TECHLABS INC
Form 10QSB
November 19, 2003

U.S. SECURITIES AND EXCHANGE
COMMISSION WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

[ ] 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: 000-26233

TECHLABS, INC.
(Exact name of small business issuer as specified in its charter)

Florida	65-0843965
(State or other jurisdiction of Incorporation or organization)	(IRS Employer Identification No.)

8905 Kingston Pike, Suite 307, Knoxville, TN 37923
(Address of Principal executive offices)

Issuer's telephone number, including area code: (215) 243-8044

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 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 [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 492,964 shares of common stock as of November 12, 2003.

TECHLABS, INC.
Form 10-QSB for the period ended September 30, 2003

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this quarterly report on Form 10-QSB contain or may contain forward-looking statements that are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause our actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, our ability to consummate a merger or business combination, economic, political and market conditions and fluctuations, government and industry regulation, interest rate risk, U.S. and global competition, and other factors. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Readers should carefully review this quarterly report in its entirety, including but not limited to our financial statements and the notes thereto. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

When used in this Quarterly Report on Form 10-QSB, "Techlabs," "we," "our," and "us" refers to Techlabs, Inc., a Florida corporation, and our subsidiaries.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TECHLABS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	September 30, 2003 (unaudited)	December 31, 2002
ASSETS		
Current Assets		
Cash	$ 201	$ 14
Accounts receivable	$ 4,420	$ 9,429
Total Current Assets	4,621	9,443
Web Sites, Property and Equipment, net	55,634	89,447
Intangible and Other Assets		
Intangibles, net	124,778	193,778
	$ 185,033	$ 292,668
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
Current Liabilities		
Accounts payable & accrued expenses	$ 344,120	$ 326,491
Total Current Liabilities	344,120	326,491
Advances from stockholders	90,000	90,000
Total Liabilities	434,120	416,491
STOCKHOLDERS' (DEFICIT)		
Preferred stock - $.001 par value, 25,000,000 shares authorized, 12,500,000 shares Class A Special Preferred issued and outstanding	12,500	12,500
Preferred stock - $.001 par value, 10,000,000 authorized, no shares issued and outstanding	-	-
Preferred stock - $.001 par value, 10,000,000 shares authorized, 225,000 and no shares Class C Preferred Stock issued and outstanding	225	225
Common stock ($.001 par value, 200,000,000 shares authorized, 492,964 shares issued and outstanding)	493	493
Additional paid-in capital	7,983,947	7,983,947
Accumulated deficit	(8,246,252)	(8,120,988)
Total Stockholders' (Deficit)	(249,087)	(123,823)
	$ 185,033	$ 292,668

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

TECHLABS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
Three Months and Nine Months Ended September 30, 2003 and 2002

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Revenue				
Net revenue	$ 3,685	$ 14,961	$ 14,203	$ 48,241
Selling, general and administrative expenses	6,030	9,637	35,484	50,922
Depreciation and amortization expense	34,271	34,181	102,633	102,543
Operating loss	(36,616)	(28,857)	(123,914)	(105,224)
Other income (expense)				
Realized (loss) on investment securities	-	-	-	(10,000)
Interest expense	-	(10,000)	(1,350)	(29,547)
Total other income (expense)	-	(10,000)	(1,350)	(39,547)
Net loss	$ (36,616)	$(38,857)	$(125,264)	$(144,771)
Earnings per share:				
Basic and diluted loss per common share	$ (0.07)	$ (0.52)	$ (0.25)	$ (1.91)
Basic and diluted weighted average shares outstanding	492,964	75,908	492,964	75,908

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

TECHLABS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2003 and 2002

	2003	2002
Operating Activities		
Net loss	$(125,264)	$(144,771)
Adjustments to reconcile net loss to net cash used in operating activities		
Realized loss on investment securities	-	10,000
Amortization and depreciation	102,827	102,543
Changes in operating assets and liabilities:		
(Increase)decrease in accounts receivable	5,009	(9,657)
Increase in accounts payable	17,629	66,147
Net Cash Provided By (Used In)		

Operating Activities	201	24,262
Investing Activities		
Proceeds from sale of investment securities	-	(40,000)
Net Cash Used by Investing Activities	-	(40,000)
Financing Activities		
Net payment on advances from stockholders	-	(58,910)
Net Cash Provided by Financing Activities	-	(58,910)
Change in Cash and Cash Equivalents	-	5,352
Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	$ 201	$ 5,352
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Proceeds from sale of stock	$ -	$ 40,000
Repayments to stockholders	-	(40,000)
	$ -	$ -

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

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TECHLABS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

BUSINESS. The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions of Form 10- QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustment (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months and nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2003. For further information, please refer to our audited financial statements and footnotes thereto for the fiscal year ended December 31, 2002 included in our Annual Report on Form 10-KSB as filed with the Securities and Exchange Commission.

GOING CONCERN. The accompanying financial statements have been prepared assuming that Techlabs will continue as a going concern. As shown in the accompanying financial statements, Techlabs incurred a net loss of $125,264 during the nine months ended September 30, 2003 and has an accumulated deficit of $8,246,252 at September 30, 2003. Although a substantial portion of Techlab's cumulative net loss is attributable to non-cash operating expenses, we believe that we will need additional equity or debt financing to be able to sustain our operations until we can achieve profitability, if ever. These matters raise substantial doubt about Techlabs ability to continue as a going concern.

The accompanying financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classifications of liabilities that might be necessary should Techlabs be unable to continue as a going concern.

