

Edgar Filing: TECHLABS INC - Form 10KSB

TECHLABS INC
Form 10KSB
April 27, 2006

U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 10-KSB
(Mark One)

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

For the fiscal year ended December 31, 2005

TRANSITION REPORT UNDER 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.

(Name of small business issuer in its charter)

Florida

65-0843965

(State or other jurisdiction
of incorporation or organization)

(IRS Employer Identification No.)

8905 Kingston Pike
Suite 307
Knoxville, Tennessee

37923

(Address of principal executive offices)

(Zip Code)

Issuer's telephone number 215-243-8044

Securities registered under Section 12(b) of the Exchange Act:

Title of each class

Name of each exchange on which registered

None

not applicable

(Title of each class)

Securities registered under Section 12(g) of the Exchange Act:

common stock

(Title of class)

Edgar Filing: TECHLABS INC - Form 10KSB

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

State issuer's revenues for its most recent fiscal year. \$0 for the 12 months ended December 31, 2005.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of a specified date within the past 60 days. The aggregate market value of the voting stock held by non-affiliates computed at the closing price of Techlabs common stock on April 25, 2006 is approximately \$195,800.

State the number of shares outstanding of each of the issuer's class of common equity, as of the latest practicable date. As of April 3, 2006, 712,964 shares of common stock are issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) of the Securities Act of 1933 ("Securities Act"). Not Applicable.

Transitional Small Business Disclosure Form (check one): Yes _____ No _____

ii

When used in this annual report, the terms "Techlabs," "we," and "us" refers to Techlabs, Inc., a Florida corporation, and its subsidiaries.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

CERTAIN STATEMENTS IN THIS ANNUAL REPORT ON FORM 10-KSB 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

Edgar Filing: TECHLABS INC - Form 10KSB

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 ANNUAL REPORT IN ITS ENTIRETY, INCLUDING BUT NOT LIMITED TO OUR FINANCIAL STATEMENTS AND THE NOTES THERETO AND THE RISKS DESCRIBED IN "ITEM 1. DESCRIPTION OF BUSINESS--RISK FACTORS." 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.

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

We have historically generated our revenues from fees earned by us from the rental of our Starting Point.com email list, and from fees paid directly by customers of our Florida Fountain of Youth Spa, an anti-aging day spa located in Stuart, Florida, which began operations in November 2004. During the fourth quarter of 2005 we determined to discontinue the operations of the Florida Fountain of Youth Spa. In December 2005 the Company completed the sale of the Starting Point.com website and all applicable content, trademarks, databases and domains.

STARTING POINT.COM

The Starting Point.com email list was derived from opt-ins to our former Starting Point web site located at www.stpt.com. This web site was designed to offer a variety of web searching tools. Users could also perform targeted searches utilizing Starting Point.com's database of directories and web sites that include 13 distinct sections covering topics from investments to entertainment to sports to weather and more, with each section having had its own easy-to-use, organized format. Starting Point was previously managed for us by a third party.

1

Prior to the year ended December 31, 2004 our sole customer was ResponseBase, a third party direct marketing company. In 2003 we were advised by ResponseBase that they were exiting that segment of their business. As a result, in both 2004 and 2005 we had no customers for our Starting Point.com email list and did not generate any revenue from this line of business. In December 2005 we completed the sale for \$90,000 of the Starting Point.com website and all applicable content, trademarks, databases and domains.

We also own Interplanner.com and InternetChic Marketing. Neither of these web site properties is generating revenues at this time. Interplanner.com was designed as a free online calendar and personal information management (PIM) service that offered a comprehensive set of features, including a personal calendar, group calendars, contact lists, appointment entry and tracking, and task lists, as well as a variety of content. Interplanner's original source code and documentation was developed for us by a third party. We own all intellectual property rights associated with Interplanner. InternetChic Marketing was a business-to-business marketing solution provider focused on developing and implementing Internet marketing and web site traffic building programs for Internet businesses and traditional brick and mortar companies.

Edgar Filing: TECHLABS INC - Form 10KSB

COMPETITION

We competed with a vast number of companies in the collection and rental of targeted opt-in email addresses. This business segment is intensely competitive and rapidly changing and has proven to be a very difficult business model. Many of our current and potential competitors have greater name recognition, longer operating histories, larger customer bases and significantly greater financial, technical, marketing, public relations, sales, distribution and other resources. Some of our potential competitors are among the largest and most well-capitalized companies in the world. Because of our small size, we experienced difficulty competing effectively in our market segment, which was among the reasons for our determination to sell Starting Point.

GOVERNMENT REGULATION

We are subject to general business regulations and laws, as well as regulations and laws specifically governing the Internet and eCommerce. Existing and future laws and regulations may impede the growth of the Internet or other online services. These regulations and laws may cover user privacy, email distribution, data protection, content, copyrights, and consumer protection. It is not clear how existing laws governing issues such as personal privacy apply to the Internet and eCommerce. Unfavorable resolution of these issues may harm our business.

INTELLECTUAL PROPERTY

We rely upon a combination of trade secret, copyright and trademark laws to protect our intellectual property. Except where we have granted third parties contractual rights to use our intellectual property, we limit access to, and distribution of, and other proprietary information. However, the steps we

2

take to protect our intellectual property may not be adequate to deter misappropriation of our proprietary information. In general, there can be no assurance that our efforts to protect our intellectual property rights through copyright, trademark and trade secret laws will be effective to prevent misappropriation of our intellectual property. Our failure or inability to protect our proprietary rights could materially adversely affect our business, financial condition and results of operations. We have also obtained the right to the Internet addresses www.stpt.com. As with phone numbers, we do not have and cannot acquire any property rights in an Internet address. We do not expect to lose the ability to use the Internet address; however, there can be no assurance in this regard and the loss of these addresses may have a material adverse affect on our ability to license the related products and services.

