UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)
☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the fiscal year ended April 30, 2007

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _________ to ___________

Commission file number 0-10294

INTERNATIONAL LOTTERY & TOTALIZATOR SYSTEMS, INC.
(Name of small business issuer in its charter)

California
(State or other jurisdiction of incorporation or organization)

95-3276269
(I.R.S. Employer Identification Number)

2310 Cousteau Court
Vista, California
(Address of principal executive offices)

92081-8346
(Zip Code)

(760) 598-1655
(Issuer’s telephone number)

Securities registered pursuant to Section 12(g) of the Exchange Act:
Common Shares, no par value
(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15 (d) of the Exchange Act. ☐

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Check if there is no disclosure of delinquentfilers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

Revenues for the year ended April 30, 2007 were $11,045,787.

Aggregate market value of voting stock held by non-affiliates of the Registrant as of July 26, 2007 was approximately $2,528,024.

Number of common shares outstanding at July 26, 2007 was 12,962,999

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Proxy Statement for 2007 Annual Meeting of Stockholders: Part III

Transitional Small Business Disclosure Format Yes ☒ No ☐
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SAFE HARBOR STATEMENT PURSUANT TO SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Act provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about themselves so long as they identify these statements as forward looking and provide meaningful cautionary statements identifying important factors that could cause actual results to differ from the projected results. All statements other than statements of historical fact, including statements regarding industry prospects and future results of operations or financial position, made in this Report are forward-looking. We use words such as "anticipate," "believe," "expect," "future," "intend" and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations, plans or projections and are inherently uncertain. Our actual results may differ significantly from management's expectations, plans or projections. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are urged, however, to review the factors set forth in reports that we file from time to time with the Securities and Exchange Commission.
PART I

ITEM 1. DESCRIPTION OF BUSINESS

The terms “ILTS,” “the Company,” “we,” “our” and “us” refer to International Lottery & Totalizator Systems, Inc. and its consolidated subsidiaries, unless otherwise specified.

ORGANIZATIONAL HISTORY

ILTS is a leading supplier of computerized wagering systems for the online lottery and pari-mutuel racing industries. In recent years, our company has developed a fully integrated, certified end-to-end optical scan voting system consisting of the InkaVote Plus Precinct Ballot Counter (“PBC”) and full-featured Election Management Software that provides precinct tabulation, ballot review and audio voting capability in an integrated compact solution. We have initiated a strategic alliance with Election Systems & Software, Inc. (“ES&S”) to grant ES&S an exclusive worldwide license to manufacture, sell and sublicense our intellectual property relating to the PBC and PBC software to ES&S’s end customers.

Our company was founded in 1978 and completed an initial public offering in 1981. Our operations and corporate headquarters are located in Vista, California.

BUSINESS OVERVIEW

Lottery and Pari-Mutuel Business

We design, manufacture, sell, manage, support, and service computerized wagering systems and terminals for the online lottery and pari-mutuel racing industries worldwide. Although we are not presently doing so, we have also successfully demonstrated the capability to provide full facilities management services to customer organizations authorized to conduct online lotteries.

Our wagering systems include the following components:

- A central computer installation that is comprised of computer hardware and a commercially available operating system used in conjunction with our proprietary DataTrak application software;
- The Datamark and Intelimark families of point-of-sale devices; and
- The communication network to interface the terminals to the central computer installation.

System features include real-time, secure processing of data received from multiple locations, hardware redundancy and complete communications redundancy in order to provide the highest level of fault tolerant operation.

The DataTrak online gaming system controls the overall lottery operation. Although to date it has been sold only in conjunction with our terminals, DataTrak can also be sold as a stand-alone system that will interface to third-party terminals. Likewise, the terminals can be, and have been, sold separately to interface to a third-party lottery/tote central system.

The point-of-sale, proprietary components of our systems are the Datamark and Intelimark families of ticketing terminals. These terminals are compact, reliable, microprocessor-based units, which scan marksense slips or interpret operator-input data in order to produce a ticket receipt to be retained by the customer. Our newest terminal models use the latest touch screen and scanner technology. We sell the terminals separately or as part of a turnkey wagering application system, or we will modify a terminal's features or configurations and central system software to meet specific customer requirements.
Using commercially available hardware and software, we design the communication network to interface the DataTrak central system with the wagering terminals to best fit each customer’s specific application.

Our technology can be modified for use in secure transaction-processing applications outside the gaming industry. Previously, we provided a toll-road ticketing system utilizing automated ticket printers and readers.

**Voting Business**

In recent years, we have devoted significant resources to developing a certified end-to-end optical scan voting system consisting of the InkaVote Plus Precinct Ballot Counter and full-featured Election Management Software that provides precinct tabulation, ballot review and audio voting capability in an integrated compact solution. These efforts leverage our extensive experience to develop highly secure, mission-critical solutions that meet all Help America Vote Act of 2002 (“HAVA”) and Americans with Disabilities Act (“ADA”) requirements as of April 30, 2007, at a much lower cost than direct-recording electronic or touch screen systems. In addition, our voting system offers the following features:

- High level of security and vote encryption ensure integrity and voter privacy;
- Electronic and paper audit trails offer added security and redundancy for recounts;
- Poll workers require minimal training to set-up and operate;
- Require minimal voter re-education; and
- Capability to tally results in real time.

**PRODUCTS AND SERVICES**

**Wagering Application Software**

The principal component of our wagering system is the DataTrak central system software. DataTrak controls the operation of the entire system. It performs the following functions:

- Maintains communication with each point-of-sale terminal;
- Ensures complete security;
- Logs all activity and wagers;
- Populates a commercially available database in real time with high level security;
- Identifies the set of winning tickets using the lottery game draw results;
- Calculates prize pool amounts;
- Allows the use of other third party software products to analyze and compile management data; and
- Provides mission critical fault tolerance.

Development of this software has been an evolutionary process. We continually incorporate new and improved technologies as they become available in the marketplace. This allows us to take advantage of the latest technology trends to enhance existing features of our system, and also to provide new distribution channels and operational features so that our customers can reach new or expanding markets. Since our software architecture is non-proprietary, customers can also utilize third party reporting and analysis software tools of their choice to interface with it.

The DataTrak system uses client-server architecture. This gives customers the advantage of configuring the system economically to meet current requirements, and the ability to expand or contract the system as their operation requires.
In recent years, we have expanded the capability of the DataTrak system to address newly emerging sales channels of our customers. These alternative sales channels have come about through the emergence of the internet and mobile applications. The expanded capability is included in our product offering called “DataTrak Anywhere.” This product allows the use of any or all of the following: Interactive Voice Recognition (“IVR”), Short Messaging Services (“SMS”), and the internet to interface to the DataTrak system. These methods can be used to place wagers in a number of ways, depending on the availability of each method in a specific locale through:

- An account with the lottery;
- Prepaid card; or
- Post-paid billing.

**Terminals**

We have supplied in excess of 50,000 terminal products to the wagering industry since our first unit was sold in 1980. Currently, we have two families of full feature terminals in production: the Datamark and the Intelimark, both of which are:

- Based on PC architecture and utilize commercially available software operating systems;
- Small, lightweight, and highly reliable; and
- Programmed using standard software languages.

**Datamark**

We have developed many models of Datamark terminals throughout our company’s history. The current version is the Datamark XClaim terminal, introduced as a low-cost terminal. Its optical mark reader and thermal printer require little or no adjustments or maintenance. It is economically priced and extremely easy to use with features that increase operator efficiency and reduce transaction time. The XClaim can be programmed to meet the specific operating requirements of each individual customer. A keyboard is provided for operator input and a LCD displays the wagering details.

**Intelimark**

There are two terminals in the Intelimark family:

- The Intelimark was introduced in 1999 and incorporates commercially available hardware and software from strategic partners. The Intelimark was designed in concert with Seiko-Epson Corporation, one of the leading providers of point-of-sale terminals in the world. The Intelimark incorporates a proprietary optical mark reader, and has the option of using a full-color touch screen or traditional keyboard to enter data.

- The Intelimark FLX, introduced in 2003, is a modular touch screen lottery terminal, packaged to offer maximum flexibility for retailer convenience. All components that make up the complete terminal are freestanding modules that can be arranged to meet the unique physical requirements of each retailer location. Driven by the market demand for enhanced ticket reading capability, the Intelimark FLX is equipped with a high-speed contact image scanner that will accept up to A4 size slips and is capable of character recognition and signature capture. Its modular design, open architecture and PC-based technology provide a flexible platform that can quickly and economically respond to the dynamic needs of both players and retailers.

In addition to two families of full feature terminals, we offer a completely portable, battery-powered terminal called the Passport II for mobile applications. This terminal can be equipped with mobile
wireless modems to enable true online selling in remote areas or temporary venues where a full-featured terminal is not practical.

Spare Parts

In addition to sales of terminals and central system software and hardware systems, we also realize ongoing revenue from the sale of spare parts for use in the repairs and maintenance of the terminal population.

Software Support Agreements

We offer software maintenance agreements which feature:

- Telephone hot line and e-mail support;
- Standard upgrades and patches; and
- Primary technical support for third party software products purchased through ILTS.

Additionally, we offer software modifications and enhancements to satisfy specific customer requirements.

Voting System Products

The InkaVote Plus optical scan voting system is a unique application consisting of the Precinct Ballot Counter (“PBC”) and the Election Management Software (“EMS”). It provides a quick and cost-effective path to the replacement of pre-scored card voting systems. With minimal expense, voting jurisdictions can upgrade to a field-proven optical mark system that eliminates the vagaries and controversies of punch cards and provides a permanent physical record of voter choices. InkaVote utilizes a newly designed vote recorder that functions exactly the same as the punch card systems. However, it replaces the punch with the stylus, thereby, eliminating the controversies and maintaining the traditional vote experience. The completed ballot card provides a permanent physical record of voter choices, and accommodates traditional recounting procedures.

Precinct Ballot Counter

The PBC, designed to read and validate ballots, is a precinct based optical scan device which includes a color touch screen operator interface, InkaVote ballot reader and validator, and precinct report printer. With an integrated ADA compliant voting station, special needs voters may cast their ballots independently and privately through a variety of methods, including wheelchair access, portable voter recorders and audio assistance through earphones and special keyboards.

The PBCs set up is fast and simple with minimal assembly and interface required. Poll workers need no special knowledge to set up or operate the system. Election officials can quickly prepare polls and train poll workers.

Election Management Software

The EMS, consisting of the Ballot Data Generator and the Vote Tabulator software applications that work together to perform the following functions:

- Define and configure an election;
- Program the InkaVote Plus PBCs;
- Provide camera ready ballot pages in PDF format;
INTERNATIONAL LOTTERY & TOTALIZATOR SYSTEMS, INC.

• Compile and tabulate vote results; and
• Generate required reports.

It provides complete control of each step of the election process from ballot layout to report generation. It utilizes streamlined menus and prompts to provide maximum flexibility and customization while guiding the user through every step in the process. The system has multilingual capabilities and supports numerous languages in both standard and audible ballots. The EMS creates the election specific database from information that can be imported manually and/or from an .XML file.

PRODUCT MARKETS

Revenue from the sale of lottery and horse racing systems is almost exclusively derived from contracts with foreign customers. As of April 30, 2007, our equipment has been delivered and installed in Australia, Belgium, Brazil, China, Denmark, the Dominican Republic, England, Finland, France, Hong Kong, India, Macau, Malaysia, the Netherlands, Norway, Papua New Guinea, the Philippines, Singapore, Swaziland, Sweden, the Ukraine, and the United States.

COMPETITIVE BUSINESS CONDITIONS

We compete primarily in the online lottery and horse racing industries by providing high-quality wagering systems and terminals that are reliable, secure and fast. In addition, we believe that we offer our customers greater flexibility in design and custom options than do our competitors. The market for online lottery system contracts is highly competitive. In general, our competitors have significantly greater resources than we do. Although our sales in the United States have been insignificant, we believe that our company has been a substantial factor in the international marketplace.

Our principal competition for full lottery systems are:

• GTech Holdings Corporation (a U.S. company);
• Scientific Games (a U.S. company); and
• IntraLot (a Greek company).

For terminal sales only, we have numerous competitors in selected markets. In addition to the foregoing, some of our larger competitors include:

• Wincor-Nixdorf (a German company);
• KEBA, GesmbH & Co. (an Austrian company);
• Sagem (a French company); and
• Olivetti Tecnost (an Italian company).

For the sale of horse racing systems, our main competitor is Scientific Games (a U.S. Company).

With respect to the voting industry, Diebold is the largest competitor followed by companies such as Hart Intercivic and Sequoia.

MANUFACTURING PROCESSES

We assemble terminals, repair modules, and supply spare parts from our domestic facility. During recent years, the design of certain high-production units has been streamlined. This cost saving measure has allowed us to outsource the assembly of these units to local manufacturers while maintaining control over the materials and quality.
In some cases, we have delivered terminal kits to customers who have purchased a license to assemble the terminals at their own location. Extensive training is provided to ensure high quality manufacturing.

**MATERIALS AND SUPPLIERS**

For terminal components and spare parts, we generally have multiple sources, but a limited number of items are available only from a single supplier. Accordingly, those items could from time to time, be in short supply or on allocation due to their limited availability.

For the year ended April 30, 2007, four vendors accounted for approximately 70% of our central system component lottery terminal component purchases. For the year ended April 30, 2006, four vendors accounted for approximately 60% of our raw material purchases.

