

Edgar Filing: TECH LABORATORIES INC - Form 10QSB/A

TECH LABORATORIES INC  
Form 10QSB/A  
February 16, 2005

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

FORM 10-QSB/A

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  
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 as specified 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)

(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 Securities 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: 68,064,235 shares of common stock  
outstanding, \$0.01 par value

TECH LABORATORIES, INC.

FORM 10-QSB

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### TECH LABORATORIES, INC. BALANCE SHEETS

#### ASSETS

	(Unaudited) June 30, 2004	(Audited) December 31, 2003
	-----	-----
Current Assets:		
Cash	\$ 132,722	\$ 165,308
Accounts receivable, net of allowance for for doubtful accounts of \$1,000	9,995	10,107
Inventories	1,428,872	1,249,777
Prepaid expenses	1,075	1,074
	-----	-----
Total current assets	1,572,664	1,426,266
	-----	-----
Property, plant, and equipment, at cost:		
Leasehold improvements	2,247	2,247
Machinery, equipment, and instruments	608,087	607,987
Furniture and fixtures	109,183	110,893
	-----	-----
Total property, plant, and equipment	719,517	721,127
Less: Accumulated depreciation and amortization	(437,683)	(427,909)
	-----	-----

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Net property, plant, and equipment	\$ 281,834	\$ 293,218
	-----	-----
Other assets	\$ 12,063	\$ 12,063
	-----	-----
Total assets	\$ 1,866,561	\$ 1,731,547
	=====	=====

See notes to financial statements.

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TECH LABORATORIES, INC.  
BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)

	(Unaudited) June 30, 2004	(Audited) December 31, 2003
	-----	-----
Current Liabilities:		
Convertible notes	\$ 255,190	\$ 1,480,785
Note payable to bank	33,744	34,444
Accounts payable and accrued expenses	195,333	300,712
Other liabilities	92,296	3,271
	-----	-----
Total current liabilities	576,563	1,819,212
	-----	-----
Stockholders' equity (deficiency)		
Common stock, \$.01 par value; 250,000,000 shares authorized: 18,045,376 shares outstanding in 2003; 58,075,178 shares outstanding in 2004	580,752	175,143
Less: 15,191 shares reacquired and held in treasury	(113)	(113)
	-----	-----
	580,639	175,030
Additional paid-in capital	6,124,747	4,480,381
(Accumulated deficit)	(5,415,388)	(4,743,076)
	-----	-----
	1,289,998	(87,665)
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 1,866,561	\$ 1,731,547
	=====	=====

See notes to financial statements.

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TECH LABORATORIES, INC.  
STATEMENTS OF OPERATIONS  
(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2004	2003	2004	2003
Sales	\$ 13,565	\$ 75,688	\$ 65,266	\$ 310,073
Costs and expenses:				
Cost of sales	9,053	55,290	38,864	183,864
Selling, general, and administrative expense	157,141	13,538	310,073	126,210
	166,194	68,828	348,937	310,073
Income (loss) from Operations	(152,629)	6,860	(283,671)	(27,210)
Other income (expenses):				
Interest income	94	73	94	167
Interest expense	(19,000)	(18,425)	(48,735)	(37,000)
Financing fee	(340,000)	--	(340,000)	--
	(358,906)	(18,352)	(388,641)	(36,833)
Income (loss) before income taxes	(511,535)	(11,492)	(672,312)	(64,043)
Provision for income taxes	--	--	--	--
Net income (loss)	(511,535)	(11,492)	(672,312)	(64,043)
(Accumulated deficit), Beg Qtr	(4,903,853)	(3,861,998)	(4,743,076)	(3,861,998)
(Accumulated deficit), End Qtr	(5,415,388)	(3,873,490)	(5,415,388)	(3,861,998)
Net loss per share, basic and diluted	\$ (0.01)	\$ --	\$ (0.02)	\$ --
Weighted average number of common shares and equivalents, basic and diluted	47,233,919	5,522,416	37,173,640	5,522,416

See notes to financial statements.

