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TECH LABORATORIES INC  
Form 10QSB  
August 16, 2004

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2004

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

For the transition period from

Commission File No. 000-30172

TECH LABORATORIES, INC.

(Exact name of small business issuer as specified in its charter)

New Jersey  
(State or other jurisdiction of  
incorporation or organization)

22-1436279  
(I.R.S. Employer  
Identification No.)

955 Belmont Avenue, North Haledon, NJ 07508  
(Address of Principal Executive Offices)

(973) 427-5333  
(Issuer's telephone number)

(Former name, address and fiscal year, if changed since last report)

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

Yes  No

State the number of shares outstanding of each of the issuer's classes of common  
equity, as of August 13, 2004: 63,954,001 shares of common stock outstanding,  
\$0.01 par value.

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### TECH LABORATORIES, INC.

June 30, 2004 and 2003  
Balance Sheet

(unaudited)

#### ASSETS

	2004	2003
	----	----
Current Assets:		
Cash	\$ 106,258	\$ 33,113
Marketable Securities	40,000	40,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$25,000	10,381	77,438
Inventories	1,429,486	1,636,787
Prepaid Expenses	6,303	6,303
	-----	-----
Total Current Assets	\$ 1,592,428	\$ 1,793,641
	-----	-----
Property, Plant, and Equipment, at Cost		
Leasehold Improvements	2,247	2,247
Machinery, Equipment, and Instruments	608,087	600,070
Furniture and Fixtures	109,183	106,453
	-----	-----
Total Property, Plant, and Equipment	719,517	708,770
Less: Accumulated Depreciation & Amortization	(437,683)	(418,135)
	-----	-----
Net Property, Plant, and Equipment	\$ 281,834	\$ 290,635
	-----	-----

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Other Assets	\$ 12,059	\$ 12,059
	-----	-----
Total Assets	\$ 1,886,321	\$ 2,096,335
	=====	=====

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

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TECH LABORATORIES, INC.  
June 30, 2004 and 2003  
Balance Sheet  
(unaudited)

LIABILITIES AND STOCKHOLDERS' INVESTMENTS

	2004	2003
	----	----
Current Liabilities:		
Convertible Notes	\$ 1,220,996	\$ 1,192,291
Current Portion of Long-Term Debt	29,692	30,973
Short-Term Loans Payable	50,449	53,231
Accounts Payable and Accrued Expenses	154,904	132,181
Other Liabilities	62,648	31,033
	-----	-----
Total Current Liabilities	\$ 1,518,689	\$ 1,439,709
	-----	-----
Stockholders' Investment:		
Common Stock, \$.01 Par Value; 25,000,000 Shares Authorized: 5,143,530 shares outstanding in 2003; 250,000,000 Shares Authorized: 50,149,889 shares outstanding in 2004	\$ 523,795	\$ 49,848
Less: 15,191 Shares Reacquired and Held in Treasury	(113)	(113)
	-----	-----
	\$ 523,682	\$ 49,735
	-----	-----
Capital Contributed in Excess of Par Value	\$ 4,829,320	\$ 4,480,381
Retained Earnings/(Accum. Deficit)	(4,985,370)	(3,873,490)
	-----	-----
	\$ (156,050)	\$ 606,891
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 1,886,321	\$ 2,096,335
	=====	=====

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

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TECH LABORATORIES, INC.  
Statement of Operations  
June 30, 2004 and 2003  
(unaudited)

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2003	2004	2003	2004
Sales	\$ 75,688	\$ 13,565	\$ 170,015	\$ 13,565
Costs and Expenses:				
Cost of Sales	55,290	9,053	113,455	9,053
Selling, General, and Administrative Expense	13,538	160,563	76,240	160,563
	68,828	169,616	189,695	169,616
Income/(Loss) from Operations	\$ 6,860	\$ (156,051)	(19,680)	(156,051)
Other Income (Expenses):				
Interest Income	73	94	192	94
Interest Expense	\$ (18,425)	\$ (19,000)	\$ (36,850)	\$ (19,000)
	\$ (18,352)	\$ (18,906)	\$ (36,658)	\$ (18,906)
Income/(Loss) Before Income Taxes	\$ (11,492)	\$ (174,957)	\$ (56,338)	\$ (174,957)
Provision for Income Taxes	0	0	0	0
Net Income/(Loss)	\$ (11,492)	\$ (174,957)	\$ (56,338)	\$ (174,957)
Retained Earnings/(Accum. Deficit), Beg	(3,861,998)	(4,810,413)	(3,817,152)	(4,810,413)
Retained Earnings/(Accum. Deficit), End	(3,873,490)	(4,985,370)	(3,873,490)	(4,985,370)
Earnings Per Share	\$ 0	\$ (0.01)	\$ (0.01)	\$ (0.01)

