

Edgar Filing: TECHLABS INC - Form 10QSB

TECHLABS INC
Form 10QSB
December 20, 2005

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, 2005

☐ [] 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 ☒ [X] NO ☐ []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ [] NO ☒ [X]

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: 712,964 shares of common stock as of December 19, 2005.

TECHLABS, INC.

Form 10-QSB for the period ended September 30, 2005

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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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 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, the terms "Techlabs" "we," and "us" refers to Techlabs, inc., a Florida corporation, and its subsidiaries.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Techlabs, Inc. and Subsidiaries Consolidated Balance Sheet September 30, 2005 (unaudited)

ASSETS

Current Asset

Cash and cash equivalents	\$	715
Accounts receivable		2,228
Inventory		28,559
Prepaid expenses		530

Total current assets 32,032

Property, Plant & equipment, net 37,206

Other Assets

Security deposits		4,060

\$ 73,298
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LIABILITIES AND STOCKHOLDERS' DEFICIENCY

Current Liabilities

Accounts payable & accrued expenses	\$	37,870
Advances from related party		184,057
Due to stockholders		8,237
Convertible note payable - related party, net		19,232
Loan - related party		6,500

Total Current Liabilities 255,896

STOCKHOLDERS' DEFICIENCY

Preferred stock, \$.001 par value; 25,000,000 shares authorized; 12,500,000 shares Class A Special Preferred issued and outstanding		12,500
Preferred stock, \$.001 par value; 10,000,000 shares Class B authorized; no shares issued and outstanding		-
Preferred stock, \$.001 par value; 10,000,000 shares authorized; 225,000 shares Class C Preferred issued and outstanding		225
Common stock, \$.001 par value; 200,000,000 shares authorized, 712,964 issued and outstanding		713
Additional paid-in capital		8,397,847
Accumulated deficit		(8,593,883)

Total Stockholders' Deficiency (182,598)

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\$ 73,298
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The accompanying notes are an integral part of these financial statements.

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Techlabs, Inc. and Subsidiaries
Consolidated Statements of Operations
For the three and nine months ended September 30, 2005 and 2004
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
	-----	-----	-----	-----
Revenues	\$ 48,116	\$ -	\$ 204,310	\$ -
Cost of sales	43,215	-	157,798	-
	-----	-----	-----	-----
Gross profit	4,901	-	46,512	-
Operating expenses				
General and administrative ...	31,148	5,929	120,980	21,697
Depreciation & amortization ..	1,305	17,444	3,408	52,333
Amortization of deferred compensation	5,250	175,516	63,000	196,349
	-----	-----	-----	-----
Total operating expenses	37,703	198,889	187,388	270,379
	-----	-----	-----	-----
Operating loss	(32,802)	(198,889)	(140,876)	(270,379)
Other expense				
Interest expense	(10,172)	-	(26,176)	-
Gain on forgiveness of indebtedness	-	-	-	-
	-----	-----	-----	-----
Net (loss)	\$ (42,974)	\$ (198,889)	\$ (167,052)	\$ (270,379)
	=====	=====	=====	=====
Loss per share:				
Basic and diluted (loss) per common share	\$ (0.06)	\$ (0.33)	\$ (0.24)	\$ (0.50)
	=====	=====	=====	=====
Basic and diluted weighted average shares outstanding	712,964	606,810	709,214	544,466
	=====	=====	=====	=====

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

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Techlabs, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

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For the nine months ended September 30, 2005 and 2004
(unaudited)

	For the Nine Months Ended September 30,	
	2005	2004
Operating Activities:		
Net (loss)	\$ (167,052)	\$ (270,379)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:		
Depreciation and amortization	3,408	52,333
Amortization of deferred compensation	63,000	196,349
Amortization of interest expense	19,232	-
Provision for uncollectible accounts	-	966
Changes in operating assets and liabilities:		
Increase in other current assets	(2,757)	-
Increase in inventory	(28,559)	-
Increase in accounts payable	11,097	(3,257)
Net Cash (Used in) Operating Activities	(101,631)	(23,988)
Investing Activities:		
Purchase of property and equipment	(20,208)	-
Net Cash (Used in) Investing Activities	(20,208)	-
Financing Activities:		
Bank overdraft	(2,699)	-
(Repayments) advance from stockholder	(19,173)	17,244
Proceeds from related party notes	144,426	-
Advance from related party	-	6,500
Net Cash Provided by Financing Activities ..	122,554	23,744
Increase (decrease) in Cash and Cash Equivalents ...	715	(244)
Cash, beginning of period	-	256
Cash, end of period	\$ 715	\$ 12

