

IMAGE TECHNOLOGY LABORATORIES INC  
 Form 10QSB  
 November 14, 2001

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

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

Condensed Balance Sheets  
 September 30, 2001 and December 31, 2000

ASSETS	September 30, 2001	December 31, 2000
-----	-----	-----
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 338,759	\$ 725,105
Other current assets	6,250	

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	-----	-----
Totals	\$ 345,009	\$ 725,105
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
-----		
Current liabilities:		
Accounts payable and accrued expenses	\$ 280	\$ 20,663
Accrued compensation payable to stockholders		297,945
Notes payable to stockholders	5,200	5,200
	-----	-----
Totals	5,480	323,808
	-----	-----
Accrued compensation payable to stockholders	375,734	
	-----	-----
Total liabilities	381,214	323,808
	-----	-----
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; 11,202,112 and 10,962,862 shares issued and outstanding	112,021	109,628
Additional paid-in capital	1,553,524	1,451,404
Common stock subscription receivable	(10,000)	(10,000)
Unearned compensation	(187,500)	(300,000)
Deficit accumulated in the development stage	(1,519,250)	(864,735)
	-----	-----
Total stockholders' equity (deficiency)	(36,205)	401,297
	-----	-----
Totals	\$ 345,009	\$ 725,105
	=====	=====

See Notes to Condensed Financial Statements.

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

Condensed Statements of Operations  
Nine and Three Months Ended September 30, 2001 and 2000  
and Period From January 1, 1998

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(Date of Inception) to September 30, 2001  
(Unaudited)

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
Revenues	\$ --	\$ --	\$ --	\$ --
Research and development expenses	484,335	493,663	164,427	193,663
General and administrative expenses	170,180	129,538	76,129	32,743
Net loss	\$ (654,515)	\$ (623,201)	\$ (240,556)	\$ (226,406)
Basic net loss per share	\$ (.05)	\$ (.06)	\$ (.02)	\$ (.02)
Basic weighted average shares outstanding	12,539,975	9,654,246	12,648,688	9,914,249

See Notes to Condensed Financial Statements.

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

Condensed Statement of Changes in Stockholders' Equity (Deficiency)  
Nine Months Ended September 30, 2001  
and Period from January 1, 1998  
(Date of Inception) to September 30, 2001  
(Unaudited)

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	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			239,250
Amortization of unearned compensation			
Net loss			-----
Balance, September 30, 2001	1,500,000	\$ 15,000	11,202,112
	=====	=====	=====

	Common Stock Subscription Receivable	Unearned Compensation	Ac De
Issuance of shares effective as of January			
1, 1998 to founders			\$
Net loss			-----
Balance, December 31, 1998			-----
Net loss			-----

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Balance, December 31, 1999		
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		
	-----	-----
Balance, December 31, 2000	(10,000)	(300,000)
Issuance of common stock upon exercise of warrants		112,500
Amortization of unearned compensation		
	-----	-----
Balance, September 30, 2001	\$ (10,000)	\$ (187,500)
	=====	=====

See Notes to Condensed Financial Statements.

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

Condensed Statements of Cash Flows  
Nine Months Ended September 30, 2001 and 2000  
and Period from January 1, 1998  
(Date of Inception) to September 30, 2001  
(Unaudited)

	NINE MONTHS ENDED SEPTEMBER 30,		CUMULATIVE
	2001	2000	
	-----	-----	-----
Operating activities:			
Net loss	\$ (654,515)	\$ (623,201)	\$ (1,519,716)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of unearned compensation	112,500	112,500	262,500
Common stock issued for services		75,000	75,000

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Amortization of capitalized software costs			2
Changes in operating assets and liabilities:			
Other current assets	(6,250)		(6)
Accounts payable and accrued expenses	(20,383)		
Accrued compensation payable to stockholders	77,789	264,974	375
	-----	-----	-----
Net cash used in operating activities	(490,859)	(170,727)	(809)
	-----	-----	-----
Investing activities - software costs capitalized		(6,193)	(2)
		-----	-----
Financing activities:			
Proceeds from issuance of notes payable to stockholders		100	5
Proceeds from issuance of common stock	104,513		125
Net proceeds from private placement of units of common stock and warrants		808,824	1,024
Payments of deferred private placement costs			(5)
	-----	-----	-----
Net cash provided by financing activities	104,513	808,924	1,150
	-----	-----	-----
Net increase (decrease) in cash	(386,346)	632,004	338
Cash, beginning of period	725,105	24	
	-----	-----	-----
Cash, end of period	\$ 338,759	\$ 632,028	\$ 338
	=====	=====	=====

See Notes to Condensed Financial Statements.

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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 September 30, 2001, its results of operations for the nine and three months ended September 30,

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2001 and 2000, changes in stockholders' equity (deficiency) for the nine months ended September 30, 2001 and cash flows for the nine months ended September 30, 2001 and 2000 and the related cumulative amounts for the period from January 1, 1998 (date of inception) to September 30, 2001. Certain terms used herein are defined in the audited financial statements of the Company as of December 31, 2000 and for the years ended December 31, 2000 and 1999 and period from January 1, 1998 (date of inception) to December 31, 2000 (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 nine and three months ended September 30, 2001 are not necessarily indicative of the results of operations for the full year ending December 31, 2001.

