

Edgar Filing: TECH LABORATORIES INC - Form 10KSB

TECH LABORATORIES INC  
Form 10KSB  
April 15, 2005

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-KSB

Annual Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

For the Fiscal Year Ended December 31, 2004

Transition Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

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, New Jersey

07508

-----  
(Address of principal executive offices)

-----  
(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.01  
par value

Check whether the issuer (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

Check if there is no disclosure of delinquent filers pursuant to Item 405 of  
Regulation S-B contained in this form and no disclosure will not be contained,  
to the best of registrant's knowledge, in definitive proxy or information  
statements incorporated by reference in Part III of the Form 10-KSB or any  
amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year: \$ 254,521

State the aggregate market value of the voting stock held by non-affiliates  
computed by reference to the price at which the stock was sold, or the average  
bid and ask prices of such stock, as of a specified date within the last 60  
days. On April 14, 2005, the aggregate market value of voting stock held by  
non-affiliates, based on the closing price as quoted on the OTC Bulletin Board  
under the symbol "TCHL", was \$.01/share.

The number of shares of common stock outstanding as of April 14, 2005:  
87,996,785

# Edgar Filing: TECH LABORATORIES INC - Form 10KSB

Transitional Small Business Disclosure Format (check one): Yes {} No {}

## TECH LABORATORIES, INC. FORM 10-KSB

### Table of Contents

	Page
Part I .....	1
Item 1. Description of Business .....	1
Item 2. Description of Property.....	6
Item 3. Legal Proceedings.....	7
Part II.....	7
Item 4. Submission of Matters to a Vote of Securityholders.....	7
Item 5. Market for Common Equity and Related Shareholder Matters..	7
Item 6. Management's Discussion and Analysis or Plan of Operation.	9
Item 7. Financial Statements.....	11
Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	III-1
Part III.....	III-1
Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act .....	III-1
Item 10. Executive Compensation.....	III-1
Item 11. Security Ownership of Certain Beneficial Owners and Management .....	III-1
Item 12. Certain Relationships and Related Transactions.....	III-1
Item 13. Exhibits and Reports on Form 8-K.....	III-1
. Evaluation of Disclosure Controls and Procedures .....	III-4

## TECH LABORATORIES, INC. Form 10-KSB

### Forward-looking Statements

Statements made in this Form 10-KSB that are not historical or current facts are "forward-looking statements" made pursuant to the safe harbor provisions of federal securities laws. These statements often can be identified by the use of terms such as "may," "will," "expect," "anticipate," "estimate," or "continue," or the negative thereof. Such forward-looking statements speak only as of the date made. Any forward-looking statements represent management's best judgment as to what may occur in the future. However, forward-looking statements are subject to risks, uncertainties, and important factors beyond the control of Tech Labs that could cause actual results and events to differ materially from historical results of operations and events and those presently anticipated or projected. These factors include, but are not limited to, those discussed under the caption "Factors That May Affect Future Events" in Item 6 of this Form 10-KSB. Tech Labs disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

such statement or to reflect the occurrence of anticipated or unanticipated events.

### Part I

#### Item 1. Description of Business

##### General

Tech Laboratories, Inc. ("Tech Labs" or the "Company") manufactures and sells various electrical and electronic components. During 2003, we marketed and continued to develop DynaTraX(TM) 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.

##### Historical Business

We also manufacture and sell standard and customized transformers, and rotary switches, the latter of which products permits an electrical signal to be diverted from point A to point B. Approximately 10% of our products are manufactured for military applications.

We sell our switch and transformer products in the electronics and electrical industries or for inclusion in OEM products. We market our products in these industries in the United States. This is a mature market. Competition is on the basis of price and service. Pricing of our products is based upon obtaining a margin above cost of production. The margin we will accept varies with quantity and the channels of distribution.

##### Industry

##### DynaTraX(TM) Networking Management and Maintenance Technology

Tech Labs manufactures, markets, and sells a product, which it believes will create a new paradigm on automating and securing high-tech networks at the physical layer. Our product, DynaTraX(TM), a patented, high-speed digital matrix cross-connect switch with a dynamic new technology, can significantly reduce network downtime and achieve substantial cost savings in data and telecommunications networking environments. DynaTraX(TM) has the ability to create a critical and meaningful solution to stop hackers from intruding into networks and, thereby, to thwart cyber-terrorists. DynaTraX(TM) electronically disconnects a hacker, detected by Intrusion Detection Software, and reconnects the hacker to a simulated network within 60 - 90 nanoseconds and allows the user to hold and trace the hacker.

On September 19, 2002, the United States Patent and Trademark Office published our patent application for the use of our DynaTraX(TM) technology to provide Positive Network Access Security control to prevent hacker attacks from causing extensive harm to network services and systems.

Employing this physical layer security solution allows the user/system to automatically disconnect circuits under attack from an unauthorized user by quickly rerouting the hacker to a honey pot (track, trace & locate) simulator network system to capture the intruder. The ability to automate creates a self-healing environment for next generation robust high-tech communication networks.

The DynaTraX(TM) switch provides network administrators with the unique

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

capability to remotely manage and maintain the "physical level" (the actual physical connectivity) of their networks from virtually any computer with a few clicks of a mouse on a user-friendly graphical user interface (GUI). This technology allows administrators to quickly and efficiently perform physical changes electronically to repair networking problems (such as loss of connectivity resulting in the need to move a cable to a different hub), or to perform network reconfigurations (moves, adds or changes) to distribution equipment such as computers and telecommunications devices. No longer does a technician have to be dispatched to a telecommunication closet to resolve most networking problems, or to provide changes to users' existing services on the network.

Examples of where the DynaTraX(TM) has been found to be particularly cost effective include: (1) active large remote corporate locations with minimal or no IT personnel where expensive outside technicians must often be dispatched to resolve problems or other requests; and (2) locations where very frequent movement of personnel occurs, such as in the military or at a convention center where network reconfigurations are frequently required. Reconfigurations are expensive with costs ranging from \$50 to \$200 on-site, and two to ten times that for off-site reconfigurations, versus virtually no cost if a DynaTraX(TM) is utilized. These figures do not include potential losses in productivity and revenues associated with extended downtimes.

DynaTraX(TM) is also equipped with two key complementary products - a Test Card and a Data Base Management System. The Test Card enables administrators to effectively locate and resolve cable fault problems on the distribution portion of the network. Customers state that the Test Card is far superior to alternative methods for diagnosing problems such as traditional cable test equipment, which typically involves using technicians to search throughout the entire network, moving equipment and possibly interfering with the performance of the network. DynaTraX's(TM) Database Management System documents every event that occurs within the network, assuring that all reconfigurations and other adaptations to the network are reflected on the DynaTraX's(TM) GUI. Given the maze of wires, plugs, and jacks that are typically found in a telecommunications closet, administrators are notorious for not properly noting changes made to the network, resulting in cabling connection errors and significant loss of productivity from unforeseen downtime. With most network problems originating on the physical level, the Test Card and Data Base Management System make the DynaTraX(TM) a complete tool for managing and ensuring the integrity of data networks.