FLORIDA FOUNTAIN OF YOUTH SPA

In November 2004, we opened the Florida Fountain of Youth Spa, a 3,000-s.f. anti-aging day spa located on the St. Lucie River in Stuart, Florida. Our facility offered, on a day-use basis, hormone replacement therapies, electro-magnetic therapy, and sexual enhancement therapies under medical supervision. Additionally, the center's facility had a complete cosmetic and therapeutic day spa specializing in body wraps and facials. In addition to the aforementioned spa treatments and services, the facility also sold a variety of over-the-counter diet supplements and vitamins, as well as skin care products, including the Skin Fitness line of products. As previously noted, during the fourth quarter of 2005 we determined to discontinue the operations of the Florida Fountain of Youth Spa.

Edgar Filing: TECHLABS INC - Form 10KSB

COMPETITION

We competed with a significant number of competitors in the day spa business segment in the South Florida marketplace, including several located within close proximity to the Stuart, Florida area. Such locations include stand-alone day spas, as well as day spas located within health, beauty and fitness facilities, and within resorts and hotels. This business segment is becoming highly competitive with other local facilities offering substantially all, if not a greater number of the treatments and services that are offered at our facility. Given that our facility is relatively new in the marketplace, many of our current and potential competitors may have greater name recognition, longer operating histories, larger customer bases and significantly greater financial, technical, marketing, public relations, sales, distribution and other resources. Because of our small size and status as a recent start-up, we experienced difficulty competing effectively in our market segment, which was among our reasons for determining to discontinue these operations.

EMPLOYEES

As of December 31, 2005 we had one part-time employee, Jayme Dorrough, our sole officer and director.

3

OUR HISTORY

We were formed 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, changed our name to Techlabs, Inc. and embarked on a business strategy of a developer and incubator of start-up and emerging Internet companies and businesses.

PENDING NAME CHANGE

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 2006.

RISK FACTORS

An investment in our common stock involves a significant degree of risk. You should not invest in our common stock unless you can afford to lose your entire investment. You should consider carefully the following risk factors and other information in this prospectus before deciding to invest in our common stock.

WE HAVE A HISTORY OF LOSSES AND AN ACCUMULATED DEFICIT. WE DO NOT ANTICIPATE THAT WE WILL REPORT A PROFIT IN THE FORESEEABLE FUTURE.

For the year ended December 31, 2005, we reported a net loss of \$24,904 and at December 31, 2005 we had an accumulated deficit of \$8,451,735. While a significant portion of our accumulated losses from inception through December 31, 2005 are non-cash, we have never generated sufficient revenues to offset our operating costs. The recent sale of Starting Point.com and the discontinuing of operations of our day spa has resulted in the company not presently having any ongoing source of revenue. While we continue to seek new business that can be either acquired or started-up, there exist no assurances that we will be successful in this regard and that any new business interests will generate sufficient revenue to meet our operating expenses in future periods. Our

Edgar Filing: TECHLABS INC - Form 10KSB

principal stockholder has historically advanced certain funds to us to pay our expenses, and we believe that it will continue to pay these expenses for us until such time as we are able to generate sufficient revenues from our own operations. As a result of the uncertainty surrounding our revenues in the near future, you should not purchase shares of our common stock based upon our historical operations or financial results.

4

WE ARE DEPENDENT UPON OUR PRINCIPAL STOCKHOLDER FOR INTERIM CAPITAL.

We have no working capital with which to meet our cash needs, including the costs of compliance with the continuing reporting requirements of the Securities Exchange Act of 1934, as amended. Our principal stockholder has agreed to advance any funds necessary to insure that we are able to meet our reporting obligations under the Securities Exchange Act of 1934. However, Yucatan has not agreed in writing to provide these funds and can only do so to the extent that it has available funds. No commitments to provide additional funds have been made by other stockholders or third parties. Accordingly, there can be no assurances that any funds will be available to us to allow it to cover our expenses. If we were unable to continue to meet our reporting requirements under the Securities Exchange Act of 1934, our common stock would be delisted from the OTCBB and there would be no market for our securities.

WE WILL NEED TO RAISE ADDITIONAL CAPITAL.

We will be required to raise additional working capital to fund any operations we may establish in the future. It has been very difficult for small companies to raise working capital in the past few years, and we cannot anticipate if the funding environment in the U.S. or abroad will improve during 2006 and beyond. Accordingly, we cannot offer any assurances that if we should need additional capital that it will be available to us on terms and conditions which are reasonably acceptable, if at all. Depending upon the financial condition of our ultimate merger or business combination partner, the lack of sufficient working capital could materially and adversely affect any revenues we may be able to generate in future periods.

OUR COMMON STOCK IS CURRENTLY QUOTED ON THE OTCBB, BUT TRADING IN OUR STOCK IS LIMITED.

The market for our common stock is extremely limited, and we do not anticipate that it there will be any increased liquidity in our common stock until such time as we consummate a merger or business combination. Even if we are successful in completing such a transaction, there are no assurances an active market for our common stock will ever develop. Accordingly, purchasers of our common stock cannot be assured any liquidity in their investment.

BECAUSE OUR STOCK CURRENTLY TRADES BELOW \$5.00 PER SHARE, AND IS QUOTED ON THE OTC BULLETIN BOARD, OUR STOCK IS CONSIDERED A "PENNY STOCK" WHICH CAN ADVERSELY EFFECT ITS LIQUIDITY.

