

Image Technology Laboratories, Inc.
UNAUDITED FINANCIAL STATEMENTS
For the Period Ended
March 31, 2014

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Image Technology Laboratories
BALANCE SHEET
As of March 31, 2014

	<u>March 31,</u> <u>2014</u> <u>(Unaudited)</u>
ASSETS	
Cash and cash equivalents	\$ 33,800
Accounts receivable	28,351
Deposits	<u>1,648</u>
TOTAL CURRENT ASSETS	<u>\$ 63,799</u>
TOTAL ASSETS	<u><u>\$ 63,799</u></u>
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 84,114
Accrued salaries	<u>145,716</u>
TOTAL CURRENT LIABILITIES	<u>\$ 229,830</u>
LONG-TERM LIABILITIES	
Long-term note payable	<u>64,258</u>
TOTAL LIABILITIES	<u>\$ 294,088</u>
STOCKHOLDERS' DEFICIT	
Convertible Preferred stock - Series B, 1,500 shares authorized at \$0.01 par value, 1,375 shares issued and outstanding	\$ 15
Preferred stock - Series C, 1,500,000 shares authorized at \$0.01 par value, 1,500,000 shares issued and outstanding	15,000
Common stock, 50,000,000 shares authorized at \$0.01 par value, 15,238,778 shares issued and outstanding	152,388
Additional paid in capital	3,848,609
Other comprehensive income	(50,616)
Retained deficit	<u>(4,195,685)</u>
Total stockholders' deficit	<u>(230,289)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u><u>\$ 63,799</u></u>

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

Image Technology Laboratories
STATEMENT OF OPERATIONS
For the Three Months Ending March 31, 2014

	Three Months Ended March 31, 2014
	(Unaudited)
Revenue	\$ 9,915
Cost of revenue	126
GROSS PROFIT	\$ 9,789
Operating expenses	
General and administrative	\$ 11,849
Total operating expenses	\$ 11,849
Net operating loss	\$ (2,060)
Interest expense	(426)
Income tax expense	(556)
NET LOSS	\$ (3,042)
LOSS PER SHARE - Basic and diluted	\$ (0.00)
 WEIGHTED AVERAGE SHARES OUTSTANDING - Basic and diluted	 15,238,778

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

Image Technology Laboratories
STATEMENT OF CASH FLOWS
For the Three Months Ending March 31, 2014

	March 31, 2014 <hr/> (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Loss	\$ (3,042)
Change in operating assets and liabilities:	
---Accounts receivable	455
---Accounts payable and accrued expenses	(344)
Net cash used by operating activities	<u>(2,931)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Borrowings on debt	574
Net cash provided by financing activities	<u>574</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,357)
Cash and cash equivalents, beginning of period	36,157
Cash and cash equivalents, end of period	<u><u>\$ 33,800</u></u>
SUPPLEMENTAL INFORMATION	
Interest Paid	\$ -
Taxes Paid	\$ -
Supplemental disclosure of non cash activities	
---Dividends	\$ 100

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

IMAGE TECHNOLOGY LABORATORIES, INC.

Notes to Financial Statements March 31, 2014 (Unaudited)

NOTE 1 - BUSINESS:

Image Technology Laboratories, Inc. (the "Company") was incorporated on December 5, 1997 and commenced operations on January 1, 1998. The Company develops software for a single database "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 (CT), Magnetic Resonance Imaging (MRI), Ultrasound, Nuclear Imaging, Digital Mammography, 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 obtained its first contract for the sale of its WarpSpeed system and maintenance services in August 2002. The Company is no longer in the development stage, but continues to refine and enhance the capabilities of its WarpSpeed system.

The Company has incurred recurring losses and negative cash flows from operating activities since its inception. The Company had cash of \$33,800, \$166,031 working capital deficit and a stockholders' deficiency of \$230,289 as of March 31, 2014. Management expects a reduction in the level of such losses as we increase the sales of our products. At times, in order to help in maximizing our working capital, our directors, officers and employees have contributed to capital or deferred compensation due under their agreements. It is anticipated, but not assured, that should the need arise, such contributions or deferrals might be available to us in the future.

Management believes that as a result of the proceeds from its recent financing activities, as well as anticipated cash flow generated by sales of or fees from its RIS/PACS solution, the Company should be able to continue to meet its obligations as they become due through at least December 31, 2014. Management also believes that if needed, the Company should be able to obtain additional capital resources from financing through financial institutions and other unrelated sources and/or through additional related party loans and private placements. However, there can be no assurance that the Company's operations will become profitable or that financing will be available. Accordingly, the accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amount and classification of liabilities that may result from the outcome of this uncertainty.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS:

Accounting Standards Codification

The Financial Accounting Standards Board ("FASB") issued the FASB Accounting Standards Codification ("ASC") effective for financial statements issued for interim and annual periods ending after September 15, 2009. The ASC is an aggregation of previously issued authoritative U.S. Generally Accepted Accounting Principles ("GAAP") in one comprehensive set of guidance organized by subject area. In accordance with the ASC, reference in the accompanying notes to previously issued accounting standards have been replaced by ASC references. Subsequent revisions to GAAP will be incorporated into ASC through Accounting Standards Updates ("ASU"). The adoption of the ASC did not have an impact on the Company's consolidated results of operations, cash flows, or financial position.

IMAGE TECHNOLOGY LABORATORIES, INC.

Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-10, “Development Stage Entities”. The amendments in this update remove the definition of a development stage entity from the Master Glossary of the ASC thereby removing the financial reporting distinction between development stage entities and other reporting entities from U.S. GAAP. In addition, the amendments eliminate the requirements for development stage entities to (1) present inception-to-date information in the statements of income, cash flows, and shareholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. The amendments in this update are applied retrospectively. The early adoption of ASU 2014-10 removed the development stage entity financial reporting requirements from the Company.

Significant Accounting Policies

Basis of Presentation

The Company maintains its accounting records on an accrual basis in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”).

Going Concern

The Company has had continuing losses and negative cash flow from operating activities since inception. The accompanying financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and retire its liabilities in other than the normal course of business and at amounts different from those in the accompanying financial statements. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and/or obtaining additional financing. While management of the Company believes that both criteria will be achieved, there can be no assurance as to either outcome.

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.

Revenue Recognition

Revenue from the sale 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 reasonably assured. 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 revenue from such contracts to each element based on the relative fair value of each element. Accordingly, it recognizes the revenue 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.

Any unearned revenue is included in deferred revenue in the balance sheet.

Fair Value of Financial Instruments

The Company adopted the FASB standard related to fair value measurement during the first quarter of fiscal 2009. The standard defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. The standard applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. The standard clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should

IMAGE TECHNOLOGY LABORATORIES, INC.

be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the standard established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows.

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company's financial instruments are cash, accounts receivable, notes receivable, and accounts payable. The recorded values of cash, accounts receivable, notes receivable, and accounts payable approximate their fair values.

The following table presents assets and liabilities that were measured and recognized at fair value as of March 31, 2014 and December 31, 2013 and the period then ended on a recurring and nonrecurring basis:

Description	<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>		<u>Total Realized Loss</u>	
	\$	-	\$	-	\$	-	\$	-
Totals	\$	-	\$	-	\$	-	\$	-

Cash Equivalents

Cash equivalents include all highly liquid investments with an original maturity of three months or less when acquired. At March 31, 2014, the Company has no cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based upon its assessment of the current collection status of individual accounts. Delinquent amounts that are outstanding after management has conducted reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Based on management's review, there is no need for an allowance for doubtful accounts at March 31, 2014.

Concentrations of Credit Risk

The Company derived substantially all of its revenues in 2014 from a limited number of customers, and all of its accounts receivable are also from these same few 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 an allowance for doubtful accounts, based on a history of past write-offs, and collections and current credit conditions. Management does not believe that significant credit risk exists with respect to accounts receivable at March 31, 2014.

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. 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.

Research and Development Costs:

Research and development costs are charged to expense as incurred. During 2014, no research and development costs have been incurred.

IMAGE TECHNOLOGY LABORATORIES, INC.

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.

Accounting for Share-Based Payment

In 2006, the Company adopted ASC 718 under the "modified prospective application". No stock-based compensation awards were granted in either 2014 or 2013. Stock-based compensation expense recognized in the period ended March 31, 2014 was \$0.

NOTE 3 – 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 ASC 260, "Earnings per Share". 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. Because the Company incurred a net loss during the period ended March 31, 2014, the effect of potentially dilutive securities was anti-dilutive.

NOTE 4 – 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 March 31, 2014, there was \$64,258 outstanding under this agreement.

NOTE 5 – NOTES PAYABLE TO STOCKHOLDERS:

During November and December 2004, Dr. David Ryon, the Company's principal stockholder, President, and Chief Executive Officer, until his death in December 2004, loaned the Company an aggregate of \$105,000. In December 2004, to memorialize this loan, he executed, as President and Chief Executive Officer, on behalf of the Company, a demand promissory note payable to himself and bearing interest at 10% per annum. He also executed a security agreement, for himself on behalf of the Company, granting to himself a security interest in all of the Company's assets not previously encumbered as security for full payment under the note. Prior to April 12, 2005, the Company negotiated with the Estate of Dr. David Ryon a 24-month payment schedule, beginning in January 2006. The Company's Board of Directors approved the revised terms of the promissory note on April 12, 2005. In December 2005, the Estate of Dr. Ryon loaned the Company an additional \$36,000 under an amendment to the December 2004 promissory note and the payment schedule was renegotiated to begin in January 2007. 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 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

IMAGE TECHNOLOGY LABORATORIES, INC.

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 March 31, 2014, 1,362, respectively, of Preferred Stock Series B are outstanding. Such shares may be converted at the option of the holder or the Company to 3,442,500 shares of Common stock beginning in September 2008. Prior to conversion, such shares may be redeemed by the Company at \$432 per share or \$550,800 at any time until forced conversion by either party into Common stock.

NOTE 6 – STOCK OPTIONS:

The Company did not grant any options under the Company's option plan during the period ended March 31, 2014.

NOTE 7 – WARRANTS:

As of March 31, 2014, the Company had no warrants outstanding.

NOTE 8 – FIXED DIVIDENDS:

The Company's largest stockholder accumulated 12 additional shares of Cumulative Convertible Preferred Stock Series B during 2014 as Fixed Dividends.

NOTE 9 – RELATED PARTY TRANSACTIONS:

Prior to December 31, 2013, the Company incurred shareholder advances of \$3,684, bearing no interest, and due on demand. The Company has not incurred any additional advances from this shareholder or made any repayments on these advances during the period ending March 31, 2014.

The Company's largest stockholder accumulated 12 additional shares of Cumulative Convertible Preferred Stock Series B during 2014 as Fixed Dividends.

NOTE 10 – SUBSEQUENT EVENTS:

There were no subsequent events through the date the financial statements were issued which materially impact the financial statements.