TECH LABORATORIES INC
Form 10QSB
August 19, 2002

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 June 30, 2002.

[_] 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 August 15, 2002, there were 5,389,029 shares outstanding.

Tech Laboratories, Inc.

FORM 10-QSB

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

TECH LABORATORIES, INC.
June 30, 2001 and 2002
Balance Sheet

(unaudited)

ASSETS

	2001	2002
Current Assets:		
Cash	$ 2,016,546	$ 200,334
Marketable Securities	79,116	40,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of $25,000	154,467	191,694
Inventories	1,532,319	2,178,496
Prepaid Expenses	4,055	6,303
Total Current Assets	$ 3,786,503	$ 2,616,827
Property, Plant, and Equipment, at Cost		
Leasehold Improvements	2,247	2,247
Machinery, Equipment, and Instruments	534,440	599,975
Furniture and Fixtures	91,851	98,979
Total Property, Plant, and Equipment	$ 628,583	$ 701,201

Less: Accumulated Depreciation & Amortization	(358,670)	(389,573)
Net Property, Plant, and Equipment	$ 269,868	$ 311,628
Other Assets	$ 12,059	$ 12,059
Total Assets	$ 4,068,430	$ 2,940,514

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

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TECH LABORATORIES, INC.
June 30, 2001 and 2002
Balance Sheet

(unaudited)

LIABILITIES AND STOCKHOLDERS' INVESTMENTS

	2001*	2002
Current Liabilities:		
Defaulted Convertible Notes	$ 0	$ 1,115,217
Current Portion of Long-Term Debt	34,444	32,661
Short-Term Loans Payable	73,593	49,872
Accounts Payable	57,100	64,093
Other Liabilities	71,077	1,960
Total Current Liabilities	$ 236,214	$ 1,263,803
Long-Term Convertible Notes	$ 1,228,774	0
Stockholders' Investment:		
Common Stock, $.01 Par Value; 10,000,000 Shares Authorized in 2001, 25,000,000 Shares Authorized in 2002	$ 48,060	$ 49,886
Less: 15,191 Shares Reacquired and Held in Treasury	(113)	(151)
	$ 47,947	$ 49,735
Capital Contributed in Excess of Par Value	$ 4,480,718	$ 4,567,916
Retained Earnings/(Accum. Deficit)	(1,925,223)	(2,940,940)
	$ 2,603,442	$ 1,676,711
Total Liabilities and Stockholders' Equity	$ 4,068,430	$ 2,940,514

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* Restated for prior period adjustment. See Note 13.

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

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TECH LABORATORIES, INC.
Statement of Operations
June 30, 2001 and 2002

(unaudited)

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2001*	2002	2001*	2002
Sales	$ 154,278	$ 171,859	$ 360,478	$ 294,6
Costs and Expenses:				
Cost of Sales	65,914	113,427	226,864	195,7
Selling, General, and Administrative Expense	157,450	262,112	509,485	426,7
	223,364	375,539	736,349	622,4
Income/(Loss) from Operations	$ (69,086)	$ (203,680)	(375,871)	(327,8
Other Income (Expenses):				
Interest Income	21,317	1,854	50,212	3,3
Interest Expense	$ (26,129)	$ (21,173)	$ (50,504)	$ (41,0
	$ (4,812)	$ (19,319)	$ (282)	$ (37,6
Income/(Loss) Before Income Taxes	$ (73,898)	$ (222,999)	$ (376,163)	$ (365,4
Provision for Income Taxes	0	0	0	
Net Income/(Loss)	$ (73,898)	$ (222,999)	$ (376,163)	$ (365,4
Retained Earnings/(Accum. Deficit), Beg.	(1,851,325)	(2,717,941)	(1,549,060)	(2,575,4
Retained Earnings/(Accum. Deficit), End.	(1,925,223)	(2,940,940)	(1,925,223)	(2,940,9
Earnings Per Share	$ (0.02)	$ (0.04)	$ (0.08)	$ (0.

* Restated for prior period adjustment. See Note 13.

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

TECH LABORATORIES, INC.