**DEPENDENCE UPON A FEW CUSTOMERS**

Our business to date has been dependent on major contracts from a specific pool of lottery operators. Failure to obtain new contracts from existing and new customers would have a materially adverse effect on our financial performance.

For the year ended April 30, 2007, no unrelated customer accounted for more than 10% of total revenue, while one customer related to ILTS accounted for 90% of total revenue. For the year ended April 30, 2006, no unrelated customer accounted for more than 10% of total revenue, while two customers related to ILTS accounted for 66% of total revenue.

**PATENTS, TRADEMARKS AND LICENSES**

We have three U.S. patents issued on our products. We believe that our technical expertise, trade secrets and the creative skills of our personnel are of substantially greater importance to our company’s success than the benefits of patent protection. We typically require customers, employees, licensees, subcontractors, strategic partners, and joint venture partners who have access to proprietary information concerning our products to sign nondisclosure agreements. We rely on such agreements, other security measures, and trade-secret law to protect our proprietary information.

International Lottery & Totalizator Systems, Inc., ILTS, DataTrak and Intertote are registered trademarks of our company. Intelimark is a pending registered trademark. We have other products that have been trademarked, such as Intelimark FLX, Passport II and DataTrak Anywhere, all mentioned herein.

**REGULATION**

The countries in which we market our products generally have regulations governing lottery or horseracing operations, and the appropriate governing body could restrict or ban operations in these countries. Any such action could have a material adverse effect on our company.

Foreign countries often impose restrictions on corporations seeking to do business within their borders, including foreign exchange controls, and in some jurisdictions, requirements for domestic manufacturing content. In addition, laws and legal procedures in these countries may differ from those generally existing in the United States. Conducting business in these countries may involve additional risks in protecting our business and assets, including proprietary information. Changes in foreign business restrictions or laws could have a significant impact on our operations.
Research and Development

We are dedicated to ongoing research and development ("R&D") to take advantage of new technologies, stay competitive in our market; and explore new markets where our core competency can be applied.

For our lottery customers, recent hardware research and development has focused on bringing to production our latest terminal product called the Intelimark FLX. This product consists of commercially-available modules that can be configured in several ways to meet a variety of specific customer requirements. The FLX incorporates a wide range of options, including touch screen, flat-panel technology, contact image scanning technology, and high-powered processing capability.

Lottery customers are also benefiting from our continued R&D efforts in the use of wireless terminal technologies using LAN/WAN equipment and cellular devices. These technologies: Short Messaging Service ("SMS"), and Interactive Voice Response ("IVR") allow bettors to place bets from any location, rather than at traditional point-of-sale agencies. This research and development effort has allowed us to implement these technologies into our current product known as Datatrak Anywhere.

In general, we continue to examine other technologies based upon new industry developments, which will increase our customers’ market share. For example, we have invested resources to expand specific applications to run on the Linux operating system. These Linux based applications are targeted at products used in both wagering and voting markets.

We continue to dedicate our efforts on developing highly secure and mission-critical voting solutions that meet all of the Help America Vote Act of 2005 ("HAVA") and American Disabilities Act ("ADA") which allow any voters to vote, regardless of physical disabilities or language barriers.

Environment Effects

There are no significant capital expenditures required to comply with laws relating to the protection of the environment.

Employees

As of April 30, 2007, we had 35 employees employed on a full-time equivalent basis. We have no employees that are members of labor unions. We believe our relationship with our employees is satisfactory.
ITEM 1A. RISK FACTORS

Our business faces risks and uncertainties, including but not limited to, those discussed below and elsewhere in this report. These factors represent risks and uncertainties that could have a material adverse effect on our business, results of operations and financial condition. Additional risks and uncertainties not presently known to us or that we do not presently consider significant may also impair our business or the trading price of our securities.

If we do not execute on our strategic initiatives, there could be a material adverse effect on our results of operations and financial condition.

The future performance of our business will depend significantly on our ability to execute effectively and implement the strategic initiatives. These initiatives include executing our market strategy including designing products to meet market trends and ensuring that an appropriate infrastructure is in place to meet the needs of customers; continuing to reduce product costs; and further improving the efficiency of operations, including lowering operating costs and enabling higher value services.

Successful execution of these initiatives depends on a number of factors including:

- The ability to attract and retain sufficient number of key technical employees and senior management personnel;
- Retaining customers by providing satisfactory levels of support and service for our products;
- Our ability to develop and introduce new products or programs, because of the inherent risks and uncertainties associated with product development, particularly in response to government regulations;
- The identification and introduction of the proper mix or integration of products that will be accepted by the marketplace;
- Our business may be subject to changes in laws, regulations and certification requirements with respect to our products;
- Due to the political nature of our voting business, there is a risk that jurisdictions may decertify our voting products that had previously been certified; and
- The ability of our products and services to differentiate us from our competitors and for us to demonstrate that these products and services result in improved products and reduced costs.

Further, our success will depend upon our ability to maintain proper internal control, enhance the performance of the existing procedures and processes to adequately support our operations, strategies and business objectives.

Changes in domestic and foreign business restrictions or laws could have a significant impact on our operations.

The countries in which we market our products generally have regulations governing lottery or horseracing operations, and the appropriate governing body could restrict or ban operations in these countries. Any such action could have a material adverse effect on our company. Foreign countries often impose restrictions on corporations seeking to do business within their borders, including foreign exchange controls, and in some jurisdictions, requirements for domestic manufacturing content. In addition, laws and legal procedures in these countries may differ from those generally existing in the United States. Conducting business in these countries may involve additional risks in protecting our business and assets, including proprietary information. Changes in foreign business restrictions or laws could have a significant impact on our operations.

We are dependent on a few customers.

Our business to date has been dependent on major contracts from a few different customers. The loss of one or more of these customers or failure to replace completed contracts with new contracts from existing customers would have a material adverse effect on our business.
Competitive pressures we face could harm or profits and gross revenues.
We compete for business opportunities against many domestic and foreign businesses. In many cases, our competition has greater financial resources which may affect the outcome of a bid, regardless of the products and/or services that we have the capability of providing. Also, in order to be competitive, we may propose our products and services to a point where it could translate to lower profitability for our company.

Should we fail to successfully manage our key vendors, our financial results could be burdened.
Our arrangements with key vendors may make our operations vulnerable if those third parties fail to satisfy their obligations to our company due to changes in their own operations, financial condition, or other matters outside of our control.

If we are unable to develop and introduce new and enhanced products that achieve market acceptance in a timely and cost-effective manner, our operating results and competitive position may be harmed.
Our future success will depend on our ability, in a timely and cost-effective manner, to develop and introduce new products and enhancements to our existing products. We must also achieve market acceptance for these products and enhancements. If we do not successfully develop and achieve market acceptance for new and enhanced products, our ability to maintain or increase revenues will suffer. Even if new and enhanced products are introduced to the market, we may not be able to achieve market acceptance of them in a timely manner. The loss of a key customer, a reduction in sales to any key customer or our inability to attract new significant customers could materially and adversely affect our business, financial condition and results of operations.

Our operating results may fluctuate significantly from period to period.
In the highly competitive industries in which we operate, operating results may fluctuate significantly from period to period. In the event that we are unable to secure new business, we may experience reduced liquidity or insufficient cash flows.

Interpretations and policies regarding revenue recognition could cause us to defer recognition of revenue or recognize lower revenue and profits.
Revenue associated with the licensing of our company’s voting products and services will be recognized in accordance with accounting principles generally accepted in the United States (US GAAP). As our transactions increase in complexity with the sale of multi-element products and services, negotiation of mutually acceptable terms and conditions can extend the sales cycle and, in certain situations, may require us to defer recognition of revenue on such licenses. We believe that we are in compliance with US GAAP; however these future, more complex, multi-product, multi-year license transactions may require additional accounting analysis to account for them accurately, could lead to unanticipated changes in our current revenue accounting practices and may contain terms affecting the timing of revenue recognition.

Our business transactions may be subject to foreign currency fluctuation.
Our reporting currency is the U.S. dollar. Sales are denominated almost exclusively in U.S. dollars. Occasionally, sales have been effected in foreign currencies. Fluctuations in exchange rates from reporting period to reporting period between various foreign currencies and the U.S. dollar may have an impact on revenue and expense. Such effect may be material in any individual reporting period.

Insurance
The Company maintains third party insurance coverage against various liability risks and risks of property loss. While we believe these arrangements are an effective way to insure against liability and property damage risks, the potential liabilities associated with those risks or other events could exceed the coverage provided by such arrangements.
Uncertainties relating to our ability to sell the $1.9 million in kit inventory
We had approximately $1.9 million in kit inventory related to orders from an unrelated international customer, as discussed in the “Major Customers” section, as of both April 30, 2007 and 2006 which we will not ship to the customer until we receive substantially all of the payments due. We have the right to sell such inventory to other customers. Our inability to sell the products to other customers could have a material adverse impact on our company’s liquidity and results of operations.

We could become subject to litigation regarding intellectual property rights, which could seriously harm our business.

Although we have not been the subject of any such actions, third parties may in the future assert against us infringement claims or claims that we have violated a patent or infringed upon a copyright, trademark or other proprietary right belonging to them. Third parties may in the future assert claims against our suppliers that such suppliers have violated a patent or infringed upon a copyright, trademark or other proprietary right belonging to them. If such infringement by our suppliers or us were found to exist, a party could seek an injunction preventing the use of their intellectual property.

Volatility of stock price
The company's stock price is affected by a number of factors, including quarterly variations in financial results, the competitive landscape, general economic and market conditions, and estimates and projections by the investment community.
ITEM 2. DESCRIPTION OF PROPERTY

Our headquarters facilities in Vista, California consist of approximately 18,514 square feet of leased office, warehouse and manufacturing space. Due to the expiration of the previous lease in Carlsbad, California, we executed a three-year lease for the facility in Vista, California. The lease on this facility expires in November 2009.

ITEM 3. LEGAL PROCEEDINGS

The Company was not a party to any litigation proceedings as of April 30, 2007.

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

There were no matters submitted to a vote of security holders.
PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded under the symbol ITSI on the Over-the-Counter Bulletin Board. As of April 30, 2007, there were 12,962,999 common shares outstanding and approximately 971 shareholders of record. Berjaya Lottery Management (H.K.) Ltd. (“BLM”) owned 71.3% of the total outstanding shares while ILTS’s management owned less than 1%.

Solely for the purpose of calculating the aggregate market value of the voting stock held by non-affiliates of ILTS, as set forth on the cover of this report, it has been assumed that all executive officers and directors of ILTS and BLM are affiliated persons. All of ILTS’s common shares, the only voting stock outstanding, beneficially owned by each such person (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) have been assumed to be held by that person for this calculation. The market value of the common shares is based on the closing price for July 26, 2007, of $0.68 per share.

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<th>Fiscal Year Ended April 30, 2007</th>
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<th>Low</th>
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<td>Fourth Quarter</td>
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<table>
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<th>Low</th>
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<td>Fourth Quarter</td>
<td>0.51</td>
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</table>

DIVIDENDS

The Company paid no dividends during the last two fiscal years. We currently intend to retain any earnings for use in the business and therefore do not anticipate paying any dividends in the foreseeable future.
SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLAN

The following table summarizes the securities authorized for issuance under our equity compensation plans as of April 30, 2007:

<table>
<thead>
<tr>
<th>Plan Category</th>
<th>Number of securities to be issued upon exercise of outstanding options</th>
<th>Weighted average exercise price of outstanding options</th>
<th>Number of securities remaining available for future issuance</th>
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<tbody>
<tr>
<td>Equity compensation plans approved by security holders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990 Stock Incentive Plan</td>
<td>118,867</td>
<td>$1.76</td>
<td></td>
</tr>
<tr>
<td>2000 Equity Participation Plan</td>
<td>-</td>
<td>-</td>
<td>1,177,431(1)</td>
</tr>
<tr>
<td>Equity compensation plans not approved by security holders</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>118,867</td>
<td>$1.76</td>
<td>1,177,431(1)</td>
</tr>
</tbody>
</table>

(1) The 2000 Equity Participation Plan (the “2000 Plan”) was approved by each of the Board of Directors and our shareholders, whereby options to purchase 200,000 shares of the Company’s common stock were initially authorized. The number of options authorized for grant may increase January 1 of each plan year by 3% of the total number of outstanding shares of the Company’s common stock on that date, subject to the approval of the Board of Directors and the limitation that the total number of shares of common stock subject to all options granted shall not exceed 10% of the total number of outstanding shares of common stock on that date.

SALES OF UNREGISTERED SECURITIES
The Company had no sales of unregistered securities during the past three fiscal years.
ITEM 6. MANAGEMENT’S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

FORWARD LOOKING STATEMENTS

The discussion in this filing contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth or implied by forward-looking statements. These risks and uncertainties include dependence on business from foreign customers sometimes in politically unstable regions, political and governmental decisions as to the establishment of lotteries and other wagering industries in which our products are marketed, fluctuations in period-to-period operating results, the absence of significant contract backlog, and other factors described in section 1A. Risk Factors in this Form 10-KSB.

