning of period	151,730	725,105	
Cash and cash equivalents, end of period	$ 118,798	$ 606,659	$ 118

See Notes to Condensed Financial Statements.

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

Notes to Condensed Financial Statements
(Unaudited)

Note 1 - Unaudited interim financial statements:

In the opinion of management, the accompanying unaudited condensed financial statements reflect all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of Image Technology Laboratories, Inc. (the "Company") as of March 31, 2002, its results of operations and cash flows for the three months ended March 31, 2002 and 2001, changes in stockholders' equity (deficiency) for the three months ended March 31, 2002 and the related cumulative amounts for the period from January 1, 1998 (date of inception) to March 31, 2002. Certain terms used herein are defined in the audited financial statements of the Company as of December 31, 2001 and for the years ended December 31, 2001 and 2000 and period from January 1, 1998 (date of inception) to December 31, 2001 (the "Audited Financial Statements") included in the Company's Annual Report on Form 10-KSB previously filed with the Securities and Exchange Commission (the "SEC"). Pursuant to rules and regulations of the SEC, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from these financial statements unless significant changes have taken place since the end of the most recent fiscal year. Accordingly, the accompanying unaudited condensed financial statements should be read in conjunction with the Audited Financial Statements and the other information included in the Form 10-KSB.

The results of operations for the three months ended March 31, 2002 are not necessarily indicative of the results of operations for the full year ending December 31, 2002.

As of March 31, 2002, the Company has cash and cash equivalents of approximately $119,000 and working capital of approximately $87,000. However, since inception, the Company has incurred losses resulting in an accumulated deficit of approximately $2,089,000 at March 31, 2002. The Company currently has no significant sources of revenues and expects to incur additional losses for the foreseeable future. In addition, the Company has only recently introduced its product to market and does not expect to generate any significant revenues prior to the second quarter of the year ending December 31, 2002. Further, as of March 31, 2002, the stockholders have deferred approximately $461,000 of compensation due them under until 2003 their employment agreements.

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

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

Notes to Condensed Financial Statements
(Unaudited)

Note 1 - Unaudited interim financial statements (concluded):

If the aforementioned contract does not close, as anticipated, the Company estimates that it will need additional financing of $200,000, either by debt or equity, to fund its planned operations beyond its current level over the next 12 months. At the present time, except for the commitment of the Company's principal stockholder to fund the $200,000, the Company has no commitments for additional financing and there can be no assurance that such financing will be available on satisfactory terms, if at all. Management believes that even if the aforementioned contract does not close, the funding by the principal stockholder of $200,000 will enable the Company to meet its obligations and fund its operations through at least March 31, 2003.

Note 2 - Earnings (loss) per share:

The Company presents basic earnings (loss) per share and, if appropriate, diluted earnings per share in accordance with the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128").

The rights of the Company's preferred and common stockholders are substantially equivalent. The Company has included the 1,500,000 preferred shares from the date of their issuance in the weighted average number of shares outstanding in the computation of basic loss per share for the three months ended March 31, 2002 and 2001 in accordance with the "two class" method of computing earnings (loss) per share set forth in SFAS 128.

Since the Company had a loss for the three months ended March 31, 2002, the assumed effects of the exercise of 3,000,000 options and 3,330,762 and 3,672,862 warrants outstanding at March 31, 2002 and 2001, respectively, would have been anti-dilutive.

Note 3 - Exercise of warrants:

During the three months ended March 31, 2002, warrantholders redeemed 23,500 warrants and received 23,500 shares of common stock at a redemption price of $.50 per share or $11,750 and also exercised 10,000 warrants and received 10,000 shares of common stock at a price of $.40 per share or $4,000. As of March 31, 2002, 3,330,762 warrants are outstanding.

Note 4 - Private placement of shares:

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

Note 5 - Commitment:

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

The services will be valued at approximately $112,500 based on the fair value of the shares of common stock on the date the agreement was entered into. The services will commence upon issuance of the shares of common stock, which are currently in the process of being registered.

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

OVERVIEW

The following is a discussion of certain factors affecting Image Technology Laboratories, Inc.'s results of operations, liquidity, and capital resources. You should read the following discussion and analysis in conjunction with Image Technology Laboratories, Inc's unaudited condensed financial statements and related notes which are included elsewhere in this filing.