Since launching its marketing campaign on a limited basis in early 2001, the DynaTraX(TM) has been reviewed favorably, particularly from the U.S. military which frequently moves personnel and performs routine networking changes for security purposes. DynaTraX(TM) has been tested and purchased by the U.S. Air Force and the U.S. Navy for inclusion in government projects. Prominent commercial users of the DynaTraX(TM) include Global Crossing Inc, Nortel Networks, Allied Irish Bank, Sanko Telecom of Japan, and Blue Cross of Florida.

Tech Labs' long-term growth strategy includes development of DynaTraX's(TM) technological capabilities, and, concurrently, product integration and establishment of strategic partnerships with world-class software and hardware vendors (especially enterprise management software providers in the short term). With the use of our newly developed API (Application Programmable Interface), vendors can write scripts to DynaTraX(TM) allowing automatic reconfiguration.

The DynaTraX(TM) Enterprise Management Solution "DEMS" elevates the current DynaTraX(TM) electronic patching system to an interactive intelligent enterprise management "Virtual Technician" system. The Virtual Technician dramatically reduces the need for on-site technicians to perform physical layer tasks, which can now be performed electronically from a remote location (i.e., remotely testing network circuits, reconnecting equipment and circuits, rapidly

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

recovering from a critical network failure, capturing and trapping hackers). Our goal is to further enhance the DEMS technology beyond the Virtual Technician application to a system that will perform "self healing" (self-repair) network functions. Current and future products derived from the DynaTraX(TM) will position the Company, we believe, as a provider of state-of-the-art network enterprise management solution systems. We believe we will expand from this base to become a recognized provider of enhanced networks and integrated (voice/data/video) Internet (IP) compatible, private customer-premise all-digital Automatic Call Directors, and PBX systems and networks.

There are at least four companies that have products that compete with the DynaTraX(TM) product. However, we believe none of these competitors offer a product with all of the features or capabilities of DynaTraX(TM). We continue to believe that competition in the sale of our DynaTraX(TM) products will be on the basis of price, features, service and technical support. Pricing of our products is based upon obtaining a margin above cost of production. The margin we will accept varies with quantity and the channels of distribution. Competition for network management products comes from several different sources. One source of competition is the designated employees of large organizations, which have been hired to manage and maintain their internal networks. However, we believe the growing need to control and reduce costs by using technology such as DynaTraX(TM) to automate tasks otherwise performed by expensive technical labor, will provide Tech Labs with market opportunities.

Another group of competitors, which produces products to manage and maintain the network physical layer, consists of NHC, RIT and Cyteck. Of these three companies, NHC is the only one that offers a product comparable to DynaTraX(TM), but which is not as fast as DynaTraX(TM). In addition, V-LAN switching, which is a technology utilized by a number of companies, can be regarded as a competing technology. However, V-LAN switching is limited to a specific type of network, i.e., Ethernet, and not able to support many tasks which our DynaTraX(TM) technology is designed to complete. These tasks are:

- o rearranging network physical layer connections, e.g. moves, adds, and changes of equipment such as computer terminals; fax machines; and printers;
- o testing circuits;
- o managing and maintaining end-to-end network configuration, which is the connection between different points on a network from the telecommunications closet to the user outlet; and
- o maintaining asset inventory records

We regard V-LAN as complementary to DynaTraX(TM) circuit switching since they can work together to provide a more comprehensive network management/maintenance solution. The four competitors all have greater financial and other resources and currently account for substantially all of the existing market.

### Infrared Intrusion Detection System or "IDS"

As of January 2003, Tech Labs no longer has the exclusive right to manufacture and sell in the U.S., Canada, and South America the IDS products. Tech Labs, however, continues to sell its existing inventory of IDS products to the security and anti-terrorist industry.

### Marketing Strategies

Subject to available resources, we will employ a marketing program consisting of:

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

### Typical Resale Channel Partners

These are technically qualified networking systems integration, implementation and management type companies, in the business of providing network project-management consulting services and/or on-site implementation, installation and maintenance support services. The companies Tech Labs deals with will be working in the markets (commercial or government) the Company has targeted and already established a customer base.

### Building Sales and Sales Leads

In addition to the already existing networks of existing and potential clients known by the Company's managers and resale channel partners, Tech Labs will also embark on a promotion program consisting of advertising in trade journals, trade show participation and mailing campaigns. The Company is establishing itself as a certified approved partner of large Enterprise Management systems providers, as well as large networking equipment companies where there is a fit for integrating the Company's technology with these companies' technologies and products.

### Advertising

This will be a program for both commercial and military markets involving a focused DynaTraX(TM) Enterprise Management Solution campaign in trade magazines, including commercial and government oriented trade magazines.

### Trade Shows

The Company hopes to participate in industry and government focused trade shows.

### Mailing Campaign

Tech Labs will use commercial and government industry mailing lists available through industry trade organizations. These lists will be territorially arranged focusing on the proper person or groups involved in specifying, recommending and/or purchasing DynaTraX(TM) products.

### Certified Partners Programs

Working under such arrangements, the Company expects to be able to co-promote its technology through its existing sales channels and marketing programs. In some instances, these organizations will even sell the product through their sales organization catalogs as a value-added product or as an OEM.

### Marketing Channels

The sales infrastructure for DynaTraX(TM) will include, as funds become available, a three-tier sales organization structure comprised of a senior company sales executive managing up to six "market area" sales managers and several resale channels in each area. These market areas will be located in the following general regions: East Coast, Southwest, Mid West, West Coast, and Northwest. Market territories will be selected based on the projected number of commercial and government organizations considered to be primary target customers. These regional areas will be further broken down to several "channel sales territories".

The first market area to be developed is the East Coast but due to economic factors and conditions has been delayed. The Company will recommence the build-up of the East Coast region upon sufficient resources becoming available.

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

The goal is to have a minimum of three regional territory sales managers in each market area. For example, on the East Coast, the Company will set up managers in the Northeast, New York City/New Jersey Metro region, Mid-Atlantic - Washington DC region, and Southeast - Orlando/Tampa Florida region.

### U.S. Military

The Department of Defense is presently under a mandate from the President and Congress to minimize costs and maximize efficiency. The military, unlike commercial organizations, will encourage, we believe, the use of new technology such as DEMS to improve productivity, operations and reliability. The specific military business opportunities the Company is targeting includes: Improving IT network management and maintenance capabilities; supporting "rapid deployment" for configuring networks and for recovering from network disasters; having current and accurate information about network configurations, connected assets and usage statistics; preventing hackers or other type of unauthorized attempts from gaining access to network resources, and then identifying and capturing them.

### Non-military Government Agencies

These government organizations primarily contract out their network support operations. They are under significant pressure to reduce staff and costs while also being asked to do more. In order to achieve these mandates, agencies will have to rely on new technology such as DEMS that can help improve their productivity while at the same time increase network services and reliability. Government agencies are being challenged by Congress regarding their poor track record on protecting their information and network resources against hackers and other unauthorized users.

