

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FY 2011 Annual Report

FOR THE YEAR ENDED December 31, 2011

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 December 31, 2011, the Registrant had issued, and outstanding, 15,238,778 shares of common stock.

Balance Sheet

	December 31, 2011	December 30, 2010
ASSETS:		
CURRENT ASSETS		
Cash and cash equivalents	54,166	111,618
Accounts Receivable	114,633	135,450
Prepaid expenses and other current assets	27,052	25,770
TOTAL CURRENT ASSETS	195,851	272,838
Equipment and improvements, net	8,572	28,477
Rent-Deposit	6,000	6,000
TOTAL ASSETS	210,423	307,315
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES:		
Loan: Bank Line of Credit	74,780	72,335
Current portion of long-term debt	79,587	148,492
Accounts payable and accrued expenses	133,253	113,600
Deferred revenue		
Accrued compensation payable to stockholders	36,821	47,596
TOTAL CURRENT LIABILITIES	324,441	382,023
Long-term debt, less current portion	0	79,685
Notes payable to stockholders, less current portion	3,684	3,684
TOTAL LIABILITIES	328,125	465,393
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: 1,250 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	3,797,997	3,797,998
Accumulated deficit	(4,083,099)	(4,123,474)
TOTAL STOCKHOLDERS' EQUITY (DEFICIENCY)	(117,702)	(158,078)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	210,423	307,315

See Notes to Condensed Financial Statements.

Statement of Operations

	Year Ending December 31,	
	<u>2011</u>	<u>2010</u>
Revenue:		
Systems / software: license fees and sales	602,494	614,307
Service and other Income	<u>0</u>	<u>257</u>
Total Revenue	602,494	614,563
Cost of Revenue	<u>1,323</u>	<u>28,652</u>
Gross Profit	<u>601,172</u>	<u>585,912</u>
Cost and expenses:		
Research and development	243,853	260,737
Sales and marketing	14,520	15,778
General administration (includes interest expense of \$18,328 for 2011 and \$30,991 for 2010)	302,424	258,948
Stock Option Compensation	0	0
Total cost and expenses	560,796	535,463
Net profit (loss)	<u><u>40,375</u></u>	<u><u>50,449</u></u>
Net loss per common share		
Basic and diluted	<u>0</u>	<u>0</u>
Average number of shares used in computation		
Basic and diluted	16,738,778	16,738,778

See Notes to Condensed Financial Statements.

Stockholders' Equity

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Addi- tional 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, 2010	1,501,150	\$15,010	15,238,778	\$152,388	\$3,797,998	(\$4,123,474)	(\$158,078)
Issuance of options for compensation in exercise of options							
Issuance of common stock							
Redemption of common stock and cancellation							
Accrued Stock Option Compensation							
Cumulative Convertible Preferred Series B, dividend Accumulation	50						
Accrued compensation contributed to capital							
Net loss						40,375	40,375
Balance December 31, 2010	1,501,200	\$15,010	15,238,778	\$152,388	\$3,797,998	(\$4,083,099)	(\$117,703)

See Notes to Condensed Financial Statements.

Statement of Cash Flows

	Actual	
	2011	2010
Operating activities:		
Net Loss	40,375	50,449
Adjustments to reconcile net loss to net cash		
Provided (used) in operating activities		
Depreciation and amortization of equipment and improvements	19,905	22,530
Stock based compensation		0
Changes in operating assets and liabilities		
Accounts receivable	(30,671)	5,511
Prepaid expenses and other current assets	0	(9,536)
Accounts payable and accrued expenses	11,743	13,485
Deferred revenues	0	0
Accrued compensation payable to stockholders	0	
	0	
Net cash provided (used) in operating activities	<u>41,352</u>	<u>82,439</u>
Investing activities - purchase of equipment and improvements	<u>0</u>	<u>0</u>
Financing activities:		
Proceeds from (repayment of) Bank Line of Credit	1,534	(1,277)
Proceeds from Bank Loan	(38,451)	
Proceeds from private placement of common stock	0	
Proceeds from loans from stockholders	0	
Repayments of loans from stockholders	0	
Repayments of notes payable and long term debt	0	(135,086)
	<u></u>	<u></u>
Net cash provided by financing activities	<u>(36,917)</u>	<u>(136,363)</u>
Net increase (decrease) in cash and cash equivalents	(4,055)	(53,924)
Cash and cash equivalents, beginning of period	58,221	165,542
Cash and cash equivalents, end of period	<u><u>54,166</u></u>	<u><u>111,618</u></u>
Supplemental disclosure of cash flow information:		
Interest paid	<u><u>18,328</u></u>	<u><u>30,991</u></u>