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

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TECH LABORATORIES, INC.  
Statements of Cash Flow  
For the Six Months Ended  
June 30, 2003 and 2004

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(unaudited)

	2003	2004
Cash Flow From (For) Operating Activities:		
Net Income/(Loss) From Operations	\$ (56,338)	\$ (335,734)
Add/(Deduct) Items Not Affecting Cash:		
Depreciation/Amortization	15,034	9,774
Accrued expenses and other non-cash expense	--	312,102
Changes in Operating Assets and Liabilities		
Marketable Securities	--	--
Accounts Receivable	(71,294)	726
Inventories	98,846	(179,709)
Accounts Payable	(9,734)	(20,096)
Other Assets/Liabilities	25,428	3,740
Net Cash Flow From (For) Operating Activities	1,942	(209,197)
Cash Flows From (For) Investing Activities		
Addition of Machinery and Equipment	2,828	1,610
Net Cash Flow From (For) Investing Activities:	2,828	1,610
Cash Flow From (For) Financing Activities		
Acquisition/(Repayment) of Short/Long Term Debt	-0-	175,000
Issuance of Common Stock	-0-	-0-
Net Cash Flow From (For) Financing Activities	-0-	175,000
Net Increase/(Decrease) in Cash	\$ 4,770	\$ ( 32,587)
Cash Balance Beginning of Year	28,343	138,845
Cash Balance End of Second Quarter	\$ 33,113	\$ 106,258

Significant Non-Cash Financing Activities:

o As of June 30, 2004, \$845,919 of Convertible Long-Term Debt and accrued interest was converted into common stock on a cumulative basis.

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

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TECH LABORATORIES, INC.  
Notes to Financial Statements  
For the Quarter Ended June 30, 2004  
(unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH - Includes Tech Labs' checking account at Hudson United Bank plus a

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Demand Money Market Account at Prudential Securities and Bear Stearns.

REVENUE RECOGNITION - Tech Labs recognizes all revenues when orders are shipped.

ACCOUNTS RECEIVABLE - Tech Labs recognizes sales when orders are shipped to customers. The allowance for bad debts is accrued based on a review of customer accounts receivables aging.

INVENTORIES - Inventories are valued at cost or market, whichever is lower. The FIFO cost method is generally used to determine the cost of the inventories. At December 31, 2002 and 2003, physical inventories were taken and tested. No physical inventory was taken at March 31, 2004 and June 30, 2004.

PROPERTY AND DEPRECIATION - Additions to property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Assets -----	Estimated Useful Lives -----
Machinery	5 to 7 years
Furniture & Fixtures	5 to 7 years

Maintenance and repairs are charged to expense as incurred. The cost of betterments is capitalized and depreciated at appropriate rates. Upon retirement or other disposition of property items, cost, and accumulated depreciations are removed from the accounts and any gain or loss is reflected in the statement of income.

INCOME TAXES - Income tax expense is based on reported income and deferred tax credit is provided for temporary differences between book and taxable income.

MARKETABLE SECURITIES - The marketable securities are a time deposit at Hudson United Bank. The amount of this deposit was \$40,000 as of December 31, 2003, March 31, 2004 and June 30, 2004.

### (2) INVENTORIES:

Inventories were as follows:

	Dec.1, 2003	Three Months Ended March 31, 2004	Six Months Ended June 30, 2004
	-----	-----	-----
Raw Materials & Finished Components	\$ 463,824	\$ 445,655	\$ 430,735
Work in Process & Finished Goods	\$ 705,953	\$ 881,130	998,751
	-----	-----	-----
	\$1,249,777	\$ 1,326,785	\$ 1,429,486
	-----	-----	-----

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### (3) INCOME/(LOSS) PER SHARE:

Pursuant to the provisions of SFAS No. 128, "Earnings Per Share," the Net Income/(Loss) per share was calculated on the weighted average number of shares outstanding during the year ended December 31, 2003, and for the first quarter of 2004 and the six months ended June 30, 2004.

Fully Diluted Earnings per share would be based on the assumed conversion

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of all convertible notes. However, these notes are anti-dilutive and have been excluded. The assumed conversion of all outstanding options and warrants were also excluded due to anti-dilution.