### Commercial Organizations

Opportunities include large organizations with many regional business offices and/or local call centers (remote office operations) as well as mid-size organizations with medium size headquarters and small remote branch operations. Included in this group are Fortune 1000 service organizations (banks, financial investment companies, medical insurance companies, large retail operations, etc.) that have regional operations and rely on territory branch offices to sell their products or services to their customers, and organizations that have a need to change their network arrangement "churn" to support relocating personal or to service temporary users of their facilities. In addition to relying on their networks to conduct business, these organizations also have a need to protect the network resources and customer information from hackers and other unauthorized users.

### Source of Supply

Current inventory component purchases for all our products are made from OEMs, brokers, and other vendors. We typically have multiple sources of supply for each part, component, or service, and during the years ended December 31, 2004 and 2003, cannot characterize any particular company as being our "largest" supplier. We have no long-term agreements with any of our suppliers.

### Order Backlog

The backlog of written firm orders for our products and services as of December 31, 2004, was \$31,712.

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

### Patents

In connection with our acquisition of the DynaTraX(TM) assets, we acquired certain patents and pending patent applications. Four patents have been granted in Great Britain, which are listed below:

- o Patent title: User Interface for Local Area Network. This patent covers technology, which allows communication between the user and the equipment controlling the network. This patent expires in 2013.
- o Patent title: Token Ring. This patent covers technology, which transmits information between devices on a network. This patent expires in 2013.
- o Patent title: Half Duplex Circuit for Local Area Network. This patent covers technology, which allows one-way communication either to or from the Local Area Network. This patent expires in 2013.
- o Patent title: Matrix Switch Arrangement. This patent covers the technology of a switch that can connect or disconnect one or more devices on a network. This patent expires 2015.

We also have been granted a patent from the U.S. Patent and Trademark office in connection with our Multi-protocol Cross Connect Switch.

On September 19, 2002, the U.S. Patent Office published our patent application for the use of our DynaTraX(TM) technologies to provide Positive Network Access Security control to prevent an unauthorized hacker attack to network services and systems. Tech Labs Positive Access Security System works with the DynaTraX(TM) digital cross-connect physical layer switch. This security physical layer enhancement solution allows the ability to automatically disconnect circuits detected to be under attack from an unauthorized user (hacker) and capture the hacker by quickly rerouting the circuit the hacker is on to a honey pot (track, trace and locate) simulator network system. As an integral part of an existing or new Enterprise Management System's security, the DynaTraX(TM) Enterprise Management System software will quickly respond to an SNMP alarm instruction by having the DynaTraX(TM) switch disconnect the circuit being used by a hacker within 90 nanoseconds.

### Employees

We have three full-time employees, one of whom is an engineer and two are officers, one of whom is also an engineer. We also employ six part-time workers, one of whom performs clerical services and the others as production workers.

### Item 2. Description of Property

Our corporate headquarters and manufacturing facility is located in North Haledon, New Jersey. Our primary manufacturing and office facility is a one-story building that is adequate for our current needs. We lease this facility of 8,000 square feet, from a non-affiliated person, under a lease that ends in April, 2007. The annual base rent is \$56,400 until April 2004, \$57,600 from May 2004 until April 2006, and \$58,800 from May 2006 until April 2007, and includes property taxes and other adjustments. We believe our premises are adequate for our current needs and that if and when additional space is required, it would be available on acceptable terms.

We are an integrated manufacturer and, accordingly, except for plastic moldings and extrusions, produce nearly all major subassemblies and components of our devices from raw materials. We purchase certain components from outside sources and maintain an in-house, light machine shop allowing fabrication of a variety



## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

of metal parts, complete tool room for making and repairing dies, a stamping shop and an assembly shop with light assembly presses. Our test lab checks and tests our products at various stages of assembly and each finished product undergoes a complete test prior to shipment.

We anticipate that we will either manufacture any new products ourselves or subcontract their manufacture, in whole or in part, to others. We believe that personnel, equipment, and/or subcontractors will be readily available as and when needed.

### Item 3. Legal Proceedings

#### Litigation

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, quantum meruit, and unjust enrichment. We disagree with the amount of the unpaid balance owed to the plaintiff. We have filed a counterclaim for overcharging by the plaintiff.

## Part II

### Item 4. Submission of Matters to a Vote of Securityholders

None

### Item 5. Market for Common Equity and Related Shareholder Matters

Our common stock has been trading publicly on the OTC Bulletin Board under the symbol "TCHL" since 1994. The table below sets forth the range of quarterly high

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

and low closing sales prices for our common stock on the OTC Bulletin Board during the calendar quarters indicated. The quotations reflect inter-dealer prices, without retail mark-ups, markdowns, or conversion, and may not represent actual transactions.

### TCHL COMMON STOCK

2003 -----	CLOSING PRICE	
	HIGH	LOW
First Quarter	.05	.01
Second Quarter	.03	.01
Third Quarter	.05	.01
Fourth Quarter	.19	.02
2004 -----	HIGH	LOW
First Quarter	.35	.02
Second Quarter	.21	.01
Third Quarter	.06	.01
Fourth Quarter	.03	.01

As of April 14, 2005, there were 276 holders of record of our common stock. The transfer agent for our common stock is:

Olde Monmouth Stock Transfer Co., Inc.  
Suite 101, 77 Memorial Parkway,  
Atlantic Highlands, NJ 07716.

### Item 6. Management's Discussion and Analysis or Plan of Operation

#### 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. We will continue to focus on DynaTraX(TM) sales and development of additional products using these technologies.

The following table sets forth the components of our revenues for each of our major business activities in 2003 and 2004, and their approximate percentage contribution to revenues for the period indicated:

PRODUCT TYPE	2003	% of Revenue	2004	% of Revenue

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

Switches	\$ 68,036	28.8%	\$ 66,360	26.1%
IDS Sensors	256,711	46.5%	159,073	62.5%
Transformers/Coils	35,357	17.2%	29,088	11.4%
Contract Manufacturing	3,404	7.5%	0	0.0%
	-----	-----	-----	-----
Totals	\$ 236,107	100.0%	\$ 254,521	100.0%
	=====	=====	=====	=====

The following table sets forth the percentages of gross profit for each of our major business activities in 2003 and 2004.

PRODUCT TYPE -----	Year Ended December 31,		
	2003 ----	2004 ----	Net Change -----
Switches	68.5%	64.3%	(4.3%)
IDS Sensors	57.0%	58.1%	1.1%
Transformers/Coils	47.8%	50.5%	2.7%
Contract Manufacturing	49.6%	0.0%	N/A
Unallocated company expenses, including physical inventory adjustments factory overhead and Inventory Write-Down	142.1%	172.9%	30.8%
Total company gross profit %	(83.9%)	(201.9%)	(118.0%)

\* - Negative Percentage

We have continued to shift out of the subcontracting and transformer business, which provides low gross profit margins, for higher gross profit margin products. While rotary switches produce high gross profits, demand for rotary switches is low.

We have gradually shifted our product offering from less profitable to more profitable proprietary products.

### Results of Operations

Sales were \$254,521 for 2004 as compared to \$236,107 for the year ended 2003 for an increase of 7.8%.

For the year ended 2004 cost of sales were \$784,153 compared to \$434,264 for the year ended 2003. The Company's gross profit percentage was negative in 2004 and 2003 due to inventory write-offs of slow moving and obsolete inventory totaling \$265,358 in 2004 and \$250,000 in 2003.

