TECH LABORATORIES INC
Form 10QSB
November 19, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 205249

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 September 30, 2004.

[_] 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 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 November 19, 2004, there were 72,047,257 shares outstanding.

INDEX

PART I.

FINANCIAL INFORMATION

Item 1. Financial Statements.

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

ASSETS	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003	2004
Current Assets:		
Cash	$ 45,793	$ 43,470
Accounts Receivable, Net of Allowance for Doubtful Accounts of $25,000	16,415	104,293
Inventories	1,619,651	1,392,863
Prepaid Expenses	6,303	6,303
Total Current Assets	$1,688,162	$1,546,929
Property, Plant, and Equipment, at Cost		
Leasehold Improvements	2,247	2,247
Machinery, Equipment, and Instruments	600,070	607,987
Furniture and Fixtures	109,317	109,378

Total Property, Plant, and Equipment	711,634	719,612
Less: Accumulated Depreciation & Amortization	(423,022)	(440,223)
Net Property, Plant, and Equipment .	$ 288,612	$ 279,389
Other Assets	$ 12,059	$ 14,420
Total Assets	$1,988,833	$1,840,738

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

- 1 -

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

LIABILITIES AND STOCKHOLDERS' INVESTMENTS

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003	2004
Current Liabilities:		
Defaulted Convertible Notes	$ 1,207,106	$ 1,104154
Current Portion of Long-Term Debt	30,741	29,306
Short-Term Loans Payable	53,427	50,449
Accounts Payable	105,480	104,139
Other Liabilities	177,721	13,941
Total Current Liabilities	$ 1,574,475	$ 1,301,989
Stockholders' Investment:		
Common Stock, $.01 Par Value;		
25,000,000 Shares Authorized;		
5,143,530 shares outstanding in 2003 250,000,000	$ 49,848	$ 699,380
shares authorized; 67,522,832 shares outstanding in 2004	$ 49,848	$ 699,380
Less: 15,191 Shares Reacquired and		
Held in Treasury	(113)	(113)
	$ 49,735	$ 699,267
Capital Contributed in Excess of Par Value	$ 4,480,381	$ 4,865,702
Retained Earnings/(Accum. Deficit)	(4,115,758)	(5,026,220)

	414,358	538,749
Total Liabilities and Stockholders' Equity	$ 1,988,833	$ 1,840,738

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

- 2 -

TECH LABORATORIES, INC.
Statement of Operations For The
Third Quarter and Nine Months Ended
September 30, 2003 and 2004
(unaudited)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004	2003	FOR THE NIN MONTHS ENDE SEPTEMBER 3 2004	
Sales	$ 164,200	$ 32,619	$ 229,466	$
Costs and Expenses:				
Cost of Sales	80,711	28,338	119,575	
Selling, General, and Administrative Expense	116,684	228,049	430,179	
	197,395	256,387	549,754	
Income/(Loss) from Operations	(33,195)	$ (223,768)	$ (320,288)	$
Other Income (Expenses):				
Interest Income	10	--	104	
Interest Expense	(7665)	(18,500)	(56,400)	
	(7655)	(18,500)	(56,296)	
Income/(Loss) Before Income Taxes	$ (40,850)	$ (242,268)	$ (376,584)	$
Provision for Income Taxes	--	--	--	
Net Income/(Loss)	$ (40,850)	$ (242,268)	$ (376,584)	$
Retained Earnings/(Accum. Deficit), Beg	(4,985,370)	(3,873,490)	(4,649,636)	(3
Retained Earnings/(Accum. Deficit), End	(5,026,220)	$(4,115,758)	(5,026,220)	$(4
Earnings Per Share	$-0-	$ (0.05)	$ (0.01)	$

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

TECH LABORATORIES, INC.

Statement of Cash Flow For The
Nine Months Ended
September 30, 2003 and 2004
(unaudited)

	2003	2004
Cash Flow From (For) Operating Activities:		
Net Income/(Loss) From Operations	$(298,606)	$(376,584)
Add/(Deduct) Items Not Affecting Cash:		
Depreciation accrued expenses and other non cash expense	19,921	384,231
Changes in Operating Assets and Liabilities		
Accounts Receivable	(10,271)	(93,186)
Inventories	115,982	(143,096)
Accounts Payable	(36,435)	(70,861)
Other Assets/Liabilities	186,631	(12,394)
Net Cash Flow For Operating Activities	(22,574)	(311,890)
Cash Flows From (For) Investing Activities		
Addition of Machinery and Equipment	(36)	1,515
Net Cash Flow From Investing Activities	(36)	1,515
Cash Flow From (For) Financing Activities:		
Acquisition/(Payment) 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	(22,550)	(135,375)
Cash Balance Beginning of Year	68,343	178,845
Cash Balance End of Third Quarter	$ 45,793	$ 43,470

SIGNIFICANT NON-CASH FINANCING ACTIVITIES:

As of September 30, 2004, an aggregate of $981,761 of Convertible Long-Term Debt was converted into Common Stock.