CRITICAL ACCOUNTING POLICIES

Use of Estimates

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. Accordingly, we are required to make estimates, judgments and assumptions that we believe are reasonable. We base our estimates on historical experience, contract terms, observance of known trends in our company and the industry as a whole, and information available from other outside sources. Estimates affect the reported amounts and related disclosures. Actual results may differ from initial estimates. The areas most sensitive to estimation are revenue recognition, warranty reserves, the allowance for doubtful accounts, the amortization period for capitalized software development costs and the deferred tax valuation allowance.

Revenue Recognition

We recognize revenue by applying various relevant revenue recognition policies depending on the nature of the sale and the terms of the contract.

Complete Systems

ILTS's complete wagering systems include the point-of-sale terminals, a central computer installation and a commercially available operating system used in conjunction with ILTS’s proprietary application software, and a communication network to interface the terminals to the central computer installation. System features include real-time, secure processing of data received from multiple locations, hardware redundancy and complete communications redundancy in order to provide the highest level of fault tolerant operation.

A complete system is comprised of both hardware and software. The hardware portion includes both central system servers and terminals. The software portion includes the application software for both the central system and terminals.

As directed by Statement of Position 97-2 (“SOP 97-2”) “Software Revenue Recognition”, we follow Statement of Position 81-1 (“SOP 81-1”) “Accounting for Performance of Construction-Type and Certain Production-Type Contracts” in accounting for the sale of complete systems. We recognize revenue by using the percentage-of-completion method when the contracts for complete systems fulfill the following criteria:

1. Contract performance extends over long periods of time;
2. The software portion involves significant production, modification or customization;
3. Reasonably dependable estimates can be made on the progress towards completion, contract revenues and contract costs; and
4. Each element is essential to the functionality of the other elements of the contracts.

Under the percentage-of-completion method, sales and estimated gross profits are recognized as work progresses. Progress toward completion is measured by the ratio of costs incurred to total estimated costs. Revenue and gross profit may be adjusted prospectively for revisions in estimated total contract costs. If the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is recorded in the period in which it becomes evident. The total estimated loss includes all costs allocable to the specific contract.

Each complete system contract is reviewed individually to determine the appropriate basis of recognizing revenue. If the contract does not fulfill the above criteria, revenues are recognized only when:

1. Persuasive evidence of an arrangement exists in the form of signed contracts or purchase orders;
2. The contract or purchase order contains a fixed or determinable selling price to the buyer;
3. Collectibility is reasonably assured through due diligence, historical payment practices or upfront payments; and
4. Delivery has occurred or services have been rendered in accordance with contract terms.

Software – only

In addition to the software portion of a complete system, we develop software for our customers in accordance with the specifications stipulated in a software supply contract. Generally, these contracts are related to additional features or modules to be added to the application software that we have previously developed for our customers. Each software contract is reviewed individually to determine the appropriate basis of recognizing revenue.

For software contracts involving significant development efforts that extend over long periods of time and fulfill the criteria as set out in SOP 81-1, the related revenues are recognized by using the percentage-of-completion method. Other software supply contract revenues are recognized upon delivery when all the conditions specified in SOP 97-2 are met.

Hardware – only

Hardware in the form of assembled terminals, component kits or replacement parts (“spares”) may be sold separately to our customers. Revenues for the sale of hardware are recognized upon shipment in accordance with SEC Staff Accounting Bulletin, Topic 13 “Revenue Recognition” only when:

1. The Company has evidence that arrangements exist;
2. The price to the buyer is fixed through signed contracts or purchase orders;
3. Shipping documents illustrate that delivery of hardware has occurred, as stipulated in the terms of the customer contract; and
4. Collectibility is reasonably assured through one or more of the following: due diligence prior to contract signing; historical payment practices; or required upfront payments.

Service Revenues

Service revenues include software support and facility management agreements. Revenues from software support agreements are recognized, provided collectibility is reasonably assured, in accordance with SOP 97-2 depending on the nature of the associated expenses:
1. If costs are immaterial or incurred on a straight-line basis, revenue is recognized ratably over the term of the agreement;

2. Otherwise, revenue is recognized over the period of the agreement in proportion to the amounts expected to be charged to expense for the services rendered during the period.

We did not have any facility management agreements as of or during the years ended April 30, 2007 and 2006, although we have had them at certain times in previous fiscal years.

Licensing Revenues

Revenues associated with the licensing of the Company’s PBC system will be recognized in accordance with SOP 97-2. Among other requirements for the recognition of revenue, SOP 97-2 requires all of the following criteria to be met:

1. Persuasive evidence of an arrangement exists;
2. Delivery has occurred;
3. Fee is fixed or determinable; and
4. Collectibility is reasonably assured.

As of April 30, 2007, the Company is continuing to negotiate the terms of a software support agreement with ES&S and, accordingly, the criteria requiring persuasive evidence of an arrangement has not been met.

Deferred Revenues

Deferred revenues of $4.1 million as of April 30, 2007 consist of amounts received from customers in excess of revenues recognized. Of the $4.1 million, $3.6 million represents hardware and software license fees related to the voting segment. Such license fees, which related to the use of the PBC system, were not recognized as of April 30, 2007 due to the fact that, among other requirements for the recognition of revenue, persuasive evidence of an agreement with ES&S is pending finalization of a software support agreement by the Company and ES&S. The Company will recognize the revenues upon its fulfillment of all of the prescribed criteria for revenue recognition. The remaining $500,000 is related to the payments received for spare parts orders and software support services. Revenue will be recognized upon fulfillment of the delivery obligations.

Allowance for Doubtful Accounts

The estimate for the allowance for doubtful accounts is based primarily upon our company’s historical bad debt experience with individual customers and any known specific issues or disputes that exist as of the balance sheet date.

Warranty Reserves

Estimated warranty costs are accrued as revenues are recognized. Warranty reserves are based on historical trends and are adjusted periodically to reflect actual experience. Customers do not have a right to return, except for defective products. The most recent inventory cost is used to determine the value of potential returns. Estimated reserves for warranty obligations are accrued as follows:
1. Contracts - Contract warranties are specific to the individual contracts. Estimated reserves for warranty obligations are accrued as revenue is recognized. Hardware and software components may be warranted separately:
   a. Hardware – The warranty phase for terminals or terminal kits commences upon shipment and can extend from six months to 12 months depending on the specific contract terms.
   b. Software – The warranty phase typically represents a six to twelve-month period of time after delivery, as defined by the specific contract terms.

2. Spares – Terminal replacement parts are warranted to be free from defects for 90 days from the date of shipment. Based on historical experience, warranty costs for spares have been immaterial.

3. Other – Specific provisions have been made to cover a small number of particular replacement parts for specific customers.

**Valuation of Deferred Tax Assets**

We regularly evaluate our ability to recover the reported amount of our net deferred tax assets considering several factors, including our estimate of the likelihood that we will generate sufficient taxable income in future years in which temporary differences reverse. Due to the uncertainties related to, among other things, the extent and timing of future taxable income, we offset our deferred tax assets by an equivalent valuation as of April 30, 2007 and 2006.

**RESULTS OF OPERATIONS**

**Revenue Analysis**

<table>
<thead>
<tr>
<th></th>
<th>Years Ended</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>April 30,</td>
<td>April 30,</td>
<td>Change</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Products:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracts</td>
<td>$9,587</td>
<td>$1,108</td>
<td>$8,479</td>
<td></td>
</tr>
<tr>
<td>Spares</td>
<td>1,280</td>
<td>2,159</td>
<td>(879)</td>
<td></td>
</tr>
<tr>
<td>Total Products</td>
<td>10,867</td>
<td>3,267</td>
<td>7,600</td>
<td></td>
</tr>
<tr>
<td>Services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software Support</td>
<td>179</td>
<td>178</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Total Services</td>
<td>179</td>
<td>178</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$11,046</td>
<td>$3,445</td>
<td>$7,601</td>
<td></td>
</tr>
</tbody>
</table>

Significant fluctuations in year-to-year revenue are expected in the gaming industry. Individual contracts are generally of considerable value, and the timing of contracts or sales of spare parts does not occur in a predictable trend. Contracts from the same customer generally do not recur in the short-term. Accordingly, comparative results between periods are not indicative of trends in contract revenue.

Contract revenue for the year ended April 30, 2007 was $9.6 million, compared to $1.1 million for fiscal 2006. The significant increase in contract revenue in 2007 was principally due to one contract with a related party, along with the revenue associated with the manufacturing of certain PBC system components for ES&S.
Spares revenue for the year ended April 30, 2007 was $1.3 million, compared to $2.2 million for fiscal 2006. The decline in spares revenue in fiscal 2007 is due to reduced demand for spare parts arising from a reduction of older generation terminal models presently in the field. We derived spares revenue from various customers on the shipment of spare orders.

Software support revenues remained consistent and relatively insignificant for the years ended April 30, 2007 and 2006.

Related party revenue of approximately $10.3 million accounted for 93% of total revenue in the year ended April 30, 2007, compared to $2.5 million or 73% of total revenue in fiscal 2006.

Cost of Sales and Gross Profit Analysis

<table>
<thead>
<tr>
<th>Revenues:</th>
<th>April 30, 2007</th>
<th>April 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products</td>
<td>$10,867 98%</td>
<td>$3,267 95%</td>
</tr>
<tr>
<td>Services</td>
<td>179 2%</td>
<td>178 5%</td>
</tr>
<tr>
<td>Total revenues</td>
<td>$11,046 100%</td>
<td>$3,445 100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost of sales:</th>
<th>April 30, 2007</th>
<th>April 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products</td>
<td>$8,670 78%</td>
<td>$3,129 91%</td>
</tr>
<tr>
<td>Services</td>
<td>36 1%</td>
<td>81 2%</td>
</tr>
<tr>
<td>Total costs of sales</td>
<td>$8,706 79%</td>
<td>$3,210 93%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gross profit:</th>
<th>April 30, 2007</th>
<th>April 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products</td>
<td>$2,197 20%</td>
<td>$138 4%</td>
</tr>
<tr>
<td>Services</td>
<td>143 1%</td>
<td>97 3%</td>
</tr>
<tr>
<td>Total gross profit</td>
<td>$2,340 21%</td>
<td>$235 7%</td>
</tr>
</tbody>
</table>

Individual contracts are generally significant in value and are awarded in a highly competitive bidding process. The gross profit margin varies from one contract to another, depending on the size of the contract and the competitive market conditions. Accordingly, comparative results between periods are not indicative of trends in gross profit margin.

During the year ended April 30, 2007, overall gross profit was 21%, compared to 7% in fiscal 2006. Higher gross profit margins achieved in 2007 are principally due to the increased business activities associated with contract sales and lower production overhead costs, offset by the amortization of capitalized software development costs and other expenses associated with the voting product. In addition, costs of sales of products for the year ended April 30, 2007 reflect an impairment charge of $422,000 to properly reflect the net realizable value of our spare parts inventory. This was attributable to the reduced demand for our terminal models currently in the field and the anticipated resulting decrease in spare parts required to service these terminals.

Other Operating Expenses Analysis
Research and Development Expenses (“R&D”)

For the years ended April 30, 2007 and 2006, R&D expenses were $49,000 and $349,000, respectively. We attribute the significant decreases to the capitalization of computer software development costs associated with the voting product upon achieving technological feasibility. We anticipate that R&D expenses will increase in coming quarters as we focus our efforts on the development and enhancement of the products relating to the voting, lottery and related industries.

Selling, General and Administrative (“SG&A”)

SG&A expenses for the year ended April 30, 2007 were $1.6 million, compared to $2.3 million for fiscal 2006. We attribute the significant reduction to the rationalization and streamlining of operations including reduced payroll and personnel-related costs, improved cost reduction initiatives, reduced marketing expenses due to a more cost-effective approach to bid and proposal activities and lower consulting fees. These reductions in SG&A expenses were partially offset by non-recurring professional accounting service fees associated with the dissolution of the Australian subsidiary. As the business activities in the voting segment increased during the year ended April 30, 2007, we incurred higher legal and accounting analysis fees. We anticipate that SG&A expenses will remain relatively constant in fiscal year 2008.

Other Income (Expense)

Other income in the years ended April 30, 2007 and 2006 primarily consisted of interest and dividend income. We derived interest and dividend income from short-term investments and cash and cash equivalent balances.

Of the $286,000 in other expense in the year ended April 30, 2007, $275,000 represents cumulative foreign currency translation loss realized upon the substantially complete dissolution of our Australian subsidiary, ILTS Australia Pty. Ltd. in April 2007. Although the Company substantially dissolved its Australian subsidiary in 2007, it will continue to service customers in that area from other locations.

 Provision for Income Taxes

The provision for income taxes of $89,000 during the year ended April 30, 2007 represents Federal and State alternative minimum taxes arising from the limitations on the utilization of the net operating loss carryforwards.

Liquidity and Capital Resources

Liquidity

Our net working capital at April 30, 2007 was $1.9 million.
As of April 30, 2007 and 2006, the total receivable balance, all of which was past due, from one unrelated, international customer totaled $305,000 and $1.1 million, respectively, which represented 67% and 32% of total accounts receivable and 4% and 9% of total assets, respectively. The balance receivable, which is unsecured, arose primarily from sales of terminal kits shipped during the last quarter of fiscal 2003 and the first quarter of fiscal 2004.