Selling, general, and administrative expenses increased by \$225,945 in 2004 as compared to the prior period. This decrease was due to the Company's continuing efforts to reduce these expenses during this economic downturn.

Other Income decreased \$159,312 due to the increased interest expense. Losses from operations of \$1,451,673 in 2004 were a direct result of volume declines as

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

well as the inventory write-off and consulting fees.

### Liquidity and Capital Resources

During 2000 we completed two significant transactions that improved our liquidity. On May 3, 2000 we completed an offering of our common stock to the public pursuant to a registration statement on Form SB-2. We sold to the public an aggregate of 293,379 shares for gross proceeds of \$2,273,723. Subsequently, on October 13, 2000 we completed a private placement, pursuant to Rule 506 of Regulation D, of convertible promissory notes for gross proceeds of \$1,500,000.

During 2003, as a result of the economic downturn, we suffered severe operating losses and negative cash flows, which impaired our liquidity position and caused a default on an underlying conversion and redemption agreement related to the convertible notes issued in October 2000. In 2003, Tech Labs' negative cash flow was primarily caused by operating losses plus the buildup of inventory in anticipation of increased sales of our high margin proprietary products, which did not occur.

During 2004, the company sought to negotiate contacts with major computer technology companies. We believe that long-term agreements with these companies will provide future growth in our product DYNATRAX.

### Factors that May Affect Future Events

The following factors, among others, could cause actual events and financial results to differ materially from those anticipated by forward-looking statements made in this Annual Report on Form 10-KSB and presented elsewhere by management from time to time.

On August 2, 2002, the Company announced that an Event of Default occurred under the terms of the Company's outstanding 6.5% convertible notes (the "Convertible Notes"). The Company was unable to have its registration statement filed April 5, 2002, declared effective by June 29, 2002, as required by the terms of the amended redemption and conversion agreement the Company entered into with the note holders on April 19, 2002 (the "Amended Redemption Agreement"), and was unable to reach a new agreement with the note holders prior to the expiration of the waiver the Company had been granted by the note holders, which had been granted in order to permit the parties time to negotiate a new agreement. Under the terms of the Convertible Notes, the Company is required to maintain an effective registration statement covering the shares of the Company's common stock underlying the Convertible Notes. Under the terms of the Amended Redemption Agreement, the Company had until June 29, 2002, in order to have its registration statement declared effective. The Company is presently in negotiations with the holders to cure the Event of Default, but no assurance can be given as to whether an agreement can be reached with the holders for mutually acceptable terms. If the holders accelerate payment of the principal and interest due under the Notes, the Company will be unable to make payment and may be forced into bankruptcy. In October 2003, the Company negotiated a cure for this default.

In August 2003, we retained a financial advisory firm, Knightsbridge Holdings, LLC as a business consultant to assist in a variety of areas relating our financial, strategic and related development growth. The term of the engagement is six months and shall automatically renew on a month-to-month basis, subject to termination by either party with a twenty-four month follow on period, whereby transactions consummated within the subsequent twenty-four months following the termination of this agreement the transaction may have fees due and payable to the financial advisory firm. Pursuant to this agreement, Knightsbridge has provided general financial services to us and, more specifically, assisted us in the settlement of the default on our outstanding

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

convertible notes.

Historically, we had no patent or copyright protection on our current products, other than aspects of the DynaTraX(TM) product and technology, which was patented on July 2, 2002. Our ability to compete effectively with other companies will depend, in part, on our ability to maintain the proprietary nature of our technologies. Other than with regard to the DynaTraX(TM) patents, we intend to rely substantially on unpatented, proprietary information and know-how. We are also presently prosecuting the patent applications filed in the United States and the European Common Market.

There is a risk that our current products may malfunction and cause loss of, or error in, data, loss of man-hours, damage to, or destruction of, equipment or delays. Consequently, we as the manufacturer of components, assemblies and devices may be subject to claims if such malfunctions or breakdowns occur. We are not aware of any past or present claims against us. We cannot predict at this time our potential liability if customers make claims against us asserting that DynaTraX(TM), or other products fail to function. Since we have no insurance we could incur substantial expenses defending ourselves against a product liability claim.

In connection with the acquisition of the DynaTraX(TM) technology, we acquired digital switches, finished products and parts from NORDX/CDT. We do not have insurance on that inventory. Damage or destruction of some or the entire inventory by fire, theft or by acts of nature would result in substantial losses and would harm our business.

### Item 7. Financial Statements

Tech Laboratories, Inc.

	Page
	----
Report of Independent Registered Public Accounting Firm	F1
Balance Sheets as of December 31, 2004 and 2003	F2
Statements of Operations for the Years Ended December 31, 2004 and 2003	F3
Statements of Shareholders' Equity for the Years Ended December 31, 2004 and 2003	F4
Statements of Cash Flows for the Years Ended December 31, 2004 and 2003	F5
Notes to Financial Statements	F6 - F11

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Tech Laboratories, Inc.

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

We have audited the accompanying consolidated balance sheet of Tech Laboratories, Inc. as of December 31, 2004 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 2004. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tech Laboratories, Inc. as of December 31, 2004 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/ Demetrius & Company, L.L.C.

Wayne, New Jersey  
April 14, 2005

-F1-

### TECH LABORATORIES, INC. BALANCE SHEET

	December 31,	
	2004	2003
Current Assets:		
Cash	\$ 106,283	\$ 125,308
Accounts receivable, net of allowance of \$1,000	10,679	10,107
Inventories	907,030	1,249,777
Prepaid expense	59,376	1,074
	-----	-----
Total current assets	1,083,368	1,386,266
Certificate of deposit (restricted)	36,499	40,000
Property, plant and equipment, at cost		

Edgar Filing: TECH LABORATORIES INC - Form 10KSB

Leasehold improvements	2,247	2,247
Machinery, equipment, and instruments	608,917	607,987
Furniture and fixtures	109,584	110,893
	-----	-----
	720,748	721,127
Less accumulated depreciation and amortization	442,570	427,909
	-----	-----
Net property, plant and equipment	278,178	293,218
	-----	-----
Other	14,420	12,063
	-----	-----
Total Assets	\$ 1,412,465	\$ 1,731,547
	=====	=====
Current liabilities:		
Defaulted convertible notes	\$ 828,885	\$ 1,480,785
Note payable	34,444	34,444
Accounts payable and accrued expenses	352,457	300,712
Other liabilities	--	3,271
	-----	-----
Total current liabilities	1,215,786	1,819,212
Shareholders' Investment:		
Common stock, \$.01 Par Value;		
195,000,000 Shares Authorized		
88,161,612 and 18,045,376 Shares Issued	881,616	175,143
Less: 15,191 Shares Reacquired and held in Treasury	(113)	(113)
	-----	-----
	881,503	175,030
Capital contributed in excess of par value	5,417,562	4,480,381
Accumulated deficit	(6,102,386)	(4,743,076)
	-----	-----
	196,679	(87,665)
	-----	-----
Total liabilities and Shareholders' Investment	\$ 1,412,465	\$ 1,731,547
	=====	=====