Statements of Cash Flow
For the Six Months Ended
June 30, 2001 and 2002

(unaudited)

	2001*	2002
Cash Flow From (For) Operating Activities:		
Net Income/(Loss) From Operations	$ (376,163)	$ (365,448)
Add/(Deduct) Items Not Affecting Cash:		
Depreciation/Amortization	16,099	15,673
Stock Compensation	130,450	--
Changes in Operating Assets and Liabilities		
Marketable Securities	(14,783)	--
Accounts Receivable	(60,515)	(79,494)
Inventories	(245,481)	(103,017)
Accounts Payable	24,139	(18,131)
Other Assets/Liabilities	89,918	(5,602)
Net Cash Flow From (For) Operating Activities	(436,316)	(556,019)
Cash Flows From (For) Investing Activities		
Addition of Machinery and Equipment	(77,588)	(78,562)
Net Cash Flow From (For) Investing Activities:	(77,588)	(78,562)
Cash Flow From (For) Financing Activities		
Acquisition/(Repayment) of Short/Long Term Debt	(86,660)	(58,588)
Issuance of Common Stock	93,664	1,500
Net Cash Flow From (For) Financing Activities	7,004	(57,088)
Net Increase/(Decrease) in Cash	$ (506,900)	$ (691,668)
Cash Balance Beginning of Year	2,523,446	892,003
Cash Balance End of Second Quarter	$ 2,016,546	$ 200,334

Significant Non-Cash Financing Activities:

- As of June 30, 2001, $204,884 of Convertible Long-Term Debt was converted into common stock.

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

* Restated for prior period adjustment. See Note 13.

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

TECH LABORATORIES, INC.
Notes to Financial Statements
For the Quarter Ended June 30, 2002
(unaudited)

(1) Summary of Significant Accounting Policies for Tech Laboratories, Inc. (the "Company" or "Tech Labs").

CASH -- Includes Tech Labs' checking account at Hudson United Bank and money market accounts 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 a physical inventory was taken and tested. No physical inventory was taken on June 30, 2002.

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 expenses as incurred. The cost of betterments is capitalized and depreciated at appropriate rates. Upon retirement or other disposition of property items, cost and accumulated depreciation 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 at December 31, 2001, and $40,000 at June 30, 2002.

(2) Inventories. Inventories at December 31, 2001, and June 30, 2002, were as follows:

	2001	2002

Raw Materials & Finished Components	$ 993,666	$1,044,830
Work in Process & Finished Goods	1,081,813	1,133,666
	$2,075,479	$2,178,496

(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 for the first six months and the second quarter of 2002.

Fully Diluted Earnings per share would be based on the assumed conversion of all convertible notes and all outstanding options and warrants. However, due to Anti-Dilution, these assumed conversions have been excluded.

	Three Months Ended June 30, 2002	Six Months Ended June 30, 2002
Net Income for the Calculation of Basic EPS	(222,999)	(365,448)
Shares for Computation of Basic EPS	5,213,055	5,213,055

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(4) Income Taxes.

Since the Company has an operating loss carryforward of $3,150,073 as of December 31, 2001, no interperiod tax allocation was made.

(5) Current Portion of Long-Term Debt.

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

PERIOD ENDED	PAYEE	INTEREST RATE	CURRENT AMOUNT	NON-CURRENT AMOUNT
2001	Hudson United Bank	Prime +1.5%	$33,347	---
March 31, 2002	Hudson United Bank	Prime +1.5%	$33,074	---
June 30, 2002	Hudson United Bank	Prime +1.5%	$32,661	---

Marketable securities are pledged as collateral on the above loan.

(6) Short-Term Loans Payable.

Demand loans payable include loans from third parties. The outstanding loan balance due as of December 31, 2001, was $63,789, $53,427 as of March 31, 2002, and $4,9872 as of June 30, 2002. The annual interest rate for these loans ranged between six percent (6%) and ten percent (10%). 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 balance remains outstanding and is due December 31, 2002.

(7) Common Stock.

In 1999, Tech Labs filed a registration statement with respect to a self-underwritten public offering to raise between $2,000,000 (minimum) and $3,500,000 (maximum). This offering was completed on May 3, 2000, for total proceeds of $2,273,723.

(8) Commitments and Contingencies.

In 1997, the Company 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 the Company and 30% to FUA until March 2001. Thereafter, until 2007, quarterly distribution will be based on pretax profits in excess of 15% being shared 70% to the Company and 30% to FUA. In addition, FUA will receive a 5% royalty based on the cost of any IDS products the Company manufactures and sells. Since 1997, sales to FUA have been $1.4 million and commissions have been $219,324.

(9) Long-Term Convertible Debt.

On October 13, 2000, the Company completed a $1.5 million financing of 6.5% convertible promissory notes (the "Convertible Notes") due October 15, 2002. Interest is payable quarterly in cash or in shares of common stock at the option of the noteholders. The Company disclosed all terms of this financing in Form 8-K filed on October 18, 2000. As of June 30, 2002, $369,625 of principal on the Convertible Notes has been converted into shares of the Company's common stock.

