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TECH LABORATORIES INC
Form 10QSB
August 19, 2003

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

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2003

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from

Commission File No. 000-30172

TECH LABORATORIES, INC.

(Exact name of small business issuer as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

22-1436279
(I.R.S. Employer
Identification No.)

955 Belmont Avenue, North Haledon, NJ 07508
(Address of Principal Executive Offices)

(973) 427-5333
(Issuer's telephone number)

(Former name, address and fiscal year, if changed since last report)

Check whether the issuer (1) has filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for
such shorter period that the issuer was required to file such reports), and (2)
has been subject to such filing requirements for the past 90 days.
Yes No

State the number of shares outstanding of each of the issuer's classes of common
equity, as of August 14, 2003: 5,522,416 shares of common stock outstanding,
\$0.01 par value.

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Item 1. Financial Information

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 six months ended June 30, 2003 are not necessarily indicative of results that may be expected for the year ending December 31, 2003. The financial statements are presented on the accrual basis.

TECH LABORATORIES, INC.
June 30, 2003 and 2002
Balance Sheet

(unaudited)

ASSETS

	2002

Current Assets:	
Cash	\$ 200,334
Marketable Securities	40,000

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Accounts Receivable, Net of		191,694
Allowance for Doubtful Accounts of \$25,000		2,178,496
Inventories		6,303
Prepaid Expenses		-----
Total Current Assets		\$2,616,827

Property, Plant, and Equipment, at Cost		
Leasehold Improvements		2,247
Machinery, Equipment, and Instruments		599,975
Furniture and Fixtures		98,979

Total Property, Plant, and Equipment		701,201
Less: Accumulated Depreciation & Amortization		(389,573)

Net Property, Plant, and Equipment		\$ 311,628

Other Assets		\$ 12,059

Total Assets		\$2,940,514
		=====

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

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TECH LABORATORIES, INC.
June 30, 2003 and 2002
Balance Sheet

(unaudited)

LIABILITIES AND STOCKHOLDERS' INVESTMENTS

		2002

Current Liabilities:		
Defaulted Convertible Notes		\$ 1,115,217
Current Portion of Long-Term Debt		32,661
Short-Term Loans Payable		49,072
Accounts Payable and Accrued Expenses		64,093
Other Liabilities		1,960

Total Current Liabilities		\$ 1,263,803

Stockholders' Investment:		

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Common Stock, \$.01 Par Value; 25,000,000 Shares Authorized:

5,143,530 shares outstanding in 2002 and 2003	\$ 49,848
Less: 15,191 Shares Reacquired and Held in Treasury	(113)

\$ 49,735

Capital Contributed in Excess of Par Value

\$ 4,567,916

Retained Earnings/(Accum. Deficit)

(2,940,940)

\$1,676,711

Total Liabilities and Stockholders' Equity

\$ 2,940,514

=====

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

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TECH LABORATORIES, INC.
Statement of Operations
June 30, 2003 and 2002

(unaudited)

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2003	2002	2003	2002
	-----	-----	-----	-----
Sales	\$ 75,688	\$ 171,859	\$ 170,015	\$ 294,6
	-----	-----	-----	-----
Costs and Expenses:				
Cost of Sales	55,290	113,427	113,455	195,7
Selling, General, and Administrative Expense	13,538	262,112	76,240	426,7
	-----	-----	-----	-----
	68,828	375,539	189,695	622,4
	-----	-----	-----	-----
Income/(Loss) from Operations	\$ 6,860	\$ (203,680)	(19,680)	(327,8
	-----	-----	-----	-----
Other Income (Expenses):				
Interest Income	73	1,854	192	3,3
Interest Expense	\$ (18,425)	\$ (21,173)	\$ (36,850)	\$ (41,0
	-----	-----	-----	-----

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	\$ (18,352)	\$ (19,319)	\$ (36,658)	\$ (37,6
Income/(Loss) Before Income Taxes	\$ (11,492)	\$ (222,999)	\$ (56,338)	\$ (365,4
Provision for Income Taxes	0	0	0	
	-----	-----	-----	-----
Net Income/(Loss)	\$ (11,492)	\$ (222,999)	\$ (56,338)	\$ (365,4
Retained Earnings/(Accum. Deficit), Beg.	(3,861,998)	(2,717,941)	(3,817,152)	(2,575,4
	-----	-----	-----	-----
Retained Earnings/(Accum. Deficit), End.	(3,873,490)	(2,940,940)	(3,873,490)	(2,940,9
	-----	-----	-----	-----
Earnings Per Share	\$ 0	\$ (0.04)	\$ (0.01)	\$ (0.0
	-----	-----	-----	-----

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

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TECH LABORATORIES, INC.