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

-F2-

TECH LABORATORIES, INC.  
STATEMENTS OF OPERATIONS

Year Ended  
December 31,

Edgar Filing: TECH LABORATORIES INC - Form 10KSB

	----- 2004 -----	----- 2003 -----
Sales	\$ 259,761	\$ 236,107
Costs of expenses:		
Cost of sales	784,153	434,264
Selling, general and administrative expenses	927,281	701,336
	-----	-----
	1,711,434	1,135,600
Income (loss) from operations	(1,451,673)	(899,493)
	-----	-----
Other income (expenses):		
Interest income	189	113
Interest expense	(61,077)	(220,313)
	-----	-----
	(60,888)	(220,200)
Loss before income taxes	(1,512,561)	(1,119,693)
Income taxes benefit	153,251	193,770
	-----	-----
Net loss	(1,359,310)	(925,923)
Accumulated deficit, beginning of year	(4,743,076)	(3,817,153)
	-----	-----
Accumulated deficit, end of year	\$ (6,102,386)	\$ (4,743,076)
	=====	=====
Loss per share, basic and diluted	\$ (0.03)	\$ (0.12)
Basic and diluted weighted average shares outstanding	52,043,074	7,926,675

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

-F3-

TECH LABORATORIES, INC.  
STATEMENT OF SHAREHOLDERS' EQUITY

	Common Stock		Capital	Accumul
	----- Shares -----	----- Amount -----	in Excess of Par Value -----	Def -----
Balance, January 1, 2002	5,106,607	\$ 47,723	\$ 4,508,428	\$ (2,5
Stock issued	415,809	2,012	(63,153)	
Net loss	--	--	--	(1,2



Edgar Filing: TECH LABORATORIES INC - Form 10KSB

Balance, December 31, 2002	5,522,416	49,735	4,445,275	(3,8
Stock issued (for services)	5,000,000	50,000	--	
Stock issued	7,522,960	75,295	35,106	
Net loss	--	--	--	(9
Balance, December 31, 2003	18,045,376	175,030	4,480,381	(4,7
Stock issued (for services)	47,391,034	473,910	232,831	
Stock issued (for debt conversion)	22,725,202	232,563	704,350	
Net loss	--	--	--	(1,3
Balance, December 31, 2004	88,161,612	\$ 881,503	\$ 5,417,562	\$ (6,1

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

-F4-

TECH LABORATORIES, INC.  
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2004	2003
Cash flows from (for) operating activities:		
Net (loss) from operations	\$ (1,359,310)	\$ (925,923)
Add (deduct) items not affecting cash:		
Depreciation/amortization	14,661	24,808
Doubtful accounts expense	--	(48,000)
Expenses paid with the issuance of common stock	706,741	50,000
Interest expense capitalized to debt	35,013	--
Inventory write-down	265,358	250,000
Changes in operating assets and liabilities:		
Accounts receivable	(572)	(4,349)
Inventories	77,389	235,856
Accounts payable and accrued expenses	51,745	157,182
Prepaid expenses	(58,302)	--
Other assets and liabilities	(5,628)	(68,426)
Net cash flows for operating activities	(272,905)	(328,852)
Cash flows from (for) investing activities:		

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

Reduction in certificate of deposit	3,501	
Proceeds from sale of equipment	1,309	--
Purchase of equipment	(930)	(9,529)
	-----	-----
Net cash flows from (for) investing activities	3,880	(9,529)
	-----	-----
Cash flows from financing activities:		
Acquisition of debt	250,000	324,945
Issuance of common stock	--	110,401
	-----	-----
Net cash flows from financing activities	250,000	435,346
	-----	-----
Net increase (decrease) in cash	(19,025)	96,965
Cash balance, beginning of year	125,308	28,343
	-----	-----
Cash balance, end of year	\$ 106,283	\$ 125,308
	=====	=====
Supplemental schedule of noncash investing and financing activities:		
Conversion of debt to common stock	\$ 936,913	\$ --
	=====	=====

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

-F5-

### TECH LABORATORIES, INC. NOTES TO FINANCIAL STATEMENTS

#### 1. NATURE OF OPERATIONS

Tech Laboratories, Inc. ("Tech Labs" or the "Company") manufactures and sells various electrical and electronic components and systems. During 2003, we continued to develop DynatraX (TM) 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. We also manufacture and sell standard and customized transformers, and rotary switches and intrusion detection systems.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Principles of Consolidation

The financial statements include the accounts of the Company and its wholly owned subsidiary, Tech Logistics, Inc., formed in 1997. All of Tech Logistics' accounts and transactions are consolidated on the tech laboratories, Inc. financial statements.

##### Accounts Receivable

Trade accounts receivable is recorded net of allowance for expected losses. The allowance is estimated from historical performance and projections of trends.

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

### Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories at December 31, 2004 and 2003 consisted of the following, net of write-down of \$265,358 and \$250,000 in 2004 and 2003 respectively for obsolete and slow moving items:

	2004	2003
	-----	-----
Raw materials and finished components	\$ 121,077	\$ 463,824
Work in process and finished goods	785,953	785,953
	-----	-----
	\$ 907,030	\$1,249,777
	=====	=====

### Property and Equipment Depreciation

Depreciation is provided for by straight-line methods over the estimated useful lives of the assets, which vary from five to seven years. Cost of repairs and maintenance are charged to operations in the period incurred.

### Earnings per Share

Basic EPS is computed by dividing net income or net loss by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution from the exercise or conversion of other securities into common stock, but only if dilutive.

### Cash and Cash Equivalents

The Company considers all short-term deposits with a maturity of three months or less to be cash equivalents.

-F6-

## TECH LABORATORIES, INC. NOTES TO FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Long-lived Assets

The company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets.

#### Revenue Recognition

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

The Company recognizes product revenue at the time of shipment.

### Research and Development

Research and development expenditures are expensed as incurred.

### Income Taxes

The Company uses the liability method to determine its income tax expense as required under Statement of Financial Accounting Standards No. 109 (SFAS 109). Under SFAS 109, deferred tax assets and liabilities are computed based on differences between financial reporting and the tax basis of assets and liabilities, and are measured

### Fair Value of Financial Instruments

The carrying values of cash, accounts receivable, accounts payable, accrued expenses and other current liabilities are representative of their fair value due to the short-term maturity of these instruments. The carrying value of the Company's long-term debt is considered to approximate its fair value, based on current market rates and conditions.

### Advertising Costs

Advertising costs are reported in selling, general and administrative expenses, and include advertising, marketing and promotional programs. These costs are charged to expense in the year in which they are incurred. Advertising costs for the years ended, December 31, 2004 and 2003, were nominal.

### Accounting for Stock Option Based Compensation

SFAS No. 123, "Accounting for Stock Based Compensation," sets forth accounting and reporting standards for stock based employee compensation plans. As allowed by SFAS 123, the Company continues to measure compensation cost under Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees" and complies with the pro forma disclosure requirements of the standard (see Note 8).

-F7-

## TECH LABORATORIES, INC. NOTES TO FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Warranties

The Company offers warranties on all products, including parts and labor that ranges from one (1) to five (5) years depending on the type of product. The Company passes along any OEM warranty to the end user, if applicable. The Company charges operations with warranty expenses as incurred.