If the trading price of our common stock remains less than \$5.00 per share, our common stock is considered a "penny stock," and trading in our common stock is subject to the requirements of Rule 15g-9 under the Securities Exchange Act of 1934. Under this rule, broker/dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements. The broker/dealer must make an individualized written suitability determination for the purchaser and receive the purchaser's written consent prior to the transaction.

5

Edgar Filing: TECHLABS INC - Form 10KSB

SEC regulations also require additional disclosure in connection with any trades involving a "penny stock," including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and its associated risks. These requirements severely limit the liquidity of securities in the secondary market because few broker or dealers are likely to undertake these compliance activities. In addition to the applicability of the penny stock rules, other risks associated with trading in penny stocks could also be price fluctuations and the lack of a liquid market.

It is unlikely that our common stock will trade above \$5.00 per share in the foreseeable future, accordingly, any liquidity in the market will be further hampered by the applicability of the Penny Stock Rules to trading in our common stock.

PROVISIONS OF OUR ARTICLES OF INCORPORATION AND BYLAWS MAY DELAY OR PREVENT A TAKE-OVER WHICH MAY NOT BE IN THE BEST INTERESTS OF OUR STOCKHOLDERS.

Provisions of our articles of incorporation and bylaws may be deemed to have anti-takeover effects, which include when and by whom special meetings of our stockholders may be called, and may delay, defer or prevent a takeover attempt. In addition, certain provisions of the Florida Business Corporations Act also may be deemed to have certain anti-takeover effects which include that control of shares acquired in excess of certain specified thresholds will not possess any voting rights unless these voting rights are approved by a majority of a corporation's disinterested stockholders.

In addition, our articles of incorporation authorize the issuance of shares of preferred stock with such rights and preferences as may be determined from time to time by our board of directors. Our board of directors may, without stockholder approval, issue preferred stock with dividends, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of our common stock.

ITEM 2. DESCRIPTION OF PROPERTY.

The business and operations of our Florida Fountain of Youth Spa was conducted from a 3,033 square foot facility located in Stuart Florida, under a lease agreement expiring on April 30, 2006, which had base rent of \$39,429 per annum.

ITEM 3. LEGAL PROCEEDINGS.

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. During the fourth quarter of fiscal 2004, the suit was dismissed.

Edgar Filing: TECHLABS INC - Form 10KSB

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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no submissions of matters to security holders in the period ended December 31, 2005.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock is quoted on the OTCBB under the symbol TELA. The reported high and low bid prices for the common stock as reported on the OTCBB are shown below for the periods indicated. The quotations reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions.

| | High | Low |
|----------------------------------------------|--------|--------|
| FISCAL 2004 | | |
| First Quarter ended March 31, 2004 | \$3.75 | \$1.01 |
| Second Quarter ended June 30, 2004 | \$3.60 | \$1.25 |
| Third Quarter ended September 30, 2004 | \$4.20 | \$1.50 |
| Fourth Quarter ended December 31, 2004 | \$1.95 | \$0.75 |
| FISCAL 2005 | | |
| First Quarter ended March 31, 2005 | \$1.50 | \$0.82 |
| Second Quarter ended June 30, 2005 | \$1.40 | \$0.49 |
| Third Quarter ended September 30, 2005 | \$1.25 | \$0.96 |
| Fourth Quarter ended December 31, 2005 | \$1.00 | \$0.35 |

On April 25, 2006 the last sale price of our common stock as reported on the OTCBB was \$0.51. As of April 25, 2006 there were approximately 35 record owners of our common stock.

DIVIDEND POLICY

We have never paid cash dividends on our common stock. We intend to keep future earnings, if any, to finance the expansion of our business. We do not anticipate that any cash dividends will be paid in the foreseeable future.

7

EQUITY COMPENSATION PLAN INFORMATION AS OF DECEMBER 31, 2005

The following table sets forth securities authorized for issuance under equity compensation plans, including individual compensation arrangements, by us under our 1999 Stock Incentive Plan and any compensation plans not previously

Edgar Filing: TECHLABS INC - Form 10KSB

approved by our stockholders as of December 31, 2005.

| | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) ----- | Weighted average price of outstanding options, warrants and rights (b) ----- | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) ----- |
|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Plan category | | | |
| 1999 Stock Incentive Plan | 0 | - | 455,362 |
| Equity compensation plans not approved by stockholders | none | none | none |

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF PLAN OF OPERATIONS.

As a result of the Company's decision to discontinue the operations of its Florida Fountain of Youth Spa, operating results for this business segment have been classified as a loss from discontinued operations for all periods presented. The Company is currently exploring opportunities in the micro-resort segment of the hospitality industry and believes that it will consummate transactions in fiscal 2006, with such business interests contributing to results from ongoing operations in fiscal 2006.

We reported revenues of \$0 and \$0 for the fiscal years 2005 and 2004, respectively, as results of operations from the Company's Florida Fountain of Youth Spa have been classified as discontinued operations. Net income (loss) for fiscal years 2005 and 2004, respectively, were \$(24,904) and \$(438,429) for those respective periods, as results of operations from the Company's Florida Fountain of Youth Spa have been classified as discontinued operations.

Cost of goods sold in fiscal 2005 totaled \$0, resulting in gross margin of \$0, as compared to cost of goods sold in fiscal 2004 of \$0 and a resulting gross margin of \$0, as results of operations from the Company's Florida Fountain of Youth Spa have been classified as discontinued operations.

Selling, general and administrative expenses increased to \$75,312 in fiscal 2005, from \$12,691 in fiscal 2004 primarily as a result of increased professional fees related to the sale of Starting Point.com, as well as compensation paid to our President. For fiscal 2005 and 2004 we also recorded depreciation and amortization of \$0 and \$69,778, respectively.