During the year ended April 30, 2004, the customer agreed to make installment payments through June 20, 2005 to repay the then outstanding balance of $6.3 million. The Company received payments totaling $962,000 during the period from December 1, 2003 to April 30, 2004. In addition, the Company received payments totaling approximately $3.3 million during the period from May 1, 2004 to June 20, 2005, which was $2.0 million less than the scheduled installment payments. Furthermore, the Company received payments of $900,000 from June 21, 2005 through April 30, 2006, $825,000 from May 1, 2006 through April 30, 2007 and $50,000 from May 1, 2007 through June 5, 2007, which reduced the past due balance to $305,000 at April 30, 2007 and $255,000 at June 5, 2007.

Based on discussions with the customer, management of the Company believes that the customer’s reduced payments are a result primarily of temporary factors with lottery regulators in certain areas in which it operates. Management of the Company also believes, but cannot assure, that such problems will be resolved and that the missed payments will be made on an installment basis. Based on the customer’s recent payments and the customer’s commitment to make the remaining aggregate payment of $255,000 by August 31, 2007, the Company believes the outstanding amount will be collected. Nonpayment by the customer of the remaining balance could have a material adverse impact on the Company's liquidity and results of operations.

Additionally, the Company had approximately $1.9 million in kit inventory related to orders from this customer as of both April 30, 2007 and 2006 which it will not ship to the customer until it receives substantially all of the payments due. The Company has the right to sell such inventory to other customers. The model related to this inventory remains in continuous use presently in several jurisdictions and is being marketed to several additional prospective customers. Nonpayment by the customer or the Company’s inability to sell the products to other customers could also have a material adverse impact on the Company’s liquidity and results of operations.

Contract backlog at April 30, 2007 was $6.5 million. Of this amount, $294,000 will be derived from one $10.0 million contract with a related party. With respect to this contract, the total purchase price of $10.0 million has been received, as of April 30, 2007 as payments upon signing of the contract and completion of various contract milestones. Uses of cash will be for normal operating expenses and costs associated with contract execution.

Of the foregoing $6.5 million in contract backlog, approximately $5.2 million will be derived from the executed voting contracts. On February 26, 2006, we announced that our strategic partner, Election Systems & Software, Inc. (“ES&S”) has signed an agreement with Jackson County, Missouri and will use technology developed by ILTS’s wholly owned subsidiary, Unisyn Voting Solutions, Inc. In addition, on May 1, 2006, we announced that ES&S has signed a contract with Los Angeles County to supply the Precinct Ballot Counters (“PBC”) and related software and services. In February 2007, Los Angeles County ordered additional 750 PBCs from ES&S. In consideration of net revenue, as defined, ILTS granted ES&S an exclusive worldwide license to manufacture, sell and sublicense ILTS’s intellectual property relating to the PBC and PBC software to ES&S’s end customers.

In addition, sources of cash through April 2008 are expected to come from at least a portion of the scheduled installment payments of $305,000 due from the single customer as discussed in the previous paragraph. Additional cash is expected to be derived from spares revenue. Uses of cash are expected to be for normal operating expenses and costs associated with contract execution.
While we anticipate that we will be successful in obtaining additional product or service contracts to enable us to continue normal operations through April 30, 2008, there can be no assurance that we will be able to acquire new contracts.

In the highly competitive industry in which we operate, operating results may fluctuate significantly from period to period. We anticipate that our cash flows from operations, expected contract payments and available cash will be sufficient to enable us to meet our liquidity needs through at least April 30, 2008. Although we are not aware of any particular trends, in the event that we are unable to secure new business, we may experience reduced liquidity or insufficient cash flows.

The following table summarizes our cash flow activities:

<table>
<thead>
<tr>
<th></th>
<th>April 30, 2007</th>
<th>April 30, 2006</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Condensed cash flow comparative:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating activities</td>
<td>$ 567</td>
<td>$ 4,772</td>
<td>$ (4,205)</td>
</tr>
<tr>
<td>Investing activities</td>
<td>(842)</td>
<td>(5,167)</td>
<td>4,325</td>
</tr>
<tr>
<td>Financing activities</td>
<td>(22)</td>
<td>(79)</td>
<td>57</td>
</tr>
<tr>
<td>Effect of exchange rate</td>
<td>-</td>
<td>1</td>
<td>(1)</td>
</tr>
<tr>
<td>Net increase (decrease) in cash and cash equivalents</td>
<td>$ (297)</td>
<td>$ (473)</td>
<td>$ 176</td>
</tr>
</tbody>
</table>

_Cash Flow Analysis – Year Ended April 30, 2007:_

**Operating Activities**

Net cash provided by operating activities was $567,000.

Net income of $499,000 was adjusted by $1.3 million of noncash charges including depreciation and amortization, provision for inventory obsolescence, cumulative foreign currency translation loss write off, warranty reserve expense, amortization of deferred rent and loss on disposal of fixed assets to arrive at net cash provided by operating activities.

Net cash provided by operating activities reflected positive effects of the following factors:

- Increase of $3.5 million in deferred revenues;
- Decrease of $3.0 million in accounts receivable;
- Decrease of $347,000 in other current assets;
- Decrease of $184,000 in inventories;
- Increase of $89,000 in income taxes payable;
- Decrease of $51,000 in noncurrent assets; and
- Increase of $9,000 in Payable to Parent.

Net cash provided by operating activities reflected negative effects of the following factors:

- Decrease of $7.9 million in billings in excess of costs and earnings on uncompleted contracts;
- Decrease of $198,000 in warranty reserves;
- Decrease of $167,000 in accounts payable;
- Increase of $75,000 in costs and estimated earnings in excess of billings on uncompleted contracts;
INTERNATIONAL LOTTERY & TOTALIZATOR SYSTEMS, INC.

- Decrease of $67,000 in accrued payroll and related taxes; and
- Decrease of $39,000 in other current liabilities.

Investing and Financing Activities

We had $625,000 of net purchases of short-term investments. We invested $191,000 primarily in leasehold improvements on the new facility. In addition, we invested $26,000 in obtaining patent rights for the voting system.

With respect to financing activities, payment of a short-term note payable reduced our cash position by $42,000 and proceeds from the exercise of employee stock options increased cash position by $20,000.

Cash Flow Analysis – Year Ended April 30, 2006:

Operating Activities

Net cash provided by operating activities was $4.8 million.

Net loss of $2.3 million was adjusted by $394,000 of noncash charges including depreciation and amortization, bad debt expense and warranty reserve expense to arrive at net cash provided by operating activities.

Net cash provided by operating activities reflected positive effects of the following factors:
- Increase of $8.0 million in billings in excess of costs and earnings on uncompleted contracts;
- Increase of $551,000 in deferred revenues;
- Increase of $48,000 in payable to our Parent company; and
- Increase of $36,000 in accounts payable.

Net cash provided by operating activities reflected negative effects of the following factors:
- Increase of $1.1 million in accounts receivable;
- Increase of $364,000 in other current assets;
- Decrease of $161,000 in accrued payroll and related taxes;
- Decrease of $152,000 in other liabilities;
- Increase of $117,000 in inventories; and
- Decrease of $9,000 in warranty reserves.

Investing and Financing Activities

We had $4.1 million of net purchases of short-term investments and invested $311,000 in computer equipment and construction of terminals to be used in the marketing of our technology in the voting industry. In addition, we capitalized $806,000 which represented costs incurred internally to develop a computer software product determined to be technologically feasible in June 2005.

With respect to financing activities, payment of a short-term note payable reduced our cash position by $79,000.

Capital Resources

As of April 30, 2007, there were no unused credit facilities.
Foreign Currency Fluctuation

Our reporting currency is the U.S. dollar. Sales are denominated almost exclusively in U.S. dollars. Occasionally, sales have been effected in foreign currencies. Fluctuations in exchange rates from reporting period to reporting period between various foreign currencies and the U.S. dollar may have an impact on revenue and expense. Such effect may be material in any individual reporting period.

The balance sheets of our Australian subsidiary, ILTS Australia Pty. Ltd. were translated into U.S. dollars and consolidated in our balance sheet at period end exchange rates, while revenues and expenses were translated at average rates during the period. Fluctuations in the U.S. dollar value of the foreign currency denominated assets are accounted for as an adjustment to shareholders’ equity. Therefore, fluctuations from reporting period to reporting period in the exchange rates between various foreign currencies and the U.S. dollar impacted the foreign currency translation component of our reported shareholders’ equity.

During the year ended April 30, 2007, we recorded $275,000 in other expense due to the recognition of our cumulative foreign currency translation loss upon the substantially complete dissolution of the Australian subsidiary in April 2007. Although the Company substantially dissolved its Australian subsidiary in 2007, it will continue to service customers in that area from other locations. For the year ended April 2006, we recorded foreign currency translation gains of $1,000. The foreign currency translation gains in fiscal 2006 were accounted for as decreases in the other accumulated loss component of shareholders’ equity.

CONTRACTUAL OBLIGATIONS

The following table summarizes our significant contractual obligations as of April 30, 2007:

<table>
<thead>
<tr>
<th>Contractual Obligations:</th>
<th>Payments Due By Period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Operating leases</td>
<td>$ 500,000</td>
</tr>
</tbody>
</table>

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109 (“FIN 48”), which clarifies the accounting for uncertainty in tax positions by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

FIN 48 applies to all tax positions related to income taxes subject to FASB Statement No. 109. The provisions of FIN 48 are effective as of the beginning of our 2008 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We believe the adoption of FIN 48 will not have a material impact on our consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements.” SFAS 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim
periods within those fiscal years. The Company is currently evaluating the effect that the adoption of SFAS 157 will have on its financial position and results of operations.

The FASB and its emerging issues task force had issued certain other accounting pronouncements as of December 31, 2006 that will become effective in subsequent periods; however, our management does not believe that any of those pronouncements would have significantly affected our financial accounting measurements or disclosures had they been in effect during 2007 or 2006.
ITEM 7. FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
International Lottery & Totalizar Systems, Inc.

We have audited the accompanying consolidated balance sheets of International Lottery & Totalizar Systems, Inc. (a 71.3%-owned subsidiary of Berjaya Lottery Management (H.K.) Ltd.) and Subsidiaries as of April 30, 2007 and 2006, and the related consolidated statements of operations, shareholders’ equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Lottery & Totalizar Systems, Inc. and Subsidiaries as of April 30, 2007 and 2006, and their results of operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ J.H. Cohn LLP

San Diego, California
June 5, 2007
# INTERNATIONAL LOTTERY & TOTALIZATOR SYSTEMS, INC.

## CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

<table>
<thead>
<tr>
<th></th>
<th>April 30, 2007</th>
<th>April 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$215</td>
<td>$512</td>
</tr>
<tr>
<td>Short-term investments, available for sale</td>
<td>4,675</td>
<td>4,050</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>457</td>
<td>3,462</td>
</tr>
<tr>
<td>Costs and estimated earnings in excess of billings on uncompleted contracts</td>
<td>75</td>
<td>-</td>
</tr>
<tr>
<td>Inventories, net</td>
<td>2,067</td>
<td>2,673</td>
</tr>
<tr>
<td>Other current assets</td>
<td>117</td>
<td>464</td>
</tr>
<tr>
<td>Total current assets</td>
<td>7,606</td>
<td>11,161</td>
</tr>
<tr>
<td>Equipment, furniture and fixtures, at cost, less accumulated depreciation of $2,172 and $2,138 in 2007 and 2006, respectively</td>
<td>434</td>
<td>436</td>
</tr>
<tr>
<td>Capitalized computer software development costs, less accumulated amortization of $507 and $202 in 2007 and 2006, respectively</td>
<td>299</td>
<td>604</td>
</tr>
<tr>
<td>Intangible assets - patent</td>
<td>26</td>
<td>-</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>49</td>
<td>100</td>
</tr>
<tr>
<td>Total assets</td>
<td>$8,414</td>
<td>$12,301</td>
</tr>
</tbody>
</table>

|                  |                |                |
| **LIABILITIES AND SHAREHOLDERS’ EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $186          | $353           |
| Short-term note payable | -           | 42             |
| Income taxes payable | 89            | -              |
| Billings in excess of costs and estimated earnings on uncompleted contract | 517          | 8,437          |
| Accrued payroll and related taxes | 319            | 386            |
| Warranty reserves | 243            | 379            |
| Payable to Parent | 247            | 238            |
| Other current liabilities | 72            | 86             |
| Deferred revenues | 4,067          | 551            |
| Total current liabilities | 5,740          | 10,472         |
| Long-term liabilities | 51             | -              |
| Total liabilities | 5,791          | 10,472         |

Commitments

Shareholders’ equity:

Preferred shares, no par value; 20,000 shares authorized; no shares issued or outstanding | - | - |
| Common shares, no par value; 50,000 shares authorized; 12,963 and 12,943 shares issued and outstanding | 56,370 | 56,350 |
| Accumulated deficit | (53,747) | (54,246) |
| Accumulated comprehensive loss - cumulative foreign currency translation losses | - | (275) |
| Total shareholders' equity | 2,623 | 1,829 |
| Total liabilities and shareholders' equity | $8,414 | $12,301 |