#### Segment Information

Sales of switches and IDS sensors made up 75% and 90% of our revenues in 2004 and 2003 respectively.

FASB issued Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information" ("Statement 131"), that

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

establishes standards for the reporting by public business enterprises of financial and descriptive information about reportable operating segments in annual financial statements and interim financial reports issued to shareholders. The Company primarily provides products and services to various test and security control systems. The company considers all of its operations as one segment because expenses support multiple products and services. Management uses one measurement of profitability and does not disaggregate its business for internal reporting.

### Recent Pronouncements

In December 2003, the Financial Accounting Standards Board (FASB) issued a revised Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46R). FIN 46R addresses consolidation by business enterprises of variable interest entities and significantly changes the consolidation application of consolidation policies to variable interest entities and, thus improves comparability between enterprises engaged in similar entities. The Company does not hold any variable interest entities.

### 3. LEASE OBLIGATIONS

Lease expenses consisting principally of office and warehouse rentals, totaled \$57,895 and \$56,000, for the years ended December 31, 2004 and 2003, respectively. At December 31, 2004 and 2003, the Company's future minimum lease payments under operating leases with initial or remaining non-cancelable lease terms in excess of one year are presented in the table below:

	Total December 31,	
	2004	2003
Year Ending, December 31:		
2004	\$ --	\$ 57,000
2005	57,600	57,000
2006	58,300	58,000
2007	19,600	19,000
2008		--
	\$135,500	\$191,000

-F8-

### TECH LABORATORIES, INC. NOTES TO FINANCIAL STATEMENTS

### 4. INCOME TAXES

The income tax benefit for the year ended, December 31, 2004 and 2003, includes the following:

	2004	2003
Federal	\$ --	\$ --
State	153,251	193,770
	-----	-----

Edgar Filing: TECH LABORATORIES INC - Form 10KSB

	153,251	193,770
Deferred		
Federal	--	--
State	--	--
	-----	-----
	\$ 153,251	\$ 193,770
	=====	=====

The components of deferred tax accounts as of December 31, 2004 and 2003 are as follows:

	2004	2003
	-----	-----
Deferred tax assets		
Net operating loss carryforward	\$ 2,238,000	\$ 1,855,000
Other	--	--
	-----	-----
Subtotal	2,238,000	1,855,000
Valuation allowance	(2,238,000)	(1,855,000)
	-----	-----
Net deferred tax assets	\$ --	\$ --
	=====	=====

The net change in the valuation allowance was an increase of \$383,000 and \$328,000 in 2004 and 2003, respectively.

The reconciliation of estimated income taxes attributed to operations at the statutory tax rates to the reported income tax benefit is as follows:

	2004	2003
	-----	-----
Expected federal tax at statutory rate	\$ (435,105)	\$ (436,680)
State taxes, net of federal tax rate	(101,146)	(85,090)
Change in valuation allowance	383,000	328,000
	-----	-----
	\$ (153,251)	\$ (193,770)
	=====	=====

At December 31, 2004 and 2003, the company had a net operating loss carryforward of \$6,583,526 and \$5,224,216, respectively, which can be utilized to offset future taxable income. These operating loss carry-forwards begin to expire in 2014.

-F9-

TECH LABORATORIES, INC.  
NOTES TO FINANCIAL STATEMENTS

5. NOTES PAYABLE

This consists of a note payable to Hudson United Bank, with a balance of \$34,444

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

due on demand, with an annual interest rate of prime + 1.5%. The note is secured by a certificate of deposit in the amount of \$36,499 and \$40,000 at December 31, 2004 and 2003 respectively.

### 6. LONG-TERM CONVERTIBLE DEBT

On October 13, 2000 Tech Labs completed a \$1.5 million dollar financing of 6.5% convertible promissory notes due on October 15, 2002. Interest is payable quarterly in cash or in shares of common stock at the option of the note holders. 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 referenced in Note (9). An Event of Default, as defined in the 6.5% convertible notes Tech Labs issued in October 2000, 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 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 Convertible Notes prior to the expiration of the waiver the Company had been granted by the note holders, 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 Convertible Notes, and in October, 2003, a cure was successfully negotiated and is described in the Company's 8-K filed in October, 2003.

On May 18, 2004, the Company issued an additional \$250,000 convertible debenture at a rate of 5.0% due on May 18, 2007.

As of December 31, 2004, an aggregate of \$936,913 of Convertible Long Term Debt was converted into Common Stock.

### 7. EMPLOYEE CONTRACT

The Company has an employment contract with its chief operating officer. The agreement is for a term of five (5) years with Mr. Ciongoli, dated as of August 1, 2001, which agreement supersedes the employment agreement that was in effect with Mr. Ciongoli, dated October 1, 1998, as amended June 18, 1999, and February 21, 2001. Mr. Ciongoli is compensated under the terms of the employment

-F10-

TECH LABORATORIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 7. EMPLOYEE CONTRACT (Cont'd)

agreement at the base salary rate of \$150,000 per annum. Mr. Ciongoli is also entitled to receive two percent (2%) of our sales in excess of \$1,000,000 during

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

any year he is employed by us. In addition, Mr. Ciongoli was granted an option, exercisable for five (5) years from the date of grant, to purchase up to 500,000 shares of stock at \$.54 per share, which option vests in increments of 100,000 shares every (6) months since February 1, 2002.

The agreement is automatically renewable for three (3) years unless either party terminates the agreement in writing at least 180 days prior to the expiration of the initial term period.

### 8. STOCK OPTIONS

On November 15, 2004, a three-year option to purchase common stock of Tech Laboratories, Inc. was granted by the majority members of the Board of Directors of Tech Laboratories, Inc. to certain directors and employees at \$.005 per share. The total number of options granted was 12,500,000 and all of the options were vested immediately.

The Company measures compensation for these plans under APB Opinion No. 25. No compensation cost has been recognized as all options were granted at the fair market value of the underlying stock at the date of grant. Had compensation expense for these plans been determined consistent with SFAS No. 123, the Company's net (loss) and net (loss) per share would be as follows:

	2004
	-----
Net (loss), as reported	\$ (1,359,310)
Net (loss), pro forma	\$ (1,396,810)
Basic (loss) per share, as reported	\$ (0.03)
Basic (loss) per share, pro forma	\$ (0.03)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2004: risk-free interest rates of 3.529%, expected volatility of 94.75% and expected lives of three years. No dividends were assumed in the calculations.

