TECH LABORATORIES INC
Form 10QSB
May 19, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 205249

FORM 10-QSB

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended March 31, 2004.

[_] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Transition Period from _________ to _________.

Commission File Number 000-27592

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

New Jersey	22-1436279
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
955 Belmont Avenue, North Haledon, NJ	07508
(Address of principal executive offices)	(zip code)

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

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

Yes [X] No [_]

The number of shares of Common Stock, par value $.01 per share, outstanding as of the latest practicable date: As of May 20, 2004, there were 36,104,787 shares outstanding.

Tech Laboratories, Inc.

FORM 10-QSB

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

TECH LABORATORIES, INC.
March 31, 2004 and 2003
Balance Sheet

(unaudited)

ASSETS

	2004	2003
Current Assets:		
Cash	$ 46,199	$ 85,038
Marketable Securities	40,000	40,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of $25,000	17,555	28,887
Inventories	1,326,785	1,655,386
Prepaid Expenses	6,303	6,303
Total Current Assets	$ 1,436,842	$ 1,815,614
Property, Plant, and Equipment, at Cost		
Leasehold Improvements	2,247	2,247
Machinery, Equipment, and Instruments	607,987	607,987
Furniture and Fixtures	110,140	105,287
Total Property, Plant, and Equipment	720,374	715,521
Less: Accumulated Depreciation & Amortization	(432,796)	(414,248)
Net Property, Plant, and Equipment	$ 287,578	$ 301,273
Other Assets	$ 12,059	$ 12,059
Total Assets	$ 1,736,479	$ 2,128,946

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

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TECH LABORATORIES, INC.
March 31, 2004 and 2003
Balance Sheet
(unaudited)

LIABILITIES AND STOCKHOLDERS' INVESTMENTS

	2004	2003
Current Liabilities:		
Defaulted Convertible Notes	$ 1,187,369	$ 1,170,181
Current Portion of Long-Term Debt	30,044	29,751
Short-Term Loans Payable	50,450	54,827
Accounts Payable and Accrued Expenses	125,229	135,644
Other Liabilities	87,692	67,425
Total Current Liabilities	$ 1,480,784	$ 1,460,828
Stockholders' Investment:		
Common Stock, $.01 Par Value; 250,000,000 Shares Authorized: 34,082,719 shares outstanding in 2004, 5,522,415 outstanding in 2003	$ 335,517	$ 49,848
Less: 15,191 Shares Reacquired and Held in Treasury	(113)	(113)
	$ 335,404	$ 49,735
Capital Contributed in Excess of Par Value	$ 4,730,704	$ 4,480,381
Retained Earnings/(Accum. Deficit)	(4,810,413)	(3,861,998)
	$ (79,909)	$ 618,353
Total Liabilities and Stockholders' Equity	$ 1,736,479	$ 2,128,946

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

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TECH LABORATORIES, INC.
Statement of Operations
March 31, 2004 and 2003
(unaudited)

	2004	2003
Sales	$ 51,701	$ 94,327
Costs and Expenses:		
Cost of Sales	29,811	58,165
Selling, General, and Administrative Expense	152,932	62,702
	182,743	120,867
Income/(Loss) from Operations	$ (131,042)	$ (26,540)
Other Income (Expenses):	(29,735)	(18,306)
Income/(Loss) Before Income Taxes	$ (160,777)	$ (44,846)
Provision for Income Taxes	-0-	-0-
Net Income/(Loss)	$ (160,777)	$ (44,846)
Retained Earnings/(Accum. Deficit), Beg. Qtr	(4,649,636)	(3,817,152)
Retained Earnings/(Accum. Deficit), End. Qtr	$(4,810,413)	$(3,861,998)
Earnings Per Share	$ (0.02)	$ (0.01)

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TECH LABORATORIES, INC.