*The accompanying notes are an integral part of these consolidated financial statements.*
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of products</td>
<td>$10,867</td>
<td>$3,267</td>
</tr>
<tr>
<td>Services</td>
<td>179</td>
<td>178</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>11,046</td>
<td>3,445</td>
</tr>
<tr>
<td><strong>Cost of sales:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of product sales</td>
<td>8,670</td>
<td>3,129</td>
</tr>
<tr>
<td>Cost of services</td>
<td>36</td>
<td>81</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8,706</td>
<td>3,210</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>2,340</td>
<td>235</td>
</tr>
<tr>
<td><strong>Research and development expenses</strong></td>
<td>49</td>
<td>349</td>
</tr>
<tr>
<td><strong>Selling, general and administrative expenses</strong></td>
<td>1,644</td>
<td>2,278</td>
</tr>
<tr>
<td><strong>Income (loss) from operations</strong></td>
<td>647</td>
<td>(2,392)</td>
</tr>
<tr>
<td><strong>Other income (expense):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>227</td>
<td>64</td>
</tr>
<tr>
<td>Interest expense</td>
<td>-</td>
<td>(5)</td>
</tr>
<tr>
<td>Other</td>
<td>(286)</td>
<td>(11)</td>
</tr>
<tr>
<td><strong>Net income (loss) before provision for income taxes</strong></td>
<td>588</td>
<td>(2,344)</td>
</tr>
<tr>
<td><strong>Provision for income taxes</strong></td>
<td>89</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net income (loss)</strong></td>
<td>$499</td>
<td>$(2,344)</td>
</tr>
<tr>
<td><strong>Net income (loss) per share:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic and diluted</td>
<td>$0.04</td>
<td>$(0.18)</td>
</tr>
</tbody>
</table>

Weighted average shares used in computation of net income (loss) per share:
Basic and diluted: 12,953 12,943

*The accompanying notes are an integral part of these consolidated financial statements.*
INTERNATIONAL LOTTERY & TOTALIZATOR SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Amounts in thousands)

<table>
<thead>
<tr>
<th>Common Stock</th>
<th>Shares</th>
<th>Amount</th>
<th>Accumulated Deficit</th>
<th>Accumulated Comprehensive Loss</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at May 1, 2005</td>
<td>12,943</td>
<td>$56,350</td>
<td>$(51,902)</td>
<td>$(276)</td>
<td>$4,172</td>
</tr>
<tr>
<td>Foreign currency translation adjustment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Net loss</td>
<td>-</td>
<td>-</td>
<td>(2,344)</td>
<td>-</td>
<td>(2,344)</td>
</tr>
<tr>
<td>Total comprehensive loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(2,343)</td>
</tr>
<tr>
<td>Balance at April 30, 2006</td>
<td>12,943</td>
<td>56,350</td>
<td>(54,246)</td>
<td>(275)</td>
<td>1,829</td>
</tr>
<tr>
<td>Foreign currency translation adjustment – cumulative foreign currency translation loss in connection with dissolution of subsidiary</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>275</td>
<td>275</td>
</tr>
<tr>
<td>Net income</td>
<td>-</td>
<td>-</td>
<td>499</td>
<td>-</td>
<td>499</td>
</tr>
<tr>
<td>Total comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>774</td>
</tr>
<tr>
<td>Exercise of stock options</td>
<td>20</td>
<td>20</td>
<td></td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>Balance at April 30, 2007</td>
<td>12,963</td>
<td>$56,370</td>
<td>$(53,747)</td>
<td>$</td>
<td>$2,623</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
<table>
<thead>
<tr>
<th>Cash flows from operating activities:</th>
<th>Years Ended</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net income (loss)</strong></td>
<td>$499</td>
<td>$(2,344)</td>
<td></td>
</tr>
<tr>
<td>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>489</td>
<td>370</td>
<td></td>
</tr>
<tr>
<td>Impairment charge for inventory obsolescence</td>
<td>422</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Write off of cumulative foreign currency translation loss</td>
<td>275</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Warranty reserve expense</td>
<td>62</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>-</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>9</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Amortization of deferred rent</td>
<td>76</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>3,005</td>
<td>(1,135)</td>
<td></td>
</tr>
<tr>
<td>Costs and estimated earnings in excess of billings on uncompleted contracts</td>
<td>(75)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>184</td>
<td>(117)</td>
<td></td>
</tr>
<tr>
<td>Other current assets</td>
<td>347</td>
<td>(364)</td>
<td></td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>51</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(167)</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>89</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Billings in excess of costs and estimated earnings on uncompleted contracts</td>
<td>(7,920)</td>
<td>8,025</td>
<td></td>
</tr>
<tr>
<td>Accrued payroll and related taxes</td>
<td>(67)</td>
<td>(161)</td>
<td></td>
</tr>
<tr>
<td>Warranty reserves</td>
<td>(198)</td>
<td>(9)</td>
<td></td>
</tr>
<tr>
<td>Payable to Parent</td>
<td>9</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td>(39)</td>
<td>(152)</td>
<td></td>
</tr>
<tr>
<td>Deferred revenues</td>
<td>3,516</td>
<td>551</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td></td>
<td></td>
<td>567</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from investing activities:</th>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of short-term investments</td>
<td>(19,692)</td>
<td>(10,606)</td>
<td></td>
</tr>
<tr>
<td>Sales of short-term investments</td>
<td>19,067</td>
<td>6,556</td>
<td></td>
</tr>
<tr>
<td>Additions to equipment, furniture and fixtures</td>
<td>(191)</td>
<td>(311)</td>
<td></td>
</tr>
<tr>
<td>Additions to patent</td>
<td>(26)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Additions to capitalized computer software development costs</td>
<td>-</td>
<td>(806)</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(842)</td>
<td>(5,167)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from financing activities:</th>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of short-term note payable</td>
<td>(42)</td>
<td>(79)</td>
<td></td>
</tr>
<tr>
<td>Proceeds from exercise of stock options</td>
<td>20</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(22)</td>
<td>(79)</td>
<td></td>
</tr>
</tbody>
</table>

| Effect of exchange rate changes on cash and cash equivalents | | - | 1 |
| Net decrease in cash and cash equivalents | (297) | (473) |
| Cash and cash equivalents at beginning of year | 512 | 985 |
| Cash and cash equivalents at end of year | $215 | $512 |

<table>
<thead>
<tr>
<th>Supplemental cash flow information:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid for income taxes</td>
<td>$</td>
<td>$7</td>
</tr>
</tbody>
</table>

*The accompanying notes are an integral part of these consolidated financial statements*
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF THE BUSINESS

International Lottery & Totalizator Systems, Inc. ("ILTS" or, together with its subsidiaries, the "Company") designs, manufactures, sells, manages, supports and services computerized wagering systems and terminals for the global on-line lottery and pari-mutuel racing industries. The wagering system features include real-time, secure processing of data received from multiple locations, hardware redundancy and complete communications redundancy in order to provide the highest level of fault tolerant operation. In addition, although the Company is not presently doing so, ILTS has demonstrated the capability to provide full facilities management services to customer organizations authorized to conduct online lotteries. The Company is largely dependent upon significant contracts for its revenue, which typically includes a deposit upon contract signing and up to six months lead-time before delivery of hardware begins.

In recent years, the Company has devoted significant resources to developing a certified end-to-end optical scan voting system consisting of the InkaVote Plus Precinct Ballot Counter ("PBC") and full-featured Election Management Software that provides precinct tabulation, ballot review and audio voting capability in a single compact unit. These efforts leverage the Company’s extensive experience to develop highly secure, mission-critical solutions that meet all of the Help America Vote Act of 2002 ("HAVA") and Americans with Disabilities Act ("ADA") requirements at a much lower cost than direct-recording electronic or touch screen systems. In addition, the Company’s voting system offers the following features:

- High level of security and vote encryption ensure integrity and voter privacy;
- Electronic and paper audit trails that offer added security and redundancy for recounts;
- Minimal training for poll workers to set-up and operate;
- Minimal voter re-education; and
- Capability to tally results in real time.

In consideration of net revenue, as defined, ILTS, in accordance with the terms of a strategic arrangement, granted Election Systems & Software, Inc. ("ES&S") an exclusive worldwide license to manufacture, sell and sublicense ILTS’s intellectual property relating to the PBC and PBC software to ES&S’s end customers. ES&S has agreed to act as ILTS’s exclusive distributor, reseller, on-going service provider and manufacturer of the PBC and PBC software. As of April 30, 2007, the Company had recognized product sales revenue of $185,000 in connection with the manufacturing of certain PBC system components for ES&S, all of which occurred in the second quarter of fiscal 2007, but it has deferred all revenues related to the licensing of the intellectual property pending finalization of the term of the agreement with ES&S and fulfillment of all of the prescribed criteria for revenue recognition.

Berjaya Lottery Management (H.K.) Ltd. ("BLM" or the "Parent") owns 71.3% of the outstanding voting stock of ILTS.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of ILTS and its wholly-owned subsidiaries. All significant inter-company accounts and transactions are eliminated in consolidation.
USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. Actual results could differ from those estimates. Estimates may affect the reported amounts of assets and liabilities and revenues and expenses, and the disclosure of contingent assets and liabilities.

REVENUE RECOGNITION

We recognize revenue by applying various relevant revenue recognition policies depending on the nature of the sale and the terms of the contract.

Complete Systems

ILTS’s complete wagering systems include the point-of-sale terminals, a central computer installation and a commercially available operating system used in conjunction with ILTS’s proprietary application software, and the communication network to interface the terminals to the central computer installation. System features include real-time, secure processing of data received from multiple locations, hardware redundancy and complete communications redundancy in order to provide the highest level of fault tolerant operation.

A complete system is comprised of both hardware and software. The hardware portion includes both central system servers and terminals. The software portion includes the application software for both the central system and terminals.

As directed by Statement of Position 97-2 (“SOP 97-2”) “Software Revenue Recognition,” we follow Statement of Position 81-1 (“SOP 81-1”) “Accounting for Performance of Construction-Type and Certain Production-Type Contracts” in accounting for the sale of complete systems. We recognize revenue by using the percentage-of-completion method when the contracts for complete systems fulfill the following criteria:

1. Contract performance extends over long periods of time;
2. The software portion involves significant production, modification or customization;
3. Reasonably dependable estimates can be made on the progress towards completion, contract revenues and contract costs; and
4. Each element is essential to the functionality of the other elements of the contracts.

Under the percentage-of-completion method, sales and estimated gross profits are recognized as work progresses. Progress toward completion is measured by the ratio of costs incurred to total estimated costs. Revenue and gross profit may be adjusted prospectively for revisions in estimated total contract costs. If the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is recorded in the period in which they become evident. The total estimated loss includes all costs allocable to the specific contract.

Each complete system contract is reviewed individually to determine the appropriate basis of recognizing revenue. If the contract does not fulfill the above criteria, revenues are recognized only when:

1. Persuasive evidence of an arrangement exists in the form of signed contracts or purchase orders;
2. The contract or purchase order contains a fixed or determinable selling price to the buyer;
3. Collectibility is reasonably assured through due diligence, historical payment practices or upfront payments; and
4. Delivery has occurred or services have been rendered in accordance with contract terms.
Software – only

In addition to the software portion of a complete system, we develop software for our customers in accordance with the specifications stipulated in a software supply contract. Generally, these contracts are related to additional features or modules to be added to the application software that we have previously developed for our customers. Each software contract is reviewed individually to determine the appropriate basis of recognizing revenue.

For software contracts involving significant development efforts that extend over long periods of time and fulfill the criteria as set out in SOP 81-1, the related revenues are recognized by using the percentage-of-completion method. Other software supply contract revenues are recognized upon delivery when all the conditions specified in SOP 97-2 are met.

Hardware – only

Hardware in the form of assembled terminals, component kits or replacement parts ("spares") may be sold separately to our customers. Revenues for the sale of hardware are recognized upon shipment in accordance with SEC Staff Accounting Bulletin, Topic 13 “Revenue Recognition” only when:

1. The Company has evidence that arrangements exist;
2. The price to the buyer is fixed through signed contracts or purchase orders;
3. Shipping documents illustrate that delivery of hardware has occurred, as stipulated in the terms of the customer contract; and
4. Collectibility is reasonably assured through one or more of the following: due diligence prior to contract signing; historical payment practices; or required upfront payments.

Service Revenues

Service revenues include software support and facility management agreements. Revenues from software support agreements are recognized, provided collectibility is reasonably assured, in accordance with SOP 97-2 depending on the nature of the associated expenses:

1. If costs are immaterial or incurred on a straight-line basis, revenue is recognized ratably over the term of the agreement;
2. Otherwise, revenue is recognized over the period of the agreement in proportion to the amounts expected to be charged to expense for the services rendered during the period.

We did not have any facility management agreements as of April 30, 2007 or during fiscal 2007 and 2006, although we have had them at certain times in previous fiscal years.

Licensing Revenues

Revenues associated with the licensing of the Company’s PBC system will be recognized in accordance with SOP 97-2. Among other requirements for the recognition of revenue, SOP 97-2 requires all of the following criteria to be met:

1. Persuasive evidence of an arrangement exists;
2. Delivery has occurred;
3. Fee is fixed or determinable; and
4. Collectibility is reasonably assured.

As of April 30, 2007, the Company is continuing to negotiate the terms of a software support agreement with ES&S and, accordingly, the criteria requiring persuasive evidence of an arrangement has not been met.
Deferred Revenues

Deferred revenues of $4.1 million as of April 30, 2007 consists of amounts received from customers in excess of revenues recognized. Of the $4.1 million, $3.6 million represents hardware and software license fees related to the voting segment. Such license fees, which related to the use of the PBC system, were not recognized as of April 30, 2007 due to the fact that, among other requirements for the recognition of revenue, persuasive evidence of an agreement with ES&S is pending finalization of a software support agreement by the Company and ES&S. The Company will recognize the revenues upon its fulfillment of the prescribed criteria for revenue recognition. The remaining $500,000 is related to the payments received for spare parts orders and software support services. Revenue will be recognized upon fulfillment of the delivery obligations.