8

Total operating expenses in fiscal 2005 include \$63,000 for the amortization of deferred compensation, compared to \$293,000 in 2004. Such expenses in fiscal 2005 represent the value of common stock issued as compensation for consulting services. Such expenses in 2004 represent the value of common stock issued as compensation to our President (as described elsewhere herein) as well as the value of common stock issued as compensation for consulting services.

Total operating expenses in fiscal 2004 also includes a non-cash stock compensation expense of \$280,016, representing the value of common stock issued as compensation to our President (as described elsewhere herein) as well as the

Edgar Filing: TECHLABS INC - Form 10KSB

value of common stock issued as compensation for consulting services.

Other income (expense) for 2005 and 2004 was \$58,688 and \$4,120, respectively. Other income (expense) during 2005 includes a gain of \$60,000 from the sale of Starting Point.com, offset by interest expense of \$1,312.

The loss from operations before discontinued operations for 2005 totaled \$79,624, as compared to a loss from operations before discontinued operations for 2004 totaling \$379,589. The Company recorded a loss from discontinued operations of \$78,808 in 2005, compared to \$58,840 in 2004. The loss from discontinued operations for 2005 was offset by a gain on the disposal of discontinued operations of \$133,529.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2005, we had a working capital deficit of \$70,450 as compared to a deficit of \$133,013 at December 31, 2004. Net cash provided by operating activities was \$37,036 for 2005, as compared to net cash used by operating activities of \$69,663 for 2004. Net cash provided by investing activities in 2005 was \$24,467, as compared to net cash used in investing activities of \$25,093 during fiscal 2004. Net cash used in financing activities in fiscal 2005 was \$61,503,10,827, compared to net cash provided by financing activities in 2004 of \$94,500.

We have an accumulated deficit of \$8,451,735 at December 31, 2005, and the report from of our independent auditor on our audited financial statements at December 31, 2005 contains a going concern modification. We will continue to incur losses during the foreseeable future. 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.

9

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.

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.

OBLIGATIONS AND COMMITMENTS

None.

ITEM 7. FINANCIAL STATEMENTS

The financial statements required by this report are included, commencing on page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On or about January 7, 2006, Webb & Company, our principal independent accountant resigned citing timing and financial considerations. None of the reports of Webb & Company, on the Company's financial statements for either of the past two years or subsequent interim period contained an adverse opinion or disclaimer of opinion, or was qualified or modified as to uncertainty, audit scope or accounting principles, except that the report for the fiscal years ended December 31, 2003, and December 31, 2004 did contain a going concern paragraph.

There were no disagreements between the Company and Webb & Company on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of Webb & Company, would have caused them to make reference to the subject matter of the disagreement in connection with its report.

In accordance with the requirements of Item 304 of Regulation S-B of the Securities Act of 1933, we provided Webb & Company with a copy of Item 4.01 of our Report on Form 8-K as filed on January 7, 2006. On February 27, 2006 they subsequently furnished us with a letter addressed to the SEC stating that such firm agreed with the statements made by us in that Report. A copy of such letter was filed as an exhibit to our Amended Report on Form 8-K filed on March 2, 2006.

On April 3, 2006, the Company engaged Baumann, Raymondo & Company, PA, as its new independent registered public accounting firm. The Company has not consulted with Baumann, Raymondo & Company, PA during the fiscal year ended December 31, 2005 and through April 3, 2006, on either the application of accounting principles or type of opinion Baumann, Raymondo & Company, PA might issue on the Company's financial statements. The engagement of Baumann, Raymondo & Company, PA was approved by our Board of Directors.

On March 9, 2004 we notified Dempsey Vantrease & Follis PLLC, our principal independent accountant, that we were terminating their services. Our decision to terminate their services was based upon their notification to us that such firm had decided not to register with the Public Company Accounting Oversight Board. The report of Dempsey Vantrease & Follis PLLC on our financial statements for the fiscal year ended December 31, 2002 contained an explanatory paragraph as to our ability to continue as a going concern. Other than such going concern modification, such report did not contain an adverse opinion or disclaimer of opinion, nor was it modified as to uncertainty, audit scope, or accounting principles. There were no disagreements between our company and Dempsey Vantrease & Follis PLLC on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to Dempsey Vantrease & Follis PLLC's satisfaction, would have caused it to make reference to the subject matter of the disagreement(s) in connection with its report.

In accordance with the requirements of Item 304 of Regulation S-B of the Securities Act of 1933, we provided Dempsey Vantrease & Follis PLLC with a copy of Item 4 of our Report on Form 8-K as filed on March 31, 2004 and they furnished us a letter addressed to the SEC stating that such firm agreed with the statements made by us in that Report. A copy of such letter was filed as an exhibit to our Report on Form 8-K filed on March 31, 2004.

Edgar Filing: TECHLABS INC - Form 10KSB

On March 9, 2004 we engaged Webb & Company, P.A. to act as our principal independent accountant. Prior to such engagement, during the two most recent fiscal years and any subsequent interim period prior to engaging Webb & Company, P.A. we did not consult with such firm regarding the application of accounting principles to a specific completed or contemplated transaction, or the type of audit opinion that might be rendered on our financial statements. The change in our principal independent accountants was approved by our board of directors. The change in our principal independent accountants was approved by our board of directors.

ITEM 8A. CONTROLS AND PROCEDURES

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by the annual report, being October 31, 2004, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's President. Based upon that evaluation, our company's President concluded that our company's disclosure controls and procedures are effective. There have been no significant changes in our company's internal controls or in other factors, which could significantly affect internal control subsequent to the date we carried out our evaluation.

