TECH LABORATORIES INC
Form 10QSB
August 15, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005.

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES AND EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM_____ TO_____ .

Commission File Number 000-27592

TECH LABORATORIES, INC.
(Exact name of Small Business issuer in its charter)

New Jersey	22-1436279
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
955 Belmont Avenue, North Haledon, NJ	07508
(Address of principal executive offices)	(zip code)

Registrant's telephone number, including area code: (973) 427-5333

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [_]

The number of shares of Common Stock, par value $.01 per share, outstanding as of the latest practicable date: As of August 15, 2005, there were 142,954,467 shares outstanding.

TECH LABORATORIES, INC.

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TECH LABORATORIES, INC.
BALANCE SHEETS
(UNAUDITED)

ASSETS

	June 30, 2005	D
Current Assets:		
Cash	$ 4,063	$
Accounts receivable, net of allowance of $1,000	11,541	
Inventories	1,072,342	
Prepaid expense	46,875	
Total current assets	1,134,821	
Certificate of deposit (restricted)	35,135	
Property, plant and equipment, at cost		
Leasehold improvements	2,247	
Machinery, equipment, and instruments	608,917	
Furniture and fixtures	109,584	
	720,748	
Less accumulated depreciation and amortization	452,344	
Net property, plant and equipment	268,404	
Other	14,420	

Total Assets	$ 1,452,780	$

See notes to financial statements.

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TECH LABORATORIES, INC.
BALANCE SHEETS
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)

	June 30, 2005	D
Current liabilities:		
Convertible notes	$ 958,264	$
Note payable	34,444	
Accounts payable and accrued expenses	467,603	
Total current liabilities	1,460,311	
Stockholders' equity:		
Common stock, $.01 par value; 195,000,000 shares authorized: 142,954,467 shares issued in 2005; 88,161,612 shares issued in 2004	1,429,545	
Less: 15,191 shares reacquired and held in treasury	(113)	
	1,429,432	
Capital contributed in excess of par value	4,919,634	
Accumulated deficit	(6,356,597)	
Total stockholders' equity	(7,531)	
Total liabilities and stockholders' equity	$ 1,452,780	$

See notes to financial statements.

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TECH LABORATORIES, INC.
STATEMENTS OF OPERATIONS
(UNAUDITED)

	2005	2004	2
Sales	$ 17,166	$ 13,565	$
Costs and expenses:			
Cost of sales	4,261	9,053	
Selling, general, and administrative expense	175,130	157,141	
	179,391	166,194	
Income (loss) from Operations	(162,225)	(152,629)	
Other expenses	53,707	358,906	
Income (loss) before income taxes	(215,932)	(511,535)	
Provision for income taxes	-	-	
Net income (loss)	(215,932)	(511,535)	
(Accumulated deficit), Beg Qtr.	(6,140,665)	(4,903,853)	
(Accumulated deficit), End Qtr.	(6,356,597)	(5,415,388)	
Net loss per share, basic and diluted	$ -	$ (0.01)	$
Weighted average number of common shares and equivalents, basic and diluted	128,668,753	47,233,919	1

See notes to financial statements.

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TECH LABORATORIES, INC.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Six Months En June 30,
	2005
Cash flow from (for) operating activities:	
Net (loss) from operations	$(254,211)

Add (deduct) items not affecting cash:	
Depreciation/amortization	9,774
Capitalized interest	19,380
Expenses paid with the issuance of stock	-
Changes in operating assets and liabilities	
Accounts receivable	(862)
Inventories	(165,312)
Accounts payable and accrued expenses	115,146
Other assets	12,501
Net cash flow from (for) operating activities	(263,584)
Cash flows from (for) investing activities	
Decrease in restricted certificate of deposit	1,364
Sale of machinery and equipment	-
Net cash flow from (for) investing activities	1,364
Cash flows from (for) financing activities:	
Proceeds of convertible note	160,000
Payment of note payable to bank	-
Net cash flow from (for) financing activities	160,000
Net (decrease) in cash	(102,220)
Cash balance beginning of year	106,283
Cash balance - end of second quarter	$ 4,063
Supplemental schedule of noncash investing and financing activities:	
Conversion of debt to common stock	$ 50,000

See notes to financial statements.

