IMAGE TECHNOLOGY LABORATORIES INC
Form 10KSB
April 02, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES AND EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

IMAGE TECHNOLOGY LABORATORIES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	22-3531373
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

602 ENTERPRISE DRIVE, KINGSTON, NEW YORK	12401
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (845) 338-3366

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The issuer's revenues for the most recent fiscal year was $775,405.

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the $.72 last sales price reported by OTC.BB on March 29, 2004 was $9,900,000.

As of March 29, 2004, the registrant had issued and outstanding 13,851,278 Shares of Common Stock.

FORWARD-LOOKING STATEMENTS

This report and the documents incorporated in it by reference contain forward-looking statements about our plans, objectives, expectations and intentions. You can identify these statements by words such as "expect," "anticipate, " "intend, " "plan", "believe," "seek", "estimate," "may," "will" and "continue" or similar words. You should read statements that contain these words carefully. They discuss our future expectations, contain projections of our future results of operations or our financial condition or state other forward-looking information, and may involve known and unknown risks over which we have no control. You should not place undue reliance on forward-looking statements. We cannot guarantee any future results, levels of activity, performance or achievements. Moreover, we assume no obligation to update forward looking statements or update the reasons actual results could differ materially from those anticipated in forward-looking statements, except as required by law. Factors, that could cause actual results to differ materially from those expressed or implied by such forward looking statements include that factors discussed in the report in Part 1, Item 1, including the section captioned "Risk Factors that May Affect Future Results; and "Management's Discussion and Analysis of Financial Condition or Plan of Operation."

PART I

Item 1. Description of Business

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

Computerized Tomography (CAT scan)
Magnetic Resonance Imaging (MRI)
Ultrasound
Nuclear Imaging
Digital Fluoroscopy and Radiography.

The RIS portion of the system inputs and stores patient demographics, insurance information, billing and scheduling information required to complete the patient visit. The RIS system also manages the reports generated by the radiologist from the patient's image data. All of the data is retained in standard DICOM and HL-7 formats.

Dr. Ryon initially conceived Image Technology's picture archiving and communications, which has the trademark WarpSpeed PACS/RIS system(TM) (WarpSpeed). His goal was to implement an all digital radiology business management system. Dr. Ryon assembled a team of engineers to design and implement a medical information system tailored to the need of the radiology community. Dr. Ryon joined forces with Lewis Edwards, an expert in networking and image management. After more than two years of intensive research, the development team had completed the specifications for the prototype WarpSpeed system. ITL was formed to commercialize their state of the art system design. An initial command decision was made to totally integrate all radiology information into the system.

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ITL installed a beta-version of the system at the Kingston Diagnostic Center during May 2001. The entire process of patient scheduling, registration, image acquisition, image display, and radiographic report generation was totally automated in a way yet to be demonstrated in the industry. At the heart of the system is a software module referred to as the workflow manager. This software determines what resources are available on the enterprise and distributes the various pieces of work as applicable. For example, if multiple radiologists are logged on to the system, unread studies are distributed based upon their preference and skills. Once the study has been read, the dictation is distributed to an available stenographer. After transcription, the report returns to the reporting radiologist, wherever he is logged on, for proof reading and final signature.

Products

ITL's lead product is the WarpSpeed system. Through its unique modular architecture ITL 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.

The main special features of the WarpSpeed product include:

Automation of the total workflow,

Integration of patient data with digital images,

A unique, radiologist designed user interface,

The ability to place key, annotated images in the radiologist's report,

Quality review programs, which analyze productivity and diagnostic accuracy of individual radiologists or entire Radiology centers, and

Windows 2000 as the network operating system.

ITL has also designed a proprietary display workstation that permits the simultaneous viewing of multiple diagnostic images together with relevant patient data. The display of information emulates the current film based paradigm that uses traditional X-Ray view boxes for the display of multiple images. The heart of radiologists view station is a proprietary multi-monitor touch-screen controlled workstation. Research has shown that simultaneous image display improves the speed and accuracy of diagnostic interpretation. The display workstation consists of proprietary software developed by ITL and commercially available hardware. The unique feature of the display station is its ability to present an unlimited number of diagnostic images on multiple display surfaces. The software blends together an unlimited number of monitors, of arbitrary resolution, into one large virtual display.

The WarpSpeed system can be used to create, store, reproduce and transmit digitized images generated by current diagnostic imaging modalities, including digital radiography, ultrasound, nuclear medicine, digital fluoroscopy, computed tomography, and MRI. Using WarpSpeed, radiologists can read and interpret digital images from any imaging modality that is connected to the network. This includes remote locations connected via encrypted tunnels (VPN's) over the Internet. This facilitates time-critical transfer of patient information between hospital departments, as well as rapid off-site consultations by specialists at remote locations. The system also affords convenient home viewing by radiologists.

Hospitals and other health organizations can utilize the WarpSpeed system to permanently replace film. The solution has been designed to interface with hospital information systems so that a patient's clinical data can be integrated with diagnostic images for increased accuracy of image interpretation and diagnosis.

The architecture used in the WarpSpeed system is built upon the foundation of innovative intelligent algorithms. These algorithms reduce the network bandwidth and on-line storage requirements of the system; the two most important factors in the cost associated with building a PACS/RIS system.

By making full use of the networking and database management infrastructure of Windows 2000, ITL has leveraged recent advances in operating system design, software development, and networking tools to produce a product, which offers greater functional capability at lower costs through scalable system architecture. Its truly modular architecture permits capability to be distributed incrementally, allowing a client to begin with one piece of hardware, which operates as a server, viewer and archive, and then expand the system by distributing those capabilities among multiple PCs. Hardware and software can be sized exactly to client needs, thus enabling ITL to offer the lowest possible entry point purchase price for a PACS/RIS system.

In addition, WarpSpeed offers capabilities not found on even the most expensive systems, including:

- Unique graphical interface
- Transfer of control of the viewing surface to a separate touch-screen control display
- Infinite screen "real estate"
- Intuitive, interactive interface that minimizes the need for training
- Support for the Application System Provider model
- Full support for DICOM, HL7 and the IHE initiative.

Marketing Plan

ITL is marketing its WarpSpeed system in the North Eastern United States where the reputations of its founders and the product demonstration sites are expected to generate interest in the product and sales leads. This effort will capitalize on the two showcase sites that have been established in Kingston, NY and Binghamton, NY. After penetrating the regional markets, the Company intends to expand throughout the United States.

ITL plans to distribute its products via three channels:

Relationships with original equipment manufacturers

Partnerships

Direct distribution through its own sales representatives.

ITL will target hospitals with less than 400 beds and freestanding radiology imaging centers. According to the American Hospital Association, there are 5,801 hospitals in the U.S. Approximately one-half have less than 400 beds. According to the American Medical Information, Inc. there are 2,795 major diagnostic imaging centers and more than 5,000 smaller imaging centers in the U.S. The overall diagnostic imaging market in the United States was $4.43 billion in 2001.

According to the latest market research by Frost & Sullivan the U.S. market for Radiology IT in 2004 will be approximately $640 million annually. In the same research report it is stated that only 12% of radiology centers are currently using an image and information management system.

ITL markets a fourth generation medical information and image management system that we believe is more open, usable and scalable than any currently available product. We plan to market ITL's WarpSpeed system through an in-house sales force supported by product advertising and promotion at industry trade shows. We offer the product at a price point, which is well within the reach of even the smallest hospital or imaging facility. We believe that we can offer systems with superior price/performance characteristics.