ITL Notes to Financial Statements FY 2011
(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 \$54,166 in working capital and a stockholders' deficiency of \$117,702 as of December 31, 2011. 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, 2012. 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:

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. At December 31, 2011, the Company has no cash equivalents.

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.

Concentrations of credit risk:

The Company derived substantially all of its revenues in both 2011 and 2010 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 December 31, 2011.

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.

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 either December 31, 2011 or 2010.

Research and development costs:

Research and development costs are charged to expense as incurred.

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. No impairments were recognized in 2011 or 2010.

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.

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 Series A and common stockholders are substantially equivalent. The Company has included the 1,500,000 preferred shares Series A outstanding in the weighted average number of common shares outstanding in the computation of basic loss per share for the years ended December 31, 2010 and 2009 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 December 31, 2011 were not considered in the computation of earnings (loss) per share.

Accounting for share-based payment

In 2006, the Company adopted SFAS 123 (R) "Share-Based Payment" under the "modified prospective application". No stock-based compensation awards were granted in either 2011 or 2010. There was no stock-based compensation expense recognized in the year ending December 31, 2011.

Recent accounting pronouncements:

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154") which replaces APB Opinion No. 20 Accounting Changes and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements – An Amendment of APB Opinion No. 28". SFAS 154 requires retrospective application to prior period's financial statement of a voluntary change in accounting principal unless it is not practical. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, and was adopted by the Company in the first quarter of fiscal 2006. The adoption of SFAS 154 by the Company did not have a material impact on the Company's results of operations, cash flows or financial position.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards Number 157 – Fair Value Measurements ("SFAS157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements.

Prior to SFAS 157, there were different definitions of fair value and limited guidance for applying those definitions in GAAP. Moreover, that guidance was dispersed among the many accounting pronouncements that require fair value measurements. SFAS 157 clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability.

SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, that SFAS 157 will have on its financial position, results of operations and cash flows.

In June 2006, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standards Board Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109." FIN No. 48 provides a comprehensive model for the recognition, measurement and disclosure in the financial statements of uncertain tax positions taken or expected to be taken on a tax return. The Company adopted FIN No. 48 on January 1, 2007. Adoption of FIN No. 48 did not have a material impact on the Company's financial position, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 was issued to address diversity in practice in quantifying financial statement misstatements. Current practice allows for the evaluation of materiality on the basis of either (1) the error quantified as the amount by which the current year income statement was misstated ("rollover method") or (2) the cumulative error quantified as the cumulative amount by which the current year balance sheet was misstated ("iron curtain method"). The guidance provided in SAB 108 requires both methods to be used in evaluating materiality ("dual approach"). SAB No. 108 permits companies to initially apply its provisions either by (1) restating prior financial statements as if the dual approach had always been used or (2) recording the cumulative effect of initially applying the "dual approach" as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. There were no matters warranting the Company's consideration under the provisions of SAB No. 108 and, therefore, it did not have an impact on the Company's financial position, results of operations, earnings per share or cash flows.

Note 3 - Equipment and improvements:

Equipment and improvements consist of the following at December 31, 2011:

Equipment	\$ 412,365
Furniture	9,140
Leasehold improvements	3,505
Total	<u>399,720</u>
Less accumulated depreciation and amortization	<u>391,149</u>
Total	<u>\$ 8,572</u>

Depreciation and amortization expense amounted to \$19,905 and \$22,530, for 2011 and 2010, respectively.

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 \$153,375.26. 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 Series B stock in late September 2006, and all accrued interest was forgiven.

