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IMAGE TECHNOLOGY LABORATORIES INC
Form 10QSB
May 19, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended MARCH 31, 2006 or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 34-00031307

IMAGE TECHNOLOGY LABORATORIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

22-3531373

(State or Other Jurisdiction
of Incorporation or Organization)

(IRS Employer
Identification No.)

602 Enterprise Drive
Kingston, New York 12401

(Address of Principal Executive Offices)

(845) 338-3366

(Registrant's Telephone Number)

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 as required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of May 18, 2006, there were 15,238,778 shares of the registrant's common stock outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS

	MARCH 31, 2006	DECEMBER 31, 2005
	----- (UNAUDITED)	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,459	\$ 1,414
Accounts receivable	155,334	1,414
Prepaid expenses and other current assets	16,795	1,414
TOTAL CURRENT ASSETS	----- 174,588	----- 1,414
Equipment and improvements, net	158,270	1,414
Rent - deposit	1,496	1,414
TOTAL ASSETS	----- \$ 334,354	----- \$ 3,242
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Loan payable to stockholder	\$ 50,000	\$ 1,414
Loan: Bank line of credit	71,414	1,414
Current portion of long-term debt	91,941	1,414
Current portion of notes payable to stockholders	23,837	1,414
Accrued Phelps arbitration award	130,060	1,414
Accounts payable and accrued expenses	207,225	1,414
Accrued compensation payable to stockholders	87,772	1,414
TOTAL CURRENT LIABILITIES	----- 662,249	----- 6,086
Long-term debt, less current portion	0	1,414
Notes payable to stockholders, less current portion	143,063	1,414
Accrued compensation payable to stockholders, less current portion	27,072	1,414

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TOTAL LIABILITIES	832,384	7
STOCKHOLDERS' DEFICIENCY:		
Preferred stock, par value \$.01 per share; 5,000,000 shares authorized; 1,500,000 shares issued and outstanding	15,000	
Common stock, par value \$.01 per share; 50,000,000 shares authorized; 15,238,778 and 15,238,778 shares issued and outstanding	152,388	1
Additional paid-in capital	3,182,030	3,1
Accumulated deficit	(3,847,448)	(3,7
TOTAL STOCKHOLDERS' DEFICIENCY	(498,030)	(4
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$ 334,354	\$ 3

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

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CONDENSED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
	-----	-----
REVENUE:		
Systems / software: license fees and sales	\$ 154,480	\$ 98,048
Service Income	7,500	
TOTAL REVENUE	161,980	98,048
COST OF REVENUE:	0	0
GROSS PROFIT	161,980	98,048
COSTS AND EXPENSES:		
Research and development	86,531	78,869
Sales and marketing	6,375	25,942
General and administrative (includes interest expense of \$8125 and \$8713 for the three months ending March 31, 2006 and 2005, respectively)	110,781	99,025
Stock based compensation	24,483	
TOTAL COSTS AND EXPENSES	228,170	203,836
NET LOSS	\$ (66,190)	\$ (105,788)
NET LOSS PER COMMON SHARE:		
Basic and diluted	\$ (0.00)	\$ (0.01)
AVERAGE NUMBER OF SHARES USED IN COMPUTATION:		

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Basic and diluted	16,738,778	15,608,778
	=====	=====

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

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CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
THREE MONTHS ENDED MARCH 31, 2006
(UNAUDITED)

	PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID CAPITAL
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT	
Balance, January 1, 2006	1,500,000	\$ 15,000	15,238,778	\$152,388	\$3,152,388
Issuance of options for compensation					2,000
Net loss					
Balance, March 31, 2006	1,500,000	\$ 15,000	15,238,778	\$152,388	\$3,154,388

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

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CONDENSED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31, 2006
OPERATING ACTIVITIES:	
Net loss	\$ (66,190)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization of equipment and improvements	14,877
Stock based compensation	24,483
Changes in operating assets and liabilities:	
Accounts receivable	(43,133)
Prepaid expenses and other current assets	(9,335)
Accounts payable and accrued expenses	(3,304)
Accrued compensation payable to stockholders	34,361