ITL is a systems integrator that provides a total solution of hardware and software to the customer. There are two pricing models. The first is an outright capital purchase and the second is on a fee per usage basis. The latter plan is an attractive approach for the smaller client as there is no capital outlay, and the cost is expensed.

Competition and Competitive Advantage

ITL is unique among the 50 companies in the U.S. that are marketing or developing RIS/PACS solutions for the radiology community. We believe we are the only company that has implemented a single unified product that encompasses all aspects of the radiology business. To date no one company has captured a predominant market share. Currently the top six vendors are GE Medical Systems, Stentor, Merge, Agfa, Siemens Medical Solutions and Kodak Health Imaging.

The superiority of ITL's system has been demonstrated in many areas. Its user interfaces are intuitive thereby minimizing training time and operator error. The unique touch screen interface increases speed of operation and productivity of the radiologist. Radiology report turn around is typically less than two hours, which is far superior to any other system currently in production. The underlying architecture and design characteristics have been shown to be highly scalable. These features alone set ITL apart from all competition.

We believe that most available RIS/PACS systems have significant drawbacks such as:

Poor user interfaces

Inadequate workflow tools

Lack of scalability

Prohibitive entry point purchase prices.

We believe that such drawbacks account in part for the fact that none of our competitors have been able to capture more than 20% of the market in recent years. ITL intends to capitalize on these inherent weaknesses in the competition.

Product Approval Process

ITL is a registered medical device manufacturer by the Food and Drug Administration ("FDA"). The WarpSpeed solution is exempt from the pre-market authorization process by the FDA. Our products have been declared substantially equivalent to already approved products.

Although ITL is aware that there is an international market for products such as WarpSpeed, we have no present plans to market our products in other countries, largely due to limited resources. However, should we decide to market WarpSpeed in other countries, we would have to comply with the laws of, and meet the applicable regulatory procedures and standards in each jurisdiction in which we sought to market our products. Approval in one jurisdiction does not assure approval in another as the various federal, state, and local regulatory authorities are independent of each other.

Insurance

ITL has obtained both corporate, product, and computer omissions and errors liability insurance. We are at risk to product liability claims if the use of our products is alleged to have caused harm to a patient. There is no direct contact between the ITL product and the patient.

Under the terms of our executive employment agreements we are obligated to maintain term life insurance for the benefit of Drs. Ryon and Mr. Edwards each in the amount of $300,000 if this can be obtained on commercially reasonable terms. The Company at this time has not purchased life insurance.

Material Contracts

On August 19, 2002 the Company closed on an initial contract with Radiologix, Inc. for the sale of its WarpSpeed system. In addition, recurring monthly revenue in the form of a two year radiology services agreement are being realized at the rate of approximately $50,000 per month.

In September 2002, the Company received a $75,000 line of credit from the M&T Bank. As of December 31, 2003, $67,000 is outstanding.

The Company recently executed a five-year lease (at $700 per month) for office space at TechCity, Kingston, NY. TechCity has become the home of many technology firms in the Hudson Valley. The space is sufficient for both our growing R&D team and our marketing/sales department.

In May 2003, ITL signed a five-year contract with Park Avenue Associates in Radiology, PC. for the installation of it's solution in a multi-site environment. This installation required the deployment of hardware and software in four physically separate locations interconnected with microwave links, fiber-optic cable, and a traditional LAN. The interconnections also include the use of secure, encrypted tunnels via the internet (VPN's). Remote review stations have been deployed in private physician's offices.

Item 2. Description of Property

Image Technology's principal executive office currently occupies leased space at 602 Enterprise Drive, Kingston, NY. Image Technology's telephone number is (845) 338-3366 and its facsimile number is (845) 338-8880.

Image Technology believes that its current facilities will meet ITL needs for the foreseeable future.

Item 3. Legal Proceedings

The Company is party to an arbitration proceeding commenced by Dr. Carlton Phelps before the American Arbitration Association in New York City. Dr. Phelps, a former officer and director of the Company claimed that he had been constructively discharged in violation of his employment agreement by virtue of a significant diminution of his duties and responsibilities at the Company. He also claimed that he had been defamed in the Company's public filings when it was asserted that he had been discharged for cause. The Company denied the allegations and affirmatively sought the return by Dr. Phelps of some or all of his stock on the basis of his breach of fiduciary responsibilities. By Opinion and Award dated February 25, 2004, the Arbitrator determined that Dr. Phelps had not been constructively discharged, but had voluntarily resigned. As a consequence, all of Dr. Phelps's claims for monetary awards were dismissed but, as to the defamation claim, the Company was directed to amend prior filings to reflect that he was not terminated for cause. The Company's claim for return of Dr. Phelps's stock was denied. It is the opinion of management that there will be no material effect on the Company, or its operations.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2003.

Item 5. Market For Common Equity and Related Stockholder Matters

Image Technology's Common Stock currently trades on the Over-the-Counter Bulletin Board ("OTCBB") under the symbol "IMTL". These securities commenced trading on December 15, 2000.

Fiscal Year

Fiscal Year	2002		2003		2004	
	High	Low	High	Low	High	Low
1st Qtr.	$0.55	$0.40	$0.28	$0.15	$ 1.05	$0.45

2nd Qtr.	0.54	0.38	0.33	0.18
3rd Qtr.	0.50	0.30	0.31	0.17
4th Qtr.	0.48	0.11	0.50	0.26

As of March 29, 2004, the number of holders of record of Common Stock was 197.

Dividend Policy

The Company does not anticipate paying any cash dividends on its common stock in the foreseeable future because it intends to retain its earnings to finance the expansion of its business. Thereafter, the Board of Directors in light of conditions then existing, including, without limitation, the Company's financial condition, capital requirements and business condition will determine the declaration of dividends.

During 2003, the Registrant sold the securities listed below pursuant to exemptions from registration under the Securities Act.

During December 2003 we sold 500,000 shares of our common stock to our principal stockholder for $170,000 or $0.34 per share, the approximate fair value at the time.

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 $0.20 per share. A total of 1,999,029 that remained outstanding 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 original issuance of the warrants.

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As compensation to each member of the Board of Directors, the Company issued a total of 30,000 shares having a fair market value of approximately $9,000 at the time of issuance.

The issuances described above were made in reliance upon the exemptions from registration set forth in Section 4(2) of the Securities Act relating to sales by an issuer not involving any public offering. None of the foregoing transactions involved a distribution or public offering. No underwriters were engaged in connection with the foregoing issuances of securities, and no underwriting commissions or discounts were paid.

Item 6. Management's Discussion and Analysis or Plan of Operations

Overview

The following is a discussion of certain factors affecting Image Technology's results of operations, liquidity and capital resources. You should read the following discussion and analysis in conjunction with Image Technology's audited and related notes, which are included elsewhere in this Annual Report on Form 10-KSB.

Business and Summary of Critical Accounting Policies:

Image Technology Laboratories, Inc. ("ITL") is a medical image management company in the healthcare information systems market. We were incorporated in Delaware on December 5, 1997. ITL has developed a fully integrated "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. The PACS portion of the system inputs and stores diagnostic images in digital format from original imaging sources such as:

Computerized Tomography (CAT scan)

Magnetic Resonance Imaging (MRI)

Ultrasound

Nuclear imaging

Digital Fluoroscopy and Radiography

The RIS portion of the system manages patient demographics, insurance data, billing, scheduling, and examination reports. All of the data is stored in standard DICOM and HL-7 formats.