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

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TECHLABS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2005 (unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Nature of Operations

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Techlabs, Inc. ("Techlabs") was incorporated in the State of Florida in May 1998 under the name Coordinated Physician Services, Inc. to organize and operate primary care physician networks for managed medical care organizations. In February 1999 the Company abandoned this business due to excessive competition and changed its name to Techlabs, Inc. Prior to January 2004, the Company generated revenues through the rental of its list of targeted, opt-in email addresses which were generated from their website. During November 2004, the Company formed and opened Florida Fountain of Youth Spas, Inc. Florida Fountain of Youth Spa is a full service spa located in South Florida. 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 nine month period ended September 30, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2005. For further information, please refer to our audited financial statements and footnotes thereto for the fiscal year ended December 31, 2004 included in our Annual Report on Form 10-KSB as filed with the Securities and Exchange Commission.

(B) Basis of Consolidation

The accompanying consolidated financial statements for the three and nine months ended September 30, 2005 include the accounts of Techlabs and its wholly-owned subsidiary Florida Fountain of Youth Spas. The consolidated financial statements for 2004 include the accounts of Techlabs and its wholly-owned subsidiaries StartingPoint.com, Inc. and Interplanner.com, Inc. All significant intercompany accounts and transactions have been eliminated in the consolidation.

(C) Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

(D) Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments with original maturities of three months or less.

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TECHLABS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2005 (unaudited)

(E) Revenue Recognition

Prior to January 2004, the Company's revenue was derived from rentals of its opt-in email lists to third party list management companies. Revenue from email lists is recognized when billed by the company that manages the list, and is recognized on a net basis in that the Company does not act as the principal in the transaction and the amount the Company earns is fixed. The Company has not had any revenue from rentals of its opt-in email lists since 2003.

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(F) Inventories

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. Provision for potentially obsolete inventory is made based on management's analysis of inventory levels. Inventory consists of finished saloon products purchased directly from the manufacturer.

(G) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation on assets placed in service is determined using the straight-line method over the estimated useful lives of the related assets which range from three to seven years. Significant improvements are capitalized while maintenance and repairs are expensed as incurred.

(H) Long-Lived Assets

Long-lived assets and certain identifiable intangible assets (other than goodwill and intangible assets with indefinite lives) held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets (other than goodwill and intangible assets with indefinite lives), the recoverability test is performed using undiscounted net cash flows related to the long-lived assets. The Company reviews such long-lived assets to determine that carrying values are not impaired. Under Statement of Financial Accounting Standards ("SFAS") No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed for impairment. Intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives; however, no maximum life applied.

(I) Fair Value of Financial Instruments

SFAS No. 107, "Disclosure About Fair Value of Financial Instruments," requires certain disclosures regarding the fair value of financial instruments. Trade accounts receivable, accounts payable, and loans from stockholders are reflected in the financial statements at fair value because of the short-term maturity of the instruments.

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TECHLABS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2005
(unaudited)

(J) Income Taxes

The Company accounts for income taxes under SFAS No. 109, "Accounting for Income Taxes". Under SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(K) Income (Loss) Per Share

Basic and diluted income (loss) per share is calculated by dividing net income

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(loss) for the period by the weighted average number of shares of common stock outstanding during the period. The assumed exercise of stock options is only included in the calculation of diluted earnings per share, if dilutive. As of September 30, 2004, the Company did not have any outstanding common stock equivalents. As of September 30, 2005, the Company did not include 50,000 shares of dilutive common stock from the conversion of a convertible note payable as the amounts were antidilutive.

(L) Business Segments

The Company currently operates in one segment and therefore segment information is not presented.

(M) Stock-Based Compensation

In accordance with the Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock Based Compensation, the Company has elected to account for stock options issued to employees under Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25") and related interpretations. The Company accounts for stock options issued to consultants and for other services in accordance with SFAS No. 123.

