TECH LABORATORIES INC
Form 10QSB
August 21, 2006

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

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006.

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES AND EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM________________ TO________________.

Commission File Number 000-27592

TECH LABORATORIES, INC.
(Exact name of Small Business issuer in its charter)

New Jersey	22-1436279
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

195 Route 9 South, Manalapan, NJ 07726	07508
(Address of principal executive offices)	(zip code)

Registrant's telephone number, including area code: (732) 409-1212

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [_]

The number of shares of Common Stock, par value $.01 per share, outstanding as of the latest practicable date: As of August 21, 2006, there were 195,000,000 shares outstanding.

TECH LABORATORIES, INC.

FORM 10-QSB

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

BASIS OF PRESENTATION

The accompanying reviewed financial statements are presented in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-QSB and item 310 under subpart A of Regulation S-B. 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 only of normal occurring accruals) considered necessary in order to make the financial statements not misleading, have been included. Operating results for the six months ended June 30, 2006 are not necessarily indicative of results that may be expected for the year ending December 31, 2006. The financial statements are presented on the accrual basis.

TECH LABORATORIES, INC.
BALANCE SHEETS

	June 30, 2006 (Unaudited)	D
Current Assets:		
Cash	$ 90,451	$
Prepaid expense	45,625	
Total Assets	$ 136,076	$

Convertible notes	$ 1,276,901	$
Accounts payable and accrued expenses	380,006	
Total current liabilities	1,656,907	
Shareholders' Deficit		
Common stock, $.01 Par Value; 195,000,000 Shares Authorized 195,000,000 and 141,446,880 Shares Issued	1,950,000	
Less: 15,191 Shares Reacquired and held in Treasury	(113)	
	1,949,887	
Capital contributed in excess of par value	4,574,444	
Accumulated deficit	(8,045,162)	
	(1,520,831)	
Total Liabilities and Shareholders' Deficit	$ 136,076	$

See notes to financial statements.

TECH LABORATORIES, INC.
STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		
	2006	2005	20
Sales	$ --	$ 17,166	$
Costs and expenses:			
Cost of sales	--	4,261	
Selling, general, and administrative expense	93,356	175,130	
	93,356	179,391	
Loss from Operations	(93,356)	(162,225)	(
Interest expense	36,288	53,707	

Loss before income taxes	(129,644)	(215,932)	(
Provision for income taxes	--	--	
Net loss	(129,644)	(215,932)	(
(Accumulated deficit), Beg Qtr	(7,915,518)	(6,140,665)	(7,
(Accumulated deficit), End Qtr	(8,045,162)	(6,356,597)	(8,
Net loss per share, basic and diluted	$ --	$ --	$
Weighted average number of common shares and equivalents, basic and diluted	185,244,760	128,668,753	167,

See notes to financial statements.

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

	For the Six Months Ended June 30,	
	2006	2005
Cash flow from (for) operating activities:		
Net loss from operations	$ (299,990)	$ (254
Add (deduct) items not affecting cash:		
Amortization	36,251	9
Capitalized interest	73,239	19
Changes in operating assets and liabilities		
Accounts receivable	--	
Inventories	--	(165
Accounts payable and accrued expenses	68,561	115
Other assets	--	12
Net cash flow used in operating activities	(121,939)	(263
Cash flows provided by investing activities		
Decrease in restricted certificate of deposit	--	1

Net cash flow provided by investing activities	--	1
Cash flows provided by financing activities:		
Proceeds of convertible note	--	160
Net cash flow provided by financing activities	--	160
Net (decrease) in cash	(121,939)	(102
Cash balance beginning of year	212,390	106
Cash balance - end of second quarter	$ 90,451	$ 4
Supplemental schedule of noncash investing and financing activities:		
Conversion of debt to common stock	$ 142,000	$ 50

See notes to financial statements.

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TECH LABORATORIES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTER ENDED JUNE 30, 2006
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements of Tech Laboratories, Inc. ("the Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with Item 310(b) of Regulation SB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended, June 30, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006. 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 for the year ended, December 31, 2005, as filed with the Securities and Exchange Commission.

2. LONG-TERM CONVERTIBLE DEBT

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

On December 27, 2005, the convertible debt of $250,000 was renegotiated with an additional $300,000 plus accrued interest for a total amount of $537,220. The interest rate is 15% per annum and is due upon demand.