We were in the development stage 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 software product 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 affiliate and nonaffiliated companies. However, we expect that we will derive our revenues in the future primarily from sales of our WarpSpeed system. 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.

Although we have incurred recurring losses and negative cash flows from operating activities since inception, we had cash and cash equivalents of approximately $195,000 and working capital of approximately $68,000 as of December 31, 2003. Management expects a reduction in the level of such losses now that sales of the software products have commenced. A substantial portion of our historic losses have been attributable to noncash charges. As of December 31, 2003, certain of our stockholders had agreed to defer approximately $142,000 of compensation due them under their employment agreements as of that date until 2005 and to defer certain additional amounts that will accrue after December 31, 2003 which has and will continue to preserve our liquidity. During September 2002, we obtained a $75,000 working capital loan from a financial institution. We have outstanding borrowings of $67,000 as of December 31, 2003. In addition, during March 2004, we received proceeds of $50,000 from the sale of 100,000 shares of common stock in a private placement. We believe that as a result of the additional cash flows from the software product sales and our ability to draw on the working capital loan and defer payments to certain stockholders and the subsequent private placement, we will be able to continue to meet our obligations as they become due through at least December 31, 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.

Critical Accounting Policies

The Securities and Exchange Commission issued disclosure guidance for "critical accounting policies." The Securities and Exchange Commission defines "critical accounting policies" as those that require the application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Our significant accounting policies are described in Note 2 to our financial statements, contained elsewhere in this report. We believe that the following accounting policies or estimates require the application of management's most difficult, subjective or complex judgments.

Revenue Recognition:

Revenues from the provision of radiology and imaging services are recognized over the estimated period during which the applicable services are performed provided that the fees are fixed and determinable and collection is probable.

Contracts for the sale of our imaging systems involve multiple elements including the delivery and installation of software and hardware products, training and system maintenance. However, we cannot allocate the revenues from such contracts to each element based on the relative fair value of each element. Accordingly, we will recognize the revenues from a system contract ratably over the period during which we are required to provide maintenance or any other service provided that the fees are fixed and determinable and collection is probable. Unearned revenues are included in deferred revenues in our balance sheet.

Valuation of Deferred tax Assets:

We regularly evaluate our ability to recover the reported amount of our deferred tax assets considering several factors, including our estimate of the likelihood that we will generate sufficient taxable income in future years in which temporary differences reverse. Presently we believe that it is more likely than not that we will not realize a substantial portion of the benefit of our

deferred tax assets based primarily on our projected operating results and, accordingly, have recorded a valuation allowance of $1,120,000. In the event that actual results differ from our estimates or we adjust these estimates in future periods, we may need to adjust this valuation allowance, which could materially impact our financial position and results of operations.

Valuation Of Long-Lived Assets:

We assess the recoverability of long-lived assets, such as equipment and improvements, whenever we determine that events or changes in circumstances indicate that their carrying amount may not be recoverable. Our assessment is primarily based upon our estimate of future cash flows associated with these assets. We have determined that there has not been an impairment of any of our long-lived assets is December 31, 2003. However, should our operating results deteriorate, we may determine that some portion of our long-lived assets is impaired. Such determination could result in non-cash charges to income that could materially affect our financial position and results of operations for that period.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2003 COMPARED TO THE YEAR ENDED DECEMBER 31, 2002

Revenues:

We were a development stage company from January 1, 1998 (date of inception) through April 30, 2002, at which time our software was available for sale. During the year ended December 31, 2003, we derived service income of approximately $635,000, as compared with approximately $383,000 during 2002. The increase is mainly due to our initial service contract being in effect for a full year as oppose to 8 months in 2002. In addition, during the year ended December 31, 2003, we earned approximately $140,000 from the sale of our initial unit, as compared to approximately $47,000 in 2002. We expect our service income to increase within 2004 due to the Park Avenue contract which commenced in December 2003 and the St. Anthony contract commenced in early 2004.

Cost of sales:

During the year ended December 31,2003, the cost of sales consisting of Medical Director and related fees which was approximately $110,000, as compared with $50,500 during the same period in 2002. The increase in these fees is a result of our increase in service income.

Research and Development Expenses:

During the year ended December 31, 2003, we incurred research and development expenses of approximately $82,500 as compared with approximately $123,750 in the preceding year. These expenses consisted primarily of compensation to our founders under their employment contracts. In addition, $41,000 of the expense in 2002 was attributable to compensation associated with the issuance of the shares of preferred stock to the founders, a non-cash charge. As a result of product being introduced for sale during 2002, our research and development expenses were reduced in 2002 and should remain at this reduced level for the foreseeable future.

General and Administrative Expenses:

During the year ended December 31, 2003, we incurred general and administrative expenses of approximately $557,000 as compared to approximately $539,000 in the prior year. The increase of $18,000 is primarily attributable to an increase in professional fees associated with the arbitration case previously described [See Item 3- Legal Proceedings]. As our revenue begins to increase, we will be required to increase our infrastructure in order to support the anticipated volume.

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Sales and Marketing Expenses:

During the years ended December 31, 2003 and 2002, we incurred marketing expenses as we introduced our product for sale. During this period, we incurred approximately $360,000 of such costs, as compared to approximately $350,000 in the prior year.

Net Loss:

As a result of the aforementioned, we incurred a loss of approximately $335,000 ($.02 per share) for the year ended December 31, 2003 as compared to a loss of approximately $633,000 ($.05 per share) for the year ended December 31, 2002.

LIQUIDITY AND CAPITAL RESOURCES:

As of December 31, 2003, we had cash and cash equivalents and working capital of approximately $195,000 and $68,000, respectively.

During 2003, our operations utilized approximately $251,000 of cash. This arose primarily from our net loss of approximately $335,000 and an increase in accounts receivable of approximately $66,000. These uses of cash were partially offset by non-cash charges aggregating approximately $34,000 and an increase in accounts payable and accrued expenses of approximately $90,000 and accrued compensation of approximately $18,000. During 2002, our operations utilized approximately $150,000 of cash. This arose primarily from our loss of approximately $633,000, which was offset by noncash charges relating mainly to amortization of unearned compensation and marketing fees aggregating $263,000 and an increase in accrued compensation of approximately $130,000 and deferred revenue of $93,000.

During 2003 and 2002, we used cash of approximately $143,000 and $6,000, respectively, for the acquisition of equipment and improvements.

We financed the aforementioned operating and investing activities by the following financing activities.

In January 2002, we sold 400,000 shares of our common stock to our principal stockholder for $100,000 or $.25 per share, which approximated fair value. In September 2002, we sold an additional 75,000 shares of our common stock to the same stockholder for $21,000 or $.28 per share, the approximate fair value. In December 2003 we sold 500,000 shares of our common stock to our principal stockholder for $.34 per share, the approximate fair value, and received proceeds of $170,000.

On February 11, 2003, we reduced the exercise price of our Class A $.40 warrants and our Class B $.50 warrants to $.20 during the period commencing February 18, 2003 and ending July 1, 2003. Unexercised warrants expired on October 15, 2003. Approximately $221,000 was realized from the exercise of both classes of warrants and the issuance of common shares.

