IMAGE TECHNOLOGY LABORATORIES INC
Form 10QSB
August 17, 2006

IMAGE TECHNOLOGY LABORATORIES, INC.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006 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 was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of August 16, 2006, 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

	JUNE 30, 2006 (UNAUDITED)	DECEMBER 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 27,481	$ 40,698
Accounts receivable	220,619	112,201
Prepaid expenses and other current assets	10,217	7,460
TOTAL CURRENT ASSETS	258,317	160,359
Equipment and improvements, net	144,160	171,257
Rent - deposit	1,496	1,496
TOTAL ASSETS	$ 403,973	$ 333,112
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Loan payable to stockholder	$ 50,000	$ 50,000
Loan: Bank line of credit	70,804	59,350
Current portion of long-term debt	68,846	93,453
Current portion of notes payable to stockholders	44,275	3,400
Accrued Phelps arbitration award	130,060	130,060
Accounts payable and accrued expenses	205,725	210,529
Accrued compensation payable to stockholders	113,236	53,411
TOTAL CURRENT LIABILITIES	682,946	600,203
Long-term debt, less current portion	0	21,160
Notes payable to stockholders, less current portion	122,625	141,000
Accrued compensation payable to stockholders, less current portion	27,072	27,072
TOTAL LIABILITIES	832,643	789,435
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; 15,238,778 and 15,238,778 shares issued and outstanding	152,388	152,388
Additional paid-in capital	3,206,512	3,157,547
Accumulated deficit	(3,802,570)	(3,781,258)
TOTAL STOCKHOLDERS' DEFICIENCY	(428,670)	(456,323)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 403,973	$ 333,112

The accompanying notes are an integral part of the financial statements.

CONDENSED STATEMENTS OF OPERATIONS

THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDING JUNE	
	2006	2005	2006	
REVENUE:				
Systems / software: license fees and sales	$ 262,018	$ 266,185	$ 416,498	$
Service Income			7,500	
TOTAL REVENUE	262,018	266,185	423,998	
COST OF REVENUE:	950	56,378	950	
GROSS PROFIT	261,068	209,807	423,048	
COSTS AND EXPENSES:				
Research and development	96,694	104,366	183,225	
Sales and marketing	3,115	32,320	9,490	
General and administrative (includes interest expense of $6,372 and $9,920 for the six				

months ending June 30, 2006 and 2005, respectively)	91,898	110,763	202,680	
Stock based compensation	24,483		48,965	
TOTAL COSTS AND EXPENSES	216,190	247,449	444,360	
NET INCOME (LOSS)	$ 44,878	$ (37,642)	$ (21,312)	$
NET INCOME (LOSS) PER COMMON SHARE: Basic and diluted	$ 0.00	$ (0.00)	$ (0.00)	$
AVERAGE NUMBER OF SHARES USED IN COMPUTATION: Basic and diluted	16,738,778	16,240,976	16,738,778	

The accompanying notes are an integral part of the financial statements.

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CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY

SIX MONTHS ENDED JUNE 30, 2006

(UNAUDITED)

	PREFERRED STOCK		COMMON STOCK		
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL
Balance, January 1, 2006	1,500,000	$ 15,000	15,238,778	$ 152,388	$ 3,157,547
Issuance of options for compensation					48,965
Net loss					
Balance, June 30, 2006	1,500,000	$ 15,000	15,238,778	$ 152,388	$ 3,206,512

The accompanying notes are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(UNAUDITED)

	SIX MONTHS ENDED JUNE 30, 2006	SIX MONTHS ENDED JUNE 30, 2005 (1)
OPERATING ACTIVITIES:		
Net loss	$ (21,312)	$(143,430)
Adjustments to reconcile net loss to net cash provided (used) in operating activities:		
Depreciation and amortization of equipment and improvements	29,894	26,749
Stock based compensation	48,965	
Changes in operating assets and liabilities:		
Accounts receivable	(108,418)	(166,915)
Prepaid expenses and other current assets	(2,757)	(10,755)
Accounts payable and accrued expenses	(4,804)	105,238
Accrued compensation payable to stockholders	59,825	
NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES	1,393	(189,113)
INVESTING ACTIVITIES - purchase of equipment and improvements	(2,797)	(6,070)
FINANCING ACTIVITIES:		
Proceeds from (repayments of) bank line of credit	11,454	(3,285)
Proceeds from private placement of common stock		155,000
Proceeds from exercise of options		150,000
Proceeds from loans from stockholders	22,500	180,000
Repayments of notes payable and long-term debt	(45,767)	(42,568)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(11,813)	439,147
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,217)	243,964
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		

	40,698	4,212
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 27,481	$ 248,176
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 6,372	$ 9,920

1. Certain items in the 2005 cash flow statement have been reclassified to conform with the 2006 presentation.

The accompanying notes are an integral part of the financial statements.