(N) Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled \$1,549 and \$0 for the nine months ended September 30, 2005 and 2004, respectively.

(O) New Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4" SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions - an amendment of FASB Statements No. 66 and 67," SFAS No. 153, "Exchanges of Non-monetary Assets - an amendment of APB Opinion No. 29," and SFAS No. 123 (revised 2004), "Share-Based Payment," were recently issued. SFAS No. 151, 152, 153 and 123 (revised 2004) have no current applicability to the Company and have no effect on the financial statements.

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TECHLABS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2005 (unaudited)

In May 2003, SFAS No. 150 "Accounting for Certain Financial Instruments with characteristics of both liabilities and equity" was issued. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, Elements of Financial Statements. The remaining provisions of this Statement are consistent with the Board's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own equity shares, depending on the nature of the relationship established between the holder and the issuer. While the Board still plans to revise that definition through an amendment to Concepts Statement 6, the Board decided to defer issuing that amendment until it has concluded its deliberations on the next phase of this project. That next phase will deal with certain compound financial instruments including puttable shares, convertible bonds, and dual-indexed financial instruments.

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This statement was adopted effective January 1, 2004. The adoption of this pronouncement did not have a material effect on our financial position or results of operations.

NOTE 2 GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company had a net loss of \$167,052 for the nine months ended September 30, 2005, a working capital deficiency of \$223,864, an accumulated deficit of \$8,593,883, a stockholders' deficiency of \$182,598 and used cash in operations of \$101,631. This raises substantial doubt about our 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 classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Although there are no assurances, the Company believes that with increased sales, the success of the Florida Fountain of Youth Spa, raising additional capital and borrowings from its principal shareholder it will be able to continue as a going concern.

NOTE 3 RELATED PARTY TRANSACTIONS

From time to time Yucatan Holding Company, the Company's principal shareholder, has advanced funds for working capital. At September 30, 2005, the Company owed Yucatan Holding Company \$8,237, net of repayments. This amount will be paid by the Company when working capital permits

During the nine months ended September 30, 2005, various entities owned by the president of Florida Fountain of Youth Spa made advances totaling \$144,426 to the Company under an oral agreement. The balance due under the agreement at September 30, 2005 totaled \$184,057. These advances accrue interest at 6% per annum, and are unsecured and due on a demand basis.

At September 30, 2005, the Company owed a third party under an oral agreement \$6,500 on a non-interest bearing, unsecured, due on demand basis.

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TECHLABS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2005 (unaudited)

NOTE 4 CONVERTIBLE NOTE PAYABLE

During 2005, the Company entered into a convertible note payable with an individual for \$30,000. The note is convertible into common stock at \$.60 per share up to a maximum of 50,000 shares. The note is convertible for a minimum of 15,000 shares of common stock. The note is due quarterly with the final payment due March 1, 2006. The note accrues interest at 5% per annum and is unsecured. Interest payments of \$375 are due quarterly.

The Company recognized a beneficial conversion of \$30,000 on the note payable. The beneficial conversion is treated as a discount on the note and is being amortized over the life of the note. The Company recognized \$19,232 of interest expense during the nine months ended September 30, 2005. The note is currently in default.

Note payable - face	\$30,000
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Note payable - discount	10,768

	\$19,232
	=====

NOTE 5 COMMITMENTS AND CONTIGINCIES

LITIGATION

On August 23, 2004 Techlabs filed a complaint against Addante and Associates, a Delaware corporation, in the U.S. District Court for the Eastern District of Tennessee, styled Techlabs, Inc. and Starting Point, Inc. v. Addante and Associates, Case No. 3:04-CV-385. Techlabs had previously engaged Addante and Associates to perform certain services for it in connection with its Starting Point.com web site. In this complaint Techlabs alleges a breach of contract by Addante and Associates and it is seeking \$500,000 in damages. Pursuant to an Asset Purchase Agreement dated December 2, 2005, the lawsuit was dismissed by the Company. (See Note 7)

NOTE 6 CAPITAL STOCK

During the three months ended March 31, 2005, the Company issued 60,000 shares of common stock to a related party pursuant to a consulting agreement having a fair value of \$63,000 on the date of grant. The consulting agreement calls for services to be performed through July 18, 2005. The agreement will be amortized over the life of the service period. Amortization of deferred consulting was \$63,000 during the nine months ended September 30, 2005.