	2003 -----	Three Months Ended March 15, 2004 -----	Six Months ended June 30, 2004 -----
Net Income for the Computation of Basic EPS	(832,483) =====	(160,777) =====	(335,734) =====
Shares for Computation of Basic EPS	9,368,992 =====	9,520,680 =====	34,092,160 =====

#### (4) INCOME TAXES:

At December 31, 2003, the balance of operating loss carryforward was \$5,224,216, and at March 31, 2004, the operating loss carryforward was \$5,384,993 and at June 30, 2004, the operating loss carry forward was \$5,720,727 which can be utilized to offset future taxable income. These operating loss carry-forwards begin to expire in 2014.

#### (5) CURRENT PORTION OF LONG-TERM DEBT:

Loans payable to banks were as follows for the years indicated:

YEAR ENDED -----	PAYEE -----	INTEREST RATE -----	CURRENT AMOUNT -----	NON-CURRENT AMOUNT -----
2003	Hudson United Bank	Prime +1.5%	\$30,392	
March 15, 2004	Hudson United Bank	Prime +1.5%	\$30,044	
June 30, 2004	Hudson United Bank	Prime +1.5%	\$29,692	

This loan was negotiated in 1995 at an original amount of \$35,000 and fluctuated to a maximum of \$35,000.

Marketable Securities are pledged as collateral on the above loans.

#### (6) SHORT-TERM LOANS PAYABLE:

Demand loans payable include loans from third parties. The outstanding loan balances due as of December 31, 2003 was \$55,449 and \$50,450 as of March 31, 2004, and \$50,449 as of June 30, 2004, which includes accrued interest for all years. The annual interest rate for these loans ranges between six (6%) percent and ten (10%) percent. In October of 1999, three short-term loans for a total of \$200,000 at ten percent (10%) annual interest were completed. Certain contractual revenues were pledged to secure these loans. As of December 31, 2000, \$150,000 of such loans were repaid. The remaining \$50,000 is outstanding and was due by December 31, 2002, and is now in default.

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#### (7) COMMON STOCK:

In 1999, Tech Labs filed a registration statement on Form SB-2 with the

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Securities and Exchange Commission. The registration statement was declared effective on February 3, 2000. The offering was completed on May 3, 2000 for total proceeds of \$2,273,723.

### (8) COMMITMENTS AND CONTINGENCIES:

In 1997 Tech Labs entered into an exclusive agreement with Elektronik Apparatebau (EAG), FUA Safety Equipment and Double T Sports LTD. whereby it received exclusive rights to manufacture and market IDS products until September 30, 2007 in the US, Canada, and South America. Gross profits will be calculated according to GAAP and distributed quarterly 70% to Tech Labs and 30% to FUA until March 2001. Thereafter, until 2007 quarterly distribution will be based on pretax profits in excess of 16% being shared 70% to Tech Labs and 30% to FUA. In addition, FUA will receive a 5% royalty based on the cost of any IDS products Tech Labs manufactures and sells. Since 1997, sales and distributions to FUA have been \$1.4 million and \$198,200. \$8,000 of distributions are still owed.

### (9) LONG-TERM CONVERTIBLE DEBT:

On October 13, 2000, Tech Labs completed a \$1.5 million dollar 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 March 31, 2004, \$685,546 of principal on the 6.5% convertible notes has been converted into shares of Tech Labs' common stock.

(10) On January 11, 2002, Tech Labs entered into a conversion and redemption agreement concerning the Long-term Debt referenced in Note (9). 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 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. In October 2003 a cure was successfully negotiated and is further described in the Company's 8-K filed in October 2003.

### (11) GOING CONCERN:

As a result of operating losses and negative cash flows experienced during 2001, 2002 and 2003, Tech Labs has a tenuous liquidity position. If sales do not improve or alternate financing is not obtained, substantial doubt exists about Tech Labs' ability to continue as a going concern.

### (12) PRIOR PERIOD ADJUSTMENT:

Over the course of 2001, Tech Labs issued and distributed 170,000 shares



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of common stock to Mr. Barry Bendett pursuant to the terms of a consulting agreement the Company entered into with Mr. Bendett on November 13, 2002. Valuing these shares at their market value on their respective dates of issuance and distribution. Tech Labs should have expensed \$168,950. This compensation was never expensed. This error is corrected as follows:

FULL YEAR 2001  
-----

Closing Balance retained Earnings as reported	\$ (2,406,542)
Adjustment referenced above	\$ (168,950)
	-----
Revised December 31, 2001, Closing Balance of Retained Earnings	\$ (2,575,492)
Net Loss - 2002	
	\$ (1,241,660)
	-----
December 31, 2002, Retained Earnings after prior period Adjustment	\$ (3,817,152)
	-----

### (13) DISCLOSURE OF STOCK BASED COMPENSATION:

Beginning in 2002, Tech Labs adopted the expense provision of the statement of financial accounting standards No.123 and Accounting Principles Board ("APB") opinion No.25. Accordingly all compensations to employees or outside Consultants in the form of common stock awards have been expensed.

### Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations

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The information contained in this section should be read in conjunction with the Consolidated Financial Statements and Notes thereto appearing in this report Form 10-QSB and the Company's Annual Report for the year ended December 31, 2003.

Quarter ending June 30, 2004, compared to Quarter ending June 30, 2003.  
-----

Sales were \$13,565 for the second quarter of 2004 as compared to \$75,688 for the similar period of 2003. This decrease was due to the continuing effects of the economic downturn. The company is seeking long term contracts with major computer companies. The company believes these contracts will provide future growth in its major product, Dyntrax.

Cost of sales of \$9,053 for the second quarter of 2004 has been decreased by \$46,297 compared to the same period of 2003, primarily due to the sales decline.

Selling, administrative, and general expenses increased by \$147,025

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compared to the same period of 2003 due to increases in expenses associated with the company's attempts to raise long term capital.

Loss from operations of (\$174,957) increased (\$163,465) compared to a loss of (\$11,492) for the prior period as a direct result of sales declines and expenses incurred to explore long term financing prospects.

Six months ending June 30, 2004, compared to year ending December 31, 2003.  
-----

### SIGNIFICANT CHANGES

During the first half of 2004, the Company is still suffering from the economic downturn.

Cash Flow for the first half of 2004 was (\$32,587) as a result of the reductions in sales caused by the downturn in the telecommunications industry.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities utilized cash of (\$32,587) during the six months ended June 30, 2004, as compared to generating cash of \$4,770 during the six months ended June 30, 2003.

As a result of operating losses and negative cash flow experienced during 2003, 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. The company has signed a stand-by equity distribution agreement with Cornell Capital Partners in May 2004, which could potentially provide approximately \$8.5 million of future equity financing. The company filed an SB-2 registration Statement in August 2004 registering the shares included in this agreement.

### 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 Officer has 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 his evaluation, and there were no such control actions with regard to significant deficiencies and material weaknesses.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

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We are involved in a lawsuit arising from a letter of intent relating to a small potential transaction we did not complete because we believed there were misrepresentations made to us. A former employee of Tech Labs filed the suit against us in 1995. We believe that the outcome is likely to be favorable, but that our maximum liability if we do not prevail would be \$30,000. The suit was transferred to arbitration, but the arbitrator never issued a ruling because the plaintiff never paid the arbitration fee.

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.

A lawsuit was filed against a subsidiary of Tech Labs, Tech Labs Community Networks, Inc. ("TLCN"), in the Superior Court of New Jersey, Passaic County, on February 20, 2003, claiming that the plaintiff delivered certain goods and services to TLCN and is owed \$23,856, plus interest and attorney fees. We disagree that any goods or services were contracted to be provided by the plaintiff, and believe we will prevail in this litigation.

On or about November 1, 2003, we were served with a lawsuit filed by W. T. Sports Limited, Salvatore Griscifi, a former Director, and Edward Branca, a former employee. We have filed a response and counter-claim. The first claim involving Salvatore Griscifi and Mr. Branca has been settled. The second claim is in the process of being settled. The last claim with W. T. Sports Limited is going to arbitration, which is mandatory pursuant to a written agreement entered into between the parties in 1987. We believe W. T. Sports Limited will owe us in excess of the plaintiff's claim.

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, quantum meruit, and unjust enrichment. To date we have not been served with this lawsuit. We disagree with the amount of the unpaid balance owed to the plaintiff and are attempting to negotiate a settlement of the amount owed.

Item 2. Changes in Securities.

None

Item 3. Defaults Upon Senior Securities.

None

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

No matter was submitted during the quarter ending June 30, 2004, covered by this report to a vote of the Company's shareholders, through the solicitation of proxies or otherwise.

Item 5. Other Information.

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None

Item 6. Exhibits and Reports of Form 8-K.

(a) Exhibits

31.1 Certification pursuant to Section 302 of Sarbanes Oxley Act of 2002

32.1 Certification pursuant to Section 906 of Sarbanes Oxley Act of 2002

(b) Reports of Form 8-K

None

SIGNATURES

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

TECH LABORATORIES, INC.

Date: August 13, 2004

/s/ Bernard M. Ciongoli

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Bernard M. Ciongoli  
Chief Executive Officer,  
Chief Financial Officer