12

Disclosure controls and procedures and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management including our President as appropriate, to allow timely decisions regarding required disclosure.

ITEM 8B. OTHER INFORMATION

None

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

The following individuals are our executive officers and directors:

| Name | Age | Position |
|----------------|-----|--------------------------------------|
| ---- | --- | ----- |
| Jayme Dorrough | 37 | Director, President and Secretary |

JAYME DORROUGH. Mrs. Dorrough has been a member of our board of directors since December 2000 and has served as our president and secretary since February 2001. Since 1994 Mrs. Dorrough has been president and the principal of Yucatan Holding Company, a privately-held investment company with interests in various companies. Yucatan Holding Company is our principal shareholder. Mrs. Dorrough has also been a member of the board of directors of

Edgar Filing: TECHLABS INC - Form 10KSB

Eline Entertainment Group, Inc. (OTCBB: EEGI) since September 2002.

There are no family relationship between any of the executive officers and directors. Each director is elected at our annual meeting of stockholders and holds office until the next annual meeting of stockholders, or until his successor is elected and qualified. There are no committees of our board of directors.

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us under Rule 16a-3(d) of the Securities Exchange Act of 1934 ("Exchange Act") during the fiscal year ended December 31, 2005, we are not aware of any person that failed to file on a timely basis, as disclosed in the aforementioned Forms, reports required by Section 16(a) of the Exchange Act during the fiscal year ended December 31, 2005.

13

CODE OF ETHICS

Effective December 31, 2003, our board of directors adopted a Code of Business Conduct and Ethics that applies to, among other persons, our company's President, as well as persons performing similar functions. As adopted, our Code of Business Conduct and Ethics sets forth written standards that are designed to deter wrongdoing and to promote:

- * honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- * full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the Securities and Exchange Commission and in other public communications made by us;
- * compliance with applicable governmental laws, rules and regulations;
- * the prompt internal reporting of violations of the Code of Business Conduct and Ethics to an appropriate person or persons identified in the Code of Business Conduct and Ethics; and
- * accountability for adherence to the Code of Business Conduct and Ethics.

Our Code of Business Conduct and Ethics requires, among other things, that all of our company's personnel shall be accorded full access to our President with respect to any matter that may arise relating to the Code of Business Conduct and Ethics. Further, all of our company's personnel are to be accorded full access to our company's board of directors if any such matter involves an alleged breach of the Code of Business Conduct and Ethics by our President.

In addition, our Code of Business Conduct and Ethics emphasizes that all employees, and particularly managers and/or supervisors, have a responsibility for maintaining financial integrity within our company, consistent with generally accepted accounting principles, and federal, provincial and state securities laws. Any employee who becomes aware of any incidents involving financial or accounting manipulation or other irregularities, whether by witnessing the incident or being told of it, must report it to his or her immediate supervisor or to our company's President. If

Edgar Filing: TECHLABS INC - Form 10KSB

the incident involves an alleged breach of the Code of Business Conduct and Ethics by the President, the incident must be reported to any member of our board of directors. Any failure to report such inappropriate or irregular conduct of others is to be treated as a severe disciplinary matter. It is against our company policy to retaliate against any individual who reports in good faith the violation or potential violation of our company's Code of Business Conduct and Ethics by another.

Our Code of Business Conduct and Ethics is filed herewith with the Securities and Exchange Commission as Exhibit 14 to this report. We will provide a copy of the Code of Business Conduct and Ethics to any person without charge, upon request. Requests can be sent to: Techlabs, Inc., 8905 Kingston Pike, Suite 307, Knoxville, Tennessee 37923.

14

Audit Committee Financial Expert

The Board has determined that Mrs. Dorrrough is not an audit committee financial expert as defined by Item 401(e)(2) of Regulation S-B of the Securities exchange Act of 1934.

Director Independence

The Board has determined that Mrs. Dorrrough is not independent within the NASDAQ Stock Market's director independence rules.

ITEM 10. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The table below sets forth information relating to the compensation paid by us during the past three fiscal years to: (i) the president and Chief Executive Officer; and (ii) each other executive officer who earned more than \$100,000 during last three completed fiscal years (the "Named Executive Officers").

| Name and Principal Position | Fiscal Year | Annual Compensation | | | Long-Term Compensation | | |
|--------------------------------------------------|-------------|---------------------|------------|--------------------------------|------------------------------|---------------------------------------|---------------|
| | | Salary (\$) | Bonus (\$) | Other Annual Compensation (\$) | Restricted Stock Awards (\$) | Securities Underlying Options SAR (#) | Al Oth Compen |
| Jayme Dorrrough President and Director (1) | 2005 | \$30,000 | \$0 | \$ 0 | \$0 | 0 | \$0 |
| | 2004 | \$15,000 | \$0 | \$168,000 | \$0 | 0 | \$0 |

(1) Mrs. Dorrrough has served as our president since February 2001. Mrs. Dorrrough is not a party to an employment agreement with us. While we do not pay Mrs. Dorrrough a salary, she was paid \$30,000 for the year ended December 31, 2005, and we recognized an expense of \$15,000 for the year December 31, 2004, which we believe equals the fair value of her services during these periods. The 2004 amount was treated as imputed compensation. 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

Edgar Filing: TECHLABS INC - Form 10KSB

compensation for the remaining fiscal 2004 as well as for past services.

15

STOCK OPTIONS

There were no stock options or stock appreciated rights granted to the named executive officers in the fiscal year ended December 31, 2005.