Stock option transactions for 2004 are summarized as follows:

	Shares	Weighted Average Exercise Price
	-----	-----
Outstanding, beginning of year	--	\$ --
Granted	12,500,000	0.005
Exercised	--	--
Expired	--	--
	-----	-----
Outstanding, end of year	12,500,000	0.005
	=====	=====
Exercisable, end of year	12,500,000	0.005
	=====	=====

### Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Our accountants are Demetrius & Company, LLC, 155 Route 46 West, Wayne Plaza II Wayne, NJ 07470. We do not presently intend to change accountants. At no time



## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

has there been any disagreements with such accountants regarding any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. On October 1, 2004, we dismissed Charles J. Birnberg, CPA as our independent auditors due to the fact that he was not registered with the Public Accountants Oversight Board and we engaged Russell & Atkins, PLC as our independent auditor. Subsequently on October 22, 2004, Russell & Atkins, PLC resigned as our independent auditor due to the fact that Russell & Atkins decided that it will no longer be registered with the PCAOB. On November 4, 2005, Demetrius & Company was engaged as our new independent auditor. At no time has there been any disagreements with Charles Birnberg, Russell & Atkins or Demetrius & Company regarding any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

### Item 8a. Controls and Procedures

Our principal executive officer and principal financial officer evaluated our disclosure controls and procedures (as defined in rule 13a-14(c) and 15d-14(c) under the securities Exchange Act of 1934, as amended) as of a date within 90 days before the filing of this annual report (the Evaluation Date). Based on that evaluation, our principal executive officer and principal financial officer concluded that, as of the Evaluation Date, the disclosure controls and procedures in place were adequate to ensure that information required to be disclosed by us, including our consolidated subsidiaries, in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported on a timely basis in accordance with applicable rules and regulations. Although our principal executive officer and principal financial officer believes our existing disclosure controls and procedures are adequate to enable us to comply with our disclosure obligations, we intend to formalize and document the procedures already in place and establish a disclosure committee.

We have not made any significant changes to our internal controls subsequent to the Evaluation Date. We have not identified any significant deficiencies or material weaknesses or other factors that could significantly affect these controls, and therefore, no corrective action was taken.

## Part III

### Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

NAME	AGE	TITLE
-----	---	-----
Bernard M. Ciongoli	58	President, Chief Executive Officer, Chief Financial Officer and Director
Earl M. Bjorndal	53	Vice President and Director
Craig Press	46	Director
Jeff Sternberg	59	Director
George Kanakis		Director

Each director is elected for a period of one year and until his successor is

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

duly elected by shareholders and qualified.

Bernard M. Ciongoli became our president and a director in late 1992, and became Treasurer in 1998. From 1990 through 1991 he served as president of HyTech Labs, a company engaged in sales and servicing of electronic test equipment. During the years of 1987 to 1990, he acted as the principal owner and President of Bernco Developers, a real estate developer. Mr. Ciongoli holds a degree in electronic engineering from Paterson Institute of Technology.

Earl M. Bjorndal has been with us in various capacities since 1981. He has been a director since 1985, and became a vice president in 1992. He is a graduate of the New Jersey Institute of Technology with both bachelor's and master's degrees in industrial engineering.

Jeffrey Sternberg was appointed to our Board of Directors on March 25, 2005. Mr. Sternberg is the President, Chief Executive Officer, Chief Financial Officer and Chairman of the Board of Directors of Advantage Capital Development Corp. Since June 2002, Mr. Sternberg has been the managing member of Phoenix Capital Partners, LLC a financial investment company located in Hollywood, Florida. Prior to his acquiring Phoenix Capital Partners, LLC, between August 2002 and November 2002, he worked for Atico International based in South Florida. Atico is a specialty importer of goods. Immediately prior to that time, Mr. Sternberg had worked for seven years as a Senior Vice President at Herbko International, a worldwide manufacturer of general merchandise. Mr. Sternberg spent over two decades working with mass merchandisers, drug chains and specialty stores and consulting with regional and national buyers to distribute goods throughout the United States and Asia. Additionally, Mr. Sternberg served these and other customers by managing their imports and exports of products and arranging for the financing and the manufacturing of a wide variety of retail merchandise.

Craig Press was appointed to our Board of Directors on March 25, 2005. From 1996 to the present, Mr. Press has been the Vice President and head of operations for Georal International, Corp. and AJR International, Ltd., both located in Whitestone, New York. His responsibilities include the oversight and management of day to day operations of both company's employees, its sales, marketing, public relations and construction, of all of the company's products and services. Additionally, he is responsible for the day to day operations of the company's California facility and its personnel as well. Mr. Press also maintains control of the company's contacts with federal, state and municipal organizations as well as major real estate, banking and industrial corporations. Mr. Press is also a security consultant for anti-terrorism perimeter security, employee entrance and egress, fire, building and safety codes and negotiates all labor contracts with the New York City unions with which his company interacts. Mr. Press also sits on the Board of Directors of Advantage Capital Development Corp.

George Kanakis was appointed to our Board of Directors on March 25, 2005. Mr. Kanakis is the Director and President, Chief Executive Officer and member of the Board of Directors of NuWave Technologies, Inc. From March 2002 through August 2003, he had been a Vice President Of Corporate Finance for Cornell Capital Partners, LP, where he structured equity and debt financings, as well as provided consulting to clients on mergers and acquisitions. From 1993 to 2001 Mr. Kanakis managed the Futures and Options Group at Barclays Capital, where he serviced primarily institutional clients, around the world. Mr. Kanakis holds an MBA in Finance and Investments from the Zicklin School of Business at Baruch College where he graduated in December 2001 and a degree in Economics from Rutgers University where he graduated in May 1995

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

Tech Labs' success depends, to a large extent, upon the continued efforts of Bernard M. Ciongoli, our president and chief executive officer. Mr. Ciongoli has an intricate understanding of Tech Labs, its business operations, and the technology underlying its products. It would be very difficult for Tech Labs to replace Mr. Ciongoli, and, accordingly, the loss of his services would be detrimental to our operations. We do not have key-man life insurance on Mr. Ciongoli. We do, though, have an employment agreement with Mr. Ciongoli.

Expansion of our business, upon resources becoming available, will require additional managers and employees with industry experience. In general, only highly qualified managers have the necessary skills to develop and market our products and provide our services. Competition for skilled management personnel in the industry is intense, which may make it more difficult and expensive to attract and retain qualified managers and employees. Expansion of our business, upon available resources, will likely also require additional non-employee board members with business and industry experience. We do not, however, have directors' and officers' liability insurance, which may limit our ability to attract qualified non-employee board members.

### Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and officers and persons who own more than ten percent (10%) of its equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). Directors, officers, and greater than ten percent (10%) shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) reports filed.

To the best of the Company's knowledge, all filing requirements applicable to its officers, directors, and greater than ten percent (10%) shareholders were complied with in a timely manner.

### CODE OF ETHICS

The company has adopted a Code of Ethics applicable to its Chief Executive Officer and Chief Financial Officer. This Code of Ethics is filed herewith as an exhibit.

### Item 10. Executive Compensation

The following table summarizes the compensation paid to or earned by our president. No other officer has received compensation in excess of \$100,000 in any recent fiscal year.

#### SUMMARY COMPENSATION TABLE

NAME AND 2004 PRINCIPAL POSITION	ANNUAL COMPENSATION			LONG-TERM COMPENSATION
	YEAR	SALARY (\$)	BONUS (\$)	SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF OPTIONS
Bernard M. Ciongoli President, CEO, CFO	2004	*	0	0
	2003	*	0	0
	2002	\$132,000*	0	0

\* Pursuant to the terms of Mr. Ciongoli's employment agreement with the Company,

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

Mr. Ciongoli was entitled to a salary of \$150,000 in 2002 and 2003. Because of the Company's financial difficulties, Mr. Ciongoli elected not to receive all of his salary in 2002. Since January 1, 2003 Mr. Ciongoli, moreover, has elected not to receive any salary because of the Company's current financial difficulties. Mr. Ciongoli's unpaid salary is being accrued and shall be paid upon the Company's obtaining adequate resources.