Allowance for Doubtful Accounts

We determine our allowance for doubtful accounts by considering a number of factors:

1. Length of time trade accounts receivable are past due;
2. Our previous loss history;
3. The customer’s current ability to pay its obligations;
4. Known specific issues or disputes which exist as of the balance sheet date; and
5. The condition of the general economy and the industry as a whole.

Based on its evaluation as of April 30, 2007 and 2006, the Company did not record an allowance.

Warranty Reserves

Estimated warranty costs are accrued as revenues are recognized. Included in the warranty cost accruals are costs for basic warranties on products sold. A summary of product warranty activity is as follows:

<table>
<thead>
<tr>
<th>(Amounts in thousands)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at May 1, 2005</strong></td>
<td>$382</td>
</tr>
<tr>
<td>Additional reserves</td>
<td>6</td>
</tr>
<tr>
<td>Charges incurred</td>
<td>(9)</td>
</tr>
<tr>
<td><strong>Balance at April 30, 2006</strong></td>
<td>379</td>
</tr>
<tr>
<td>Additional reserves</td>
<td>62</td>
</tr>
<tr>
<td>Charges incurred</td>
<td>(198)</td>
</tr>
<tr>
<td><strong>Balance at April 30, 2007</strong></td>
<td>$243</td>
</tr>
</tbody>
</table>

Warranty reserves are based on historical trends and are adjusted periodically to reflect actual experience. Customers do not have a right to return, except for defective products. The most recent inventory cost is used to determine the value of potential warranty costs. Estimated reserves for warranty obligations are accrued as follows:

1. Contracts - Contract warranties are specific to the individual contracts. Estimated reserves for warranty obligations are accrued as revenue is recognized. Hardware and software components may be warranted separately:
   a. Hardware – The warranty phase for terminals or terminal kits commences upon shipment and can extend from six months to 12 months depending on the specific contract terms.
   b. Software – The warranty phase typically represents a six to twelve-month period of time after delivery, as defined by the specific contract terms.
2. Spares – Terminal replacement parts are warranted to be free from defects for 90 days from the date of shipment. Based on historical experience, warranty costs for spares have been immaterial.

3. Other – Specific provisions have been made to cover a small number of particular replacement parts for specific customers.

INCOME TAXES AND VALUATION ALLOWANCE

The Company accounts for income taxes pursuant to the asset and liability method. This requires deferred income tax assets and liabilities to be computed annually for temporary differences between the financial statement and tax basis 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 temporary 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 Company has provided a valuation allowance against the entire balance of its net deferred tax assets at April 30, 2007 and 2006 due to uncertainty regarding its realization.

FOREIGN CURRENCY FLUCTUATION

The Company’s reporting currency is the U.S. dollar. Sales are denominated almost exclusively in U.S. dollars. Occasionally, sales have been effected in foreign currencies. Fluctuations in exchange rates from reporting period to reporting period between various foreign currencies and the U.S. dollar may have an impact on revenue and expense. Such effect may be material in any individual reporting period.

The balance sheets of the Company’s Australian subsidiary were translated into U.S. dollars and consolidated in the Company’s balance sheets at period-end exchange rates, while revenues and expenses were translated at average rates during the period. Fluctuations in the U.S. dollar value of the foreign currency denominated assets were accounted for as an adjustment to shareholders’ equity. Therefore, fluctuations from reporting period to reporting period in the exchange rates between various foreign currencies and the U.S. dollar impacted the foreign currency translation component of the Company’s reported shareholders’ equity. Foreign currency transaction gains and losses were not material. As of April 30, 2007, the Company’s Australian subsidiary was substantially dissolved. The Company recorded $275,000 in other expense in the fourth quarter of 2007 due to the recognition of its cumulative foreign currency translation loss.

COMPREHENSIVE INCOME (LOSS)

The Company accounts for comprehensive income or loss in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 130, “Reporting Comprehensive Income.”

INVENTORIES

Inventories are stated at the lower of cost or the current estimated market values. Cost is determined using the first-in, first-out method. The Company periodically reviews inventory quantities on hand and records a provision for excess and obsolete inventories based on the following factors:

- Terminal models still currently in the field;
- The average life of the models; and
- The requirement for replacement parts on older models.

Inventories consisted of the following:
The Company recorded an impairment charge of $422,000 during the fiscal year ended April 30, 2007 to properly reflect the net realizable value of its spare parts inventory. This was as a result of reduced demand for the Company’s fully assembled older generation terminal models currently in the field and the anticipated resulting decrease in spare parts required to service these terminals.

**Equipment, Furniture and Fixtures**

Equipment, furniture and fixtures are carried at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the useful lives of the assets or the lease term. In accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” the Company evaluates the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, or when the net book value of such assets exceeds the future undiscounted cash flow attributed to such assets. At April 30, 2007 and 2006, and during the years ended April 30, 2007 and 2006, no indicators of impairment were identified and no impairment reserve was recorded.

**Intangible Assets - Patent**

The Company capitalizes the cost of obtaining patent rights. These capitalized costs will be amortized on a straight-line basis over the estimated useful life of seven years. Amortization of the patent will begin in the first quarter of fiscal 2008. Amortization expense will approximate $3,774 per year.

**Short-Term Investments**

In accordance with SFAS 115, “Accounting for Certain Investments in Debt and Equity Securities,” the Company’s short-term investments in marketable equity securities are classified as available-for-sale securities and are stated at their estimated fair value. The fair value of the investments as of April 30, 2007 and 2006, and the proceeds from investments sold during the twelve months then ended, approximated the related costs as of that date and for that period. Accordingly, no realized or unrealized gains or losses related to the Company’s marketable securities were recognized. Purchases and sales of securities are recorded on a trade date basis.

Short-term investments consisted of investments in auction-rate preferred shares, certificates of deposits with maturities of greater than three months and mutual fund shares. Although the auction-rate preferred shares have long-term maturities, their dividend rates reset every seven days through a Dutch auction process and management believes, but cannot assure, that the Company can liquidate them on a short-term basis at their original cost. Accordingly, they have been classified as current assets.

The short-term investments available for sale are as follows:

<table>
<thead>
<tr>
<th>(Amounts in thousands)</th>
<th>April 30, 2007</th>
<th>April 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials and subassemblies</td>
<td>$1,831</td>
<td>$2,431</td>
</tr>
<tr>
<td>Work-in-process</td>
<td>46</td>
<td>52</td>
</tr>
<tr>
<td>Finished goods</td>
<td>190</td>
<td>190</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,067</strong></td>
<td><strong>$2,673</strong></td>
</tr>
</tbody>
</table>
Research and development costs are expensed as incurred. Substantially, all research and development expenses are related to new product development and designing significant improvements.

**RESEARCH AND DEVELOPMENT COSTS**

Research and development costs are expensed as incurred. Substantially, all research and development expenses are related to new product development and designing significant improvements.

**CAPITALIZED COMPUTER SOFTWARE DEVELOPMENT COSTS**

The Company capitalizes certain computer software development costs for new products or enhancements in accordance with SFAS 86, “Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed.” Costs incurred internally to create a computer software product are charged when incurred as research and development expense until technological feasibility for the respective product is established. Thereafter, all software development costs are capitalized and subsequently reported at the lower of unamortized cost or net realizable value of the product. The Company makes ongoing evaluations of the recoverability of its capitalized software costs by comparing the amount capitalized for each product to the estimated net realizable value of the product. Net realizable value is the excess of estimated future gross revenues over the estimated future costs of completing and disposing of the product. If such evaluations indicate that the unamortized software development costs exceed the net realizable value, the Company writes-off the amount by which the unamortized software development costs exceed net realizable value. The Company established the technological feasibility of a computer software development product that applies its technology in the voting industry effectively as of June 14, 2005 and, accordingly, capitalized related costs of $806,000 for the year ended April 30, 2006. The Company determined that capitalization of computer software development costs had to cease and amortization commenced at the end of the third quarter of fiscal 2006, when the voting system became available for general release to customers. Capitalized computer software development costs are amortized ratably based on the projected revenues associated with the related software or on a straight-line basis over the estimated economic life of the software product by using whichever method results in a higher amount of annual amortization. During the period from February 1, 2006 through July 31, 2006, the Company amortized the capitalized computer software development costs based on a straight-line basis over the estimated useful life of one year due to uncertainty regarding the projection of future revenue beyond one year. During the quarter ended October 31, 2006, the Company increased the estimated useful life of the software product to three and a half years based on its projection that future revenue will be generated for a more extended period. As a result of the change in the estimated useful life of the software product to three and a half years, the quarterly amortization expense was reduced by $167,000 compared to that of the first quarter of fiscal 2007. As of April 30, 2007, accumulated amortization of software development costs totaled $507,000. Amortization expense is estimated to be $138,000 for both fiscal years ending April 30, 2008 and 2009, respectively, and $23,000 for fiscal year ending April 30, 2010.

**NET INCOME (LOSS) PER SHARE**

Basic net income (loss) per share is based on the weighted average number of shares outstanding during the year. Diluted net income per share is based on the weighted average number of shares outstanding adjusted to include the dilutive effects of the assumed exercise of stock options and the application of the treasury stock method.
At April 30, 2007 and 2006, the effects of the assumed exercise of outstanding options to purchase 119,000 and 235,000 shares of the Company’s common stock, at prices ranging from $1.00 to $3.84 per share, were not included in the computation of diluted income (loss) per share because they were antidilutive for that purpose.

**STOCK-BASED COMPENSATION**

Prior to May 1, 2006, the Company followed the disclosure-only provisions of SFAS 123, “Accounting for Stock-Based Compensation,” as amended by SFAS 148, “Accounting for Stock-Based Compensation-Transition and Disclosure” and, as permitted by SFAS 123, applied the provisions of Accounting Principles Board Opinion No. 25 (“APB 25”), “Accounting for Stock Issued to Employees,” and related interpretations in accounting for its employee stock options. Under APB 25, the Company accounted for employee stock options using the intrinsic value method and no compensation expense was recognized when the exercise price of stock options equaled or exceeded the market price of the underlying stock on the date of grant. Options granted to non-employees were recorded at fair value in accordance with SFAS 123.

As a result of amendments to SFAS 123, effective May 1, 2006, the Company adopted SFAS No. 123R, “Share-Based Payment” (“SFAS 123R”) using the modified-prospective transition method. Under this transition method, stock-based compensation cost includes (1) quarterly amortization over the remaining requisite service period for all stock options granted prior to, but not yet vested, as of May 1, 2006, based on the portion of the grant date fair value estimated in accordance with the original provisions of SFAS 123 for which service has not been provided and (2) quarterly amortization over the requisite service period for all stock options granted subsequent to May 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Under the modified-prospective transition method, no restatement is necessary to stock-based compensation cost recognized in prior periods. SFAS 123R requires that the Company elect an approved method to calculate the historical pool of windfall tax benefits upon adoption of SFAS 123R within one year of its adoption. As of April 30, 2007, the Company has not made that election.

All stock options granted to employees prior to May 1, 2006 were fully vested at the beginning of fiscal 2007. In addition, the Company did not grant any stock options or warrants to employees in the twelve months ended April 30, 2007. Therefore, there was no stock-based compensation expense related to employee stock options recognized under SFAS 123R during the twelve months ended April 30, 2007. In addition, there was no material difference between the Company’s historical net loss in the twelve months ended April 30, 2006 and the pro forma net loss for such period assuming compensation cost had been determined based on the fair value at the grant date for all awards granted prior to May 1, 2004 and amortized over the vesting period consistent with the provisions of SFAS 123.

**CASH AND CASH EQUIVALENTS**

The Company considers all highly liquid investments with a maturity of three months or less at the purchase date to be cash equivalents.

2. GEOGRAPHIC REVENUES, BUSINESS SEGMENTS, MAJOR CUSTOMERS AND MAJOR VENDORS

**SEGMENT INFORMATION**

Statement of Financial Accounting Standards (“SFAS”) No. 131, “Disclosures about Segments of an Enterprise and Related Information” requires companies to report certain information about operating segments in their financial statements and establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS 131 defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by management in deciding how to allocate resources and in assessing performance.
INTERNATIONAL LOTTERY & TOTALIZATOR SYSTEMS, INC.

As a result, among other factors, including the signed and pending agreements with ES&S and the potential increase in the significance of the voting product, effective May 1, 2006, the Company began to divide its operations into two operating segments: the wagering business and the voting business. The wagering segment designs, manufactures and manages computerized wagering systems and terminals for the online lottery and pari-mutuel racing industries worldwide. The voting segment, in consideration of net revenue, as defined, and in accordance with the terms of the strategic arrangement, granted ES&S an exclusive worldwide license to manufacture, sell and sublicense to ES&S’s end customers ILTS’s intellectual property relating to the PBC and PBC software it designed. The voting system business began to generate product sales revenue on the manufacturing of certain PBC system components for ES&S, in a one-time arrangement. The Company has deferred all of the license fees it has received for the intellectual property pending finalization of its arrangements with ES&S.