Statements of Cash Flow
March 31, 2004 and 2003
(unaudited)

	2004*	2003*
Cash Flow From (For) Operating Activities:		
Net Income/(Loss) From Operations	$(160,777)	$ (44,846)
Add/(Deduct) Items Not Affecting Cash:		
Depreciation	4,887	7,900
Amortization	-0-	-0-
Accrued expenses and other non-cash expenses	111,934	-0-
Changes in Operating Assets and Liabilities		
Marketable Securities	-0-	-0-
Accounts Receivable	(6,448)	(22,743)
Inventories	(77,008)	80,247
Prepaid Expenses	-0-	-0-
Accounts Payable and Accrued Expenses	(49,771)	3,271
Other Assets/Liabilities	83,784	28,943

Net Cash Flow From (For) Operating Activities	(93,399)	52,772
Cash Flows From (For) Investing Activities	753	3,923
Cash Flow From (For) Financing Activities:		
Defaulted Convertible Notes - repayment	-0-	-0-
Issuance of Common Stock	-0-	-0-
Net Cash Flow From (For) Financing Activities	-0-	-0-
Net Increase/(Decrease) in Cash	(92,646)	56,695
Cash Balance Beginning of Year	138,845	28,343
Cash Balance End of First Quarter	$ 46,199	$ 85,038

* As of March 31, 2004, an aggregate of $685,546 of Convertible Long-Term Debt and accrued interest was converted into Common Stock.

TECH LABORATORIES, INC.

Notes to Financial Statements
For the Quarter Ended March 31, 2004
(unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH - Includes Tech Labs' checking account at Hudson United Bank plus a Demand Money Market Account at Wachovia Securities and Bear Stearns.

REVENUE RECOGNITION - Tech Labs recognizes all revenues when orders are shipped.

ACCOUNTS RECEIVABLE - Tech Labs recognizes sales when orders are shipped to customers. The allowance for bad debts is accrued based on a review of customer accounts receivables aging.

INVENTORIES - Inventories are valued at cost or market, whichever is lower. The FIFO cost method is generally used to determine the cost of the inventories. At December 31, 2002 and 2003, physical inventories were taken and tested. No physical inventory was taken at March 31, 2004.

PROPERTY AND DEPRECIATION - Additions to property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Assets	Estimated Useful Lives
Machinery	5 to 7 years
Furniture & Fixtures	5 to 7 years

Maintenance and repairs are charged to expense as incurred. The cost of betterments is capitalized and depreciated at appropriate rates. Upon retirement or other disposition of property items, cost, and accumulated depreciations are removed from the accounts and any gain or loss is reflected in the statement of income.

INCOME TAXES - Income tax expense is based on reported income and deferred tax credit is provided for temporary differences between book and taxable income.

MARKETABLE SECURITIES - The marketable securities are a time deposit at Hudson United Bank. The amount of this deposit was $40,000 as of December 31, 2003 and March 31, 2004.

(2) INVENTORIES:

Inventories at December 31, 2002 and 2003 were as follows:

	2002	2003	Three Months Ended March 31, 2004
Raw Materials & Finished Components	$ 676,996	$ 463,824	$ 445,655
Work in Process & Finished Goods	$1,058,637	$ 785,953	$ 881,130
	$1,735,633	$1,249,777	$1,326,785

(3) INCOME/(LOSS) PER SHARE:

Pursuant to the provisions of SFAS No. 128, "Earnings Per Share," the Net Income/(Loss) per share was calculated on the weighted average number of shares outstanding during the year ended December 31, 2002, for the year ended December 31, 2003 and for the first quarter of 2004.

Fully Diluted Earnings per share would be based on the assumed conversion of all convertible notes. However, these notes are anti-dilutive and have been excluded. The assumed conversion of all outstanding options and warrants were also excluded due to anti-dilution.

	2002	2003	Three Months ende March 31, 2004
Net Income for the Computation of Basic EPS	(1,241,660)	(832,483)	(160,777)
Shares for Computation of Basic EPS	5,156,679	8,368,992	8,520,680

(4) INCOME TAXES:

At December 31, 2003, the balance of operating loss carryforward was $5,224,216, and at March 31, 2004, the operating loss carryforward was $5,384,993, which can be utilized to offset future taxable income. These operating loss carry-forwards begin to expire in 2014.

(5) CURRENT PORTION OF LONG-TERM DEBT:

Loans payable to banks were as follows for the years indicated:

YEAR ENDED	PAYEE	INTEREST RATE	CURRENT AMOUNT	NON-CURRENT AMOUNT
2002	Hudson United Bank	Prime +1.5%	$31,713	
2003	Hudson United Bank	Prime +1.5%	$30,392	
March 31, 2004	Hudson United Bank	Prime +1.5%	$30,044	

This loan was negotiated in 1995 at an original amount of $35,000 and fluctuated to a maximum of $35,000.