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.

In May 2007, our largest shareholder provided \$3,684 to the Company as an interest-free loan in order to retain RIS/PACS market consultants. There are no repayment terms to this loan and the Company has classified the obligation as long-term.

Note 5 – Long-term debt:

In February 2004, the Company borrowed \$125,000 from Valley Commercial Capital, LLC ("Valley"). This loan was evidenced by a promissory note, which provided for interest at 8% per annum and called for monthly payments of principal and interest of \$3,917 through February 2, 2007. In March 2004, the Company borrowed an additional \$138,997 from Valley, also evidenced by a promissory note, which provided for interest at 8% per annum and called for monthly payments of principal and interest of \$4,356 through March 29, 2007. The remaining balance of these loans, \$57,672, was paid in August 2006 as described in Note 4.

In June 2007, the Company entered into a five-year Accounts Receivable loan agreement with PowerLease Solutions, LLC and NetBank to borrow \$650,000 at a 9.5% annual interest rate. Monthly payments are \$13,651 and the loan is co-signed by the Company's principal stockholder. As of December 31, 2011, there was \$79,587 outstanding under this agreement.

Note 6 - Accrued compensation payable to stockholders:

As of December 31, 2011, accrued compensation payable to stockholders was \$36,821, all of which is reflected as a current liability.

Note 7 - Stockholders' deficiency:

Preferred stock:

As of December 31, 2007, 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.

The Company converted a total of \$374,548 of debt owed to our largest shareholder to 1,000 shares of Image Technology Laboratories Convertible Preferred Stock Series B issued to same shareholder in late September 2006. Convertible Preferred Stock Series B can be converted to common stock of Image Technology Laboratories at a ratio of one share of Convertible Preferred Stock Series B to 2,700 shares of common stock. Either the shareholder or the Company may elect to force conversion after two years in units of 100 shares of Convertible Preferred Stock Series B. The Company may also elect to repurchase the Convertible Preferred Stock Series B in units of 100 shares of Convertible Preferred Stock Series B at any time for \$432 per share of Convertible Preferred Stock Series B. Dividends accumulate at 12.5 additional shares of 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 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 December 31, 2011, 1,250 shares of **Convertible Preferred Stock Series B** are outstanding. Such shares may be converted at the option of the holder or the Company to 3,375,000 shares of Common stock. Prior to conversion, such shares may be redeemed by the Company at \$432 per share or \$540,000 at any time until forced conversion by either party into Common stock.

Note 8 – Income taxes:

As of December 31, 2011, the Company had net operating loss carryforward of approximately \$3,110,000 available to reduce future Federal and state taxable income that will expire at various dates through 2024. The Company's only other material temporary difference as of that date was approximately \$37,000 attributable to accrued compensation payable to shareholders. Due to the uncertainties related to, among other things, the possible 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 \$1,083,000 was attributable to the net operating loss carryforwards and \$37,000 was attributable to the future deductibility of the accrued compensation) by an equivalent valuation allowance as of December 31, 2011.

Note 9 - Fair value of financial instruments:

The Company's financial instruments at December 31, 2011 for which disclosure of estimated fair value is required by certain accounting standards consisted of cash, accounts receivable, accounts payable and accrued expenses, notes payable, notes payable to stockholders and accrued compensation payable to stockholders. In the opinion of management, cash, accounts receivable, accounts payable and accrued expenses, 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 10 - Stock option plan:

In January 1998, the Company's stockholders ratified Image Technology Laboratories' Stock Option Plan (the "Plan") whereby options for the purchase of up to 5,000,000 shares of Image Technology Laboratories' common stock may be granted to key personnel in the form of incentive stock options and non-statutory stock options, as defined under the Internal Revenue Code. Key personnel eligible for these awards include our employees, consultants and non-employee 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 who holds more than ten percent of the combined voting power of all classes of stock of Image Technology Laboratories 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 24, 2005, the Company granted options under the plan to several key employees, for the purchase of 550,000 shares of its common stock at \$.20 per share, its fair market value on the date of grant, which are exercisable through January 24, 2015.