NOTE 7 SUBSEQUENT EVENT

On July 28, 2004 Techlabs Board of Directors approved changing the corporate name to Siren International Corp. Techlabs anticipates filing an information statement with the SEC regarding this pending name change during the fourth quarter of fiscal 2005.

On December 2, 2005, The Company entered into an agreement to sale for \$90,000 the Starting Point website and all applicable content, trademarks, databases and domains. The \$90,000 is being held in trust until each of the domains are transferred to the buyer.

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

RESULTS OF OPERATIONS

We reported revenues of \$48,116 and \$0 for the three months ended September 30, 2005 and September 30, 2004, respectively, and a net loss of \$42,974 and \$198,889 for those respective three-month periods. We reported revenues of \$204,310 and \$0 for the nine months ended September 30, 2005 and September 30, 2004, respectively, and a net loss of \$167,052 and \$270,379 for those respective nine-month periods. Revenues in the fiscal 2005 represents fees paid by customers of our Florida Fountain of Youth Spa, which commenced operation during the fourth quarter of fiscal 2004. Revenues decreased 27% from revenues recorded in the second quarter of fiscal 2005. Such decrease were due to the seasonality of the spa services provided in the summer months of 2005. We had no revenues during the fiscal 2004 as we did not generate any revenues from the rental of our StartingPoint.com email list as the third-party direct marketing company that was the sole source of our revenues from that business segment had exited that segment of their business during fiscal 2003. As

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disclosed in Note 7, we have entered into an agreement to sell StartingPoint.com.

Cost of goods sold during the three months ended September 30, 2005 totaled \$43,215, resulting in gross margin of \$4,901, as compared to cost of goods sold in the fiscal 2004 period of \$0 and a resulting gross margin of \$0. Cost of goods sold during the nine months ended September 30, 2005 totaled \$157,798, resulting in gross margin of \$46,512, as compared to cost of goods sold in the fiscal 2004 period of \$0 and a resulting gross margin of \$0. Gross margins decreased 18% to 10% from the 28% recorded in the second quarter of fiscal 2005. The decrease in margins was attributable to promotions and price cuts in order to compete with a similar spa who had opened in the general area of Florida Fountain of Youth Spas during the third quarter of fiscal 2005.

Selling, general and administrative expenses increased to \$31,148 in the three months ended September 30, 2005, from \$5,929 in the three months ended September 30, 2004, primarily as a result of costs associated with the operation of our day spa. Selling, general and administrative expenses increased to \$120,980 in the nine months ended September 30, 2005, from \$21,697 in the three months ended September 30, 2004, primarily as a result of costs associated with the operation of our day spa which opened in fourth quarter of 2004. For the fiscal 2005 and 2004 periods we also recorded depreciation and amortization of \$3,408 and \$52,333, respectively. Included in total operating expenses for both the fiscal 2005 and fiscal 2004 three-month periods are non-cash charges of \$5,250 and 175,516, respectively. Included in total operating expenses for both the fiscal 2005 and fiscal 2004 nine-month periods are non-cash charges of \$63,000 and 196,349, respectively, for the amortization of deferred compensation to a third party pursuant to a consulting agreement that calls for services to be performed through July 2005.

Other income (expense) for the fiscal 2005 and 2004 periods was (\$10,172) and \$0, respectively, which amount for fiscal 2005 represented interest expense and amortization on the convertible note payable discount.

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LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2005, we had a working capital deficit of \$223,864 as compared to a deficit of \$133,013 at December 31, 2004. Net cash used by operating activities was \$101,631 for nine months ended September 30, 2005, as compared to net cash used by operating activities of \$23,988 for the nine months ended September 30, 2004. This change reflects the increased total net loss of \$167,052 incurred during the fiscal 2005 nine-month period, which was partly offset by non-cash deferred compensation expense of \$63,000 and amortization of the note payable discount into interest expense amounting to \$19,232 for the nine month period, as compared to the total net loss of \$270,379 incurred during the fiscal 2004 nine-month period that was partly offset by depreciation and amortization expense of \$52,333 and the non-cash deferred compensation expense of \$196,349.