Marketable Securities are pledged as collateral on the above loans.

(6) SHORT-TERM LOANS PAYABLE:

Demand loans payable include loans from third parties. The outstanding loan balances due as of December 31, 2003 was $55,449 and $50,450 as of March 31, 2004, which includes accrued interest for all years. The annual interest rate for these loans ranges between six (6%) percent and ten (10%) percent. In October of 1999, three short-term loans for a total of $200,000 at ten percent (10%) annual interest were completed. Certain contractual revenues were pledged to secure these loans. As of December 31, 2000, $150,000 of such loans were repaid. The remaining $50,000 is outstanding and was due by December 31, 2002, and is now in default.

(7) COMMON STOCK:

In 1999, Tech Labs filed a registration statement on Form SB-2 with the Securities and Exchange Commission. The registration statement was declared effective on February 3, 2000. The offering was completed on May 3, 2000 for total proceeds of $2,273,723.

(8) COMMITMENTS AND CONTINGENCIES:

In 1997 Tech Labs entered into an exclusive agreement with Elektronik Apparatebau (EAG), FUA Safety Equipment and Double T Sports LTD. whereby it received exclusive rights to manufacture and market IDS products until September 30, 2007 in the US, Canada, and South America. Gross profits will be calculated according to GAAP and distributed quarterly 70% to Tech Labs and 30% to FUA until March 2001. Thereafter, until 2007 quarterly distribution will be based on pretax profits in excess of 16% being shared 70% to Tech Labs and 30% to FUA. In addition, FUA will receive a 5% royalty based on the cost of any IDS products Tech Labs manufactures and sells. Since 1997, sales and distributions to FUA have been $1.5 million and $240,000, respectively. This agreement was terminated and unpaid royalties of $13,000 are subject to arbitration.

(9) LONG-TERM CONVERTIBLE DEBT:

On October 13, 2000, Tech Labs completed a $1.5 million dollar financing of 6.5% convertible promissory notes due October 15, 2002. Interest is payable quarterly in cash or in shares of common stock at the option of the noteholders. Tech Labs disclosed all terms of this financing on Form 8-K filed on October 18, 2000. As of March 31, 2004, $685.546 of principal and interest on the 6.5% convertible notes has been converted into shares of Tech Labs' common stock.

(10) On January 11, 2002, Tech Labs entered into a conversion and redemption agreement concerning the Long-term Debt referenced in Note (9). An Event of Default, as defined in the 6.5% convertible notes, occurred on January 25, 2002, when Tech Labs was unable to make the first payment of $750,000 to the holders of the notes.

On April 19, 2002, Tech Labs successfully negotiated a cure of the default referenced above. This cure required that Tech Labs' registration statement, filed with the Securities and Exchange Commission on April 5, 2002, covering the shares underlying the 6.5% convertible notes, to have been declared effective on or before June 29, 2002. If the registration statement was declared effective by such date and Tech Labs made certain payments described in Tech Labs' report on Form 8-K filed April 25, 2002, the maturity date of the 6.5% convertible notes would have been extended from October 13, 2002 to December 30, 2002.

On August 2, 2002, the Company announced that an Event of Default occurred on the 6.5% convertible notes. The Company was unable to have its registration statement declared effective by June 29, 2002, and was unable to reach a new agreement with the holders of the 6.5% convertible notes prior to the expiration of the waiver the Company had been granted by the holders of the notes, which had been granted in order to permit the parties time to negotiate a new agreement. The Company continues to seek a cure for the default with the holders of the 6.5% convertible notes, and in October 2003 Acure was successfully negotiated and is described in the Company's 8-K filed in October, 2003.

(11) GOING CONCERN:

As a result of operating losses and negative cash flows experienced during 2001, 2002 and 2003 Tech Labs has a tenuous liquidity position. If sales do not improve or alternate financing is not obtained,

substantial doubt exists about Tech Labs' ability to continue as a going concern.

