

Edgar Filing: TECHLABS INC - Form 10QSB

TECHLABS INC  
Form 10QSB  
May 15, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 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  
-----

(State or other jurisdiction of  
Incorporation or organization)

65-0843965  
-----

(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  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 April 30, 2003.

TECHLABS, INC.  
Form 10-QSB for the period ended March 31, 2003

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## 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.

## INDEX

Part I. Financial Information	
Item 1. Financial Statements	
Consolidated Balance Sheet at March 31, 2003 (unaudited) and December 31, 2002.....	1
Consolidated Statements of Operations (unaudited) for the three months ended March 31, 2003 and 2002.....	2
Consolidated Statements of Change in Stockholders' Equity for the Period from January 1, 2001 to March 31, 2003.....	3
Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2003 and 2002.....	4
Notes to Consolidated Financial Statements (unaudited) .....	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations .....	6
Item 3. Controls and Procedures.....	7
Part II Other Information.....	7

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### PART I. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

#### TECHLABS, INC. AND SUBSIDIARIES Consolidated Balance Sheets

	March 31, 2003 (unaudited)	December 31, 2002
<b>ASSETS</b>		
Current Assets		
Cash .....	\$ -	\$ 14
Accounts receivable .....	9,104	9,429
Total Current Assets	9,104	9,443
Web Sites, Property and Equipment, net .....		
	78,176	89,447
Intangible and Other Assets		
Intangibles, net .....	170,778	193,778
	\$ 258,058	\$ 292,668
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>		
Current Liabilities		
Accounts payable & accrued expenses .....	\$ 331,492	\$ 326,491
Total Current Liabilities	331,492	326,491
Advances from stockholders.....	90,000	90,000
Total Liabilities	421,492	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 .....	(8,160,599)	(8,120,988)
Total Stockholders' (Deficit)	( 163,434)	( 123,823)
	\$ 258,058	\$ 416,491

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

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1

TECHLABS, INC. AND SUBSIDIARIES  
 Consolidated Statements of Operations  
 Three Months Ended March 31, 2003 and 2002

	Three Months Ended March 31,	
	2003	2002
	----	----
Revenue		
Net revenue .....	\$ 6,270	\$ 18,852
Selling, general and administrative expenses .....	10,350	21,700
Depreciation and amortization expense .....	34,181	34,181
	-----	-----
Operating loss .....	\$ (38,261)	\$ (37,029)
Other income (expense)		
Interest expense .....	(1,350)	(9,547)
Realized (loss) on investment securities .....	-	(10,000)
	-----	-----
Total other income (expense) .....	(1,350)	(19,547)
	-----	-----
Net loss .....	\$ (39,611)	\$ (56,576)
	=====	=====
Earnings per share:		
Basic and diluted loss per common share .....	\$ (0.08)	\$ (0.03)
	=====	=====
Basic and diluted weighted average shares outstanding .....	492,964	162,742

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

2

TECHLABS, INC. AND SUBSIDIARIES  
 Consolidated Statements of Changes in  
 Stockholders' Equity From the Period  
 from January 1, 2001 to March 31, 2003

Preferred Stock									
Class A		Class B		Class C		Common Stock		Addi	Pai
Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Cap	Cap
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Balance,									

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January 1, 2001 .....	12,500,000	\$12,500	-	\$ -	-	\$ -	-	83,040	\$ 83	\$5,4
Shares issued for services ....	-	-	-	-	-	-	-	52,868	53	2,0
Return of common shares to treasury ....	-	-	-	-	-	-	-	(60,000)	(60)	
Shares issued for website and data base .....	-	-	-	-	-	-	-	12,000	12	5
Cancellation of shares due to recission of purchase agreement ...	-	-	-	-	-	-	-	(12,000)	(12)	(4
Shares issued for website .....	-	-	4,897,500	4,898	-	-	-	-	-	
Shares cancelled ...	-	-	(4,897,500)	(4,898)	-	-	-	-	-	
Net loss and comprehensive loss .....	-	-	-	-	-	-	-	-	-	
Balance, January 1, 2002 .....	12,500,000	\$12,500	-	\$ -	-	\$ -	-	75,908	\$ 76	\$7,7
Issuance of shares for conversion of debt .....	-	-	-	-	225,000	225	303,030	303	2	
Issuance of shares for services ....	-	-	-	-	-	-	-	80,000	80	
Issuance of shares for 2001 return to treasury ....	-	-	-	-	-	-	-	34,000	34	
Net loss and comprehensive loss .....	-	-	-	-	-	-	-	-	-	
Balance,										