In addition to the aforementioned equity transactions, we have funded a part of our accumulated loss of approximately $2,800,000 by having our founders defer approximately $142,000 of compensation due them under their employment agreements. During 2003, one of our founders contributed $426,000 of compensation, which was due them, to capital.

In September 2002, we applied for, and received, a line of credit from M & T Bank for one year in the amount of $75,000. At December 31, 2003, outstanding borrowings approximated $67,000.

In November 2002, we executed a five-year lease (at $700 per month) for office space at "TechCity", 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.

In January 2004, we 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.

Item 7. Financial Statements

See Item 13, Exhibits, Financial Statement Schedules, and Reports on Form 8K.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 8a. Controls and Procedures.

As of December 31, 2003, we carried out an evaluation, under the supervision and with the participation of our Chief Executive and Principal Accounting Officer of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our Chief Executive and Principal Accounting Officer concluded that our disclosure controls and procedures are effective in alerting them on a timely basis to material information required to be disclosed in our periodic reports to the Securities and Exchange Commission. During the fourth quarter of 2003, there were no changes in our internal control over financial reporting that have materially affected, or reasonably likely to materially affect, our internal control over financial reporting. There have been no significant changes in our internal controls or in other factors which could significantly affect internal controls subsequent to such evaluation.

Our management, with the participation of our Chief Executive and Principal Accounting Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report. Based on that evaluation, our Chief Executive and Principal Accounting Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons, Compliance with Section 16(a) of the Exchange Act

Executive Officers and Directors

Our executive officers and directors and their ages as of March 31, 2004 are as follows:

Name	Age	Title
David Ryon	59	Director and Chairman of the Board of Directors, President, Chief Executive Officer and Principal Accounting Officer
Lewis M. Edwards	48	Director, Vice President of Research and Development, Chief Technical Officer

Richard V. Norell	58	Director
Robert G. Carpenter	66	Director
John J. Naccarato	71	Director

All directors of Image Technology hold office until the next annual meeting of shareholders or until their successors are elected and qualified. At present, Image Technology's Bylaws provide for not less than one director nor more than fifteen. Currently, there are five directors of Image Technology. The Bylaws permit the Board of Directors to fill any vacancy and such director may serve until the next annual meting of shareholders or until his successor is elected and qualified. Officers serve at the discretion of the Board of Directors. There are no family relationships among any officers or directors of Image Technology.

DAVID RYON, MD, is a founder and principal stockholder of Image Technology and a co-developer of the ITL WarpSpeed system. He was appointed to the Board of Directors and appointed to serve as Image Technology's President and Chief Executive Officer in December 1997. Dr. Ryon is the founder of the Kingston Diagnostic Center in Kingston, New York. Dr. Ryon operated the Kingston Diagnostic Center as a sole proprietor from its inception in 1992 until the sale of the business to Mid Rockland in 1997. Dr. Ryon worked as a radiologist at the Kingston Hospital for five years before founding the Center. Dr. Ryon graduated as an M.D. cum laude from Albany Medical College in 1975 and served residencies in surgery and radiology at Albany Center Hospital. Among other post-graduate specialties, Dr. Ryon also trained as an Emergency Physician. Prior to becoming a physician, Dr. Ryon earned a B.S. in physics with high honors and an M.S. in engineering at the University of Rochester. He worked as an engineer at General Electric in the medical systems division after graduation where he gained experience in the patent process.

LEWIS M. EDWARDS is a founder and principal stockholder of Image Technology and a co-developer of WarpSpeed. He was appointed to the Board of Directors and elected by the Board to serve as Image Technology's Vice President of Research and Development and Chief Technical Officer in December 1997. Mr. Edwards has served as a senior technical staff member at IBM since 1993. He is currently an architect and lead software designer for IBM's RS/6000 SP, a massive parallel processor. From 1982 to 1993 he served as the head of engineering for Graphic Systems Labs, a CAD/CAM Independent Business Unit start-up company within IBM. He is a member of the IEEE and ACM professional societies and a charter member of the Microsoft Developer Network. He has provided computer-consulting services to Boeing, General Motors, Chrysler, Ford and the Federal government's FAA and ATC teams. He holds a BSEE magna cum laude from Princeton University and an MSCE from Syracuse University.

RICHARD V. NORELL was appointed to our Board of Directors in April 2002. Since 1995 he has served as a consultant in securities law compliance matters, after being employed 26 years with the U.S. Securities and Exchange Commission, Washington, D.C. in the Division of Enforcement, from 1972 to 1995. Mr. Norell acted as the Division's Chief of Market Surveillance overseeing the Division's investigators and financial analysts. In addition to implementing programs for detecting securities fraud and improper conduct, Mr. Norell advised the Director of the Division concerning policy issues and emerging problems in the securities industry. Mr. Norell graduated American University, Washington, D.C. with an MBA in Investment Analysis, University of Rochester, Rochester, N.Y. Bachelor of Arts, in Economics. Mr. Norell currently resides in Great Falls, VA.

ROBERT G. CARPENTER was appointed to our Board of Directors in April 2002. Mr. Carpenter brings extensive business experience from a career spanning over 30 years in a succession of executive management positions overseeing technology, engineering, marketing and business development at Bell Research Labs in NJ, IBM Yorktown Heights Research Center, and IBM Development Labs in Kingston and Poughkeepsie, NY. Retired from IBM in 1991, Mr. Carpenter currently serves as Chief Engineering Liaison on a $6.7 million water facilities project in the County of Ulster, NY. Mr. Carpenter resides in Saugerties, NY.

JOHN J. NACCARATO was appointed to our Board of Directors in April 2002. He served for 26 years as District Representative to the late United States Congressman Hamilton Fish, Jr., with oversight responsibility for three District offices, under the direct supervision of Congressman Fish. From 1988 to the present, Mr. Naccarato has held the office of Ulster County Legislator, serving on Mental Health and Ways and Means committees, and chairing the Criminal Justice / Public Safety Committee. A former President of the Central Businessmen's Association, Mr. Naccarato serves on the Ulster County Community Action Board, United Way Board, City of Kingston Board of Assessment, and the board of the Catskill Regional OTB Corporation. Mr. Naccarato currently resides in Kingston, NY.

In the first quarter of 2002, Carlton Phelps departed the Company and resigned from the Board of Directors. The terms and circumstances of Carlton Phelps' departure are currently in dispute [See Legal Proceedings].

Limitation on Liability of Directors

As permitted by Delaware law, Image Technology's Certificate of Incorporation includes a provision which provides that a director of Image Technology shall not be personally liable to Image Technology or its stockholders for monetary damages for a breach of fiduciary duty as a director, except (i) for any breach of the director's duty of loyalty to Image Technology or its stockholders, (ii) under Section 174 of the General Corporation Law of the State of Delaware, which prohibits the unlawful payment of dividends or the unlawful repurchase or redemption of stock, or (iii) for any transaction from which the director derives an improper personal benefit. This provision is intended to afford directors protection against and to limit their potential liability for monetary damages resulting from suits alleging a breach of duty of care by a director. As a consequence of this provision, stockholders of Image Technology will be unable to recover monetary damages against directors for action taken by them which may constitute negligence or gross negligence in performance of their duties unless such conduct falls within one of the foregoing exceptions. The provision, however, does not alter the applicable standards governing a director's fiduciary duty and does not eliminate or limit the right of Image Technology or any stockholder to obtain an injunction or any other type of non-monetary relief in the event of a breach of fiduciary duty. Image Technology believes this provision will assist in securing and retaining qualified persons to serve as directors.