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TECH LABORATORIES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTER ENDED JUNE 30, 2005
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements of Tech Laboratories, Inc. ("the Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with Item

310(b) of Regulation SB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended, March 31, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004. These unaudited financial statements should be read in conjunction with the audited financial statements and footnotes thereto included in the Company's Form 10-KSB for the year ended, December 31, 2004, as filed with the Securities and Exchange Commission.

Certain prior year balances have been reclassified to conform to the current year presentation.

2. LONG-TERM CONVERTIBLE DEBT

On October 13, 2000, Tech Labs completed a $1.5 million financing of 6.5% convertible promissory notes due October 15, 2002. Interest is payable quarterly in cash or in shares of common stock at the option of the noteholders. Tech Labs disclosed all terms of this financing on Form 8-K filed on October 18, 2000. As of June 30, 2005, $986,913 of principal and interest on the 6.5% convertible notes has been converted into shares of Tech Labs' common stock.

On January 11, 2002, Tech Labs entered into a conversion and redemption agreement concerning this long-term debt. An Event of Default, as defined in the 6.5% convertible notes, occurred on January 25, 2002, when Tech Labs was unable to make the first payment of $750,000 to the holders of the notes.

On April 19, 2002, Tech Labs successfully negotiated a cure of the default referenced above. This cure required that Tech Labs' registration statement, filed with the Securities and Exchange Commission on April 5, 2002, covering the shares underlying the 6.5% convertible notes, to have been declared effective on or before June 29, 2002. If the registration statement was declared effective by such date and Tech Labs made certain payments described in the Tech Labs' report on Form 8-K filed April 25, 2002, the maturity date of the 6.5% convertible notes would have been extended from October 13, 2002 to December 30, 2002.

On August 2, 2002, the Company announced that an Event of Default occurred on the 6.5% convertible notes. The Company was unable to have its registration statement declared effective by June 29, 2002, and was unable to reach a new agreement with the holders of the 6.5% convertible notes prior to the expiration of the waiver the Company had been granted by the holders of the notes, which had been granted in order to permit the parties time to negotiate a new agreement. The Company continued to seek a cure for the default with the holders of the 6.5% convertible notes, and in October 2003, a cure was successfully negotiated and is described in the Company's 8-K filed in October, 2003.

2. LONG-TERM CONVERTIBLE DEBT (Cont'd)

On May 18, 2004, the Company issued an additional $250,000 convertible debenture at a rate of 5.0% due on May 18, 2007. On April 22, 2005, the convertible debt of $250,000 was renegotiated with an additional $160,000 plus accrued interest for a total amount of $420,514. The interest rate is 5% per annum and is due upon demand. In connection with this transaction, the Company issued 50,000,000 shares of common stock to be held in escrow, as collateral, for the transaction. On April 22, 2005, the Company issued warrants to Montgomery Equity Partners, Ltd. to purchase 100,000 shares of common stock at the par value of $.0001 per share.

3. SUBSEQUENT EVENT

On July 11, 2005, (the "Effective Date"), the Company finalized a Settlement Agreement and Release (the "Agreement") with Bernard Ciongoli and Earl Bjorndal (the "Settlement Parties"). In connection with the Agreement, Mr. Ciongoli resigned from his positions as President, Chief Executive Officer, Chief Financial Officer and member of the Board of Directors of the Company, and agreed to the cancellation of 17,931,806 of his shares of our common stock. Earl Bjorndal resigned from his positions as Vice President and member of the Board of Directors of the Company, and agreed to the cancellation of 8,044,445 of his shares of our common stock. The parties agreed to the transfer of all of the Company's assets, including all technologies and product lines, to the Settlement Parties in exchange for the cancellation of all outstanding obligations owed to the Settlement Parties, including past due salaries and loans due to them, the cancellation of the above mentioned shares, and the assumption of certain liabilities of the Company and the lease by the Settlement Parties. The Agreement grants the Company a seven-year license in the transferred technology, pursuant to which the Company shall have the right to sell the products developed for the DynaTrax technology as a dealer to its customers at a dealer price of 25% off list price. The Company will also receive a royalty of 5% of the profits per year for the sale of DynaTrax products.