(12) PRIOR PERIOD ADJUSTMENT:

Over the course of 2001, Tech Labs issued and distributed 170,000 shares of common stock to Mr. Barry Bendett pursuant to the terms of a consulting agreement the Company entered into with Mr. Bendett on November 13, 2002. Valuing these shares at their market value on their respective dates of issuance and distribution. Tech Labs should have expensed $168,950. This compensation was never expensed. This error is corrected as follows:

FULL YEAR 2001

Closing Balance retained Earnings as reported	$(2,406,542)
Adjustment referenced above	$ (168,950)
Revised December 31, 2001, Closing Balance of Retained Earnings	$(2,575,492)
Net Loss - 2002	$(1,241,660)
December 31, 2002, Retained Earnings after prior period Adjustment	$(3,817,152)

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

The information contained in this section should be read in conjunction with the Consolidated Financial Statements and Notes thereto appearing in this report Form 10-QSB and the Company's Annual Report for the year ended December 31, 2002.

Quarter ending March 31, 2004, compared to Quarter ending March 31, 2003.

Sales were $51,701 for the first quarter of 2004 as compared to $94,327 for the similar period of 2003. This decrease was due to the continuing effects of the economic downturn. The company is seeking long term contracts with major computer companies. The company believes these contracts will provide future growth in its major product, Dyntrax.

Cost of sales of $29,811 for the first quarter of 2004 has been decreased by $28,354 compared to the same period of 2003, primarily due to the sales decline.

Selling, administrative, and general expenses increased by $90,230 compared to the same period of 2003 due to increases in expenses associated with the company's attempts to raise long term capital.

Loss from operations of ($131,042) increased $(104,502) compared to a loss of ($26,540) for the prior period as a direct result of sale declines and expenses incurred to explore long term financing prospects.

Quarter ending March 31, 2004, compared to year ending December 31, 2003.

SIGNIFICANT CHANGES

During the first quarter of 2004, the Company is still suffering from declining sales.

Cash Flow for the first quarter of 2004 was ($92,646) as a result of the reductions in sales caused by the downturn in the telecommunications industry.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities utilized cash of ($92,646) during the three months ended March 31, 2004, as compared to generated cash of $56,695 during the three months ended March 31, 2003.

As a result of operating losses and negative cash flow experienced during 2003, Tech Labs has a tenuous liquidity position. If sales do not improve or alternative financing is not obtained, substantial doubt exists about Tech Labs' ability to continue as a going concern.

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Our Chief Executive Officer and Chief Financial Officer (collectively the "Certifying Officers") maintain a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed, is accumulated and communicated to management timely. Under the supervision and with the participation of management, the Certifying Officers evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule [13a-14(c)/15d-14(c)] under the Exchange Act) within 90 days prior to the filing date of this report. Based upon that evaluation, the Certifying Officers concluded that our disclosure controls and procedures are effective in timely alerting them to material information relative to our company required to be disclosed in our periodic filings with the SEC.

(b) Changes in internal controls.

Our Certifying Officers have indicated that there were no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no such control actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On July 31, 2002, Tawfik Khalil and Amneh Khalil filed a lawsuit in the Superior Court of Passaic County, New Jersey, against Glen Venza, a Company part-time employee, Tech Labs, and certain other parties for property damages and personal injuries. The case arose from a car accident involving Mr. Venza and the plaintiffs, which occurred while Mr. Venza was performing certain duties for Tech Labs in a vehicle Mr. Venza borrowed from a third party. Tech Labs has only been named as a party to the personal injuries, and not for property damages, and believes it is covered for the accident by its insurance policy.

A lawsuit was filed against a subsidiary of the Company, Tech Labs Community Networks, Inc. ("TLCN"), in the Superior Court of New Jersey, Passaic County, on February 20, 2003, claiming that the plaintiff delivered certain goods and services to TLCN and is owed $23,856, plus interest and attorney fees. We disagree that any goods or services were contracted to be provided by the plaintiff, and believe we will prevail in this litigation.

On or about November 1, 2003, we were served with a lawsuit filed by W. T. Sports Limited, Salvatore Griscifi, a former Director, and Edward Branca, a former employee. We have filed a response and counter-claim. The first claim involving Salvatore Griscifi and Mr. Branca has been settled. The second claim is in the process of being settled. The last claim with W. T. Sports Limited is going to arbitration, which is mandatory pursuant to a written agreement entered into between the parties in 1987. We believe W. T. Sports Limited will owe us in excess of the plaintiff's claim.

Item 2. Changes in Securities.

None

Item 3. Defaults Upon Senior Securities.

Not Applicable

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

None

Item 5. Other Information.

None

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

None.

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: May 20, 2003

TECH LABORATORIES, INC.

By: /s/ Bernard M. Ciongoli

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