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NET CASH USED IN OPERATING ACTIVITIES	(48,241)

INVESTING ACTIVITIES - purchase of equipment and improvements	(1,890)

FINANCING ACTIVITIES:	
Proceeds from bank line of credit	12,064
Proceeds from private placement of common stock	
Proceeds from notes payable and long-term debt	
Proceeds from loans from stockholders	22,500
Repayments of notes payable and long-term debt	(22,672)

NET CASH PROVIDED BY FINANCING ACTIVITIES	11,892

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(38,239)

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	40,698

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,459
	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid	\$ 2,857
	=====

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

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NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION:

In the opinion of management, the accompanying unaudited condensed financial statements reflect all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of Image Technology Laboratories, Inc. (the "Company") as of March 31, 2006, its results of operations for the three months ended March 31, 2006 and 2005, changes in stockholders' deficiency for the three months ended March 31, 2006 and cash flows for the three months ended March 31, 2006 and 2005. Certain terms used herein are defined in the audited financial statements of the Company as of December 31, 2005 and for the years ended December 31, 2005 and 2004 (the "Audited Financial Statements") included in the Company's Annual Report on Form 10-KSB previously filed with the Securities and Exchange Commission (the "SEC"). Pursuant to rules and regulations of the SEC, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed in or omitted from these financial statements unless significant changes have taken place since the end of the most recent fiscal year. Accordingly, the accompanying unaudited condensed financial statements should be read in conjunction with the Audited Financial Statements and the other information included in the Form 10-KSB.

The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results of operations to be expected for the full year ending December 31, 2006.

These unaudited financial statements have been prepared assuming that the Company will continue as a going concern and, accordingly, do not include

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any adjustments that might result from the outcome of this uncertainty. The Company's independent registered public accounting firm's report on the financial statements included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005, contained an explanatory paragraph regarding the Company's ability to continue as a going concern.

NOTE 2 - EARNINGS (LOSS) PER SHARE:

The Company presents basic earnings (loss) per share and, if appropriate, diluted earnings per share in accordance with the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128") as explained in Note 1 to the financial statements in the Form 10-KSB.

The rights of the Company's preferred and common stockholders are substantially equivalent. The Company has included the 1,500,000 outstanding 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 three months ended March 31, 2006 and 2005, in accordance with the "two class" method of computing earnings (loss) per share set forth in SFAS 128.

Since the Company had net losses for the three months ended March 31, 2006 and 2005, the assumed effects of the exercise of options to purchase 3,125,000 and 2,650,000 common shares outstanding at March 31, 2006 and 2005, respectively, would be anti-dilutive and, therefore, they have not been considered in the calculations of diluted per share amounts in the accompanying condensed statements of operations for those periods.

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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 principal stockholder, Dr. David Ryon. At March 31, 2006, there was \$71,414 outstanding under this agreement.

NOTE 4 - LONG-TERM DEBT:

In February 2004, the Company borrowed \$125,000 from Valley Commercial Capital, LLC ("Valley"). This loan is evidenced by a promissory note, which provides for interest at 8% per annum and calls 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 provides for interest at 8% per annum and calls for monthly payments of principal and interest of \$4,356 through March 29, 2007. As of March 31, 2006, the outstanding balances on these loans aggregated \$91,941. The loans are secured by equipment owned by the Company located at two customer sites, and an assignment of a contract with one of these customers. In addition, the loans are secured by a personal guarantee of the Estate of Dr. David Ryon.

NOTE 5 - NOTES PAYABLE TO STOCKHOLDERS:

During November and December 2004, Dr. David Ryon, the Company's principal

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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. In March 2006, the Estate of Dr. Ryon loaned the Company an additional \$22,500 under an amendment to the December 2004 promissory note. As of March 31, 2006, the entire principal amount of \$163,500 was outstanding. Principal payments of \$81,750 are required in both 2007 and 2008.

