

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

3Q 2009 Quarterly Report

FOR THE QUARTER ENDED September 30, 2009

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

As of September 30, 2009, the Registrant had issued, and outstanding, 15,238,778 shares of common stock.

Balance Sheet

	Sept. 30 2009	December 31, 2008
ASSETS:		
CURRENT ASSETS		
Cash and cash equivalents	185,499	188,629
Accounts Receivable	102,848	230,402
Prepaid expenses and other current assets	14,423	11,547
TOTAL CURRENT ASSETS	302,771	430,578
Equipment and improvements, net	57,054	81,775
Rent-Deposit	6,000	6,000
TOTAL ASSETS	365,825	518,353
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES:		
Loan: Bank Line of Credit	61,006	68,837
Current portion of long-term debt	131,927	122,889
Accounts payable and accrued expenses	100,923	162,726
Deferred revenue	3,333	18,333
Accrued compensation payable to stockholders	47,596	47,596
TOTAL CURRENT LIABILITIES	344,786	420,381
Long-term debt, less current portion	263,157	363,264
Notes payable to stockholders, less current portion	3,684	3,684
TOTAL LIABILITIES	611,627	787,329
STOCKHOLDERS' EQUITY (DEFICIENCY):		
Preferred stock, par value \$.01 per share; 5,000,000 shares authorized; Series A: 1,500,000 shares issued and outstanding	15,000	15,000
Cumulative Convertible Series B: 1,137 and 1,000 shares issued and outstanding	10	10
Common stock: par value of \$.01 per share; 50,000,000 shares authorized; 15,238,778 issued and outstanding	152,388	152,388
Additional paid-in capital	3,792,600	3,783,291
Accumulated deficit	(4,205,798)	(4,219,666)
TOTAL STOCKHOLDERS' EQUITY (DEFICIENCY)	(245,801)	(268,977)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	365,826	518,353

See Notes to Condensed Financial Statements.

Statement of Operations

	Actual			
	Three month Ending Sept 30,		Nine Months Ending Sept 30,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenue:				
Systems / software: license fees and sales	128,876	134,202	492,343	547,261
Service and other Income	<u>112</u>	<u>1,284</u>	<u>829</u>	<u>4,873</u>
Total Revenue	128,988	135,486	493,172	552,134
Cost of Revenue	<u>5,606</u>	<u>11,809</u>	<u>23,254</u>	<u>45,287</u>
Gross Profit	<u>123,382</u>	<u>123,677</u>	<u>469,917</u>	<u>506,847</u>
Cost and expenses:				
Research and development	61,871	93,310	247,004	279,813
Sales and marketing	6,277	17,719	40,464	25,792
General administration (includes interest expense of \$10,502 for 2009 and \$13,542 for 2008)	45,848	62,945	159,275	242,959
Stock Option Compensation	<u>0</u>	<u>2,476</u>	<u>3,906</u>	<u>51,441</u>
Total cost and expenses	113,996	176,450	450,649	600,005
Net profit (loss)	<u><u>9,385</u></u>	<u><u>(52,773)</u></u>	<u><u>19,268</u></u>	<u><u>(93,158)</u></u>
Net loss per common share				
Basic and diluted	<u>0</u>	<u>(0)</u>	<u>0</u>	<u>(0)</u>
Average number of shares used in computation				
Basic	16,738,778	16,738,778	16,738,778	16,738,778

See Notes to Condensed Financial Statements.

Stockholders' Equity

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stock- Holders' Equity (Deficiency)</u>
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>			
Balance January 1, 2009	1,501,050	\$15,010	15,238,778	\$152,388	\$3,788,692	(\$4,225,066)	(\$268,976)
Issuance of options for compensation in exercise of options					3,907		3,907
Issuance of common stock							
Redemption of common stock and cancellation							
Accrued Stock Option Compensation							
Cumulative Convertible Preferred Series B, dividend Accumulation	37						
Accrued compensation contributed to capital							
Net loss						19,268	19,268
Balance June 30, 2009	1,501,087	\$15,010	15,238,778	\$152,388	\$3,792,600	(\$4,205,798)	(\$245,801)

See Notes to Condensed Financial Statements.