NOTE 2. STATEMENT OF CASH FLOWS SUPPLEMENTAL DISCLOSURE

During the nine months ended September 30, 2003 Techlabs paid no income taxes.

NOTE 3. REALIZED LOSS ON INVESTMENT SECURITIES.

In May 1999, we purchased for cash consideration of $50,000 a minority interest consisting of 50,000 shares of convertible preferred stock in Focalex, Inc. a privately- held company. The investment was recorded at cost. In January 2002 Thomas J. Taule, who served as our president and a member of our board of directors from April 1999 until February 1, 2002, sold the interest in Focalex back to that company for $40,000. The transaction had not previously been disclosed to us, had not been authorized by our board of directors, and we did not become aware of the transaction until May 2002; the proceeds from the sale were not received by us.

Our income statement for the nine months ended September 30, 2002 reflects a realized loss on investment securities of $10,000 which is the difference between the historical cost and the amount received by our former president and we have offset the proceeds of $40,000 received by him as a reduction in the long-term note payable to shareholders in the original principal amount of $45,000 due him by Techlabs.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

For the three months ended September 30, 2003, we reported net revenues of $3,685 as compared to net revenues of $14,961 for the comparable three month period in fiscal 2002, a decrease of approximately 75%. For the nine months ended September 30, 2003, we reported net revenues of $14,203 as compared to net revenues of $48,241 for the comparable nine month period in fiscal 2002, a decrease of approximately 71%. Revenues represents fees earned by us from the rental of our StartingPoint.com email list to ResponseBase, a third party direct marketing company. ResponseBase is presently our sole source of revenues and at this time we are materially reliant on revenues from this customer.

Selling, general and administrative expenses were $6,030 and $35,484 for the three months and nine months ended September 30, 2003, respectively, as compared to $9,637 and $50,922, respectively, for the comparable periods in fiscal 2002. Included in our SG&A expenses for the nine months ended September 30, 2003 included a bad debt write off of $9,330. We believe our SG&A expenses will continue at this approximate level in future quarters during the balance of fiscal 2003, absent any material change in our business and operations.

Other income (expense) for the three months ended September 30, 2003 and 2002 included $ 0 and $10,000, respectively, of interest expense due on loans made to us by our stockholders. Other income (expense) for the nine months ended September 30, 2003 and 2002 included $ 1,350 and $29,547, respectively, of interest expense due on loans made to us by our stockholders. In addition, during the nine months ended September 30, 2002 we reported a $10,000 realized loss on investment securities as described in Note 3 of the Notes to Consolidated Financial Statements (unaudited) appearing elsewhere in this report. We had no comparable transaction in the nine months ended September 30, 2003.

Our net loss for the three months ended September 30, 2003 was $36,616 as compared to a net loss of $38,857 for the three months ended September 30, 2002. Our net loss for the nine months ended September 30, 2003 was $125,264 as compared to a net loss of $144,771 for the nine months ended September 30, 2002.

During the balance of fiscal 2003 we will continue to seek to establish partnerships or joint ventures with third parties whereby we can either license our assets or enter into some form of a business combination so that we can generate revenues from these assets and maximize their value. In addition, we are also seeking a private company with which we can consummate a merger or acquisition. We are seeking a business combination target that has historical operations and earnings, experienced management and which operates in an industry which provides opportunity for growth. We anticipate that business opportunities will be available to us through the

contacts of our management and our attorneys. We have not identified any potential business opportunities as of the date of this report, and we cannot assure you that we will locate targets which meet our criteria. Even if we are successful in locating such a target, we cannot assure you that we will be successful in negotiating and closing such a business combination.

Liquidity and Capital Resources

At September 30, 2003, we had a working capital deficit of $ 339,499 compared to a working capital deficit of $ 317,048 at December 31, 2002. Net cash provided by operating activities for the nine months ended September 30, 2003 was $201 as compared to $24,262 for the nine months ended September 30, 2003. Net cash used by investing activities as $0 for the nine months ended September 30, 2003 as compared to $40,000 for the nine months ended September 30, 2002. Net cash provided by financing activities for the nine months ended September 30, 2003 was $ 0 as compared to net cash used by financing activities of $58,910 for the comparable period in fiscal 2002.

At September 30, 2003 we have an accumulated deficit of $8,246,252, and the report from of our independent auditor on our audited financial statements at December 31, 2002 contained a going concern modification. We will continue to incur losses during the foreseeable future and have yet to achieve revenues sufficient to offset direct expenses and corporate overhead. We do not have any present commitments for capital expenditures. Our principal shareholder has historically advanced us funds from time to time for operating expenses and it has agreed to provide us with a $250,000 working capital line. While this line of credit is sufficient to fund our operations at current levels, if we wish to expand our operations, or to enter into business combinations with as yet unidentified third parties, we will need additional working capital beyond the commitment from our principal shareholder. We cannot guarantee you that we will be successful in obtaining capital upon terms acceptable to us, if at all. Our failure to secure necessary financing could have a material adverse effect on our financial condition and results of operations.

ITEM 3. CONTROLS AND PROCEDURES

Our management, which includes our President who is our sole officer and director, has conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-14(c) promulgated under the Securities and Exchange Act of 1934, as amended) as of September 30, 2003 (the "Evaluation Date"). Based upon that evaluation, our President has concluded that our disclosure controls and procedures are effective for timely gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934, as amended. There have been no significant changes made in our internal controls or in other factors that could significantly affect our internal controls subsequent to the Evaluation Date.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

31.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned as duly authorized.

Techlabs, Inc.

By: /S/ Jayme Dorrough

Jayme Dorrough
President

Dated: November 19, 2003

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