In September 2005, the Company received a total of \$50,000 in cash as part of a Bridge Loan Agreement that included the issuance of warrants to purchase 50,000 shares of Common Stock of the Company. All \$50,000 of these funds came from a member of the Company's Board of Directors. The five-year warrants have an exercise price of \$0.33 per share. The Bridge Loan has an annual interest rate of 14%, a maturity of 12 months and can be prepaid upon certain events such as receipt of a certain level of funds from the InMed Services agreement and gross proceeds of equity financing above \$500,000.

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NOTE 6 - COMMON STOCK:

There was no issuance of Common Stock by the Company during the quarter ended March 31, 2006.

NOTE 7 - STOCK OPTIONS

The Company did not grant any options under the Company's option plan during the quarter ended March 31, 2006.

Prior to January 1, 2006 the Company measured compensation cost related to stock options issued to employees using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting For Stock Issued To Employees". The Company has adopted the provisions of Statement of Financial Accounting Standards No. 123R ("SFAS 123R"), "Accounting For Stock-Based Compensation." As a result of SFAS 123R, the Company began expensing the fair value of employee stock options over the vesting period beginning with its fiscal quarter ending March 31, 2006. For the quarter ending March 31, 2006, the Company expensed \$24,483 due to stock options. For the quarter ending March 31, 2005, the pro forma stock option expense was \$102,734, which would have resulted in a pro forma net loss of \$208,522 (net loss per share of \$0.01).

The fair value of options granted were determined using a Black-Scholes pricing model in accordance with SFAS 123R, with the following assumptions used during the three months ended March 31, 2005 :

March 31,

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	2005

Risk-free interest rate	4.22%
Expected Volatility	110%
Expected Years of option term	10
Expected Dividends	0%

The following table summarizes information about stock options outstanding at March 31, 2006.

Options Outstanding			Options Exercisable		
Exercise Price Range	Number Outstanding at March 31, 2006	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Outstanding at March 31, 2006	Weighted Average Exercise Price
\$0.33	1,000,000	3.8	\$0.33	1,000,000	\$0.33
\$0.75	25,000	8.1	\$0.75	25,000	\$0.75
\$0.20	550,000	8.8	\$0.20	550,000	\$0.20
\$0.22	800,000	9.0	\$0.22	200,000	\$0.22
\$0.26	750,000	9.1	\$0.26		\$0.26
	3,125,000	7.3	\$0.27	1,775,000	\$0.28
	=====	=====	=====	=====	=====

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following is a discussion of certain factors affecting Image Technology Laboratories, Inc.'s results of operations, assets, liquidity and capital resources. You should read the following discussion and analysis in conjunction with Image Technology Laboratories, Inc.'s unaudited condensed financial statements and related notes, which are included elsewhere in this filing.

Image Technology Laboratories, Inc. ("we", "our" or the "Company") is a medical image and information management company in the healthcare information systems market. We were incorporated in Delaware on December 5, 1997. The Company has developed a single database "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. Our lead product is the WarpSpeed system. Through its unique, modular architecture the Company 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.

We expect that we will derive our future revenues primarily from sales of our WarpSpeed system and associated maintenance charges along with Application Service Provider (ASP) usage fees. 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 for accounting purposes, but we continue to refine and enhance the capabilities of our WarpSpeed system.

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We have had recurring losses and negative cash flows from our operating activities since inception. We have cash of \$2,459 and a working capital deficiency of \$487,661 as of March 31, 2006.

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RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2006 COMPARED WITH THE THREE MONTHS ENDED MARCH 31, 2005

REVENUE:

For the three months ended March 31, 2006, our total revenue was \$161,980, an increase of \$63,932 from the \$98,048 in the prior year's comparable period, attributed to revenue from our sale to InMed Diagnostic Services and an increase in usage fees from St. Anthony Community Hospital.

