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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 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 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)

(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 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 75,558,689 shares outstanding.

TECH LABORATORIES, INC.

FORM 10-QSB

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TECH LABORATORIES, INC. BALANCE SHEETS

	(Unaudited) September 30, 2004	(Audited) December 31, 2003
ASSETS		
Current Assets:		
Cash	\$ 39,210	\$ 165,308
Accounts receivable, net of allowance for for doubtful accounts of \$1,000	104,811	10,107
Inventories	1,456,122	1,249,777
Prepaid expenses	720	1,074
	-----	-----
Total current assets	1,600,863	1,426,266
	-----	-----
Property, plant, and equipment, at cost:		
Leasehold improvements	2,247	2,247
Machinery, equipment, and instruments	607,987	607,987
Furniture and fixtures	110,893	110,893
	-----	-----
Total property, plant, and equipment	721,127	721,127
Less: Accumulated depreciation and amortization	(442,570)	(427,909)
	-----	-----
Net property, plant, and equipment	\$ 278,557	\$ 293,218
	-----	-----

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Other assets	\$ 14,420	\$ 12,063
	-----	-----
Total assets	\$ 1,893,840	\$ 1,731,547
	=====	=====

See notes to financial statements.

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TECH LABORATORIES, INC.
BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)

	(Unaudited) September 30, 2004	(Audited) December 31 2003
	-----	-----
Current Liabilities:		
Defaulted convertible notes	\$ 173,348	\$ 1,480,785
Note payable to bank	34,444	34,444
Accounts payable	291,326	300,712
Other liabilities	7,621	3,271
	-----	-----
Total current liabilities	506,739	1,819,212
	-----	-----
Stockholders' equity (deficiency):		
Common stock, \$.01 par value; 250,000,000 shares authorized: 18,045,376 shares outstanding in 2003; 75,558,689 shares outstanding in 2004	755,587	175,143
Less: 15,191 shares reacquired and held in treasury	(113)	(113)
	-----	-----
	755,474	175,030
Additional paid-in capital	6,161,129	4,480,381
(Accumulated deficit)	(5,529,502)	(4,743,076)
	-----	-----
	1,387,101	(87,665)
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 1,893,840	\$ 1,731,547
	=====	=====

See notes to financial statements.

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TECH LABORATORIES, INC.
STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended September 30, -----		For the Nine Month September -----
	2004	2003	2004
	-----	-----	-----
Sales	\$ 167,872	\$ 32,619	\$ 233,138
	-----	-----	-----
Costs and expenses:			
Cost of sales	92,179	28,338	131,043
Selling, general, and administrative expense	181,065	228,049	491,138
	-----	-----	-----
	273,244	256,387	622,181
	-----	-----	-----
Income (loss) from Operations	(105,372)	(223,768)	(389,043)
Other income (expenses):			
Interest income	10	--	104
Interest expense	(8,752)	(18,500)	(57,487)
Financing fee	--	--	(340,000)
	-----	-----	-----
	(8,742)	(18,500)	(397,383)
Income (loss) before income taxes	(114,114)	(242,268)	(786,426)
Provision for income taxes	--	--	--
	-----	-----	-----
Net income (loss)	(114,114)	(242,268)	(786,426)
(Accumulated deficit), Beg Qtr	(5,415,388)	(3,873,490)	(4,743,076)
	-----	-----	-----
(Accumulated deficit), End Qtr	(5,529,502)	(4,115,758)	(5,529,502)
	-----	-----	-----
Net loss per share, basic and diluted	\$ --	\$ (0.04)	\$ (0.02)
	=====	=====	=====
Weighted average number of common shares and equivalents, basic and diluted	65,324,970	5,522,416	46,557,417
	=====	=====	=====

See notes to financial statements.

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

	Nine Months Ended September 30,	
	2004	2003
Cash flow from (for) operating activities:		
Net income (loss) from operations	\$ (786,426)	\$ (298,606)
Add (deduct) items not affecting cash:		
Depreciation/amortization	14,661	19,921
Expenses paid with the issuance of stock	743,741	--
Changes in operating assets and liabilities		
Accounts receivable	(94,704)	(10,271)
Inventories	(206,345)	115,982
Accounts payable and accrued expenses	25,628	(36,435)
Other assets/liabilities	2,347	186,895
Net cash flow for operating activities	(301,098)	(22,514)
Cash flows from (for) investing activities		
Addition of machinery and equipment	--	(36)
Net cash flow from (for) investing activities	--	(36)
Cash flows from (for) financing activities:		
Proceeds of convertible note	175,000	--
Net cash flow from (for) financing activities	175,000	--
Net increase (decrease) in cash	(126,098)	(22,550)
Cash balance beginning of year	165,308	68,343
Cash balance - end of third quarter	\$ 39,210	\$ 45,793
Supplemental schedule of noncash investing and financing activities:		
Conversion of debt to common stock	\$ 1,538,837	\$ --

See notes to financial statements.

TECH LABORATORIES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTER ENDED SEPTEMBER 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 nine months ended, September 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

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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.

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TECH LABORATORIES, INC. Management's Discussion and Analysis of Financial Condition and Results of Operation

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

Quarter ending September 30, 2004, compared to Quarter ending September 30, 2003

Sales were \$167,872 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 \$92,179 for the third quarter of 2004 has increased by \$63,841 compared to the same period of 2003, primarily due to the BAE sale.

Selling, general, and administrative expenses decreased by \$46,984 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 (\$114,114) decreased \$128,154 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.

Nine Months Ended September 30, 2004, compared to Nine Months Ended September 30, 2003

Sales were \$233,138 for the nine months ended, September 30, 2004, as compared to \$202,634 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 \$131,043 for the nine months ended, September 30, 2004, decreased by \$10,750 compared to the same period of 2003.

Selling, general, and administrative expenses increased by \$186,849 compared to the same period of 2003 due to increases 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 (\$786,426) increased \$487,820 compared to a loss of (\$298,606) for the prior period as a direct result of the increases in expenses incurred to explore long-term financing

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

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TECH LABORATORIES, INC. Management's Discussion and Analysis of Financial Condition and Results of Operation

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities utilized cash of \$126,098 during the nine months ended, September 30, 2004, as compared to \$22,550 during the nine months ended, September 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 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.

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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 his 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.

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 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. The decision by the arbitrator will be known by December 10, 2004.

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. 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 the plaintiff.

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Item 2. Changes in Securities.

None.

Item 3. Defaults by the Company Upon its Senior Securities.

None.

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TECH LABORATORIES, INC.

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 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

Bernard M. Ciongoli
Chief Executive Officer
Chief Financial Officer

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