Net cash used in investing activities in the fiscal 2005 period was \$20,208, compared to \$0 in the fiscal 2004 period. Net cash provided by financing activities in the fiscal 2005 period was \$122,554, compared to net cash provided by financing activities in the fiscal 2004 period of \$23,744.

We have an accumulated deficit of \$8,593,883 at September 30, 2005 and the report from our independent auditor on our audited financial statements at December 31, 2004 contains a going concern modification. The Company does not have enough cash to continue operations for 12 months. Although there are no assurances, the Company believes that with increased sales, the success of the

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Florida Fountain of Youth Spa, raising additional capital and borrowings from its principal shareholder it will be able to continue as a going concern.

ITEM 3. CONTROLS AND PROCEDURES

Our management, which includes our President, 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") as of the end of the period covered by 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 end of the period covered by this report based on such evaluation.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The SEC's Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), suggests companies provide additional disclosure and commentary on those accounting policies considered most critical. A critical accounting policy is one that is both very important to the portrayal of our financial condition and results, and requires management's most difficult, subjective or complex judgments. Typically, the circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the effect of matters that are inherently uncertain. We believe the accounting policies below represent our critical accounting policies as contemplated by FRR 60.

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Allowances for refunds and product returns. We may grant our customers the right to return products which they do not find satisfactory. Upon sale, we evaluate the need to record a provision for product returns based on our historical experience, economic trends and changes in customer demand.

Provisions for inventory obsolescence. We may need to record a provision for estimated obsolescence of inventory. Our estimates would consider the cost of inventory, the estimated market value and our historical experience. If there are changes to these estimates, provisions for inventory obsolescence may be necessary.

Value of long lived assets. We capitalize and amortize the costs incurred in the acquisition of capital equipment. We also carry other long lived assets on our balance sheet. We evaluate the carrying values of such assets and may be required to reduce the value in the event we determine if the value is impaired from the current carrying amount.

Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4" SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions - an amendment of FASB Statements No. 66 and 67," SFAS No. 153, "Exchanges of Non-monetary Assets - an amendment of APB Opinion No. 29," and SFAS No. 123 (revised 2004), "Share-Based Payment," were recently issued. SFAS No. 151, 152, 153 and 123 (revised 2004) have no current applicability to the Company and have no effect on the financial statements.

In May 2003, SFAS No. 150 "Accounting for Certain Financial Instruments with characteristics of both liabilities and equity" was issued. This Statement establishes standards for how an issuer classifies and measures certain

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financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, Elements of Financial Statements. The remaining provisions of this Statement are consistent with the Board's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own equity shares, depending on the nature of the relationship established between the holder and the issuer. While the Board still plans to revise that definition through an amendment to Concepts Statement 6, the Board decided to defer issuing that amendment until it has concluded its deliberations on the next phase of this project. That next phase will deal with certain compound financial instruments including puttable shares, convertible bonds, and dual-indexed financial instruments.

This statement was adopted effective January 1, 2004. The adoption of this pronouncement did not have a material effect on our financial position or results of operations.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On August 23, 2004 Techlabs filed a complaint against Addante and Associates, a Delaware corporation, in the U.S. District Court for the Eastern District of Tennessee, styled Techlabs, Inc. and Starting Point, Inc. v. Addante and Associates, Case No. 3:04-CV-385. Techlabs had previously engaged Addante and Associates to perform certain services for it in connection with its Starting Point.com web site. In this complaint Techlabs alleges a breach of contract by Addante and Associates and it is seeking \$500,000 in damages. Pursuant to an Asset Purchase Agreement dated December 2, 2005, the lawsuit was dismissed by the Company.

Item 2. Changes in Securities

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.

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive and Financial Officer
32.1	Section 1350 Certificate of Chief Executive and Financial Officer

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(b) Reports on Form 8-K

None.

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.

Techlabs, Inc.

By: /s/ Jayme Dorrrough

Jayme Dorrrough, President

Dated: December 20, 2005