COST OF REVENUE:

For each of the three months ended March 31, 2006 and 2005, no direct cost of revenue was incurred.

SALES AND MARKETING EXPENSES:

During the three months ended March 31, 2006, we incurred sales and marketing expenses of \$6,375, as compared with sales and marketing expenses of \$25,942 during the same period of 2005, a decrease of \$19,567. The Company has focused its efforts on controlling costs while identifying appropriate sales personnel and resources. These costs are expected to grow as the company executes its business plan.

NET LOSS:

We incurred a loss of \$66,190 (less than \$.01 per share) for the three months ended March 31, 2006 as compared with a loss of \$105,788 (\$.01 per share) for the three months ended March 31, 2005, a decrease in loss of \$39,598.

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LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2006, our total assets were \$334,354, an increase of \$1,242 from total assets of \$333,112 on December 31, 2005.

As of March 31, 2006, we had cash and cash equivalents and a working capital deficiency of \$2,459 and \$487,661, respectively.

Net cash used in our operating activities for the 3 months ending March 31, 2006 of \$48,241 was substantially attributable to our net loss of \$66,190 offset by \$34,362 in accrued compensation payable to stockholders. Of the net loss of \$66,190, \$24,483 was stock option compensation expense. The net cash used in our operating activities was financed with \$22,500 resulting from an additional loan from the Estate of Dr. David Ryon and a net of \$12,064 from our bank line of credit. Investing activities (purchase of equipment and improvements) for the quarter ending March 31, 2005 totaled only \$1,890.

The foregoing activities, i.e., operating, investing and financing, resulted in our net cash decrease of \$38,239 for the three months ended March 31, 2006.

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During September 2002, we obtained a \$75,000 working capital loan from a financial institution. As of March 31, 2006, we have \$71,414 outstanding under that loan. Additionally, in February and March 2004, we obtained two loans from a different financial institution that provided us with an aggregate principal amount of approximately \$264,000. As of March 31, 2006, we had \$91,941 outstanding under these arrangements. In December 2004, we borrowed \$105,000 from our former Chief Executive Officer Dr. David Ryon, which will be repaid over 24 months, beginning in January 2007. An additional \$36,000 and \$22,500 were borrowed from the Estate of Dr. Ryon in December 2005 and March 2006, respectively. Principal payments are \$81,750 in 2007 and 2008.

In September 2005, the Company received a total of \$50,000 in cash as part of a Bridge Loan Agreement that included the issuance of warrants to purchase 50,000 shares of Common Stock of the Company. All \$50,000 of these funds came from a member of the Company's Board of Directors. The five-year warrants have an exercise price of \$0.33 per share. The Bridge Loan has an annual interest rate of 14%, a maturity of 12 months and can be prepaid upon certain events such as receipt of a certain level of funds from the InMed Services agreement and gross proceeds of equity financing above \$500,000.

In January 2004, ITL 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. ITL expanded its installation to an off-campus Women's Center in May 2005, for digital mammography and ultrasound, and again in November 2005 at the hospital with the installation of Computed Radiography (CR) modalities as St. Anthony Community Hospital became essentially film-less. Our installation at St. Anthony Community Hospital also includes a fully-redundant hot-standby server.

In March 2005, the Company signed a contract for the sale of two of its WarpSpeed RIS/PACS systems to InMed Diagnostic Services of Massachusetts, LLC at multi-modality imaging centers specializing in women's health care spread across three sites, and one WarpSpeed system to InMed Diagnostics Services of South Carolina, LLC in Columbia. The Columbia, South Carolina site is the largest imaging center of the InMed affiliates.

In March 2006, the Company executed an amendment to its contract with Park Avenue Associates in Radiology PC., Binghamton NY to extend the term of the original RIS/PACS contract through December 31, 2006.