### 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 nine and three months ended September 30, 2001 and 2000 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, 2001, the assumed effects of the exercise of 3,000,000 options and 3,434,862 and 2,819,537 warrants outstanding at September 30, 2001 and 2000, respectively, would have been anti-dilutive.

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

Notes to Condensed Financial Statements  
(Unaudited)

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### Note 3 - Exercise of warrants:

During the nine months ended September 30, 2001, warrantholders exercised 88,250 warrants and received 88,250 shares of common stock at a price of \$.50 per share or \$44,125 and also exercised 151,000 warrants and received 151,000 shares of common stock at a price of \$.40 per share or \$60,400. As of September 30, 2001, 3,434,862 warrants are outstanding.

\* \* \*

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### 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, 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. was incorporated on December 5, 1997 and commenced operations on January 1, 1998. We are in the process of developing software to manage the entire practice of radiology, including the scheduling of patient examinations, display of images on workstations, generation of worklists for all members of the enterprise, production and distribution of illustrated radiologic reports, and billing for the services provided.

At the heart of the system are software modules referred to as the WorkLoadExecutive and WorkLoadRouter. This software equitably distributes the work to be done, and ensures its timely completion. Images are displayed for the radiologist on a proprietary, multimonitor workstation controlled with a unique touchscreen controller. The combination of the backoffice software and the versatile workstation increase the accuracy and efficiency of diagnosis. Such software is applicable to any setting of a radiology practice, including hospitals and free standing imaging centers.

In July of 2001, ITL registered with the FDA as a device manufacturer. The ITL software has been classified under classifications LMB and LMD. Both of these classifications have been deemed exempt by the FDA from the 510-K pre-market approval process. The ITL product can now be sold without restriction.

In October of 2001 ITL entered into a letter of intent with Kingston Hospital, Kingston, NY, to provide ITL's system to link three out patient imaging centers, if their acquisition is completed. The proposed project will should be finalized by the second quarter of 2002.



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RESULTS OF OPERATIONS FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2001  
COMPARED TO THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2000

### REVENUES:

As of September 30, 2001, we had not generated any revenues from operations and, accordingly, we were still in the development stage. We do not expect to generate any revenues from our planned operations before the end of the fourth quarter of 2001.

### RESEARCH AND DEVELOPMENT EXPENSES;

During the nine and three months ended September 30, 2001, the Company incurred research and development expenses of \$484,335 and \$164,427, respectively, as compared to \$493,663 and \$193,663 in the comparable prior periods. These expenses consisted primarily of compensation to the Company's three founders under their employment contracts. In addition, \$112,500 and \$37,500 of these expenses in both the nine and three month period ending September 30, 2001 and 2000, were attributable to compensation associated with the issuance of the shares of preferred stock to the founders, a non-cash charge.

### GENERAL AND ADMINISTRATIVE EXPENSES:

During the Nine months ended September 30, 2001, General and Administrative Expenses was approximately \$170,000 as compared to \$130,000 during the nine months ended September 30, 2000. General and Administrative expenses have increased primarily attributable to costs associated with the Company building its infrastructure. In addition, during the first quarter of 2000, the Company incurred a \$75,000 charge for legal services, which was associated with the issuance of common stock for services, a non-cash charge.

During the Three months ended September 30, 2001, General and Administrative Expenses increased by approximately \$41,000 to approximately \$76,000 from approximately \$33,000 for the three months ended September 30, 2000. The increase was primarily associated with added corporate payroll.

### NET LOSS:

As a result of the aforementioned, the Company incurred a loss of approximately \$655,000 (\$.05 per share) and approximately \$241,000 (\$.02 per share) for the nine and three months ended September 30, 2001, respectively, as

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compared to approximately \$623,000 (\$.06 per share) and approximately \$226,000 (\$.02 per share) for the nine and three months ended September 30, 2000. The loss was based on the basic weighted average shares outstanding of 12,539,975 and 12,648,688 for the nine and three months ended September 30, 2001, respectively, as compared to 9,654,246 and 9,914,249 for the comparable prior period.

### LIQUIDITY AND CAPITAL RESOURCES:

As of September 30, 2001, we had cash and working capital of approximately \$339,000 and \$340,000, respectively. To date, the principal sources of capital resources have been proceeds from the issuance of shares of common stock to our founders of \$21,250, the net proceeds from private placements of approximately \$180,000, the net proceeds from a public offering of approximately \$840,000 and proceeds of approximately \$105,000 upon the exercise of warrants and the issuance of shares of common stock.

We do not have any pending material commitments regarding capital expenditures except for amounts owed to our founders under their employment contracts. As long as the founders, continue to defer payment of a significant portion of the compensation owing to them (\$375,734 at September 30, 2001), the our sources of liquidity are sufficient to satisfy our needs for the next twelve months.

### CAUTIONARY STATEMENT FOR THE PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES REFORM ACT OF 1995

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 retain sufficient qualified personnel; the ability to obtain financing on acceptable terms to finance the Company's growth.