(10) Additional Convertible Note Disclosure.

On January 11, 2002, the Company entered into a redemption and conversion agreement concerning the Long-Term Debt referenced in Note (9). An Event of Default, as defined in the Convertible Notes occurred on January 25, 2002, when the Company was unable to make the first payment of $750,000 to the holders of the Notes.

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

(11) Subsequent Event.

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 filed April 5, 2002 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 noteholders, 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 Convertible Notes.

(12) Going Concern.

As a result of operating losses and negative cash flows experienced during 2001, Tech Labs has a tenuous liquidity position. If sales do not improve or alternate financing is not obtained, substantial doubt exists about the Company's ability to continue as a going concern.

(13) 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, 2000. 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 first six months 2002	(365,448)
June 30, 2002, Retained Earnings after Prior Period Adjustment	$(2,940,940)

The effect of this re-statement will be to increase selling, general, and administrative expenses, and reduce Net Income by ($130,450) for the first half of 2001, and by ($24,500) for the second quarter of 2001.

For comparative purposes, the six months ended June 30, 2001, have been re-stated and are so noted in the Company's financial statement presentation for June 30, 2002.

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, 2001.

Quarter ending June 30, 2002, compared to quarter ending June 30, 2001.

Sales were $171,859 for the second quarter of 2002 as compared to $154,278 for the similar period of 2001. This increase is minor and the Company is still suffering the effects of the economic downturn which began in 2001.

Cost of sales of $113,427 for the second quarter of 2002 have increased by $47,513 compared to the same period of 2001, primarily due to increased sales of IDS Sensors in 2002 versus DynaTraX(TM) in 2001. IDS Sensors have a higher cost than DynaTraX(TM).

Selling, administrative, and general expenses increased by $104,662 compared to the same period of 2001 due to increased professional fees, which were the result of the Company's efforts to raise additional capital, the Event of Default occurring under the terms of the Convertible Notes and the subsequent attempted negotiations to cure the Event of Default.

Income from operations of ($222,999) declined $149,101 compared to a loss of ($73,898) for the prior period as a direct result of increases in cost of sales due to Product net Change and higher professional fees.

Six months ending June 30, 2002, compared to year ending December 31, 2001.

SIGNIFICANT CHANGES

During the first half of 2002, the Company continues to suffer from the current economic downturn.

Cash Flow for the first half of 2002 was negative ($690,169) as a result of the economic downturn.

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PART II. OTHER INFORMATION

Item 3. Defaults Upon Senior Securities.

On August 2, 2002, the Company announced that an Event of Default occurred under the terms of 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 noteholders on April 19, 2002 (the "Amended Redemption Agreement"), and was unable to reach a new agreement with the noteholders of the Convertible Notes prior to the expiration of the waiver the Company had been granted by the noteholders, 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.

As of July 31, 2002, the outstanding principal and interest under the Convertible Notes was $1,221,611.

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

(b) Reports on Form 8-K.

On July 8, 2002, the Company filed a current report on Form 8-K reporting under Item V (Other Events) that the Company issued a press release on July 2, 2002, announcing that it had entered into an agreement pursuant to which the holders of its 6.5% convertible promissory notes agreed to waive any defaults until July 15, 2002, that may otherwise have occurred under the Amended Redemption Agreement dated April 19, 2002, in order to allow the parties time to negotiate revised terms of their agreement.

On July 18, 2002, the Company filed a current report on Form 8-K reporting under Item V (Other Events) that the Company had issued a press release announcing that it had entered into an agreement pursuant to which the holders of its 6.5% convertible promissory notes agreed to waive any defaults until July 30, 2002, that may otherwise have occurred under the Amended Redemption Agreement, in order to allow the parties time to negotiate revised terms of their agreement.

On August 6, 2002, the Company filed a current report on Form 8-K reporting under Item V (Other Events) that the Company had issued a press release announcing that an Event of Default occurred under its outstanding 6.5% convertible promissory notes. As of July 31, 2002, the outstanding principal and interest under the notes was $1,221,611. The Event of Default occurred due to the fact that the waiver the Company had been granted by the noteholders waiving any event of default under the notes, including the requirement to have declared effective on or before June 29, 2002, the registration statement covering the shares underlying the notes had expired without the Company and the noteholders having reached a new agreement.

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 19, 2002

TECH LABORATORIES, INC.

By: /s/ Bernard Ciongoli

Bernard Ciongoli
Chief Financial Officer
(Principal Financial Officer and Chief
Accounting Officer)