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December 31, 2002 ....	12,500,000	\$12,500	-	\$	-	225,000	\$	225	492,938	\$	493	\$7,9
Correction in rounding as a result of stock split .....	-	-	-	-	-	-	-	-	26	-	-	-
Net loss and comprehensive loss .....	-	-	-	-	-	-	-	-	-	-	-	-
Balance, March 31, 2003 .....	12,500,000	\$12,500	-	\$	-	225,000	\$	225	492,964	\$	493	\$7,9

The accompanying notes are an integral part of these financial statements

3

TECHLABS, INC. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
For the Three Months Ended March 31, 2003 and 2002

	2003	2002
	----	----
Operating Activities		
Net loss .....	\$ (39,611)	\$ (56,576)
Adjustments to reconcile net loss to net cash used in operating activities:		
Realized loss on investment securities .....	-	10,000
Amortization and depreciation .....	34,271	34,181
Changes in operating assets and liabilities:		
Increase (decrease) in accounts receivable .....	325	(18,852)
Increase in accounts payable .....	5,001	30,047
	-----	-----
Net Cash Used in Operating Activities .....	(14)	(1,200)
Investing Activities		
Proceeds from sale of stock .....	-	40,000
	-----	-----
Net Cash Provided by Investing Activities .....	-	40,000
Financing Activities		
Advances (repayments) from stockholders .....	-	(38,800)
	-----	-----
Net Cash Provided by Financing Activities .....	-	(38,800)
Change in Cash and Cash Equivalents		
Cash and cash equivalents, beginning of period .....	(14)	-
	-----	-----
Cash and cash equivalents, end of period .....	\$ -	\$ -
	=====	=====

SUPPLEMENTAL DISCLOSURE OF NON-CASH  
INVESTING AND FINANCING ACTIVITIES

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Proceeds from sale of stock .....	\$	-	\$ 40,000
Repayments to stockholders .....	\$	-	\$(40,000)

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

4

### 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 ended March 31, 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 \$ 39,611 during the three months ended March 31, 2003 and has an accumulated deficit of \$8,160,599 at March 31, 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 three months ended March 31, 2003 and 2002 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 three months ended March

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31, 2002 reflects a realized loss on

5

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 March 31, 2003, we reported net revenues of \$6,270 as compared to net revenues of \$18,852 for the comparable three month period in fiscal 2002, a decrease of approximately 67%. 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 \$10,350 for the three months ended March 31, 2003 as compared to \$21,700 the respective period in fiscal 2002. 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 March 31, 2003 and 2002 included \$1,350 and \$9,547, respectively, of interest expense due on loans made to us by our stockholders. In addition, during the three months ended March 31, 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 three months ended March 31, 2003.

Our net loss for the three months ended March 31, 2003 was \$39,611 as compared to a net loss of \$56,576 for the three months ended March 31 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 March 31, 2003, we had a working capital deficit of \$ 322,388 compared to a working capital deficit of \$257,050 at December 31, 2001. Net cash used by operating activities for the three months ended March 31, 2003 was \$14 as compared to \$1,200



for the three months ended March 31, 2002. Net cash provided by investing activities for the three months ended March 31, 2003 was \$0 as compared to net cash used by investing activities of \$38,000 during the comparable period in fiscal 2002. Net cash provided by financing activities for the three months ended March 31, 2003 was \$0 as compared to net cash used by financing activities of \$38,800 for the comparable period in fiscal 2002.

At March 31, 2003 we have an accumulated deficit of \$8,160,599, 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 a date (the "Evaluation Date") within 90 days prior to the filing date of this report. 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

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None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

99.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None.

8

### 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 Dorrrough  
Jayme Dorrrough  
President

Dated: May 14, 2003

9

### CERTIFICATION

I, Jayme Dorrrough, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Techlabs, 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 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 operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

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

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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 functions):

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.

May 14, 2003

By: /s/ Jayme Dorrough  
Jayme Dorrough,  
President and Director,  
sole officer and sole director