Simultaneously with the financing agreement, we issued an Amended and Restated Convertible Debenture to the Investor in the amount of $537,220 to cure the default under the Debenture issued to the Investor on April 5, 2005 in the original amount of $420,514 for not filing a registration statement by the initial filing deadline (the "Amended Debenture"). The Amended Debenture bears a 15% interest rate and a maturity date of December 27, 2006. The debenture is convertible into shares of our common stock at a conversion price equal to the lesser of (a) $0.00525 per share or (b) ninety percent of the lowest Closing Bid Price of the common stock during the ten trading days immediately preceding the conversion date, as quoted by Bloomberg, LP. We are committed to filing an SB-2 Registration Statement with the SEC within 90 days of funding. There are penalty provisions should the filing not become effective within 150 days of filing.

In accordance with EITF 98-5, the Company recognized an imbedded beneficial conversion feature present in the Notes. The Company recognized and measured an aggregate of $149,902 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid-in capital and a discount against the Notes.

3. SETTLEMENT AGREEMENT AND RELEASE

On July 11, 2005 (the "Effective Date"), the Company finalized a Settlement Agreement and Release (the "Agreement") with Bernard Ciongoli and Earl Bjorndal (the "Settlement Parties"). In connection with the Agreement, Mr. Ciongoli resigned from his positions as President, Chief Executive Officer, Chief Financial Officer and member of the Board of Directors of the Company, and agreed to the cancellation of 17,754,806 of his shares of our common stock. Earl Bjorndal resigned from his positions as Vice President and member of the Board of Directors of the Company, and agreed to the cancellation of 8,044,445 of his shares of our common stock. The parties agreed to the transfer of all of the Company's assets, including all technologies and product lines, to the Settlement Parties in exchange for the cancellation of all outstanding obligations owed to the Settlement Parties, including past due salaries and loans due to them, the cancellation of the above mentioned shares, and the assumption of certain liabilities of the Company and the lease by the Settlement Parties. The Agreement grants the Company a seven-year license in the transferred technology, pursuant to which the Company shall have the right to sell the products developed for the DynaTrax technology as a dealer to its customers at a dealer price of 25% off list price. The Company will also receive a royalty of 5% of the profits per year for the sale of DynaTrax products. The Company recorded a loss from this transaction in the amount of $884,574.

Item 2. Management's Discussion and Analysis

Plan of Operation

On July 11, 2005 (the "Effective Date"), we finalized a Settlement Agreement and Release (the "Agreement") with Bernard Ciongoli and Earl Bjorndal (the

"Settlement Parties"). In connection with the Agreement, Mr. Ciongoli resigned from his positions as President, Chief Executive Officer, Chief Financial Officer, and member of the Board of Directors of the Company, and agreed to the cancellation of 17,931,806 of his shares of our common stock. Earl Bjorndal resigned from his positions as Vice President and member of the Board of Directors of the Company, and agreed to the cancellation of 8,044,445 of his shares of our common stock. The parties agreed to the transfer of all of the Company's assets, including all technologies and product lines, to the Settlement Parties in exchange for the cancellation of all outstanding obligations owed to the Settlement Parties, including past due salaries and loans due to them, the cancellation of the above mentioned shares, and the assumption of certain liabilities of the Company and the lease by the Settlement Parties. As part of the Agreement, we agreed to transfer all of the issued and outstanding shares of common stock of Tech Logistics, Inc., our subsidiary to Bernard Ciongoli.

Pursuant to the Agreement, the Settlement Parties granted us a seven-year license in the transferred technology, pursuant to which we shall have the right to sell the products developed from the DynaTrax technology as a dealer to its customers at a dealer price of 25% off list price. We will also receive a royalty of 5% of the profits per year for the sale of DynaTrax products. In exchange for all of the Company's assets, the Settlement Parties agreed to the cancellation of all outstanding obligations owed to the Settlement Parties, including past due salaries and loans due to them; the cancellation of the above mentioned shares; and the assumption of certain liabilities of the Company and the lease by the Settlement Parties.

The Registrant is continuing its efforts to locate a merger Candidate for the purpose of a merger. It is possible that the registrant will be successful in locating such a merger candidate and closing such merger. However, if the registrant cannot effect a non-cash acquisition, the registrant may have to raise funds from a private offering of its securities under Rule 506 of Regulation D. There is no assurance the registrant would obtain any such equity funding.

We will attempt to locate and negotiate with a business entity for the combination of that target company with us. The combination will normally take the form of a merger, stock-for-stock exchange or stock-for-assets exchange. In most instances the target company will wish to structure the business combination to be within the definition of a tax-free reorganization under Section 351 or Section 368 of the Internal Revenue Code of 1986, as amended. No assurances can be given that we will be successful in locating or negotiating with any target company.