Section 16(a) Beneficial Ownership Reporting Compliance. Based solely on a review of Forms 3 and 4, and amendments thereto furnished to the Registrant under Rule 16a-3(e) promulgated under the Securities Exchange Act of 1934 during the most recent fiscal year, and Form 5 and amendments thereto furnished to the Registrant with respect to its most recent fiscal year, all reports required under Section 16(a) of the Securities Exchange Act of 1934 were timely filed.

We have adopted a code of ethics that applies to our executive officers, a copy of which has been filed with this report on Form 10-KSB as Exhibit 13. Persons who would like a copy of such code of ethics may receive one without charge upon request made to Valerie McDowell, Investor Relations, Image Technology Laboratories, Inc., 602 Enterprise Drive, Kingston, New York 12401.

Item 10. Executive Compensation

The following table sets forth information for each of the Company's Fiscal years ended December 31, 2003, 2002, and 2001 concerning compensation of (i) all individuals serving as the Company's Chief Executive Officer during the Fiscal year ended December 31, 2003 and (ii) each other executive officer of the Company whose total annual salary and bonus equaled or exceeded $100,000 in the Fiscal year ended December 31, 2003:

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	Annual Compensation				
Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Other ($) Annual	All Other Compensation ($)
David Ryon	2003	$150,000	$0	0	0
Chairman, President and Chief	2002	150,000	50,000	0	(2)
Executive Officer	2001	150,000	50,000	0	0
Lewis Edwards(1)	2003	150,000	0	0	0
Vice President, Chief Technical	2002	150,000	50,000	0	(2)
Officer and Director	2001	150,000	50,000	0	0

(1) Messrs. Ryon and Edwards were each issued 500,000 shares of preferred stock in conjunction with the commencement of their employment agreements. The preferred shares were valued at $.30 per share based on the price of units that we were offering for sale through a private placement and amortized at a rate of $100,000 per annum over their initial employment contracts which expired December 31, 2002.

(2) See "Option Grants in Last Fiscal Year" below

Employment Agreements

David Ryon is engaged as President, Chief Executive Officer and Principal

Accounting Officer of Image Technology and Lewis M. Edwards is engaged as Vice President and Chief Technical Officer. Each has been signed to a one-year contract which provides them with the following:

- a minimum annual base salary of $150,000 payable in regular equal installments in accordance with our general payroll practices.
- an annual performance bonus at the end of each calendar year as determined in good faith by the Board based upon its annually established goals.
- participation in all retirement plans, health and other group insurance programs, stock option plans and other fringe benefit plans which we may now or hereafter in the Board of Directors' discretion make available generally to its executives or employees.
- term life insurance in the amount of $300,000, short-term and long-term disability insurance in the amount of not less than 60% of base salary, unless such insurance is not available at commercially reasonable rates.
- an automobile for business use in accordance with Image Technology's standard policy for senior executive officers.

In January 1998, Image Technology's stockholders ratified Image Technology's Stock Option Plan (the "Plan") whereby options for the purchase of up to 5,000,000 shares of Image Technology's common stock may be granted to key personnel in the form of incentive stock options and nonstatutory stock options, as defined under the Internal Revenue Code. Key personnel eligible for these awards include our employees, consultants and nonemployee directors. Under the Plan, the exercise price of all options must be at least 100% of the fair market value of our common shares on the date of grant. The exercise price of an incentive stock option granted to an optionee which holds more than ten percent of the combined voting power of all classes of stock of Image Technology must be at least 110% of the fair market value on the date of grant. The maximum term of any stock option granted may not exceed ten years from the date of grant and generally vest over three years.

On January 1, 2000, we granted options under the plan to David Ryon, Carlton T. Phelps and Lewis M. Edwards, our three founders, for the purchase of a total of 3,000,000 shares of its common stock at $.33 per share, approximately 110% of the fair market value on the date of grant, which are exercisable through December 31, 2009. The options for Phelps were canceled in January 2003 upon his departure from the Company in accordance with the option agreement.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of December 31, 2003, the number of shares of the Company's common stock (the "Common Stock") beneficially owned by all persons known to be holders of more than five percent (5%) of the Common Stock and by all executive officers and directors of the Company individually and as a group.

Security Ownership of Management

Name, Title and Address	Title of Class	Shares Beneficially Owned	of beneficial owners

		Number	Percent
David Ryon, M.D. CEO, President and Director 602 Enterprise Dr. Kingston, New York 12401	Common Stock Preferred Stock	3,585,084 500,000	26.07% 50.00%
Lewis M. Edward Chief Technical Officer and Director 602 Enterprise Dr. Kingston, New York 12401	Common Stock Preferred Stock	2,429,583 500,000	17.67% 50.00%
All officers and directors as a group	Common Stock Preferred Stock	6,325,167 1,000,000	46% 67%

ITEM 12: Certain Relationships and Related Transactions

In December 2003, we issued 500,000 shares of our common stock to Dr. David Ryon, our Chief Executive Officer, for a purchase price of $0.34 per share, or a total of $170,000, in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Item 13. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

Refer to the list of Exhibits which are being filed as a part of this report.

Exhibits

EXHIBIT NO.	DESCRIPTION
3.1*	Certificate of Incorporation of Image Technology
3.2*	Certificate of Amendment to Certificate of Incorporation of Image Technology dated December 23, 1999
3.3*	By-Laws of Image Technology
4.1*	Specimen certificate for common stock of Image Technology
4.2*	Specimen certificate for preferred stock of Image Technology
4.3*	Form of Private Placement Warrant
4.4*	Form of Investor Warrant
4.5*	Form of Oakes Warrant
4.6**	Form of Subscription Agreement
10.1*	Image Technology 1998 Stock Option Plan
10.2*	Stockholders Agreement dated January 16, 1998 among certain investors and Image Technology
10.3*	Form of Registration Rights Agreement dated February 2000 among certain stockholders of Image Technology and Image Technology
10.4*	Assignment of Intellectual Property Agreement dated as of December 18, 1997 between Image Technology and David Ryon, M. D.,

	Carlton T. Phelps, M. D. and Lewis M. Edwards.
10.5*	Form of Facility Usage and Equipment Lease Agreement by and between Mid Rockland Imaging and Image Technology dated January 12, 1998
10.6*	Form of Employment Agreement dated December 21, 1999 between Image Technology and David Ryon, M. D.
10.7*	Form of Employment Agreement dated December 21, 1999 between Image Technology and Carlton T. Phelps, M. D.
10.8*	Form of Employment Agreement dated December 21, 1999 between Image Technology and Lewis M. Edwards
13	Code of Ethics
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002

* Filed with amendment no. 1 to registration statement (No.333-336787) on June 6, 2000.

** Filed with amendment no. 2 to registration statement (No. 333-336787) on July 27, 2000.

No reports were filed on Form 8-K during the last quarter of the period covered by this report.

Image Technology Laboratories, Inc.

INDEX TO FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders
Image Technology Laboratories, Inc.

