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TECHLABS INC
Form 10QSB
November 19, 2004

UNITED STATES
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, 2004

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

For the transition period from _____ to _____

Commission File Number: 000-26233

TECHLABS, INC.

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

Florida

65-0843965

(State or other jurisdiction of
Incorporation or organization)

(IRS Employer
Identification No.)

8905 Kingston Pike, Suite 307, Knoxville, TN 37923

(Address of Principal executive offices)

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 665,964 shares of common stock as of October 31, 2004.

Transitional Small Business Disclosure Format (Check one): YES [] NO [X]

TECHLABS, INC.
Form 10-QSB for the period ended September 30, 2004

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

INDEX

| | |
|--|---|
| Part I. Financial Information | |
| Item 1. Financial Statements | |
| Condensed Consolidated Balance Sheet at September 30, 2004 (unaudited)..... | 1 |
| Condensed Consolidated Statements of Operations for the three months and nine months ended September 30, 2004 and 2003 (unaudited)..... | 2 |
| Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2004 and 2003 (unaudited)..... | 3 |
| Notes to Condensed Consolidated Financial Statements (unaudited) | 4 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations..... | 7 |
| Item 3. Controls and Procedures..... | 8 |
| Part II Other Information..... | 8 |

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TECHLABS, INC. AND SUBSIDIARIES Consolidated Balance Sheet

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September 30, 2004 (Unaudited)

ASSETS

Current Assets

| | | |
|------------|----|-------|
| Cash | \$ | 12 |
| | | ----- |

| | | |
|----------------------|--|----|
| Total Current Assets | | 12 |
|----------------------|--|----|

Intangible and Other Assets

| | | |
|------------------------|--|--------|
| Intangibles, net | | 17,445 |
| | | ----- |

| | | |
|--|----|--------|
| | \$ | 17,457 |
| | | ===== |

LIABILITIES AND STOCKHOLDERS' (DEFICIT)

Current Liabilities

| | | |
|---|----|--------|
| Accounts payable & accrued expenses | \$ | 23,240 |
|---|----|--------|

| | | |
|--------------------------|--|--------|
| Due to stockholder | | 16,000 |
|--------------------------|--|--------|

| | | |
|----------------------------|--|-------|
| Loan - related party | | 6,500 |
| | | ----- |

| | | |
|---------------------------|--|--------|
| Total Current Liabilities | | 45,740 |
|---------------------------|--|--------|

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 |
|--|--|--------|

| | | |
|--|--|---|
| Preferred stock (\$.001 par value, 10,000,000 Class B shares authorized, no shares issued and outstanding) | | - |
|--|--|---|

| | | |
|---|--|-----|
| Preferred stock (\$.001 par value, 10,000,000 Class C shares authorized, 225,000 shares issued and outstanding) | | 225 |
|---|--|-----|

| | | |
|---|--|-----|
| Common stock (\$.001 par value, 200,000,000 shares authorized, 652,964 shares issued and outstanding) | | 653 |
|---|--|-----|

| | | |
|----------------------------------|--|-----------|
| Additional paid-in capital | | 8,300,787 |
|----------------------------------|--|-----------|

| | | |
|-----------------------------|--|----------|
| Deferred compensation | | (83,667) |
|-----------------------------|--|----------|

| | | |
|---------------------------|--|-------------|
| Accumulated deficit | | (8,258,781) |
| | | ----- |

| | | |
|-------------------------------|--|----------|
| Total Stockholders' (Deficit) | | (28,283) |
| | | ----- |

| | | |
|--|----|--------|
| | \$ | 17,457 |
| | | ===== |

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

TECHLABS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2004 and 2003 (Unaudited)