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IMAGE TECHNOLOGY LABORATORIES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION:

In the opinion of management, the accompanying unaudited condensed financial statements reflect all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of Image Technology Laboratories, Inc. (the "Company") as of June 30, 2006, its results of operations for the three and six months ended June 30, 2006 and 2005, changes in stockholders' deficiency for the six months ended June 30, 2006 and cash flows for the six months ended June 30, 2006 and 2005. Certain terms used herein are defined in the audited financial statements of the Company as of December 31, 2005 and for the years ended December 31, 2005 and 2004 (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 six months ended June 30, 2006 are not necessarily indicative of the results of operations to be expected for the full year ending December 31, 2006.

These unaudited 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 financial statements included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005, 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 six months ended June 30, 2006 and 2005, in accordance with the "two class" method of computing earnings (loss) per share set forth in SFAS 128.

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IMAGE TECHNOLOGY LABORATORIES, INC.

The Company had a small positive net income for the three months ended June 30, 2006 and net losses for the six months ended June 30, 2006 and 2005, and for the three months ended June 30, 2005. The assumed effects of the exercise of vested options to purchase 2,000,000 and 1,575,000 common shares at June 30, 2006 and 2005, respectively, and warrants to purchase 230,000 common shares outstanding at June 30, 2006 would be anti-dilutive or insignificant 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 - 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 June 30, 2006, there was $70,804 outstanding under this agreement.

NOTE 4 - LONG-TERM DEBT:

In February 2004, the Company borrowed $125,000 from Valley Commercial Capital, LLC ("Valley"). This loan is evidenced by a promissory note, which provides for interest at 8% per annum and calls for monthly payments of principal and interest of $3,917 through February 2, 2007. In March 2004, the Company borrowed an additional $138,997 from Valley, also evidenced by a promissory note, which provides for interest at 8% per annum and calls for monthly payments of principal and interest of $4,356 through March 29, 2007. As of June 30, 2006, the outstanding balances on these loans aggregated $68,846. The loans are secured by equipment owned by the Company located at two customer sites, and an assignment of a contract with one of these customers. In addition, the loans are secured by a 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. In December 2005, the Estate of Dr. Ryon loaned the Company an additional $36,000 under an amendment to the December 2004 promissory note and the payment schedule was renegotiated to begin in January 2007. In March 2006, the Estate of Dr. Ryon loaned the Company an additional $22,500 under an amendment to the December 2004 promissory note. As of June 30, 2006, the entire principal amount of $163,500 was outstanding. Principal payments of $81,750 are required in both 2007 and 2008.

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. All $50,000 of these funds came 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 receipt of a certain level of funds from the InMed Services agreement and gross proceeds of equity financing above $500,000.

NOTE 6 - COMMON STOCK:

There was no issuance of Common Stock by the Company during the quarter ended June 30, 2006.

NOTE 7 - STOCK OPTIONS

The Company did not grant any options under the Company's option plan during the quarter ended June 30, 2006.

Prior to January 1, 2006 the Company measured 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 provisions of Statement of Financial Accounting Standards No. 123R ("SFAS 123R"), "Accounting For Stock-Based Compensation." As a result of

SFAS 123R, the Company began expensing the fair value of employee stock options over the vesting period beginning with its fiscal quarter ending March 31, 2006. For the quarter ending June 30, 2006, the Company expensed $24,483 due to stock options. For the quarter ending June 30, 2005, the pro forma stock option expense was $461,766, which would have resulted in a pro forma net loss of $499,408 (net loss per share of $0.03).

The following table summarizes information about stock options outstanding at June 30, 2006.

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICE RANGE	NUMBER OUTSTANDING AT JUNE 30, 2006	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OUTSTANDING AT JUNE 30, 2006	WEIGHTED AVERAGE EXERCISE PRICE
$ 0.33	1,000,000	3.5	$ 0.33	1,000,000	$ 0.33
$ 0.20	550,000	8.6	$ 0.20	550,000	$ 0.20
$ 0.22	800,000	8.8	$ 0.22	200,000	$ 0.22
$ 0.26	750,000	8.9	$ 0.26	250,000	$ 0.26
	3,100,000	7.1	$ 0.26	2,000,000	$ 0.27

The 25,000 $0.75 vested options of Mr. Muradian, our former President/CEO, were cancelled on April 20, 2006.

IMAGE TECHNOLOGY LABORATORIES, INC.

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.

We have had recurring losses and negative cash flows from our operating activities since inception. We have cash of $27,481 and a working capital deficiency of $424,629 as of June 30, 2006.

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IMAGE TECHNOLOGY LABORATORIES, INC.

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006
COMPARED WITH THE THREE AND SIX MONTHS ENDED JUNE 30, 2005

REVENUE:

For the three months ended June 30, 2006, our total revenue was $262,018, a decrease of $4,167 from the $266,185 in the prior year's comparable period.,For the six months ended June 30,2006, our total revenue was $423,998, a $59,765 increase from the $364,233 revenue in the prior year's comparable period.

COST OF REVENUE:

For the three and six months ended June 30, 2006, direct cost of revenue for $950 was incurred. For the three and six months ending June 30,2005, our cost of revenue was $56,378, a decrease of $55,428 from the prior year's comparable period, largely attributable to a lack of systems hardware purchases during this period.