A business combination with a target company will normally involve the transfer to the target company of the majority of our issued and outstanding common stock, and the substitution by the target company of its own management and board of directors.

No assurances can be given that we will be able to enter into a business combination, as to the terms of a business combination, or as to the nature of the target company.

Results of Operations

Sales were $-0- for the three and six months ended, June 30, 2006 as compared to $17,166 and $91,280 for the similar periods of 2005.

Cost of sales was $-0- for the three and six months ended, June 30, 2006 because there were no sales.

Selling, administrative, and general expenses decreased by $81,774 for the three months ended, June 30, 2006, compared to the same period of 2005, and decreased by $23,817 for the six months ended June 30, 2006 compared to the same period of 2005 because operations has ceased as a result of the settlement agreement.

Loss from operations for the three months ended, June 30, 2006, was $129,644 compared to the loss of $215,932 for the same period in 2005. Loss from operations for the six months ended June 30, 2006 was $299,490 compared to the loss of $254,211 for the same period in 2005.

SIGNIFICANT CHANGES

None

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities utilized cash of $121,939 during the six months ended, June 30, 2006, as compared to $102,220 during the six months ended, June 30, 2005.

As a result of the continuing operating losses and negative cash flow experienced during 2004, 2005 and the first half of 2006, Tech Labs has a tenuous liquidity position. If alternative financing is not obtained or a suitable merger candidate is not found, substantial doubt exists about Tech Labs' ability to continue as a going concern.

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Item 3. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), as of June 30, 2006. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that our disclosure and controls are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There were no changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls over financial reporting that occurred during the second quarter of fiscal 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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.The parties have entered into a settlement agreement in which Tech Labs is obligated to pay $5,000 to plaintiff.

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, quantim 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. On December 5, 2005, a judgment was rendered by the court to make payment of $204,834.10, including interest.

Item 2. Changes in Securities.

On April 3, 2006, we issued 5,555,556 shares of our common stock to Montgomery Equity Partners, Inc. based on the conversion of $15,000 of a convertible promissory note. The issuance was valued at $15,000 or $.0027 per share.

On April 7, 2006, we issued 4,761,905 shares of our common stock to Montgomery Equity Partners, Inc. based on the conversion of $10,000 of a convertible promissory note. The issuance was valued at $10,000 or $.0021 per share.

On April 28, 2006, we issued 7,317,073 shares of our common stock to Montgomery Equity Partners, Inc. based on the conversion of $15,000 of a convertible promissory note. The issuance was valued at $15,000 or $.00205 per share.

On May 3, 2006, we issued 7,317,073 shares of our common stock to Montgomery Equity Partners, Inc. based on the conversion of $15,000 of a convertible promissory note. The issuance was valued at $15,000 or $.00205 per share.

Item 2. Changes in Securities (Cont'd)

On May 17, 2006, we issued 5,000,000 shares of our common stock to Montgomery

Equity Partners, Inc. based on the conversion of $10,000 of a convertible promissory note. The issuance was valued at $10,000 or $.0020 per share.

On June 7, 2006, we issued 6,535,948 shares of our common stock to Montgomery Equity Partners, Inc. based on the conversion of $10,000 of a convertible promissory note. The issuance was valued at $10,000 or $.00153 per share.

On June 23, 2006, we issued 4,605,263 shares of our common stock to Montgomery Equity Partners, Inc. based on the conversion of $7,000 of a convertible promissory note. The issuance was valued at $7,000 or $.00152 per share.

All of the above issued shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. No commissions were paid for the issuance of such shares. All of the above issuances of shares of our common stock qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance of such shares by us did not involve a public offering. All of the shareholders were sophisticated investors and had access to information normally provided in a prospectus regarding us. The offering was not a "public offering" as defined in Section 4(2) due to the insubstantial number of persons involved in the deal, size of the offering, manner of the offering and number of shares offered. We did not undertake an offering in which we sold a high number of shares to a high number of investors. In addition, all shareholders had the necessary investment intent as required by Section 4(2) since he agreed to and received a share certificate bearing a legend stating that such shares are restricted pursuant to Rule 144 of the 1933 Securities Act. These restrictions ensure that these shares would not be immediately redistributed into the market and therefore not be part of a "public offering." Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for the above transactions.

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

Not Applicable.

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

On January 10, 2006, the Company filed an 8K based on a change in the Board of Directors of the Company.

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TECH LABORATORIES, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 21, 2006

TECH LABORATORIES, INC.

By: /s/ Donna Silverman

Donna Silverman
Chief Executive Officer, Chief Financial
Officer and President

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