Three Months Ended
September 30,

Nine Months Ended
September 30,

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| | 2004 | 2003 | 2004 | 2003 |
|---|--------------|-------------|--------------|--------------|
| | ----- | ----- | ----- | ----- |
| Revenue | | | | |
| Net revenues | \$ - | \$ 3,685 | \$ - | \$ 14,200 |
| Selling, general and administrative expenses .. | 5,929 | 6,030 | 21,697 | 35,480 |
| Stock compensation | 175,516 | - | 196,349 | |
| Depreciation & amortization expense | 17,444 | 34,271 | 52,333 | 102,630 |
| | ----- | ----- | ----- | ----- |
| Total expenses | 198,889 | 40,301 | 270,379 | 138,110 |
| | ----- | ----- | ----- | ----- |
| Operating loss | (198,889) | (36,616) | (270,379) | (123,910) |
| Other Income (Expense) | | | | |
| Interest expense | - | - | - | (1,350) |
| | ----- | ----- | ----- | ----- |
| Net Loss | \$ (198,889) | \$ (36,616) | \$ (270,379) | \$ (125,260) |
| | ===== | ===== | ===== | ===== |
| Earnings per share: | | | | |
| Basic and diluted loss per common share | \$ (0.33) | \$ (0.07) | \$ (0.50) | \$ (0.26) |
| | ===== | ===== | ===== | ===== |
| Basic and diluted weighted average | | | | |
| shares outstanding | 606,810 | 492,964 | 544,466 | 492,964 |

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

2

TECHLABS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2004 and 2003 (Unaudited)

| | 2004 | 2003 |
|---|--------------|--------------|
| | ----- | ----- |
| Operating Activities | | |
| Net loss | \$ (270,379) | \$ (125,260) |
| Adjustments to reconcile net loss to net cash (used) provided by operating activities | | |
| Amortization and depreciation | 52,333 | 102,820 |
| Common stock issued for compensation | 196,349 | |
| Provision for uncollectible accounts | 966 | |
| Changes in operating assets and liabilities: | | |
| Increase in accounts receivable | - | 5,000 |
| Increase in accounts payable and accrued expenses | (3,257) | 17,620 |
| | ----- | ----- |
| Net Cash (Used) Provided by Operating Activities . | (23,988) | 20,000 |
| Investing Activities | - | |

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| | | | |
|--|----|--------|-------|
| Financing Activities | | | |
| Due to stockholder | | 17,244 | |
| Proceeds from loan - related party | | 6,500 | |
| | | ----- | ----- |
| Net Cash Provided by Financing Activities | | 23,744 | |
| | | ----- | ----- |
| Change in Cash and Cash Equivalents | | (244) | 20 |
| Cash and cash equivalents, beginning of period | | 256 | |
| | | ----- | ----- |
| Cash and cash equivalents, end of period | \$ | 12 | \$ 20 |
| | | ===== | ===== |

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

TECHLABS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

BUSINESS. We were 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 we abandoned this business due to excessive competition and changed our name to Techlabs, Inc. We generate revenues through the rental of our list of targeted, opt-in email addresses which are generated from our website. 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, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2004. For further information, please refer to our audited financial statements and footnotes thereto for the fiscal year ended December 31, 2003 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 we will continue as a going concern. As shown in the accompanying financial statements, we incurred a net loss of \$270,379 for the nine months ended September 30, 2004 and have an accumulated deficit of \$8,258,781 at September 30, 2004. Although a substantial portion of our net loss is attributable to non-cash operating expenses, we believe that these matters raise 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 we be unable to continue as a going concern.

BASIS OF CONSOLIDATION. The accompanying consolidated financial

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statements for the nine months ended September 30, 2004 and 2003 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 consolidation.

USE OF ESTIMATES. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and assumptions by management, with consideration given to materiality. Actual results could vary from those estimates.

CASH EQUIVALENTS. Cash and cash equivalents consists of all highly liquid investments with original maturities of three months or less. At September 30, 2004 we had \$12 in cash and cash equivalents.

REVENUE RECOGNITION. Our revenue has been derived from rentals of our 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 we do not act as the principal in the transaction and the amount we earn is fixed.

4

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.

WEB SITE DEVELOPMENT COSTS. We account for costs incurred in connection with the development of our web sites in accordance with Statement of Position SOP98-1, "Accounting for Costs of Computer Software Developed or Obtained for Internal Use" and Emerging Issues Task Force Issue No. 00-2, "Accounting for Web Site Development Costs." Accordingly, all costs incurred in planning the development of a web site are expensed as incurred. Costs, other than general and administrative and overhead costs, incurred in the web site application and infrastructure development stage, which involve acquiring hardware and/or developing software to operate the web site are capitalized. Fees paid to an Internet service provider for hosting the web site on its servers connected to the Internet are expensed. Other costs incurred during the operating stage, such as training administration costs, are expensed as incurred. Costs incurred during the operating stage for upgrades and enhancements of the web site are capitalized if it is probable that they will result in added functionality. Capitalized web site development costs are amortized on a straight-line basis over their estimated useful life of five years.