There were no stock options exercised by the named executive officers during the fiscal year ended December 31, 2005. There were no stock options or stock appreciation rights held or exercised by the named executive officers during the fiscal year ended December 31, 2005.

DIRECTOR COMPENSATION

We do not pay directors for attending meeting of the Board of Directors.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

As of April 3, 2006, there were 712,964 shares of our common stock, 12,500,000 shares of our Class A Special Preferred Stock and 225,000 shares of our Class C Preferred Stock issued and outstanding. These securities represent all of our issued and outstanding voting securities. Each share of common stock is entitled to one vote, each share of Class A Special Preferred Stock is entitled to three votes and each share of Class C Preferred Stock is entitled to 150 votes on all matters submitted to our shareholders for a vote, and all three classes of these securities vote together as one class. The following table contains information regarding beneficial ownership of our common stock as of April 3, 2006 held by:

- * persons who own beneficially more than 5% of our outstanding voting securities,
- * our directors,
- * named executive officers, and
- * all of our directors and officers as a group.

A person is deemed to be the beneficial owner of securities that can be acquired by such a person within 60 days from March 31, 2005 upon exercise of options, warrants or convertible securities. Each beneficial owner's percentage ownership is determined by assuming that options, warrants and convertible securities that are held by such a person (but not those held by any other person) and are exercisable within 60 days from that date have been exercised. Unless otherwise indicated, the address of each of the listed beneficial owners identified is 8905 Kingston Pike, Suite 307, Knoxville, Tennessee 37923. Unless otherwise noted, we believe that all persons named in the table have sole voting and investment power with respect to all shares of our voting securities beneficially owned by them.

16

| Name of Beneficial Owner ----- | Amount and Nature of Beneficial Ownership ----- | Percentage of Class ----- | Percentage of Voting Control(1) ----- |
|--------------------------------------|----------------------------------------------------------|---------------------------------|---------------------------------------------|
|--------------------------------------|----------------------------------------------------------|---------------------------------|---------------------------------------------|

Edgar Filing: TECHLABS INC - Form 10KSB

Common Stock

| | | | |
|------------------------------------------------------------------------------|---------|-------|-------|
| ----- | | | |
| Jayne Dorrough (2) | 242,530 | 34.0% | 82.2% |
| All executive officers and directors as a group (one person) (2) | 242,530 | 34.0% | 82.2% |
| Yucatan Holding Company (2) ... | 242,530 | 34.0% | 82.2% |
| Ellis C. Hyers (4) | 50,000 | 7.0% | .03% |
| E-Four Investments, Inc. (5) .. | 50,000 | 7.0% | .03% |

Class A Special Preferred Stock

| | | | |
|------------------------------------------------------------------------------|-----------|-------|-------|
| ----- | | | |
| Jayne Dorrough (2) | 8,330,000 | 66.6% | 82.2% |
| All executive officers and directors as a group (one person) (2) | 8,330,000 | 66.6% | 82.2% |
| Thomas J. Taule (3) | 4,170,000 | 33.3% | 5.8% |
| Yucatan Holding Company (2) ... | 8,330,000 | 66.6% | 82.2% |

Class C Preferred Stock (4)

| | | | |
|------------------------------------------------------------------------------|---------|------|-------|
| ----- | | | |
| Jayne Dorrough (2) | 225,000 | 100% | 82.2% |
| All executive officers and directors as a group (one person) (2) | 225,000 | 100% | 82.2% |
| Yucatan Holding Company (2) ... | 225,000 | 100% | 82.2% |

* represents less than 1%

- (1) Percentage of Voting Control is based upon the number of issued and outstanding shares of our common stock, shares of our Class A Special Preferred Stock and Class C Preferred Stock at March 31, 2004. At March 31, 2004 the holders of our outstanding shares of common stock, Class A Special Preferred Stock and Class C Preferred Stock were entitled to an aggregate of 71,742,964 votes at any meeting of our shareholders, which includes 492,964 votes attributable to the outstanding shares of common stock, 37,500,000 votes attributable to the outstanding shares of Class A Special Preferred Stock and 33,750,000 votes attributable to the Class C Preferred Stock.
- (2) Mrs. Dorrough, our sole officer and director, is the sole officer and director of Yucatan Holding Company. All shares owned beneficially by Mrs. Dorrough are owned of record by Yucatan Holding Company. The 342,530 shares of common stock, 8,330,000 shares of Class A Special Preferred Stock (which is entitled to 24,990,000 votes) and 225,000 shares of Class C Preferred Stock (which is equal to 33,750,000 votes) are aggregated together in determining the Percent of Voting Control held by Mrs. Dorrough through Yucatan Holding Company.
- 17
- (3) Mr. Taule served as our president and CEO from April 2000 until February 2002. His address is 1861 North Federal Highway, #146, Hollywood, Florida 33020. The Percentage of Voting Control includes 5,500 shares of common stock and 4,170,000 shares of Class A Special Preferred Stock (which is entitled to 12,510,000 votes) held by Mr. Taule.
- (4) Mr. Hyers served as president of our Florida Fountain Of Youth Spa, Inc.

Edgar Filing: TECHLABS INC - Form 10KSB

subsidiary.

- (5) E-Four Investments, Inc. is an entity owned by the president of our Florida Fountain of Youth Spa, Inc. subsidiary.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

From time to time Yucatan Holding Company, the Company's principal shareholder, has advanced funds for working capital. In December the Company paid Mrs. Jayme Dorrrough, the Company's sole officer and director and the principal of Yucatan Holding Company, Inc \$30,000 in compensation for 2005. In addition, effective January 1, 2004 the Company began accruing compensation of \$15,000 annually for Mrs. Dorrrough and 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.