Image Technology Laboratories, Inc. is a development stage company that has entered the medical image management segment of the healthcare information systems market. We were incorporated in Delaware on December 5, 1997. Image Technology has developed a fully integrated "radiology information system/picture archiving and communications", known as RIS/PACS for use in the management of medical diagnostic images and patient information by hospitals. The PACS portion of the system inputs and stores diagnostic images in digital format from original imaging sources such as:

Computerized tomography, or CT scans
Magnetic resonance imaging, or MRIs
Ultrasound, nuclear imaging
Digital fluoroscopy

The RIS portion of the system inputs and stores patient demographics, along with the appropriate insurance, billing and scheduling information required to complete the patient visit. All of the data is retained in standard formats, including DICOM and HL-7 standards.

As of March 31, 2002, the Company's operations have been limited to organizational activities and have not generated any significant revenues from operations through that date. Accordingly, the Company is considered as a "development stage company" for financial reporting purposes.

As of March 31, 2002, the Company has cash and cash equivalents of approximately $119,000 and working capital of approximately $87,000. However, since inception, the Company has incurred losses resulting in an accumulated deficit of approximately $2,089,000 at March 31, 2002. The Company currently has no significant sources of revenues and expects to incur additional losses for the foreseeable future. In addition, the Company has only recently introduced its product to market and does not expect to generate any significant revenues prior to the second quarter of the year ending December 31, 2002. Further, as of March 31, 2002, the stockholders have deferred until 2003 approximately $461,000 of compensation due them under their employment agreements.

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

If the aforementioned contract does not close, as anticipated, the Company estimates that it will need additional financing of $200,000, either by debt or equity financing to fund its planned operations beyond its current level over the next 12 months. At the present time, except for the commitment of the Company's principal stockholder to fund the $200,000, the Company has no commitments for additional financing and there can be no assurance that such financing will be available on satisfactory terms, if at all. Management believes that even if the principal stockholder funds the additional working capital of $200,000 it will enable the Company to meet its obligations and fund its operations through at least March 31, 2003.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2001

REVENUES:

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

RESEARCH AND DEVELOPMENT EXPENSES:

During the three months ended March 31, 2002, the Company incurred research and development expenses of $178,750, as compared with $151,764 in the comparable prior period. These expenses consisted primarily of compensation to the Company's three founders under their employment contracts. In addition, $75,000 and $37,500 of these expenses during the three months period ended March 31, 2002 and 2001 were attributable to compensation associated with the issuance of the shares of preferred stock to the founders, a non-cash charge. During the three months ended March 31, 2002, one of our founders was terminated for cause for breach of his employment agreement; therefore, we accelerated the remaining unamortized compensation ($37,500) associated with the issuance of the Preferred Stock to that founder.

GENERAL AND ADMINISTRATION EXPENSES:

During the three months ended March 31, 2002, the Company incurred general and administrative expenses of $83,337 as compared to $21,299 in the comparable prior period. The increase was primarily attributable to an increase in payroll and other overhead items as well as incurring additional costs as it built up its infrastructure.

NET LOSS:

As a result of the aforementioned, the Company incurred a loss of approximately $255,000 ($.02 per share) for the three months ended March 31, 2002, as compared to approximately $173,000 ($.01 per share) for the three months ended March 31, 2001.The loss was based on the basic weighted average shares outstanding of 12,987,956 and 12,462,973 for the three months ended March 31, 2002 and 2001, respectively.

LIQUIDITY AND CAPITAL RESOURCES:

As of March 31, 2002, we had cash and working capital of approximately $119,000 and $87,000, respectively. To date, the principal sources of capital resources have been proceeds from issuance of shares of common stock to our founders of $21,250, the net proceeds from private placements of units of common stock and warrants during 2000 of approximately $180,000. Then on October 15, 2002, we completed an initial public offering whereby we sold 2,591,050 units at $.40 per unit and received net proceeds of approximately $840,000. Each unit consisted of one share of common stock and one warrant. The proceeds from this offering were used for working capital and general corporate purposes. To date, we received approximately $165,000 upon the exercise of warrants and the issuance of shares of common stock. In addition, in January 2002, we sold 400,000 shares of our common stock to one of our principal stockholders for $100,000 or $.25 per share, which approximates fair value.

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

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

PART II

Item 1. Legal Proceedings. None

Item 2. Changes in Securities.

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

Item 3. Defaults Upon Senior Securities. None.

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

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Item 5. Other Information. There are no reportable events relating to this item
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Item 6. Exhibits and Reports on Form 8-K.

(A) Not applicable.
(B) None

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

IMAGE TECHNOLOGY LABORATORIES, INC.

Date: June 6, 2002

/S/ DAVID RYON

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