### OPTION GRANTS IN FISCAL YEAR 2004

No options were granted to any named executive officer of Tech Labs in 2004.

Tech Labs has entered into an employment agreement for a term of five (5) years with Mr. Ciongoli, dated as of August 1, 2001, which agreement supersedes the employment agreement that was in effect with Mr. Ciongoli dated October 1, 1998, as amended June 18, 1999, and February 21, 2001. Mr. Ciongoli is compensated under the terms of the employment agreement at the base salary rate of \$150,000 per annum. Mr. Ciongoli is also entitled to receive two percent (2%) of our sales in excess of \$1,000,000 during any year he is employed by us. In addition, Mr. Ciongoli was granted an option, exercisable for five (5) years from the date of grant, to purchase up to 500,000 shares of stock at \$.43 per share, which option vests in increments of 100,000 shares every six (6) months since February 1, 2002. The agreement is automatically renewable for three (3) years unless either party terminates the agreement in writing at least 180 days prior to the expiration of the initial term period.

In addition, in 2001, we granted to Mr. Ciongoli an option to purchase up to 100,000 shares under our 1996 stock option plan exercisable for five (5) years at \$.9625 per share which vest over a period of two (2) years. In 2000, we granted to Mr. Ciongoli (i) a non-plan option in consideration and in recognition of his services to Tech Labs to purchase up to 139,000 shares exercisable over five (5) years at \$2.4375, which vests over the course of three (3) years from the date of grant; and (ii) an option to purchase up to 111,000 shares of common stock under our 1996 stock option plan exercisable for five (5) years at \$2.68125 per share, which vests over a period of three (3) years.

We do not have employment agreements with any other named executive officers. Our directors are not presently compensated.

### Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table describes, as the date of this amended annual report, the beneficial ownership of our common stock by:

- o persons known to us to own more than 5% of such stock, and
- o the ownership of common stock by our directors, and by all officers and directors as a group.

NAME	NUMBER OF SHARES OWNED BENEFICIALLY	% OF COMMON STOCK *
Bernard M. Ciongoli	22,275,500	25.31%
Earl Bjorndal	9,548,184	10.85%
Jeff Sternberg	0	0
Craig Press	0	0
George Kanakis	0	0

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

All officers and Directors as a group (5 persons)	31,823,684	36.16%
--	------------	--------

\* Based on 87,996,785 shares outstanding as of April 14, 2005

Pursuant to the rules and regulations of the Securities and Exchange Commission, shares of common stock that an individual or entity has a right to acquire within 60 days pursuant to the exercise of options or warrants are deemed to be outstanding for the purposes of computing the percentage ownership of such individual or entity, but are not deemed to be outstanding for the purposes of computing the percentage ownership of any other person or entity shown in the table.

### Item 12. Certain Relationships and Related Transactions

None.

### Item 13. Exhibits and Reports on Form 8-K

#### (a) Exhibits

#### EXHIBIT INDEX

31.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350

#### (b) Reports on Form 8-K

On October 7, 2004, the Company filed an 8K based on a change in accountant to Russell & Atkins, PLC and then filed an amendment to the 8K on October 12, 2004.

On November 5, 2004, the Company filed an 8K based on a change in accountant to Demetrius & Co., and then filed an amendment to the 8K on December 22, 2004.

### Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

#### Audit Fees

For the Company's fiscal years ended December 31, 2004 and 2003, the Company was billed approximately \$15,000 and \$20,000 respectively for professional services rendered for the audit and review of its financial statements.

#### Tax Fees

For the Company's fiscal year ended December 31, 2004, the Company incurred \$-0- for preparation of their corporate income tax returns.

#### All Other Fees

The Company did not incur any other fees related to services rendered by its

Edgar Filing: TECH LABORATORIES INC - Form 10KSB

principal accountant for the fiscal years ended December 31, 2004.

TECH LABORATORIES, INC.  
SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 15, 2005

TECH LABORATORIES, INC.

By: /s/ Bernard M. Ciongoli

-----  
Bernard M. Ciongoli  
President

As required by the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/Bernard M. Ciongoli ----- Bernard M. Ciongoli	President, CEO, CFO and Director	April 15, 2005
/s/ Earl M. Bjorndal ----- Earl M. Bjorndal	Vice President and Director	April 15, 2005

TECH LABORATORIES, INC.  
FINANCIAL CODE OF ETHICS

As a public company, it is of critical importance that Tech Laboratories, Inc. ("Tech Laboratories") filings with the Securities and Exchange Commission be accurate and timely. Depending on their position with Tech Laboratories, employees may be called upon to provide information to assure that Tech Laboratories' public reports are complete, fair, and understandable. Tech Laboratories expects all of its employees to take this responsibility seriously and to provide prompt and accurate answers to inquiries related to Tech Laboratories' public disclosure requirements.

Tech Laboratories' Finance Department bears a special responsibility for promoting integrity throughout Tech Laboratories, with responsibilities to stakeholders both inside and outside of Tech Laboratories. The Chief Executive Officer (CEO), Chief Financial Officer (CFO), and Finance Department personnel have a special role both to adhere to the principles of integrity and also to ensure that a culture exists throughout Tech Laboratories as a whole that ensures the fair and timely reporting of Tech Laboratories' financial results and conditions. Because of this special role, the CEO, CFO, and all members of Tech Laboratories' Finance Department are bound by Tech Laboratories' Financial Code of Ethics, and by accepting the Financial Code of Ethics, each agrees that they will:

- Act with honesty and integrity, avoiding actual or actual conflicts of interest in personal and professional relationships.

## Edgar Filing: TECH LABORATORIES INC - Form 10KSB

- Provide information that is accurate, complete, objective, relevant, timely and understandable to ensure full, fair, accurate, timely, and understandable disclosure in the reports and documents that Tech Laboratories files with, or submits to, government agencies and in other public communications.
- Comply with the rules and regulations of federal, state and local governments, and other appropriate private and public regulatory agencies.
- Act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts or allowing one's independent judgment to be subordinated.
- Respect the confidentiality of information acquired in the course of one's work, except when authorized or otherwise legally obligated to disclose. Confidential information acquired in the course of one's work will not be used for personal advantage.
- Share job knowledge and maintain skills important and relevant to stakeholders needs.
- Proactively promote and be an example of ethical behavior as a responsible partner among peers, in the work environment and in the community.
- Achieve responsible use of, and control over, all Tech Laboratories assets and resources employed by, or entrusted to yourself, and your department.
- Receive the full and active support and cooperation of Tech Laboratories' Officers, Sr. Staff, and all employees in the adherence to this Financial Code of Ethics.
- Promptly report to the CEO or CFO any conduct believed to be in violation of law or business ethics or in violation of any provision of this Code of Ethics, including any transaction or relationship that reasonably could be expected to give rise to such a conflict. Further, to promptly report to the Chair of Tech Laboratories' Audit Committee such conduct if by the CEO or CFO or if they fail to correct such conduct by others in a reasonable period of time.