The Company’s segment information is presented below:

<table>
<thead>
<tr>
<th>For The Year Ended April 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wagering Business</strong></td>
</tr>
<tr>
<td>-----------------------</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
</tr>
<tr>
<td><strong>Income (loss) from operations</strong></td>
</tr>
<tr>
<td><strong>Depreciation and amortization</strong></td>
</tr>
<tr>
<td><strong>Equipment, furniture and fixtures, net</strong></td>
</tr>
<tr>
<td><strong>Capitalized computer software development costs, net</strong></td>
</tr>
<tr>
<td><strong>Deferred revenues</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>For The Year Ended April 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wagering Business</strong></td>
</tr>
<tr>
<td>-----------------------</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
</tr>
<tr>
<td><strong>Loss from operations</strong></td>
</tr>
<tr>
<td><strong>Depreciation and amortization</strong></td>
</tr>
<tr>
<td><strong>Equipment, furniture and fixtures, net</strong></td>
</tr>
<tr>
<td><strong>Capitalized computer software development costs, net</strong></td>
</tr>
<tr>
<td><strong>Deferred revenues</strong></td>
</tr>
</tbody>
</table>

As of April 30, 2007 and 2006, the Company operated in two industry segments, which included lottery and totalizator systems and voting.

**GEOGRAPHIC REVENUES**

Revenues by geographic area are as follows (in thousands):

<table>
<thead>
<tr>
<th>Customer Location</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>$10,346</td>
<td>$2,777</td>
</tr>
<tr>
<td>Europe</td>
<td>367</td>
<td>333</td>
</tr>
<tr>
<td>North America</td>
<td>207</td>
<td>16</td>
</tr>
<tr>
<td>Australia</td>
<td>126</td>
<td>92</td>
</tr>
<tr>
<td>Africa</td>
<td>-</td>
<td>227</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>$11,046</td>
<td>$3,445</td>
</tr>
</tbody>
</table>
As of April 30, 2007 and 2006, substantially all of the Company’s assets were held in the United States. During the fiscal years ended April 30, 2007 and 2006, a substantial portion of the Company’s revenues were derived from exports from the United States to foreign countries. Although the Company substantially dissolved its Australian subsidiary in 2007, it will continue to service customers in that area from other locations.

**MAJOR CUSTOMERS**

<table>
<thead>
<tr>
<th>Revenue:</th>
<th>April 30, 2007</th>
<th>April 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>From unrelated customers</td>
<td>No customer accounted for more than 10% of total revenue</td>
<td>No customer accounted for more than 10% of total revenue</td>
</tr>
<tr>
<td>From related customers</td>
<td>One customer accounted for 90% of total revenue</td>
<td>Two customers accounted for 66% of total revenue</td>
</tr>
</tbody>
</table>

As of April 30, 2007 and 2006, the total receivable balance, all of which was past due, from one unrelated, international customer totaled $305,000 and $1.1 million which represented 67% and 32% of total accounts receivable and 4% and 9% of total assets, respectively. The balance receivable, which is unsecured, arose primarily from sales of terminal kits shipped during the last quarter of fiscal 2003 and the first quarter of fiscal 2004.

During the year ended April 30, 2004, the customer agreed to make installment payments through June 20, 2005 to repay the then outstanding balance of $6.3 million. The Company received payments totaling $962,000 during the period from December 1, 2003 to April 30, 2004. In addition, the Company received payments totaling approximately $3.3 million during the period from May 1, 2004 to June 20, 2005, which was $2.0 million less than the scheduled installment payments. Furthermore, the Company received payments of $900,000 from June 21, 2005 through April 30, 2006, $825,000 from May 1, 2006 through April 30, 2007 and $50,000 from May 1, 2007 through June 5, 2007, which reduced the past due balance to $305,000 at April 30, 2007 and $255,000 at June 5, 2007.

Based on discussions with the customer, management of the Company believes that the customer’s reduced payments are a result primarily of temporary factors with lottery regulators in certain areas in which it operates. Management of the Company also believes, but cannot assure, that such problems will be resolved and that the missed payments will be made on an installment basis. Based on the customer’s recent payments and the customer’s commitment to make the remaining aggregate payment of $255,000 by August 31, 2007, the Company believes the outstanding amount will be collected. Nonpayment by the customer of the remaining balance could have a material adverse impact on the Company’s liquidity and results of operations.

Additionally, the Company had approximately $1.9 million in kit inventory related to orders from this customer as of both April 30, 2007 and 2006 which it will not ship to the customer until it receives substantially all of the payments due. The Company has the right to sell such inventory to other customers. The model related to this inventory remains in continuous use presently in several jurisdictions and is being marketed to several additional prospective customers. Nonpayment by the customer or the Company’s inability to sell the products to other customers could also have a material adverse impact on the Company’s liquidity and results of operations.

**MAJOR VENDORS**

For the year ended April 30, 2007, four vendors accounted for approximately 70% of the Company’s lottery terminals component and raw material purchases. For fiscal 2006, four vendors accounted for approximately 60% of the Company’s central system component and raw material purchases.
3. CREDIT RISK

The Company’s investments in commercial paper, which are included in cash and cash equivalents, are not insured. The Company maintains its other cash balances primarily in two financial institutions. As of April 30, 2007, such other cash balances exceeded the Federal Deposit Insurance Corporation (“FDIC”) limitation for coverage of $100,000 by approximately $615,000. The Company reduces its exposure to credit risk by maintaining all of its cash balances with highly rated financial institutions.

4. INCOME TAXES

The following is a reconciliation of the expected income tax provision or credit at the statutory federal income tax rate to the actual provision or credit:

<table>
<thead>
<tr>
<th>Years Ended April 30,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2006</td>
</tr>
<tr>
<td>Expected federal income tax provision (credit)</td>
<td>$211</td>
<td>$(740)</td>
</tr>
<tr>
<td>State taxes, net of federal benefit</td>
<td>36</td>
<td>85</td>
</tr>
<tr>
<td>Alternative minimum tax</td>
<td>89</td>
<td>-</td>
</tr>
<tr>
<td>Change in valuation allowance</td>
<td>(689)</td>
<td>667</td>
</tr>
<tr>
<td>Expiration of federal general business credit carryforwards</td>
<td>530</td>
<td>0</td>
</tr>
<tr>
<td>Expiration of state net operating loss carryforwards</td>
<td>-</td>
<td>49</td>
</tr>
<tr>
<td>Other, net</td>
<td>(88)</td>
<td>(61)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$89</strong></td>
<td><strong>$-</strong></td>
</tr>
</tbody>
</table>

For the year ended April 30, 2007, the Company recorded Federal and State alternative minimum taxes ("AMTs") of $88,000 and $1,000, respectively, due to limitations on the utilization of the net operating loss carryforwards. AMTs are allowed as credit carryovers against regular tax in the future in the event that the regular tax exceeds alternative minimum tax expense.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts used for income tax purposes. As of April 30, 2007 and 2006, the Company had deferred tax assets of $22.0 million and $22.7 million, respectively, primarily attributable to its net operating loss carryforwards as further described below. The Company has provided a valuation allowance against the entire balance of its deferred tax assets at April 30, 2007 and 2006 due to the uncertainty regarding realization. The $689,000 decrease in the deferred tax assets in 2007 was due primarily to the effects of the partial utilization of net operating loss carryforwards and the expiration of California general business credit carryforwards, which were offset by the effects of increases in deferred revenue and reserves and accruals during the year ended April 30, 2007. For the year ended April 30, 2006, the valuation allowance increased by $667,000 primarily as a result of an increase in net operating loss and general business credit carryforwards. The components of the Company’s deferred tax assets are as follows:

<table>
<thead>
<tr>
<th>(Amounts in thousands)</th>
<th>April 30, 2007</th>
<th>April 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net operating loss and general business credit carryforwards</td>
<td>$19,470</td>
<td>$21,825</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>1,594</td>
<td>210</td>
</tr>
<tr>
<td>Reserves and accruals</td>
<td>706</td>
<td>541</td>
</tr>
<tr>
<td>Other</td>
<td>253</td>
<td>136</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>22,023</td>
<td>22,712</td>
</tr>
<tr>
<td>Valuation allowance</td>
<td>(22,023)</td>
<td>(22,712)</td>
</tr>
</tbody>
</table>
As of April 30, 2007, the Company has approximately $55.5 million in Federal net operating loss carryforwards that will expire from 2009 through 2025, unless previously utilized. The Company’s remaining California net operating loss carryforwards, as of April 30, 2006, either expired or were utilized in the current year. The Company has provided a valuation allowance against the entire balance of its net deferred tax assets at April 30, 2007 and 2006 due to uncertainty regarding its realization.

In addition, as of April 30, 2007, the Company has approximately $336,000 in Federal general business credit carryforwards that will expire from 2020 through 2024, and $315,000 of California general business credit carryforwards that can be carried forward indefinitely. The Company also has approximately $88,000 in Federal AMT credits that can be carried forward indefinitely.

Pursuant to the Tax Reform Act of 1986, use of the Company’s federal credit and net operating loss carryforwards may be limited if a cumulative change in ownership of more than 50% occurs within any three-year period.

5. RELATED PARTY TRANSACTIONS

During the year ended April 30, 2007, revenues from all related party agreements for sales of products and services totaled $10.3 million (93% of total revenues). For the year ended April 30, 2006, the Company recognized revenues of $2.5 million from related parties (73% of total revenues). Included in accounts receivable at April 30, 2007 and 2006 was $111,000 and $2.3 million, respectively, from these customers. Descriptions of the transactions with the Company’s related parties in the years ended April 30, 2007 and 2006 are presented below.

BERJAYA LOTTERY MANAGEMENT (H.K.) LTD.

In 1996, the Company entered into an agreement to purchase specific inventory on behalf of Berjaya Lottery Management (H.K.) Ltd. (“BLM”), the owner of 71.3% of ILTS’s outstanding voting stock as of April 30, 2007. Title to the inventory resides with BLM and is on consignment; therefore, no amounts are reflected in the Company’s consolidated balance sheets for inventory purchased on BLM’s behalf.

Over time the Company has sold or used portions of the BLM inventory in third party transactions. The sale or use of the inventory results in a liability to BLM for the cost of the items utilized.

The financial activities and balances related to BLM were as follows:

- There were no sales to BLM in the years ended April 30, 2007 and 2006;
- There were no accounts receivable balances from BLM at April 30, 2007 and 2006; and
- Liabilities to BLM arising from the sale or use of the BLM inventory, recorded as “Payable to Parent,” were $247,000 and $238,000 as of April 30, 2007 and 2006, respectively.

PHILIPPINE GAMING MANAGEMENT CORPORATION

On December 9, 2005, the Company signed a contract with Philippine Gaming Management Corporation (“PGMC”), a related party and a subsidiary of BLM, to provide a complete lottery system including central system hardware and software along with 2,000 lottery terminals. Total contract value was approximately $10.0 million. Contract deliverables including lottery terminals and hardware installation and software customization with a contract value of approximately $9.7 million were completed as of April 30, 2007.

In addition, the Company provides terminal spare parts to PGMC on an ongoing basis.
The financial activities and balances related to transactions with PGMC were as follows:

- Revenues recognized on the performance of lottery system software customization, delivery and installation of contract hardware and sale of spare parts in the years ended April 30, 2007 and 2006 totaled $10.0 million and $1.9 million, respectively;
- Billings in excess of costs and earnings relating to the abovementioned contract totaled $294,000 and $8.2 million at April 30, 2007 and 2006, respectively;
- Accounts receivable from software enhancement billings and spare parts orders totaled $62,000 at April 30, 2007, compared to $2.3 million at April 30, 2006; and
- There were no deferred revenues at April 30, 2007, compared to $20,000 of deferred revenue on spare parts orders at April 30, 2006.

**Sports Toto Malaysia**

On November 17, 2005, the Company received a software enhancement order with a value of $210,000 from Sports Toto Malaysia ("STM"), a related party and an affiliate of BLM. Delivery of the software product is expected to be completed in the first quarter of fiscal 2008.

In addition to supplying terminals and software products to STM, the Company provides terminal spare parts and software support services to STM.

The financial activities and balances related to transactions with STM were as follows:

- Revenues of $244,000 and $375,000 were recognized on the sale of software products, support services and spare parts during the years ended April 30, 2007 and 2006, respectively;
- There were deferred revenues of $454,000 and $531,000 on spare parts orders and software support services at April 30, 2007 and 2006, respectively;
- Billings in excess of costs and earnings totaled $167,000 and $28,000 at April 30, 2007 and 2006, respectively; and
- Accounts receivable totaled $44,000 and $3,000 at April 30, 2007 and 2006, respectively.

**Natural Avenue**

The Company provides Natural Avenue, a related party from Malaysia and an affiliate of BLM, lottery terminals, software products and support services as well as spare parts. The financial activities and balances related to transactions with Natural Avenue were as follows:

- Revenues recognized on the sale of software support services amounted to $54,000 during the year ended April 30, 2007, while revenues recognized on the sale of software enhancement products, software support services and spare parts totaled $243,000 in the year ended April 30, 2006;
- Accounts receivable totaled $5,000 at both April 30, 2007 and 2006; and
- There were no billings in excess of cost and earnings at April 30, 2007 and 2006.

6. CONTRACTS IN PROCESS

The amounts by which total costs were less than billings on uncompleted contracts are as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>April 30,</th>
<th>April 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2006</td>
</tr>
<tr>
<td>Costs incurred and estimated earnings recognized on uncompleted contracts</td>
<td>$19,652</td>
<td>$12,947</td>
</tr>
<tr>
<td>Billings on uncompleted contracts</td>
<td>(20,094)</td>
<td>(21,384)</td>
</tr>
<tr>
<td>$</td>
<td>(442)</td>
<td>$(8,437)</td>
</tr>
</tbody>
</table>
INTERNATIONAL LOTTERY & TOTALIZATOR SYSTEMS, INC.