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TECH LABORATORIES, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

GENERAL

We were incorporated in 1947 as a New Jersey corporation. Our focus has historically been the design, manufacture, and sale of rotary switches. Switches have been a significant part of our revenue for five decades. In 1995, to augment revenues, we sought business in transformers and contract manufacturing. In 1998, we made a shift to new product development. In 1998, we also made our first sales of the IDS product, and in April of 1999, we completed the acquisition of the DynaTraX(TM) switch and technology. DynaTraX(TM) is a high-speed digital switch matrix system, an electronic switching unit for network management and security. This equipment manages video and data transmissions on a network.

On April 22, 2005, the Company completed a financing agreement for $160,000 with Montgomery Equity Partners, Ltd. (the "Investor"). Under the agreement the Company issued a $420,514 secured convertible debenture with a 5% interest rate to the Investor, pursuant to the $160,000 funding and the purchase of a $260,514 note from Cornell Capital. The debenture is convertible into common shares of the Company at a conversion price of $0.002 per share. The Company simultaneously issued to the Investor a Warrant to purchase 100,000 shares of the Company's common stock at an exercise price of $0.001. The Company is committed to filing an SB-2 Registration Statement with the SEC within 30 days of funding. There are penalty provisions for the Company should the filing not become effective within 90 days of filing.

RESULTS OF OPERATIONS

Quarter ending June 30, 2005, compared to Quarter ending June 30, 2004

Sales were $17,166 for the second quarter of 2005 as compared to $13,565 for the similar period of 2004. The increase in sales was due to increased orders for traditional products.

Cost of sales of $4,261 for the second quarter of 2005 decreased by $4,792 compared to the same period of 2004, primarily due to the sales of lower cost products.

Selling, general, and administrative expenses increased by $17,989 compared to the same period of 2004. The increase was primarily due to an increase in professional fees.

Loss from operations of $162,225 increased $9,596 compared to a loss of $152,629 for the prior period as a direct result of increased operating expenses.

Six Months Ending June 30, 2005 Compared to Six Months Ending June 30, 2004

Sales were $91,280 for the six months ended, June 30, 2005, as compared to $65,266 for the similar period of 2004. This was due to increased orders for traditional products.

Cost of sales of $30,557 for the six months ended June 30, 2005 decreased by $8,307 compared to the same period of 2004, primarily due to the sales of lower cost products.

Selling, general, and administrative expenses decreased by $60,006 compared to the same period of 2004 due to the curtailment of marketing activities.

Loss from operations of $189,344 decreased $94,327 compared to a loss of $283,671 for the prior period as a direct result of the decreased selling, general, and administrative expenses.

SIGNIFICANT CHANGES

None

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities utilized cash of $102,220 during the six months ended, June 30, 2005, as compared to $32,586 during the three months ended, June 30, 2004.

As a result of the continuing operating losses and negative cash flow experienced during 2003, 2004 and the first half of 2005, Tech Labs has a tenuous liquidity position. If sales do not improve or alternative financing is not obtained, substantial doubt exists about Tech Labs' ability to continue as a going concern.

SUBSEQUENT EVENTS

On July 11, 2005 (the "Effective Date"), the Company finalized a Settlement Agreement and Release (the "Agreement") with Bernard Ciongoli and Earl Bjorndal (the "Settlement Parties"). In connection with the Agreement, Mr. Ciongoli resigned from his positions as President, Chief Executive Officer, Chief Financial Officer, and member of the Board of Directors of the Company, and agreed to the cancellation of 17,931,806 of his shares of our common stock. Earl Bjorndal resigned from his positions as Vice President and member of the Board of Directors of the Company, and agreed to the cancellation of 8,044,445 of his shares of our common stock. The parties agreed to the transfer of all of the Company's assets, including all technologies and product lines, to the Settlement Parties in exchange for the cancellation of all outstanding obligations owed to the Settlement Parties, including past due salaries and loans due to them, the cancellation of the above mentioned shares, and the assumption of certain liabilities of the Company and the lease by the Settlement Parties. As part of the Agreement, we agreed to transfer of all of the issued and outstanding shares of common stock of Tech Logistics, Inc., our subsidiary to Bernard Ciongoli.