We have audited the accompanying balance sheet of Image Technology Laboratories, Inc. as of December 31, 2003, and the related statements of operations, changes in stockholders' deficiency and cash flows for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Image Technology Laboratories, Inc. as of December 31, 2003, and its results of operations and cash flows for the years ended December 31, 2003 and 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ J.H. Cohn LLP

Roseland, New Jersey
March 30, 2004

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Image Technology Laboratories, Inc.

Balance Sheet
December 31, 2003

ASSETS	
Current assets:	
Cash and cash equivalents	$ 195,257
Accounts receivable	66,380
Prepaid expenses and other current assets	1,555
Total current assets	263,192
Equipment and improvements, net	157,452
Total	$ 420,644
LIABILITIES AND STOCKHOLDERS' DEFICIENCY	
Current liabilities:	
Accounts payable and accrued expenses	$ 125,429
Notes payable	66,952
Notes to stockholders	3,400
Total current liabilities	195,781
Deferred revenues	93,333
Accrued compensation payable to stockholders	142,000
Total liabilities	431,114
Commitments and Contingencies	
Stockholders' deficiency:	
Preferred stock, par value $.01 per share; 5,000,000 shar authorized; 1,500,000 shares issued and outstanding	15,000
Common stock, par value $.01 per share; 50,000,000 shares authorized; 13,751,278 shares issued and outstanding	137,513
Additional paid-in capital	2,638,305
Accumulated deficit	(2,801,288)
Total stockholders' deficiency	(10,470)
Total	$ 420,644

See Notes to Financial Statements.

Image Technology Laboratories, Inc.

Statements of Operations

Years Ended December 31, 2003 and 2002

	2003	2002
Revenues:		
Service income	$ 635,405	$ 382,870
Software license fees	140,000	46,863
Totals	775,405	429,733
Cost of revenue	110,000	50,521
Net revenue	665,405	379,212
Expenses:		
Research and development	82,500	123,750
Sales and marketing	360,474	349,721
General and administrative	556,958	538,683
Totals	999,932	1,012,154
Net loss	$ (334,527)	$ (632,942)
Basic net loss per share	$ (.02)	$ (.05)
Basic weighted average common shares outstanding	14,247,717	13,400,958

See Notes to Financial Statements.

Image Technology Laboratories, Inc.

Statement of Changes in Stockholders' Deficiency
Years Ended December 31, 2003 and 2002

	PREFERRED STOCK NUMBER OF SHARES	PREFERRED STOCK AMOUNT	COMMON STOCK NUMBER OF CAPITAL	COMMON STOCK AMOUNT	ADDI-TIONAL PAID-IN EXPENES	UNEARNED COMPEN-SATION	UN MA
Balance, January 1, 2002	1,500,000	$15,000	11,272,712	$ 112,727	$ 1,587,118	$ (150,000)	

Sales of common stock through private placement			475,000	4,750	116,250		
Issuance of common stock upon exercise of warrants			34,750	348	16,027		
Issuance of common stock for services			450,000	4,500	108,000		$
Amortization of unearned compen- sation						150,000	
Net loss							
Balance, December 31, 2002	1,500,000	15,000	12,232,462	122,325	1,827,395		
Return of common stock in settlement of dispute			(200,000)	(2,000)	2,000		
Issuance of common stock upon exercise of warrants			1,188,816	11,888	209,206		
Issuance of common stock to directors			30,000	300	8,700		
Accrued compensation contributed to capital					426,004		
Sales of common stock through private placement			500,000	5,000	165,000		
Net loss							
Balance, December 31, 2003	1,500,000	$ 15,000	13,751,278	$ 137,513	$ 2,638,305	$ --	$

See Notes to Financial Statements.

Image Technology Laboratories, Inc.

Statements of Cash Flows
Years Ended December 31, 2003 and 2002

	2003	2002
Operating activities:		
Net loss	$(334,527)	$(632,942)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of equipment and improvements	24,535	9,733
Amortization of unearned compensation		150,000
Amortization of unearned marketing expenses		112,500
Issuance of common stock to directors	9,000	
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	8,441	(9,996)
Accounts receivable	(66,380)	
Accounts payable and accrued expenses	90,182	(2,664)
Deferred revenues		93,333
Accrued compensation payable to stockholders	17,962	129,501
Net cash used in operating activities	(250,787)	(150,535)
Investing activities - purchase of equipment and improvements	(142,656)	(6,116)
Financing activities:		
Proceeds from notes payable	66,952	
Repayment of loan to stockholders	(1,800)	
Proceeds from exercise of warrants	221,094	16,375
Proceeds from private placement of common stock	170,000	121,000
Net cash provided by financing activities	456,246	137,375
Net increase (decrease) in cash and cash equivalents	62,803	(19,276)
Cash and cash equivalents, beginning of year	132,454	151,730
Cash and cash equivalents, end of year	$ 195,257	$ 132,454
Supplemental disclosure of cash flow information:		
Interest paid	$ 2,305	
Supplemental disclosure of noncash investing and financing activities:		
Contribution of accrued compensation payable to stockholders to capital	$ 426,004	

See Notes to Financial Statements.

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Image Technology Laboratories, Inc.

Notes to Financial Statements

Note 1 - Business:

Image Technology Laboratories, Inc. (the "Company") was incorporated on December 5, 1997 and commenced operations on January 1, 1998. The Company has developed software for 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 and Radiography

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's visit. All of the data is retained in standard formats, including the DICOM and HL-7 standards.

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 Note 2). 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.

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 $195,000 and working capital of approximately $67,000 as of December 31, 2003. Management expects a reduction in the level of such losses now that sales of the software products have commenced. A substantial portion of the Company's historic losses have been attributable to noncash charges. As of December 31, 2003, certain stockholders of the Company had agreed to defer approximately $142,000 of compensation due them under their employment agreements as of that date until 2005 and to defer certain additional amounts that will accrue after December 31, 2003 which has and will continue to accrue 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 December 31, 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.

Image Technology Laboratories, Inc.

Notes to Financial Statements

Note 2 - Summary of significant accounting policies:

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash equivalents:

Cash equivalents include all highly-liquid investments with an original maturity of three months or less when acquired.

Revenue recognition:

Revenues from the provision of radiology and imaging services are recognized over the estimated period during which the applicable services are performed provided that the fees are fixed and determinable and collection is probable.

Contracts for the sale of the Company's imaging systems involve multiple elements including the delivery and installation of software and hardware products, training and system maintenance. However, the Company cannot allocate the revenues from such contracts to each element based on the relative fair value of each element. Accordingly, it recognizes the revenues from a systems contract ratably over the period during which it is required to provide maintenance or any other services provided that the fees are fixed and determinable and collection is reasonably assured.

Unearned revenues are included in deferred revenues in the accompanying balance sheet.

The Company derives principally all of its revenues in both 2003 and 2002 from two customers and all of its accounts receivable are also from these same two customers.

The Company closely monitors the extension of credit to its customers while maintaining allowances, if necessary, for potential credit losses. On a periodic basis, the Company evaluates its accounts receivable and establishes all allowance for doubtful accounts, based on a history of past writeoffs, and collections and current credit conditions. Management does not believe that significant credit risk exists with respect to accounts receivable at December 31, 2003.

Concentrations of credit risk:

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company places its cash and cash equivalents with high-quality financial institutions. At times, the Company's cash and cash equivalent balances exceed the insured amount under the Federal Deposit Insurance Corporation of $100,000. At December 31, 2003, the Company had cash and cash equivalents with one bank that exceeded Federally insured limits by approximately $85,000.