INTANGIBLES. Intangible assets consist of domain names, trade names and contracts related to a purchased Internet web portal site and meta-search technology. Amortization for intangibles is determined using the straight-line method over the estimated useful life of five years.

RECLASSIFICATION. Certain amounts from prior periods have been reclassified to conform to the current year presentation.

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 accrued liabilities are reflected in the financial statements at fair value because of the short-term maturity of the instruments.

INCOME TAXES. Techlabs accounts for income taxes under SFAS No. 109,

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"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.

INCOME (LOSS) PER SHARE. Basic and diluted income (loss) per share is calculated by dividing net income (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 and 2003, we did not have any outstanding common stock equivalents.

BUSINESS SEGMENTS. We operate in one segment and therefore segment information is not presented.

5

STOCK-BASED COMPENSATION. In accordance with the Statement of Financial Accounting Standards ("SFAS") No. 123, we have elected to account for stock options issued to employees under Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25") and related interpretations. We account for stock options issued to consultants and for other services in accordance with SFAS No. 123.

NOTE 2. INTANGIBLES

Included in intangibles at September 30, 2004 are:

| | |
|---|--------------|
| Domain names, trade names and contracts of MyStartingPoint.com | \$ 1,000,000 |
| Loss on impairment | (665,333) |
| Less: Accumulated amortization | (317,222) |
| | ----- |
| Intangible, net | \$ 17,445 |

Amortization expense was \$17,444 and \$23,000, respectively, for the three months ended September 30, 2004 and September 30, 2003, and \$52,333 and \$69,000, respectively, for the nine months ended September 30, 2004 and 2003.

NOTE 3. RELATED PARTY TRANSACTIONS

From time to time Yucatan Holding Company, our principal shareholder, has advanced funds for working capital. In addition, effective January 1, 2004 the Company began accruing compensation of \$15,000 annually for Mrs. Jayme Dorrrough, our sole officer and director and the principal of Yucatan Holding Company, Inc. In September 2004, the Company issued Mrs. Dorrrough 60,000 shares of its common stock valued at \$168,000 in full satisfaction of \$12,984 of accrued unpaid compensation and for additional compensation for the remaining fiscal 2004 as well as for past services.

At September 30, 2004, we owed Yucatan Holding Company \$16,000, net of repayments. This amount will be paid by us as our working capital permits

During the nine months ended September 30, 2004 a third party loaned us under an oral agreement \$6,500 on a non-interest bearing, on demand basis.

NOTE 4. COMMITMENTS AND CONTINGENCIES

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In July 2004 Techlabs was named as a defendant in the matter DONALD KURTH, ROSALY KURTH AND KRISTINE KURTH V. FEINGOLD & KAM, LLC, FEINGOLD & KAM, DAVID FEINGOLD ET AL, filed in the Circuit Court for the 15th District in and for Palm Beach County, Florida. The portion of the suit which relates to Techlabs involves the purported actions by the unaffiliated third parties in the October 1999 private sales of shares of Techlabs in transactions in which Techlabs was neither a party nor received any proceeds therefrom. The plaintiffs are alleging that the shares of Techlabs' stock which were the subject of these purported private sales failed to bear the appropriate restrictive legends as required under the Securities Act of 1933, and the plaintiff's are further alleging conversion and civil theft against David Feingold and Feingold & Kam. Techlabs' does not believe that it violated any provisions of the Securities Act of 1933 as it relates to the shares of its common stock which are the subject of this complaint and is seeking to have Techlabs' dismissed as a defendant. Techlabs is unable at this time to predict the outcome of this action or any possible monetary costs to it resulting therefrom.

6

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.

NOTE 5. SUBSEQUENT EVENTS

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 2004.

On August 6, 2004 Techlabs signed a letter of intent to purchase the outstanding stock of Florida Fountain of Youth, Inc. and Florida Fountain of Youth Spas, Inc. The transaction is subject to the completion of satisfactory due diligence on the part of Techlabs with respect to both companies. Techlabs continues to finalize its due diligence and based upon the information continues to pursue the acquisition. As of November 17, 2004, the transaction has not been finalized.