On April 1, 2005, the Company granted options under the plan to Mr. Muradian, its Chief Executive Officer, for the purchase of 700,000 shares of its common stock at \$.20 per share, its fair market value on the date of grant, which are exercisable through April 1, 2015. Mr. Muradian resigned from the Company on January 20, 2006. Mr. Muradian's options were

cancelled on April 20, 2006.

On April 14, 2005, the Company granted options under the plan to Mr. Edwards, its Chairman and Chief Technology Officer, for the purchase of 800,000 shares of its common stock at \$.22 per share, 110% of its the fair market value on the date of grant, which are exercisable through April 14, 2015.

On May 18, 2005, the Company granted options under the plan to several key employees, for the purchase of 750,000 shares of its common stock at \$0.26 per share, its fair market value on the date of grant, which are exercisable through May 18, 2015.

AGGREGATED OPTION EXERCISES AND FISCAL YEAR-END OPTION VALUES

The Estate of Dr. Ryon exercised 600,000 options in June 2005 and his remaining 400,000 options were cancelled at that time. No other options were exercised by any of the Executive Officers during the fiscal year ended December 31, 2007 or December 31, 2006. Mr. Muradian resigned from the Company on January 20, 2006 and his 800,000 options were cancelled on April 20, 2006. The value of unexercised options held by any such persons as of December 31, 2011 was as follows:

Total number of shares underlying unexercised options	2,100,000
Exercisable options	2,100,000
Un-exercisable Options	-
Value of in-the-money options	\$ -

The following table summarizes information about stock options outstanding at December 31, 2011:

Exercise Price Range	Options Outstanding			Options Exercisable	
	Number Outstanding at Dec 31, 2011	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Outstanding at Dec 31, 2011	Weighted Average Exercise Price
\$ 0.33	-	-	-	-	-
\$ 0.20	550,000	3.07	\$ 0.20	550,000	\$ 0.20
\$ 0.22	800,000	3.25	\$ 0.22	600,000	\$ 0.22
\$ 0.26	750,000	3.38	\$ 0.26	750,000	\$ 0.26
	<u>2,100,000</u>	<u>3.25</u>	<u>\$ 0.23</u>	<u>2,100,000</u>	<u>\$ 0.23</u>

A summary of stock option activity under the plan as of December 31, 2010 and 2009, and changes during the year then ended is as follows:

2010	Shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate Intrinsic Value
Options outstanding at December 31, 2009	3,100,000	\$ 0.26		
Options granted	0	\$ 0		
Options exercised	0	\$ 0		
Options forfeited or expired	0	\$ 0		
Outstanding at December 31, 2010	<u>2,100,000</u>	<u>\$ 0.23</u>	<u>4.25</u>	<u>\$ 0</u>
Exercisable at December 31, 2010	<u>2,100,000</u>	<u>\$ 0.23</u>	<u>4.25</u>	<u>\$ 0</u>

2009	Shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate Intrinsic Value
Options outstanding at December 31, 2008	3,100,000	\$ 0.26		
Options granted	0	\$ 0		
Options exercised	0	\$ 0		
Options forfeited or expired	0	\$ 0		
Outstanding at December 31, 2009	<u>3,100,000</u>	<u>\$ 0.26</u>	<u>3.56</u>	<u>\$ 0</u>
Exercisable at December 31, 2009	<u>3,100,000</u>	<u>\$ 0.26</u>	<u>3.56</u>	<u>\$ 0</u>

Note 11 – Warrants

As of December 31, 2011, the Company had no warrants outstanding. 230,000 warrants expired

in 2010.

Note 12 - 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 December 31, 2011, there was \$74,779.84 outstanding under this agreement.

Note 13 - Legal Proceedings

During the year ending December 31, 2011, there were no significant legal proceedings.

Note 14 – Commitments

The Company is obligated for office space under an operating lease agreement expiring in September 2012. Future minimum annual lease payments will approximate \$36,000 per year through December 2012.

Annual rent expense for the years ended December 31, 2011 and 2010 was approximately 43,279 and 41,216.62, respectively.