Note 2 - Summary of significant accounting policies (continued):

Equipment and leasehold improvements:

Equipment and leasehold improvements are stated at cost. Depreciation of equipment is provided using accelerated methods over the estimated useful lives of the assets, which range from five to seven years. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the term of the lease.

Impairment of long-lived assets:

Impairment losses on long-lived assets, such as equipment and improvements, are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all or a portion of such carrying value may not be recoverable. Impairment losses are then measured by comparing the fair value of assets to their carrying amounts.

Income taxes:

The Company accounts for income taxes pursuant to the asset and liability method which requires deferred income tax assets and liabilities to be computed for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The income tax provision or credit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Image Technology Laboratories, Inc.

Notes to Financial Statements

Note 2 - Summary of significant accounting policies (continued):

Net earnings (loss) per common share:

The Company presents "basic" earnings (loss) per common share and, if applicable, "diluted" earnings per common share pursuant to the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). Basic earnings (loss) per common share is calculated by dividing net income or loss applicable to common stock by the weighted average number of common shares outstanding during each period. The calculation of diluted earnings per common share is similar to that of basic earnings per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, such as those issuable upon the exercise of stock options and warrants, were issued during the period. 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 years ended December 31, 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 in 2003 and 2002, the assumed effects of the exercise of 3,000,000 and 2,000,000 options outstanding at December 31, 2003 and 2002, respectively, and 3,329,512 warrants at December 31, 2002 would have been anti-dilutive.

Stock options:

In accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), the Company will recognize compensation costs as a result of the issuance of stock options to employees based on the excess, if any, of the fair value of the underlying stock at the date of grant or award (or at an appropriate subsequent measurement date) over the amount the employee must pay to acquire the stock. Therefore, the Company will not be required to recognize compensation expense as a result of any grants of stock options at an exercise price that is equivalent to or greater than fair value. The Company has elected to continue to account for employee stock options using the intrinsic method under APB 25, by making that election it is required by Statement of Financial Accounting Standards No. 123 "Accounting for Stock Based Compensation ("SFAS 123") and SFAS 148 "Accounting for Stock Based

Compensation-Transition and Disclosure"("SFAS 148") to provide proforma disclosures of net loss and loss per share as if a fair value added method of accounting has been applied. Proforma loss was approximately $793,000 and basic proforma loss per share was $.06 in 2002 (see Note 9). The proforma compensation impact of the outstanding options was fully amortized as of December 31, 2002.

Reclassifications:

Certain accounts in the 2002 financial statements have been reclassified to conform to the 2003 presentation.

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Image Technology Laboratories, Inc.

Notes to Financial Statements

Note 2 - Summary of significant accounting policies (concluded):

Effects of recent accounting pronouncements:

In December 2002 the Financial Accounting Standards Board (the "FASB") issued SFAS 148, which amends SFAS 123 to provide alternative methods of transition for entities that elect to switch to the fair value method of accounting for stock options in fiscal years ending after December 15, 2002. The Company has not made such an election. SFAS 148 also requires more prominent and detailed disclosures in annual and interim financial statements for stock-based compensation regardless of which method of accounting is selected. The Company has included the additional disclosures required by SFAS 148 above and in Note 9.

In April, the FASB issued Statement of Financial Accounting Standards No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities. " The Company does not hold any material derivative instruments and does not conduct any significant hedging activities.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150") which requires an issuer to classify financial instruments that are within its scope as liabilities. Many of those instruments were classified as equity under previous guidance. Most of the guidance in SFAS 150 was effective for all financial instruments entered into or modified after May 31, 2003, and otherwise was effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted the guidance in the consensus in the quarter beginning July 1, 2003. The adoption of the provisions of SFAS 150 did not have any impact on the Company's consolidated financial statements.

In November 2002, the EITF reached a consensus on Issue No 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." This consensus provides guidance on when and how separate elements of an arrangement that may involve the delivery or performance of multiple products, services and rights to use assets into separate units of accounting. The guidance in the consensus is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company adopted the guidance in the consensus in the quarter beginning July 1, 2003. The adoption of the consensus did not have a material effect on the Company's results of operations.

Note 3 - Equipment and improvements:

Equipment and improvements consist of the following at December 31, 2003:

Equipment	$ 184,702
Furniture	8,111
Leasehold improvements	3,505
Total	196,318
Less accumulated depreciation and amortization	38,866
Total	$157,452

Depreciation and amortization expense amounted to $24,535 and $9,733 in 2003 and 2002, respectively.

Note 4 - Notes payable to stockholders:

Notes payable to stockholders with a principal balance of $3,400 at December 31, 2003 are noninterest bearing and are due on demand.

Note 5 - Accrued compensation payable to stockholders:

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

Note 6 - Stockholders' deficiency:

Preferred stock:

As of December 31, 2003, the Company was authorized to issue up to 5,000,000 shares of preferred stock with a par value of $.01 per share. Under the Company's Articles of Incorporation, the Board of Directors, within certain limitations and restrictions, can fix or alter preferred stock dividend rights, dividend rates, conversion rights, voting rights and terms of redemption including price and liquidation preferences.

Issuance of preferred stock to founders:

On January 7, 2000, the Board of Directors authorized the issuance of a total of 1,500,000 shares of preferred stock to the three founders of the Company in conjunction with the commencement of their employment agreements on January 1, 2000. The preferred shares have rights to dividends, rights with respect to liquidation and other rights equivalent to those of holders of the Company's common stock including one vote for each share held on all matters to be voted on by the Company's stockholders.

Image Technology Laboratories, Inc.

Notes to Financial Statements

Note 6 - Stockholders' deficiency (continued):

Issuance of preferred stock to founders (concluded):

Since the rights of the Company's preferred and common stockholders are substantially equivalent, the preferred shares were valued at $.30 per share based on the price of units of common stock and warrants that the Company sold through a private placement that was completed on February 4, 2000. The aggregate fair value of the preferred shares of $450,000 had been recorded as unearned compensation in 2000 and reflected as a reduction of stockholders' equity. The unearned compensation was amortized primarily to research and development expenses over the terms of the respective initial employment agreements, which expired on December 31, 2002.

Private placement of common shares:

During January 2002, the Company completed a private placement pursuant to which it sold 400,000 shares of common stock to a company wholly-owned by its principal stockholder at $.25 per share (the approximate fair value of the shares at the time of sale) and received proceeds of $100,000.

During September 2002, the Company completed another private placement pursuant to which it sold 75,000 shares of common stock to a company wholly-owned by its principal stockholder at $.28 per share (the approximate fair value of the shares at the time of sale) and received proceeds of $21,000.

During December 2003, the Company completed another private placement pursuant to which it sold 500,000 shares of common stock to its principal stockholder at $.34 per share (the approximate fair value of the shares at the time of sale) and received proceeds of $170,000.

During March 2004, the Company completed another private placement to which it sold 100,000 shares of common stock at $.50 per share to an unrelated third party and received proceeds of $50,000.

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. The warrants are exercisable at $3.00 per share during the two-year period subsequent to the date of issuance.

Image Technology Laboratories, Inc.

Notes to Financial Statements

Note 6 - Stockholders' deficiency (concluded):

Shares for services (concluded)

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 2003, the investor relations firm returned the 200,000 shares of common stock and the Company cancelled them.

Directors' fees:

During September 2003, the Company issued to its Board of Directors a total of 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.