Mrs. Dorrrough has served as the Company's president since February 2001. Mrs. Dorrrough is not a party to an employment agreement with the Company.

At December 31, 2005, the Company owed Yucatan Holding Company \$8,237, net of repayments. This amount will be paid by the Company when working capital permits.

At December 31, 2005, the Company owed a third party \$6,500 under an oral agreement on a non-interest bearing, unsecured loan, due on demand basis.

During the year ended December 31, 2005, various entities owned by the president of Florida Fountain of Youth Spa made advances totaling \$117,944 to the Company under an oral agreement. The outstanding balance of \$187,575 has been extinguished pursuant to an agreement to transfer the net assets of Florida Fountain of Youth Spas to the president. These advances were non-interest bearing, unsecured, and due on a demand basis.

In conjunction with the advances and or loans noted above, the Company recorded an in kind contribution of interest totaling \$4,120, representing interest at 8% on the advances, during the year ended December 31, 2004.

18

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 3(i) (a) Articles of Incorporation (1)
- 3(i) (b) Articles of Amendment to the Articles of Incorporation (1)
- 3(i) (c) Articles of Amendment to the Articles of Incorporation (1)
- 3(i) (d) Articles of Amendment to the Articles of Incorporation (1)
- 3(i) (e) Articles of Amendment to the Articles of Incorporation (1)
- 3(i) (f) Articles of Amendment to the Articles of Incorporation (1)
- 3(i) (g) Articles of Amendment to the Articles of Incorporation (2)
- 3(ii) Bylaws (1) 10 1999 Stock Incentive Plan (3)
- 14 Code of Ethics (5)
- 16.1 Letter from Webb & Company, P.A. regarding change in certifying accountants (6)
- 23.1 Consent of Independent Registered Public Accounting Firm
- 31.1 Rule 13a-14a/5d-14(a) Certification of Chief Executive and Financial Officer
- 32.1 Section 1350 Certification of Chief Executive and Financial Officer

Edgar Filing: TECHLABS INC - Form 10KSB

- (1) Incorporated by reference to the registrant's registration statement on Form 10-SB, file number 000-26233, as filed with the SEC on June 1, 1999, as amended.
- (2) Incorporated by reference to the registrant's preliminary Information Statement on Schedule 14C as filed with the SEC on May 23, 2002.
- (3) Incorporated by reference to the registrant's registration statement on Form S-8, file number 333-30124, as filed with the SEC on February 11, 2000.
- (4) Incorporated by reference to the registrant's Report on Form 8-K as filed with the SEC on March 31, 2004.
- (5) Incorporated by reference to the registrant's Report on Form 10-KSB as filed with the SEC on April 22, 2004.
- (6) Incorporated by reference to the registrant's Report on Form 8-K/A as filed with the SEC on March 2, 2006.

(b) Reports on Form 8-K

| | | | |
|-----|-------------------------------------|------------|-----------|
| (1) | Current report, items 7.01 and 9.01 | 2005-02-22 | 000-26233 |
| (2) | Current report, items 4.01 | 2006-01-12 | 000-26233 |
| (3) | Current report, items 4.01 | 2006-01-27 | 000-26233 |
| (4) | Current report, items 4.01 and 9.01 | 2006-03-02 | 000-26233 |
| (5) | Current report, items 4.01 | 2006-04-24 | 000-26233 |

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Webb & Company audited the Company's financial statements for the fiscal year ended December 31, 2004. Baumann, Raymondo & Company, PA, audited the Company's financial statements for the fiscal year ended December 31, 2005.

19

Fees related to services performed by such firms in fiscal 2005 and 2004 were as follows:

| | 2005 | 2004 |
|--------------------|-----------|----------|
| | ---- | ---- |
| Audit Fees (1) | \$ 10,000 | \$ 7,640 |
| Audit-Related Fees | 0 | 0 |
| Tax Fees (2) | 0 | 0 |
| All Other Fees | 0 | 0 |
| | | |
| Total | \$ 10,000 | \$ 7,640 |

(1) Audit fees represent fees for professional services provided in connection with the audit of our financial statements and review of our quarterly financial statements.

(2) Tax fees principally included tax advice, tax planning and tax return preparation.

The Board of Directors has reviewed and discussed with the Company's management and Baumann, Raymondo & Company, PA the audited financial statements of the Company contained in the Company's Annual Report on Form 10-KSB for the Company's 2005 fiscal year. The Board has also discussed with Baumann, Raymondo

Edgar Filing: TECHLABS INC - Form 10KSB

& Company, PA the matters required to be discussed pursuant to SAS No. 61 (Codification of Statements on Auditing Standards, AU Section 380), which includes, among other items, matters related to the conduct of the audit of the Company's financial statements.

The Board has received and reviewed the written disclosures and the letter from Baumann, Raymondo & Company, PA required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and has discussed with Baumann, Raymondo & Company, PA its independence from the Company.

The Board has considered whether the provision of services other than audit services is compatible with maintaining auditor independence.

Based on the review and discussions referred to above, the Board approved the inclusion of the audited financial statements be included in the Company's Annual Report on Form 10-KSB for its 2005 fiscal year for filing with the SEC.

Audit Committee's Pre-Approval Policies

The Board's policy is now to pre-approve all audit services and all permitted non-audit services (including the fees and terms thereof) to be provided by the Company's independent auditor; provided, however, pre-approval requirements for non-audit services are not required if all such services (1) do not aggregate to more than five percent of total revenues paid by the Company to its accountant in the fiscal year when services are provided; (2) were not recognized as non-audit services at the time of the engagement; and (3) are promptly brought to the attention of the Board and approved prior to the completion of the audit.