Statement of Cash FlowsNine Months
Ended September 30,

	2009	2008
Operating activities:		
Net Loss	19,268	(93,158)
Adjustments to reconcile net loss to net cash Provided (used) in operating activities		
Depreciation and amortization of equipment and improvements	27,420	44,451
Stock based compensation	3,906	51,441
Changes in operating assets and liabilities		
Accounts receivable	127,553	66,156
Prepaid expenses and other current assets	(2,877)	(2,666)
Accounts payable and accrued expenses	(61,802)	(15,686)
Deferred revenues	(15,000)	5,000
Accrued compensation payable to stockholders	0	0
Net cash provided (used) in operating activities	<u>98,469</u>	<u>55,538</u>
Investing activities - purchase of equipment and improvements	<u>(2,699)</u>	<u>0</u>
Financing activities:		
Proceeds from (repayment of) Bank Line of Credit	(7,831)	(12,729)
Proceeds from Bank Loan	0	0
Proceeds from private placement of common stock	0	0
Proceeds from loans from stockholders	0	0
Repayments of loans from stockholders	0	0
Repayments of notes payable and long term debt	(91,068)	(82,847)
Net cash provided by financing activities	<u>(98,899)</u>	<u>(95,576)</u>
Net increase (decrease) in cash and cash equivalents	(3,130)	(40,037)
Cash and cash equivalents, beginning of period	188,629	295,495
Cash and cash equivalents, end of period	<u><u>185,499</u></u>	<u><u>255,458</u></u>
Supplemental disclosure of cash flow information:		
Interest paid	<u><u>23,149</u></u>	<u><u>43,195</u></u>

ITL Notes to Financial Statements Q3-2009
(Unaudited)

Note 1 - Basis of presentation:

In the opinion of management, the accompanying unaudited 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, 2009, its results of operations for the three and nine month periods ended September 30, 2009 and 2008, changes in stockholders' deficiency for the nine months ended September 30, 2009 and cash flows for the six months ended September 30, 2009 and 2008.

The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the results of operations to be expected for the full year ending December 31, 2009.

These unaudited financial statements have been prepared assuming that the Company will continue as a going concern and, accordingly, do not include any adjustments that might result from the outcome of this uncertainty.

Recent Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 established a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, established a framework for measuring fair value, and expanded disclosure about such fair value measurements. SFAS No. 157 became effective for our financial assets and liabilities on January 1, 2008. The FASB has deferred the implementation of the provisions of SFAS No. 157 relating to certain nonfinancial assets and liabilities until January 1, 2009. SFAS No. 157 did not materially affect how we determine fair value.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115" ("SFAS No. 159"). This standard permits entities to choose to measure many financial instruments and certain warranty and insurance contracts at fair value on a contract-by-contract basis. SFAS No. 159 became effective on January 1, 2008. We have not elected the fair value option for any of our existing financial instruments on the effective date and have not determined whether or not we will elect this option for any eligible financial instruments we acquire in the future.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," ("SFAS No. 141(R)") and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS No. 160"). Effective for the Company as of January 1, 2009, SFAS No. 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. Effective January 1, 2009, SFAS No. 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. Moreover, SFAS No. 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. Management is evaluating the impact of adopting SFAS No. 141(R) and SFAS No. 160, if any, on the Company's financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—An Amendment of FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 expands the disclosure requirements in SFAS No. 133, regarding an entity's derivative instruments and hedging activities. SFAS No. 161 is effective on January 1, 2009. Management is evaluating the impact of adopting SFAS No. 161, if any, on the Company's financial statements.

Note 2 - Earnings (loss) per share:

The Company presents "basic" earnings (loss) per common share and, if applicable, "diluted" earnings (loss) per common share pursuant to the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per

IMAGE TECHNOLOGY LABORATORIES, INC.

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 (loss) per common share is similar to that of basic earnings (loss) 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 Series A shares outstanding in the weighted average number of common shares outstanding in the computation of basic loss per share for the year ended December 31, 2008 in accordance with the "two class" method of computing earnings (loss) per share set forth in SFAS 128.

The assumed effects of the exercise of outstanding options, warrants or the conversion of preferred stock into common shares at September 30, 2009 were not considered in the computation of earnings (loss) per share.

Potential common shares outstanding as of September 30, 2009 and 2008:

	September 30, 2009	September 30, 2008
Warrants	230,000	230,000
Options	3,100,000	3,100,000
Conversion of Preferred Series B	3,069,900	2,934,900

As of September 30, 2009 and 2008, potentially dilutive shares totaled 6,399,900 and 6,264,900 respectively.

Note 3 - Working Capital Loan Agreement:

During September 2002, the Company entered into a one-year working capital loan agreement with a financial institution for borrowings of up to \$75,000. The agreement automatically renews annually unless one of the parties gives appropriate notice for cancellation. Outstanding borrowings bear interest payable monthly at 1% above the prime rate, and are guaranteed by the Estate of the Company's former principal stockholder. At September 30, 2009, there was \$61,006 outstanding under this agreement.

In June 2007, the Company entered into a five-year Accounts Receivable loan agreement with NetBank to borrow \$650,000 at a 9.5% annual interest rate. Monthly payments are \$13,651 and the loan is cosigned by the Company's principal stockholder. As of September 30, 2009, there was \$395,084 outstanding under this agreement.