Note 7 - Income taxes:

As of December 31, 2003, the Company had net operating loss carryforward of approximately $2,659,000 available to reduce future Federal and state taxable income that will expire at various dates through 2023. The Company's only other material temporary difference as of that date was approximately $142,000 attributable to accrued officers' compensation. Due to the uncertainties related to, among other things, the future changes in the ownership of the Company, which could subject those loss carryforwards to substantial annual limitations, and the extent and timing of its future taxable income, the Company offset the potential benefits of its deferred tax assets of approximately $1,120,000 (of which $1,063,000 was attributable to the net operating loss carryforwards and $57,000 was attributable to the future deductibility of the officers' compensation) by an equivalent valuation allowance as of December 31, 2003.

The Company had also offset the potential benefits of its deferred tax assets of approximately $987,000 (of which $767,000 was attributable to the net operating loss carryforwards and $220,000 was attributable to the future deductibility of the officers' compensation) and $734,000 (of which $565,000 was attributable to the net operating loss carryforwards and $169,000 was attributable to the future deductibility of the officers' compensation) by equivalent valuation allowances as of December 31, 2002 and 2001, respectively. As a result of the increases (decreases) in the valuation allowance of $(133,000) and $253,000 in 2003 and 2002, respectively, there are no benefits for income taxes reflected in the accompanying statements of operations to offset pre-tax losses.

Note 8 - Fair value of financial statements:

The Company's financial instruments at December 31, 2003 for which disclosure of estimated fair value is required by certain accounting standards consisted of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, notes payable, notes payable to stockholders, deferred revenues and accrued compensation payable to stockholders. In the opinion of management, cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, deferred revenues and notes payable were carried at fair value because of their liquidity and short-term maturities. Because of the relationship of the Company and its stockholders, there is no practical method that can be used to determine the fair value of the notes payable to stockholders and accrued compensation payable to stockholders.

Note 9 - Stock option plan:

In January 1998, the Company's stockholders ratified the Company's Stock Option Plan (the "Plan") whereby options for the purchase of up to 5,000,000 shares of the Company's common stock may be granted to key personnel in the form of incentive stock options and nonqualified stock options, as defined under the Internal Revenue Code. Key personnel eligible for these awards include employees of the Company, consultants to the Company and nonemployee directors of the Company. Under the Plan, the exercise price of all options must be at least 100% of the fair market value of the Company's common shares on the date of grant (the exercise price of an incentive stock option granted to an optionee that holds more than ten percent of the combined voting power of all classes of stock of the Company must be at least 110% of the fair market value on the date of grant). The maximum term of any stock option granted may not exceed ten years from the date of grant and options generally vest over three years.

Since the Company has elected to use the provisions of APB 25 in accounting for stock options, no earned or unearned compensation cost will be recognized in the financial statements for stock options granted to employees at exercise prices that are equal to or greater than the fair market value of the Company's common stock on the date of grant. Instead, the Company makes the pro forma disclosures required by SFAS 123 of net loss as if a fair value based method of accounting for stock options had been applied.

On January 1, 2000, the Company granted options to its founders for the purchase of a total of 3,000,000 shares of its common stock at $.33 per share (approximately 110% of the fair market value on the date of grant) that are exercisable through December 31, 2009 and cancelled 1,000,000 of these options in 2002 when one of the founders terminated his employment. No other options have been issued and 2,000,000 options remain outstanding as of December 31, 2003.

Note 9 - Stock option plan (concluded):

The pro forma amounts computed as if the Company had elected to recognize compensation cost for all stock options granted to employees based on the fair value of the options at the date of grant as prescribed by SFAS 123 and the related historical amounts reported in the accompanying 2002 statement of operations are set forth below:

	2002
Net loss-as reported	$(632,942)
Deduct total based employee based compensation expense determined under a fair value based method for all awards, net of related taxes	(160,000)
Net loss - pro forma	
Loss per share:	(792,942)
Basic loss per share - as reported	$(.05)
Basic loss per share - pro forma	$(.06)

The fair value of each option granted was estimated as of the date of grant using the Black-Scholes Option-Pricing-Model with the following weighted average assumptions:

Expected volatility	29%
Risk-free interest rate	6%
Expected years of option term	10
Expected dividends	0%

The proforma expense associated with the options issued to the founder was amortized over their initial employment contracts which expired on December 31, 2002.

Note 10- Related party transactions:

Service income includes approximately $20,000 in 2002, attributable to a company wholly-owned by the Company's principal stockholder.

As of December 31, 2003, two of the Founders of the Company have employment contracts that are renewed annually and provide for aggregate annual compensation of $300,000 through December 31, 2004.

Note 11- Working capital loan agreement:

During September 2002, the Company entered into a one-year working capital loan agreement, which automatically renews annually, with a financial institution for borrowings of up to $75,000. Outstanding borrowings bear interest payable monthly at 1% above the prime rate, and is guaranteed by the Company's principal stockholder. At December 31, 2003, there is $66,952 outstanding under this agreement.

Note 12 - Contingency:

During 2003, the Company entered into, and has since concluded, binding arbitration with Carlton Phelps pertaining to certain provisions of his employment agreement which was executed in December 1999. The results of the arbitration are expected in the second quarter of 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 results of operations.

The Company is party to an arbitration proceeding commenced by Dr. Carlton Phelps before the American Arbitration Association in New York City. Dr. Phelps, a former officer and director of the Company claimed that he had been constructively discharged in violation of his employment agreement by virtue of a significant diminution of his duties and responsibilities at the Company. He also claimed that he had been defamed in the Company's public filings when it was asserted that he had been discharged for cause. The Company denied the allegations and affirmatively sought the return by Dr. Phelps of some or all of his stock on the basis of his breach of fiduciary responsibilities. By Opinion and Award dated February 25, 2004, the Arbitrator determined that Dr. Phelps had not been constructively discharged, but had voluntarily resigned. As a consequence, all of Dr. Phelps's claims for monetary awards were dismissed but, as to the defamation claim, the Company was directed to amend prior filings to reflect that he was not terminated for cause. The Company was ordered to pay all administrative fees and Dr. Phelps' reasonable attorney's fees in an amount that has not yet been determined. The Company's claim for return of Dr. Phelps's stock was denied.

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Item 14. Principal accountants fees and services

Audit Fees

For the fiscal year ended 2003 and 2002, our principal accounting firm, J. H. Cohn LLP, billed us aggregate fees of approximately $30,000 and $ 23,000, respectively, for the audit of our annual financial statements and review of the financial statements included in our quarterly reports.

Audit Related Fees

For the fiscal year ended 2003 and 2002, our principal accounting firm, J. H. Cohn LLP, billed us aggregate fees of approximately $6,000 and $12,000, respectively, for work related to audit related reports.

Tax Fees:

For the fiscal year ended 2003 and 2002, our principal accounting firm J.H. Cohn LLP, billed us aggregate fees of approximately $2,200 and $1,800 for tax services.

All Other Fees:

J.H. Cohn LLP did not bill us for any other services in either 2003 or 2002.

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S I G N A T U R E S

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Image Technology Laboratories, Inc.

By: /s/ DAVID RYON

David Ryon
Chief Executive Officer and
Principal Accounting Officer

Date: April 2, 2004

Pursuant to the requirements of the securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ DAVID RYON David Ryon	Director	April 2, 2004