We require cash to fund our working capital needs and capital expenditures, as well as to meet existing commitments. Such commitments include payments of existing loans including our line of credit, two notes payable which call for aggregate monthly payments of approximately \$8,300 through March 2007, one note with monthly payments of approximately \$7,500 through December 2008, and \$900 per month pursuant to a five-year lease commitment ending in October 2007 for our operations center in Kingston, New York. 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. Additionally, we are considering outside sources of equity funds and other types of financing in order to help support our anticipated growth. There can be no assurance that such efforts will be successful.

Management believes that as a result of the proceeds from financing activities, as well as anticipated cash flow generated by sales of its RIS/PACS solution (in

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addition to the current cash flow resulting from our installed ASP base), the Company will be able to continue to meet its obligations as they become due through at least December 31, 2006. Management also believes, 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 and private placements. However, there can be no assurance that the Company 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.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In March 2006, the Estate of Dr. Ryon loaned the Company an additional \$22,500 under an amendment to the December 2004 promissory note. As of March 31, 2006, the entire principal amount of \$163,500 was outstanding. Principal payments of \$81,750 are required in both 2007 and 2008.

FORWARD-LOOKING STATEMENTS

When used in the Quarterly Report on Form 10-QSB, the words "may", "will", "should", "expect", "believe", "anticipate", "continue", "estimate", "project", "intend" and similar expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act regarding events, conditions and financial trends that may affect our future plans of operations, business strategy, results of operations and financial condition. We wish to ensure that such statements are accompanied by meaningful cautionary statements pursuant to the safe harbor established in the Private Securities Litigation Reform Act of 1995. Prospective investors are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and that actual results may differ materially from those included within the forward-looking statements as a result of various factors including our ability to consummate, and the terms of, acquisitions, if any. Such forward-looking statements should, therefore, be considered in light of various important factors, including those set forth herein and others set forth from time to time in our reports and registration statements filed with the Securities and Exchange Commission (the "Commission"). We disclaim any intent or obligation to update such forward-looking statements.

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ITEM 3 - CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our Chief Technology Officer who is our Principal Accounting Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c) and 15d-14(c) as of the end of the period covered by this report (the "Evaluation Date")), have concluded that as of the Evaluation Date, our disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would be made known to them by others within the Company, particularly during the period in which this quarterly report on Form 10-QSB was being prepared.

CHANGES IN INTERNAL CONTROLS

There were no significant changes in our internal controls or in other factors

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that could significantly affect our disclosure controls and procedures subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such disclosure controls and procedures requiring corrective actions. As a result, no corrective actions were taken.

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PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

During the quarter, there were no significant developments in our legal proceedings. For a detailed discussion of our legal proceedings, please refer to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005.

ITEM 2 - CHANGES IN SECURITIES

None.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5 - OTHER INFORMATION

On January 17, 2006 Barry C. Muradian informed the Company of his resignation as the President, Chief Executive Officer and Principal Accounting Officer of the Company, effective January 20, 2006. An 8-K report was filed on January 20, 2006. Mr. Muradian's 775,000 non-vested options were cancelled upon his resignation and his 25,000 vested options were cancelled on April 20, 2006.

On March 3, 2006, the Company engaged Berenson LLP ("Berenson") to act as the Company's new independent registered accounting firm and auditors. This engagement was recommended and approved by Unanimous Written Consent of the Board of Directors of the Company as of March 3, 2006. During the two most recent fiscal years, and the interim period preceding the engagement, the Company had not consulted Berenson regarding any of the matters set forth in Item 304 (a) (2) (i) or (ii) of Regulation S-B. An 8-K report was filed on March 9, 2006.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS.

31.1 Certification of Chief Technology Officer and Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Technology Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) REPORTS ON FORM 8-K.

None.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

/s/ Lewis M. Edwards

Lewis M. Edwards,
Chairman, Executive Vice-President,
Chief Technology Officer, and
Principal Accounting Officer
May 18, 2006