Note 4 – Notes Payable to Stockholders:

During November and December 2004, Dr. David Ryon, the Company's principal stockholder, President, and Chief Executive Officer, until his death in December 2004, loaned the Company an aggregate of \$105,000. In December 2004, to memorialize this loan, he executed, as President and Chief Executive Officer, on behalf of the Company, a demand promissory note payable to himself and bearing interest at 10% per annum. He also executed a security agreement, for himself on behalf of the Company, granting to himself a security interest in all of the Company's assets not previously encumbered as security for full payment under the note. Prior to April 12, 2005, the Company negotiated with the Estate of Dr. David Ryon a 24-month payment schedule, beginning in January 2006. The Company's Board of Directors approved the revised terms of the promissory note on April 12, 2005. In December 2005, the Estate of Dr. Ryon loaned the Company an additional \$36,000 under an amendment to the December 2004 promissory note and the payment schedule was renegotiated to begin in January 2007. Additional amounts were loaned to the Company in March 2006 for \$22,500, in August 2006 for \$57,672 and in September 2006 for \$153,375. These amounts, along with other previous loans to the Company by the largest stockholder totaling \$374,548 were converted to 1000 shares of Cumulative Convertible Preferred Stock Series B in late September 2006, and all accrued interest was forgiven. Cumulative Convertible Preferred Stock Series B can be converted to common stock of Image Technology Laboratories at a ratio of one share of Cumulative Convertible Preferred Stock

IMAGE TECHNOLOGY LABORATORIES, INC.

Series B to 2,700 shares of common stock. Either the stockholder or the Company may elect to force conversion after two years from issuance in units of 100 shares of Cumulative Convertible Preferred Stock Series B. The Company may also elect to repurchase the Cumulative Convertible Preferred Stock Series B in units of 100 shares of Cumulative Convertible Preferred Stock Series B at any time for \$432 per share of Cumulative Convertible Preferred Stock Series B. Fixed dividend is accumulated as 12.5 additional shares of Cumulative Convertible Preferred Stock Series B per quarter. The underlying common stock, should the Company or shareholder elect to convert, is unregistered. The voting rights are set at one vote per share of Cumulative Convertible Preferred Stock Series B. The issuance described above was 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. At September 30, 2009, 1,137 shares of Preferred Stock Series B are outstanding. Such shares may be converted at the option of the holder or the Company to 3,069,900 shares of Common stock beginning in September 2008. Prior to conversion, such shares may be redeemed by the Company at \$432 per share or \$491,184 at any time until forced conversion by either party into Common stock.

In September 2005, the Company borrowed \$50,000 from a member of the Company's Board of Directors as part of a Bridge Loan Agreement that included the issuance of warrants to purchase 50,000 shares of Common Stock of the Company. The five-year warrants have an exercise price of \$0.33 per share. The Bridge Loan had an annual interest rate of 14%. The principal of \$50,000 was repaid in July 2007; \$5,000 of the accrued interest was paid in September 2007 and a final accrued interest payment of \$5,000 was made in March 2008.

Note 5 – Stock Options

The Company did not grant any options under the Company's option plan during the quarter ended September 30, 2009.

In accordance with the provisions of Statement of Financial Accounting Standards No. 123R, the Company expenses the fair value of employee stock options over the vesting period of such options. For each of the quarters ending September 30, 2009 and 2008, the Company expensed \$0 and \$51,441 of amortized stock compensation, respectively.

Note 6 – Warrants

As of September 30, 2009, the Company had 230,000 warrants outstanding at an exercise price of \$0.33 per share. The warrants expire in 2010.

Note 7 – Fixed Dividends

The Company's largest stockholder accumulated 12 additional shares of Cumulative Convertible Preferred Stock Series B on January 1, 2009 as Fixed Dividends. An additional 13 shares were accumulated on April 1, 2009 and 12 shares were accumulated on July 1, 2009.



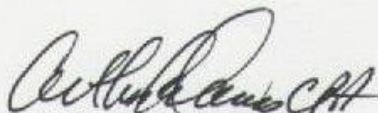
INDEPENDENT ACCOUNTANT'S REPORT

The Board of Directors
Image Technology Laboratories, Inc
602 Enterprise Drive
Kingston, NY 12401

I have reviewed the accompanying interim balance sheet of Image Technology Laboratories, Inc as of September 30, 2009, and the related statements of income and retained earnings and cash flow for the three-month and nine-month periods ended. All the information included in these interim financial statements is the representation of the management of Image Technology Laboratories, Inc.

A review of interim financial information consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.

Based on my review, I am not aware of any material modifications that should be made to the accompanying interim financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.


Arthur A. Davis, III, CPA
July 20, 2011