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

	For the Six Months Ended June 30,	
	2004	2003
Cash flow from (for) operating activities:		
Net income (loss) from operations	\$ (672,312)	\$ (56,338)
Add (deduct) items not affecting cash:		
Depreciation/amortization	9,774	15,034
Expenses paid with the issuance of stock	620,278	--
Changes in operating assets and liabilities		
Accounts receivable	112	(71,294)
Inventories	(179,095)	98,846
Accounts payable and accrued expenses	(76,277)	(9,734)
Other assets/liabilities	89,024	25,428
	(208,496)	1,942
Net cash flow from (for) operating activities		
Cash flows from (for) investing activities		
Sale of machinery and equipment	1,610	2,828
	1,610	2,828
Net cash flow from (for) investing activities		
Cash flows from (for) financing activities:		
Proceeds of convertible note	175,000	--
Payment of note payable to bank	(700)	--
	174,300	--
Net cash flow from (for) financing activities		
Net increase (decrease) in cash	(32,586)	4,770
Cash balance beginning of year	165,308	68,343
	\$ 132,722	\$ 73,113
Cash balance - end of second quarter	\$ 132,722	\$ 73,113
	=====	=====
Supplemental schedule of noncash investing and financing activities:		
Conversion of debt to common stock	\$ 1,437,995	\$ --

See notes to financial statements.

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TECH LABORATORIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED JUNE 30, 2004  
(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 and six months ended, June 30, 2004 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/A for the year ended, December 31, 2003, 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.

On January 11, 2002, Tech Labs entered into a conversion and redemption agreement concerning the 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, to have been declared effective on or before June 29, 2002, covered the shares underlying the 6.5% convertible notes. 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 reoccurred 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. In October 2003 a cure was successfully negotiated and is further described in the Company's 8-K filed in October 2003. In May 2004, Cornell Capital acquired 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.

TECH LABORATORIES, INC.  
MANAGEMENTS DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2. Management's Discussion and Analysis of Financial Condition 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 the 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  
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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 \$46,237 compared to the same period of 2003, primarily due to the sales decline.

Selling, general, and administrative expenses increased by \$143,603 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 (\$511,535) increased (\$500,043) compared to a loss of (\$11,492) for the prior period as a direct result of sale declines, expenses incurred to explore long-term financing prospects, including the \$340,000 commitment fee paid to Cornell Capital Partners, related to a standby equity distribution agreement.

Six months ending June 30, 2004, compared to six months  
-----

ending June 30, 2003  
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Sales were \$65,266 for the six months ended, June 30, 2004 as compared to \$170,015 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 \$38,864 for the six months ended June 30, 2004 has been decreased by \$74,591 compared to the same period of 2003, primarily due to the sales decline.

Selling, general, and administrative expenses increased by \$233,833 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 (\$672,312) increased (\$615,974) compared to a loss of (\$56,338) for the prior period as a direct result of sale declines, expenses incurred to explore long-term financing prospects, including the

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\$340,000 commitment fee paid to Cornell Capital Partners, related to a standby equity distribution agreement.

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### TECH LABORATORIES, INC. MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### SIGNIFICANT CHANGES

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

Cash used in operations for the first half of 2004 was \$32,586 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 \$32,586 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 the previous few years, 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 is in the process of filing an SB-2 registration statement to register the shares included in this agreement.

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### TECH LABORATORIES, INC.

#### 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.



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(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 their evaluation, and there were no such control actions with regard to significant deficiencies and material weaknesses.

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TECH LABORATORIES, INC.

### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings.

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 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 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 to the plaintiff, and we 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

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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.

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TECH LABORATORIES, INC.

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.

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.

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 has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TECH LABORATORIES, INC.

Date: February 10, 2005

By: /s/ Bernard M. Ciongoli

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Bernard M. Ciongoli  
Chief Executive Officer  
Chief Financial Officer

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