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

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH - Includes Tech Labs' checking account at Hudson United Bank plus a Demand Money Market Account at Prudential Securities and Bear Stearns and a CD at Hudson United Bank serving as collateral for the current portion long term debt.

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 June 30, 2004, and September 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.

USE OF ESTIMATES

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the associated expenses during the reporting period. Actual results could differ from those estimates.

(2) INVENTORIES:

Inventories were as follows:

	Dec.31, 2003	Six Months Ended June 30, 2004	Nine Months Ended September, 30 2004
Raw Materials & Finished Components	$ 463,824	$ 430,735	$ 352,041
Work in Process & Finished Goods ..	$ 705,953	998,751	$1,040,822
	$1,249,777	$1,429,486	$1,392,863

(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, for the nine months ended September 30, 2004.

Fully Diluted Earnings per share would be based on the assumed conversion 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	Nine Months ended Sept. 30, 2004
Net Income for the Computation of Basic EPS	(832,483)	(376,584)
Shares for Computation of Basic EPS	9,368,992	42,450,204

(4) INCOME TAXES:

At December 31, 2003, the balance of operating loss carryforward was $5,224,216 and at September 30,2004 the operating loss carryforward was $5,591,587 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	NO
2003	Hudson United Bank	Prime +1.5%	$33,347	
March 15, 2004	Hudson United Bank	Prime +1.5%	$31,713	
June 30, 2004	Hudson United Bank	Prime +1.5%	$30,741	

September 30, 2004 Hudson United Bank Prime +1.5% $29,306 This loan was negotiated in 1995 at an original amount of $35,000 and fluctuated to a maximum of $35,000.

A Time Deposit CD is 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 $50,449 as of September 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.

- 6 -

(7) COMMON STOCK:

In 1999, Tech Labs filed a registration statement on Form SB-2 with the 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 and subject to arbitration.

(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, 2003, $373,730 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. The Company has negotiated a cure for this default which is described in the Company's Form 8-K filed in October, 2003. In May, 2004, Cornell Capital acquired this convertible debt and signed a stand by equity financing agreement with Tech Labs, Inc. Financing availability is contingent on registration of the shares underlying this agreement. An SB-2 to register these shares is in process.

(11) GOING CONCERN:

As a result of operating losses and negative cash flows experienced during 2001, 2002, 2003, and nine months ended September 30, 2004 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 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 financial accounting standards No.123 and Accounting Principles Board ("APB") opinion No. 25. Accordingly, all compensation to employees or outside consultants in the form of common stocks awards have been expensed.

(14) NEW AUTHORITATIVE ACCOUNTING PRONOUNCEMENTS:

The Company does not anticipate the adoption of recently issued accounting pronouncements to have a significant effect on the Company's results of operations, financial position or cash flows.

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

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, 2002.

Quarter ending Sept. 30, 2004, compared to Quarter ending Sept. 30, 2003.

Sales were $164,200 for the third quarter of 2004 as compared to $32,619 for the similar period of 2003. This increase was due to the sale of IDS Sensors to BAE Systems. The Company continues to seek long term contracts with major computer companies. The company believes these contracts will provide future growth for its major Product DYNTRAX. Cost of sales of $80,711 for the third quarter of 2004 has increased by $52,373 compared to the same period of 2003, primarily due to the BAE sale.

Selling, administrative, and general expenses decreased by $111,365 compared to the same period of 2003 due to decreases in selling expenses, and expenses associated with the company's attempts to raise long term capital due to the successful completion of the stand by equity agreement.

Net Loss from operations of $(40,850) decreased $201,418 compared to a loss of ($242,268) for the prior period as a direct result of the BAE sale and declines in expenses incurred to explore long term financing prospects.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities utilized a cash flow of ($135,375) during the nine months ended Sept. 30, 2004, as compared to a cash flow of ($22,550) during the nine months ended Sept. 30, 2003.

As a result of operating losses and negative cash flow experienced during 2001, 2002 and 2003, and continuing in 2004 Tech Labs has a tenuous liquidity position. If sales do not improve or the new alternative financing is not available in the near future, 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 is in the process of preparing an SB-2 registration Statement registering the shares included in this agreement.

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

Cash Flow for the first nine months of 2004 was ($135,375) as a result of the downturn in the telcommunications industry plus the cost of seeking alternate financing.

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

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 the Company, 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 July 30, 2003, a former director an 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 under 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 this 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. The decision by the arbitrator will known by December 10, 2004.

On June 30, 2004, the law firm of Stusberg & 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. We disagree with the amount of the unpaid balance owed to the plaintiff. We are in the process of filing a counterclaim for overcharging and certain wrongdoing by plaintiff.

Item 2. Changes in Securities.

None

Item 3. Defaults Upon Senior Securities.

None

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

None

Item 5. Other Information.

None

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

(a) Exhibits

99.1 Certification of the Chief Executive and Chief Financial Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports of Form 8-K

None

SIGNATURES

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

TECH LABORATORIES, INC.

Date: November 19, 2003

/s/ Bernard M. Ciongoli

Bernard M. Ciongoli
Chief Executive Officer,
Principal Financial Officer and
Chief Accounting Officer)