SALES AND MARKETING EXPENSES:

During the three months ended June 30, 2006, we incurred sales and marketing expenses of $3,115, as compared with sales and marketing expenses of $32,320 during the same period of 2005, a decrease of $29,205. 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. During the six months ended June 30, 2006 we incurred sales and marketing expenses of $9,490, as compared with sales and marketing expenses of $58,262 during the same period of 2005, a decrease of $48,772.

NET LOSS:

We incurred a profit of $44,878 (less than $.01 per share) for the three months ended June 30, 2006 as compared with a loss of $37,642 (less than $.01 per share) for the three months ended June 30, 2005, a gain of $82,520. Net loss for the six months ended June 30, 2006 was $21,312 as compared with a net loss of $143,430 for the same period in 2005. The Company continues to aggressively manage costs while it focuses on increasing revenues from sales of systems / software.

IMAGE TECHNOLOGY LABORATORIES, INC.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2006, our total assets were $403,973, an increase of $70,861 from total assets of $333,112 on December 31, 2005.

As of June 30, 2006, we had cash and cash equivalents and a working capital deficiency of $27,481 and $424,629, respectively.

Net cash provided in our operating activities for the 6 months ending June 30, 2006 of $1,393 was substantially attributable to our net loss of $21,312 offset by $59,825 in accrued compensation payable to stockholders. Of the net loss of $21,312, $48,965 was stock option compensation expense. The net cash used in our operating activities was financed with $22,500 resulting from an additional loan from the Estate of Dr. David Ryon and a net of $11,454 from our bank line of credit. Investing activities (purchase of equipment and improvements) for the six months ending June 30, 2006 totaled only $2,797.

The foregoing activities, i.e., operating, investing and financing, resulted in our net cash decrease of $13,217 for the six months ended June 30, 2006.

During September 2002, we obtained a $75,000 working capital loan from a financial institution. As of June 30, 2006, we have $70,804 outstanding under that loan. Additionally, in February and March 2004, we obtained two loans from a different financial institution that provided us with an aggregate principal amount of approximately $264,000. As of June 30, 2006, we had $68,846 outstanding under these arrangements. In December 2004, we borrowed $105,000 from our former Chief Executive Officer Dr. David Ryon, which will be repaid over 24 months, beginning in January 2007. An additional $36,000 and $22,500 were borrowed from the Estate of Dr. Ryon in December 2005 and March 2006, respectively. Principal payments are $81,750 in 2007 and 2008.

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. All $50,000 of these funds came 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 receipt of a certain level of funds from the InMed Services agreement and gross proceeds of equity financing above $500,000.

In January 2004, the Company closed a five-year contract for the WarpSpeed system with St. Anthony Community Hospital, Warwick, NY. St. Anthony is a member of Bon Secours Charity Health System, which owns and operates 32 health care facilities. ITL expanded it's installation to an off-campus Women's Center in May 2005, for digital mammography and ultrasound, and again in November 2005 at the hospital with the installation of Computed Radiography (CR) modalities as St. Anthony Community Hospital became essentially film-less. Our installation at St. Anthony Community Hospital also includes a fully redundant hot-standby server.

In March 2005, the Company signed a contract for the sale of two of its WarpSpeed RIS/PACS systems to InMed Diagnostic Services of Massachusetts, LLC at multi-modality imaging centers specializing in women's health care spread across three sites, and one WarpSpeed system to InMed Diagnostics Services of South Carolina, LLC in Columbia. The Columbia, South Carolina site is the largest imaging center of the InMed affiliates.

In March 2006, the Company executed an amendment to its contract with Park Avenue Associates in Radiology PC, Binghamton NY to extend the term of the original RIS/PACS contract through December 31, 2006.

We require cash to fund our working capital needs and capital expenditures, as well as to meet existing commitments. Such commitments include 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 $7,500 through December 2008, and $900 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 are considering outside sources of equity funds and other types of financing in order 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, 2006. 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. Accordingly, the accompanying 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 March 2006, the Estate of Dr. Ryon loaned the Company an additional $22,500 under an amendment to the December 2004 promissory note. As of June 30, 2006, the entire principal amount of $163,500 was outstanding. Principal payments of $81,750 are required in both 2007 and 2008.

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 Technology 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

By decision and judgment dated June 4, 2006, Justice Teresi of the Supreme Court, Albany County confirmed the award of the arbitrator issued on September 4, 2004, and denied the Company's motion to vacate or modify that award with respect to the award of attorneys' fees and expenses to Dr. Phelps. A detailed discussion of the arbitration award was included in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005.

ITEM 2 - CHANGES IN SECURITIES

None.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

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

None

ITEM 5 - OTHER INFORMATION

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS.

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

32.1 Certification of Chief Technology Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) REPORTS ON FORM 8-K.

None.

IMAGE TECHNOLOGY LABORATORIES, INC.

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/ LEWIS M. EDWARDS

LEWIS M. EDWARDS,
CHAIRMAN,
EXECUTIVE VICE-PRESIDENT,
CHIEF TECHNOLOGY OFFICER, AND PRINCIPAL
ACCOUNTING OFFICER

AUGUST 16, 2006