Pursuant to the Agreement, the Settlement Parties granted the Company a seven year license in the transferred technology, pursuant to which the Company shall have the right to sell the products developed from the DynaTraX technology as a dealer to its customers at a dealer price of 25% off list price. The Company will also receive a royalty of 5% of the profits per year for the sale of DynaTrax products. In exchange for all of the Company's assets, the Settlement Parties agreed to the cancellation of all outstanding obligations owed to the Settlement Parties, including past due salaries and loans due to them; the cancellation of the above mentioned shares; and the assumption of certain liabilities of the Company and the lease by the Settlement Parties.

On July 11, 2005, Bernard Ciongoli resigned from his positions as President, Chief Executive Officer, Chief Financial Officer, and member of the Board of Directors of the Company. Also on July 11, 2005, Earl Bjorndal resigned from his positions as Vice President and member of the Board of Directors of the Company. Such resignation was in accordance with the terms of an Agreement and is not due to any disagreement with the Company on any matter relating to the Company's operations, policies or practice. On July 11, 2005, Donna Silverman was appointed as the Company's President, Chief Executive Officer, and Chief Financial Officer and to the Board of Directors of the Company.

We are now seeking a merger candidate for the purpose of a merger. Although we have begun preliminary negotiations with several candidates, we have not entered into any letters of intent to date.

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Our Chief Executive Officer and Chief Financial Officer (collectively the "Certifying Officers") maintain a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed, is accumulated and communicated to management timely.

Under the supervision and with the participation of management, the Certifying Officers evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule [13a-14(c)/15d-14(c)] under the Exchange Act) within 90 days prior to the filing date of this report. Based upon that evaluation, the Certifying Officers concluded that our disclosure controls and procedures are effective in timely alerting them to material information relative to our company required to be disclosed in our periodic filings with the SEC.

(b) Changes in internal controls.

Our Certifying Officers have indicated that there were no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no such control actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On July 31, 2002, Tawfik Khalil and Amneh Khalil filed a lawsuit in the Superior Court of Passaic County, New Jersey, against Glen Venza, a Company part-time employee, Tech Labs, and certain other parties for property damages and personal injuries. The case arose from a car accident involving Mr. Venza and the plaintiffs, which occurred while Mr. Venza was performing certain duties for Tech Labs in a vehicle Mr. Venza borrowed from a third party. Tech Labs has only been named as a party to the personal injuries, and not for property damages, and believes it is covered for the accident by its insurance policy.

On July 30, 2003, a former director and a former employee filed a joint lawsuit in Superior Court of New Jersey, Passaic County, against us for consulting fees and expenses, respectively. In the same lawsuit, W.T. Sports filed a claim for a commission owed on sales due from a licensing agreement with us. The claims by the former director and former employee are for about $10,000 and we deny any liability under these claims and are defending the lawsuit. With regard to W.T. Sports, our agreement has an arbitration in case of dispute and therefore we are attempting to move this case to arbitration. We believe that we have a counterclaim, which is far in excess of the amount they claim we owe for the licensing fees. On November 11, 2004, an arbitration hearing took place. On December 31, 2004, the arbitrator awarded $35,148 to WT Sports. Tech Labs can continue to manufacture the system in the United States.

On June 30, 2004, the law firm of Stursberg & Veith, former counsel to Tech Laboratories, Inc., filed a lawsuit in the United States District Court for the Southern District of New York claiming that the plaintiff delivered certain good and valuable services to Tech laboratories and is owed $161,179.26 plus interest, costs, and disbursements for each cause of action, and other and further relief as the Court may deem necessary. The complaint alleges four causes of action including an unpaid account, stated breach of contract, quantim meruit, and unjust enrichment. We disagree with the amount of the unpaid balance owed to the plaintiff as set forth in our answer.

Item 2. Changes in Securities.

None.

Item 3. Defaults Upon Senior Securities.

Not Applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports of Form 8-K

None

TECH LABORATORIES, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 15, 2005

TECH LABORATORIES, INC.

By: /s/ Donna Silverman

Donna Silverman
Chief Executive Officer, Chief Financial
Officer and President