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

RESULTS OF OPERATIONS

We did not report any revenues for the three months or nine months ended September 30, 2004, as compared to revenues of \$3,685 and \$14,203, respectively, for the comparable three month and nine month periods in fiscal 2003. For fiscal 2003 our revenues represented fees earned by us from the rental of our StartingPoint.com email list to ResponseBase, a third party direct marketing company. ResponseBase was our sole source of revenues and we were materially reliant on revenues from this customer. Subsequent to fiscal 2003, and as set forth in our annual report on Form 10-KSB for the fiscal year ended December 31, 2003, ResponseBase informed us that they were exiting that segment of their business.

Our total expenses for the three months ended September 30, 2004 increased \$158,588, or approximately 394%, from the comparable three month

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period in fiscal 2003. Our total expenses for the nine months ended also increased by \$132,262, or approximately 96%, for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003. These increases are primarily attributable to non-cash stock compensation of \$175,516 and \$196,349 for the three and nine months ended September 30, 2004 as compared to \$0 for each of the comparable periods in fiscal 2003. This increase was offset by a slight decreases in selling, general and administrative expenses and depreciation and amortization expenses during the three and nine months periods in fiscal 2004 as compared to the same periods in fiscal 2003. The decrease in selling, general and administrative expenses was attributable to a reduction in professional fees, and the decrease in depreciation and amortization expense was attributable to a write-down of certain intangible assets in the fourth quarter of fiscal 2003. We believe that our selling, general and administrative expenses will continue at this approximate level for the balance of fiscal 2004..

We have been unsuccessful to date during fiscal 2004 in generating revenue from the rental of our StartingPoint.com email list. On August 6, 2004 we announced that we had signed a letter of intent to purchase the outstanding stock of Florida Fountain of Youth, Inc. and Florida Fountain of Youth Spas, Inc. The transaction is subject to the completion of satisfactory due diligence

7

on the part of Techlabs with respect to both companies. We continues to finalize our due diligence and based upon the information continue to pursue the acquisition. As of November 17, 2004, the transaction has not been finalized.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2004, we had a working capital deficit of \$45,728 as compared to a working capital deficit of \$30,015 at December 31, 2003. Net cash used in operating activities for the nine months ended September 30, 2004 was \$23,988 as compared to \$201 in net cash provided by operating activities. The decrease is attributable to the decrease in revenues during the nine month period ended September 30, 2004 as compared to the nine month period ended September 30, 2003. Net cash provided by financing activities was \$23,744 as compared to \$0 and is primarily attributable to the proceeds of loans from related parties during the nine months ended September 30, 2004. We have an accumulated deficit of \$8,258,781 at September 30, 2004, and the report from of our independent auditor on our audited financial statements at December 31, 2003 contains a going concern modification. We will continue to incur losses during the foreseeable future. Yucatan Holding Company, our principal shareholder, has agreed to provide us sufficient funds to pay our direct expenses and corporate overhead until such time as we generate sufficient revenues to fund these costs. We do not have any present commitments for capital expenditures.

ITEM 3. CONTROLS AND PROCEDURES

Our management, which includes our President who is our sole officer, 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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Unregistered Sales of Equity 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.

8

Item 5. Other Information

On July 28, 2004 Techlabs issued a press release stating its 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 2004.

On August 6, 2004 Techlabs announced that it had signed a letter of intent to purchase the outstanding stock of Florida Fountain of Youth, Inc. and Florida Fountain of Youth Spas, Inc. Terms of the transaction were not disclosed; however Techlabs' news release stated that it anticipated that the transaction would be consummated at the end of August. The transaction is subject to the completion of satisfactory due diligence on the part of Techlabs with respect to both companies. Techlabs' continues to finalize its due diligence and based upon the information continues to pursue the acquisition. As of November 17, 2004, the transaction has not been finalized.

Item 6. Exhibits

| Exhibit No. | Description |
|-------------|---|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of principal executive officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of principal financial officer |
| 32.1 | Certification of Chief Executive Officer Pursuant Section 906 |

9

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: November 19, 2004