Statements of Cash Flow
For the Six Months Ended
June 30, 2003 and 2002

(unaudited)

	2003	2002
	-----	-----
Cash Flow From (For) Operating Activities:		
Net Income/(Loss) From Operations	\$ (56,338)	\$ (365,448)
Add/(Deduct) Items Not Affecting Cash:		
Depreciation/Amortization	15,034	15,673
Changes in Operating Assets and Liabilities		
Marketable Securities	--	--
Accounts Receivable	(71,294)	(79,494)
Inventories	98,846	(103,017)
Accounts Payable	(9,734)	(18,131)
Other Assets/Liabilities	25,428	(5,602)
	-----	-----
Net Cash Flow From (For) Operating Activities	1,942	(556,019)
	-----	-----
Cash Flows From (For) Investing Activities		
Addition of Machinery and Equipment	2,828	(78,562)
	-----	-----

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Net Cash Flow From (For) Investing Activities:	2,828	(78,562)
	-----	-----
Cash Flow From (For) Financing Activities		
Acquisition/(Repayment) of Short/Long Term Debt	-0-	(58,588)
Issuance of Common Stock	-0-	1,500
	-----	-----
Net Cash Flow From (For) Financing Activities	-0-	(57,088)
	-----	-----
Net Increase/(Decrease) in Cash	\$ 4,770	\$ (691,668)
Cash Balance Beginning of Year	28,343	892,003
	-----	-----
Cash Balance End of Second Quarter	\$ 33,113	\$ 200,334
	-----	-----

Significant Non-Cash Financing Activities:

- o As of June 30, 2002, \$369,625 of Convertible Long-Term Debt was converted into common stock on a cumulative basis.

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

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TECH LABORATORIES, INC.

Notes to Financial Statements For the Quarter Ended June 30, 2003 (unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH - Includes Tech Labs' checking account at Hudson United Bank plus a Demand Money Market Account at Prudential 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, 2001 and 2002, physical inventories were taken and tested. No physical inventory was taken at June 30, 2003.

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:

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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, 2002, March 31, 2003 and June 30, 2003.

(2) INVENTORIES:

Inventories were as follows:

	Dec.31, 2002 ----	Three Months Ended March 31, 2003 -----	Six Months Ended June 30, 2003 -----
Raw Materials & Finished Components	\$ 676,996	\$ 554,683	\$ 523,254
Work in Process & Finished Goods	\$1,058,651	\$ 1,100,703	1,113,533
	-----	-----	-----
	\$1,735,633	\$ 1,655,386	\$ 1,636,787
	-----	-----	-----

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(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, 2001, for the year ended December 31, 2002, and for the second quarter of 2003.

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.

2001	2002
----	----

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Net Income for the Computation of Basic EPS	(1,026,432)	(1,241,660)
	=====	=====
Shares for Computation of Basic EPS	4,562,832	5,156,679
	=====	=====

(4) INCOME TAXES:

At December 31, 2002, the balance of operating loss carryforward was \$4,391,733, and at June 30, 2003, the operating loss carryforward was \$4,448,071, 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
-----	-----	-----	-----
2001	Hudson United Bank	Prime +1.5%	\$33,347
2002	Hudson United Bank	Prime +1.5%	\$31,713
June 30, 2003	Hudson United Bank	Prime +1.5%	\$30,973

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, 2002 was \$56,815 and \$53,231 as of June 30, 2003, 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.

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(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

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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 \$1.4 million and \$198,200. \$8,000 of distributions are still owed.

(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, 2003, \$373,730 of principal 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.

(11) GOING CONCERN:

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

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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

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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)

(13) ADDITIONAL BORROWING:

The Company signed a promissory note in the principal amount of \$12,000, dated April 8, 2003, which was due May 8, 2003 and is presently outstanding and in default.

Item 2. Management's Discussion and Analysis of Financial Conditions 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 June 30, 2003, compared to Quarter ending June 30, 2002.

Sales were \$75,688 for the second quarter of 2003 as compared to \$171,859 for the similar period of 2002. This decrease was due to the continuing effects of the economic downturn.

Cost of sales of \$55,290 for the second quarter of 2003 has been decreased by \$58,137 compared to the same period of 2002, primarily due to the sales decline.

Selling, administrative, and general expenses decreased by \$248,574 compared to the same period of 2002 due to reductions in marketing, sales, and administrative expense necessitated by sales reductions.

Income from operations of \$6,860 improved \$210,540 compared to a loss of (\$203,680) for the prior period as a direct result of cost reductions.

Six months ending June 30, 2003, compared to year ending December 31, 2002.

SIGNIFICANT CHANGES

During the first six months of 2003, the Company is still suffering from the economic downturn.

Cash Flow for the first six months of 2003 was a positive \$4,770 as a result of the reductions in current assets necessitated by the continuing economic downturn in the telecommunications industry.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities generated cash of \$4,770 during the six months ended June 30, 2003, as compared to utilizing cash of (\$691,668) during the six months ended June 30, 2002.

As a result of operating losses and negative cash flow experienced during 2002, 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

As of June 30, 2003, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including our Chief Executive Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2003. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to June 30, 2003.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities.

None

Item 3. Defaults Upon Senior Securities.

None

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

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None

Item 5. Other Information.

None

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

(a) Exhibits

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

(b) Reports of Form 8-K

A Form 8-K was filed under Item 5 - Other Events on June 11, 2003 (SEC File #000-30172)

SIGNATURES

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

TECH LABORATORIES, INC.

Date: August 18, 2003

/s/ Bernard M. Ciongoli

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

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CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Bernard M. Ciongoli, President, Chief Executive Officer, and Chief Financial Officer of Tech Laboratories, Inc. certify that:

1. I have reviewed this quarterly report on Form 10-Q for the Tech Laboratories, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report.
3. Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operation, and

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cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 18, 2003

By: /s/ Bernard M. Ciongoli

President, Chief Executive Officer, and
Chief Financial Officer

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