The amounts shown in the table above are included in the associated balance sheet as follows:

<table>
<thead>
<tr>
<th></th>
<th>April 30, 2007</th>
<th>April 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs and estimated earnings in excess of billings on uncompleted contracts</td>
<td>$75</td>
<td>$-</td>
</tr>
<tr>
<td>Billings in excess of costs and estimated earnings on uncompleted contracts</td>
<td>$(517)</td>
<td>$(8,437)</td>
</tr>
<tr>
<td></td>
<td>$442</td>
<td>$8,437</td>
</tr>
</tbody>
</table>

7. LEASES

The lease for the facilities used by the Company in Carlsbad, California expired on December 22, 2006. In September 2006, the Company executed a three-year lease for a facility in Vista, California. The lease provides for annual rent increases, the Company's payments of a portion of common area maintenance costs and leasehold improvement incentives paid to the Company by the landlord which are recorded as a liability and amortized as a reduction of rent expense over the lease term. The lease expires in November 2009.

Future minimum lease payments for all operating leases are as follows:

<table>
<thead>
<tr>
<th></th>
<th>For Fiscal Years Ending April 30,</th>
<th>Minimum Lease Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
<td>$192,000</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>$194,000</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>$114,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$500,000</td>
</tr>
</tbody>
</table>

Rent expense for all operating leases for the years ended April 30, 2007 and 2006 was $296,000 and $361,000, respectively.

8. EMPLOYEE 401(k) PLANS

The Company maintains a 401(k) plan (the “Plan”), qualified under the Internal Revenue Code, in which all eligible employees, as defined in the Internal Revenue Code, may elect to participate. Under the Plan, employees may voluntarily make tax-deferred contributions of up to 15% of their compensation to a trust, which provides the participant with various investment alternatives. In addition, for each fiscal year, the Company, at the discretion of the Board of Directors, may contribute an amount of Company stock with a fair market value that does not exceed 5% of the annual compensation of all participants in the Plan. The Company made no contributions during the years ended April 30, 2007 or 2006. The Company also maintains another 401(k) plan in which long-tenured employees maintain accounts; however, the Company and its employees are no longer contributing to this plan.

9. STOCK OPTION PLANS

The Company has a stock option plan, The 2000 Equity Participation Plan (the “2000 Plan”), that was approved by the Board of Directors and shareholders, whereby options to purchase 200,000 shares of the Company’s common stock were initially authorized. The number of options authorized for grant may increase January 1 of each plan year by 3% of the total number of outstanding shares of the Company’s common stock on that date subject to the approval of the Board of Directors and the limitation that the total number of shares of common stock subject to all options granted shall not exceed 10% of the total number of outstanding shares of common stock on that date. At April 30, 2007, options for 1,177,431 shares were available for future grant under the 2000 Plan.
A summary of the Company’s stock option activity including activity related to options that were granted outside the 2000 Plan and related information for the years ended April 30, 2007 and 2006 (shares in thousands) follows:

<table>
<thead>
<tr>
<th>Stock Options</th>
<th>2007</th>
<th>Weighted-Average Exercise Price</th>
<th>2006</th>
<th>Weighted-Average Exercise Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Options outstanding, beginning of year</td>
<td>235</td>
<td>$1.67</td>
<td>440</td>
<td>$1.77</td>
</tr>
<tr>
<td>Granted</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Exercised</td>
<td>(20)</td>
<td>(1.00)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cancelled</td>
<td>(96)</td>
<td>(1.71)</td>
<td>(205)</td>
<td>1.89</td>
</tr>
<tr>
<td>Options outstanding, end of year</td>
<td>119</td>
<td>$1.76</td>
<td>235</td>
<td>$1.67</td>
</tr>
<tr>
<td>Exercisable at end of year</td>
<td>119</td>
<td>$1.76</td>
<td>235</td>
<td>$1.67</td>
</tr>
</tbody>
</table>

The aggregate intrinsic value of options exercised during the year ended April 30, 2007 was approximately $12,000. The options exercisable at April 30, 2007 had no intrinsic value.

The following table summarizes information about stock options at April 30, 2007 (shares in thousands):

<table>
<thead>
<tr>
<th>Exercise Price</th>
<th>Shares</th>
<th>Weighted Average Remaining Contractual Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.00</td>
<td>87</td>
<td>2.48 years</td>
</tr>
<tr>
<td>$3.84</td>
<td>32</td>
<td>.04 year</td>
</tr>
<tr>
<td></td>
<td>119</td>
<td>1.83 years</td>
</tr>
</tbody>
</table>

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in SEC Rule 13a-15(e)) as of April 30, 2007. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of April 30, 2007.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have not been any changes in the Company’s internal control over financial reporting during the quarter ended April 30, 2007 that have materially affected, or are reasonably likely to materially affect the Company’s internal control over financial reporting.

We continue to document procedures and to enhance controls in our comprehensive effort to comply with the Sarbanes-Oxley Act of 2002. Under the latest extension, non-accelerated filers have to comply with the Section 404 provisions of the Act for the first fiscal year ending on or after December 15, 2008. As a non-accelerated filer with a fiscal year end of April 30, we must first begin to comply with the attestation requirements for the fiscal year ending April 30, 2009. In addition, as required by Section 404 of Sarbanes-Oxley, we will be required to provide a management attestation regarding our internal controls for the fiscal year ending April 30, 2008.

We believe that our present internal control program has been effective at a reasonable assurance level to ensure that our financial reporting has not been materially misstated. Nonetheless, we will continue to review, and where necessary, enhance our internal control design and documentation, ongoing risk assessment, and management review as part of our internal control program.

ITEM 8B. OTHER INFORMATION
PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS, AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The information required by this item is incorporated by reference to the Registrant’s definitive Proxy Statement and notice of the Company’s 2007 Annual Meeting of Shareholders, which the Company will file with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

<table>
<thead>
<tr>
<th>Name and Office</th>
<th>Age</th>
<th>Positions and Offices Held and Business Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jeffrey M. Johnson</td>
<td>46</td>
<td>Mr. Johnson was appointed as President effective January 2007. He served as Director of Technical Operations and held various positions in the Technical Operations capacity at ILTS for over 20 years.</td>
</tr>
<tr>
<td>T. Linh Nguyen</td>
<td>38</td>
<td>Ms. Nguyen was appointed as Chief Financial Officer since January 2007 and Corporate Secretary since July 2006. She served as Director of Finance and held various finance and accounting positions at ILTS since November 1999.</td>
</tr>
<tr>
<td>President</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chief Financial Officer and Corporate Secretary</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SECTION 16 (a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership of our equity securities with the Securities and Exchange Commission. Officers, directors and greater than 10% shareholders are required by the Securities and Exchange Commission regulations to furnish us with copies of all Section 16(a) filings. For the period covered by this Annual Report, we were in compliance with the Section 16(a) of the Securities Exchange Act of 1934.

CODE OF BUSINESS CONDUCTS AND ETHICS

The Company has adopted a Code of Business Conduct and Ethics which applies to all officers and key financial personnel.

We will provide a copy of our Code of Business Conduct and Ethics to any person without charge. Stockholders will be provided a copy upon written request addressed to:

International Lottery & Totalizator Systems, Inc.
Attention: Investor Relations
2310 Cousteau Court
Vista, CA 92081-8346

ITEM 10. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the Registrant’s definitive Proxy Statement and notice of the Company’s 2007 Annual Meeting of Shareholders, which the Company will file with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this report.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated by reference to the Registrant’s definitive Proxy Statement and notice of the Company’s 2007 Annual Meeting of Shareholders, which the Company will file with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this report.
ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to the Registrant’s definitive Proxy Statement and notice of the Company’s 2007 Annual Meeting of Shareholders, which the Company will file with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this report.
ITEM 13. EXHIBITS

A. Exhibits

(3) (a) Articles of Incorporation, as amended September 13, 1994, reflecting corporate name change, and as amended January 7, 1998, reflecting authorization for 20 million shares of preferred stock and By-laws (incorporated by reference to Form 10-KSB for the year ended December 31, 1994, File No. 0-10294).

(b) Articles of Incorporation as amended June 2, 1998, reflecting the three-for-one reverse stock split (incorporated by reference to Form 10-KSB for the year ended December 31, 1998, File No. 0-10294).

(c) Articles of Incorporation as amended June 2, 1998, reflecting maximum indemnification for directors permitted by California law (incorporated by reference to Form 10-KSB for the year ended December 31, 1998, File No. 0-10294).

(d) A By-law effective June 2, 1998, amendment relating to officers and directors indemnification and number of directors (incorporated by reference to Form 10-KSB for the year ended December 31, 1998, File No. 0-10294).

(10) (a) Fourth Amendment to Lease for the Registrant's facility in Carlsbad, California dated August 11, 1999 (incorporated by reference to Form 10-KSB for the year ended December 31, 2000, File No. 0-10294.)


(c) The Registrant's 1997 Directors' Stock Option Plan (incorporated by reference to Form 10-KSB for the year ended December 31, 1998, File No. 0-10294).

(d) Stock Purchase Agreement dated as of September 8, 1999 between ILTS and BLM which increased Berjaya's stock ownership from 38.5% to 71.4% (incorporated by reference from ILTS's Form 8-K filed on October 18, 1999).

(e) ILTS's Equity Participation Plan, approved by the shareholders on June 22, 2000 (incorporated by reference to Form 10-KSB for the year ended December 31, 2000, File No. 0-10294).

(14) Code Of Ethics for Officers and Senior Financial Staff (incorporated by reference to Form 10-KSB for the year ended April 30, 2004, File No. 0-10294)

(21) Subsidiaries of the Registrant


(32) Certification Pursuant to 18 United States Code Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to the Registrant’s definitive Proxy Statement and notice of the Company’s 2007 Annual Meeting of Shareholders, which the Company will file with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this report.
INTERNATIONAL LOTTERY & TOTALIZATOR SYSTEMS, INC.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL LOTTERY & TOTALIZATOR SYSTEMS, INC.

By: /s/ Jeffrey M. Johnson

Jeffrey M. Johnson
President

/s/ T. Linh Nguyen

T. Linh Nguyen
Chief Financial Officer and Corporate Secretary

Dated: July 27, 2007

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<table>
<thead>
<tr>
<th>Signature</th>
<th>Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theodore A. Johnson</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Chan Kien Sing</td>
<td>Director</td>
<td>July 27, 2007</td>
</tr>
<tr>
<td>Chan Kien Sing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Ng Foo Leong</td>
<td>Director</td>
<td>July 27, 2007</td>
</tr>
<tr>
<td>Ng Foo Leong</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Martin J. O’Meara, Jr.</td>
<td>Director</td>
<td>July 27, 2007</td>
</tr>
<tr>
<td>Martin J. O’Meara, Jr.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Alain K. Lee</td>
<td>Director</td>
<td>July 27, 2007</td>
</tr>
<tr>
<td>Alain K. Lee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Ooi Lee Meng</td>
<td>Director</td>
<td>July 27, 2007</td>
</tr>
<tr>
<td>Ooi Lee Meng</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
EXHIBIT 21

SUBSIDIARY OF ILTS

UNISYN VOTING SOLUTIONS, INC.
2310 Cousteau Court
Vista, CA 92081-8346
EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 33-69016 and No. 333-140940) previously filed by International Lottery & Totalizator Systems, Inc., of our report, dated June 5, 2007, on our audits of the consolidated financial statements of International Lottery & Totalizator Systems, Inc. and subsidiaries as of April 30, 2007 and 2006, and for the years then ended, which report is included in this Annual Report on Form 10-KSB for the year ended April 30, 2007.

/s/ J. H. COHN LLP

San Diego, California
July 27, 2007
EXHIBIT 31

Certification requirements set forth in Section 302 (a) of the Sarbanes-Oxley Act.

We, Jeffrey M. Johnson and T. Linh Nguyen, certify that:

1. We have reviewed this annual report on Form 10-KSB of International Lottery & Totalizator Systems, Inc. (“ILTS”);

2. Based on our knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on our knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of ILTS as of, and for, the periods presented in this report;

4. We are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for ILTS and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to ILTS, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Evaluated the effectiveness of ILTS’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (c) Disclosed in this report any change in ILTS’s internal control over financial reporting that occurred during ILTS’s most recent fiscal quarter (ILTS’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, ILTS’s internal control over financial reporting; and

5. We have disclosed, based on our most recent evaluation of internal control over financial reporting, to ILTS’s auditors and the audit committee of ILTS’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect ILTS’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in ILTS’s internal control over financial reporting.

Dated: July 27, 2007

/s/ Jeffrey M. Johnson
Jeffrey M. Johnson
President

/s/ T. Linh Nguyen
T. Linh Nguyen
Chief Financial Officer and Corporate Secretary
Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of International Lottery & Totalizator Systems, Inc. (the “Company”) hereby certify that:

(i) the Annual Report on Form 10-KSB of the Company for the year ended April 30, 2007 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 27, 2007

/s/ Jeffrey M. Johnson
Jeffrey M. Johnson
President

/s/ T. Linh Nguyen
T. Linh Nguyen
Chief Financial Officer and Corporate Secretary