The Board pre-approved all of Baumann, Raymondo & Company, PA 's fees described above.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned and duly authorized.

Dated: April 27, 2006

Techlabs, Inc.

By: /s/ Jayme Dorrrough

Jayme Dorrrough
President, principal executive and
principal accounting officer

In accordance with the Exchange Act, this report has been signed by the following persons in the capacities and on the dates indicated.

| SIGNATURE | TITLE | DATE |
|------------------------------|--------------------------------------|----------------|
| /s/ Jayme Dorrrough ----- | Director, President and Secretary | April 27, 2006 |

Edgar Filing: TECHLABS INC - Form 10KSB

Jayne Dorrrough

21

TECHLABS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

| | Page No. |
|---------------------------------------------------------------------------------------------------------|----------|
| | ----- |
| Report of Independent Registered Public Accounting Firm..... | F-2 |
| Report of Independent Registered Public Accounting Firm..... | F-3 |
| Consolidated Balance Sheet - December 31, 2005..... | F-4 |
| Consolidated Statements of Operations - For the Years Ended December 31, 2005 and 2004..... | F-5 |
| Statements of Changes in Stockholders' Deficit - For the Years Ended December 31, 2005 and 2004..... | F-6 |
| Consolidated Statements of Cash Flows - For the Years Ended December 31, 2005 and 2004..... | F-7 |
| Notes to Consolidated Financial Statements..... | F-8 |

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of:
Techlabs, Inc.

We have audited the accompanying consolidated statements of operations changes in stockholders' deficiency and cash flows of Techlabs, Inc. and subsidiaries for the year ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

Edgar Filing: TECHLABS INC - Form 10KSB

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements of Techlabs, Inc. and subsidiaries referred to above present fairly in all material respects, the results of its operations and its cash flows for the year ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company had a net loss of \$438,429, a working capital deficiency of \$133,013, has an accumulated deficit of \$8,426,831, a stockholders' deficiency of \$108,546 and used cash in operations of \$69,663. This raises substantial doubt about its ability to continue as a going concern. Management's plans concerning this matter are also described in Note 2. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

WEBB & COMPANY, P.A.

Boynton Beach, Florida
April 20, 2005

F-2

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Techlabs, Inc.
Knoxville, Tennessee

We have audited the accompanying consolidated balance sheet of Techlabs, Inc. and subsidiaries as of December 31, 2005, and the related consolidated statements of operations, cash flows and stockholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of Techlabs and subsidiaries for the year ended December 31, 2004 were audited by other auditors whose report, dated April 20, 2005, on those financial statements included an explanatory paragraph that expressed substantial doubt about the Company's ability to continue as a going concern.

We conducted our audit in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the consolidated financial position of Techlabs, Inc. and subsidiary at December 31, 2005 and the consolidated results of its operations

Edgar Filing: TECHLABS INC - Form 10KSB

and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has experienced losses from operations, has a working capital deficit, an accumulated deficit and a deficit in stockholder's equity. This raises substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/S/ BAUMANN, RAYMONDO & COMPANY PA
 BAUMANN, RAYMONDO & COMPANY PA
 Tampa, Florida
 April 26, 2006

F-3

Techlabs, Inc. and Subsidiaries Consolidated Balance Sheet December 31, 2005

ASSETS

Current Asset

| | | |
|---------------------------------|----|---|
| Cash and cash equivalents | \$ | - |
| | | |

Total current assets

| | | |
|----------------------------------------|--|---|
| Property, Plant & equipment, net | | - |
|----------------------------------------|--|---|

| | | |
|--------------------|--|---|
| Other Assets | | - |
| | | |

| | | |
|--|----|---|
| | \$ | - |
| | | |

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

Current Liabilities

| | | |
|-----------------------------------------------------|----|--------|
| Accounts payable & accrued expenses | \$ | 25,713 |
| Due to stockholders | | 8,237 |
| Convertible note payable - related party, net | | 30,000 |
| Loan - related party | | 6,500 |
| | | |

| | | |
|---------------------------------|--|--------|
| Total Current Liabilities | | 70,450 |
|---------------------------------|--|--------|

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 |

Edgar Filing: TECHLABS INC - Form 10KSB

| | |
|--------------------------------------|-------------|
| Additional paid-in capital | 8,367,847 |
| Accumulated deficit | (8,451,735) |
| | ----- |
| Total Stockholders' Deficiency | (70,450) |
| | ----- |
| | \$ - |
| | ===== |

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

F-4

Techlabs, Inc. and Subsidiaries
Consolidated Statements of Operations
For the years ended December 31, 2005 and 2004

| | 2005 | 2004 |
|-----------------------------------------------------|-------------|--------------|
| | ----- | ----- |
| Revenues | \$ - | \$ - |
| Cost of sales | - | - |
| | ----- | ----- |
| Gross profit | - | - |
| Operating expenses | | |
| General and administrative | 75,312 | 12,691 |
| Depreciation & amortization | - | 69,778 |
| Amortization of deferred compensation | 63,000 | 293,000 |
| | ----- | ----- |
| Total operating expenses | 138,312 | 375,469 |
| | ----- | ----- |
| Loss from continuing operations | (138,312) | (375,469) |
| Other income (expense) | | |
| Gain on sale of starting point | 60,000 | - |
| Interest expense | (1,312) | (4,120) |
| | ----- | ----- |
| | 58,688 | (4,120) |
| | ----- | ----- |
| Loss from operations before discontinued operations | (79,624) | (379,589) |
| Loss from discontinued operations | (78,808) | (58,840) |
| Gain on disposal of discontinued operations | 133,528 | - |
| | ----- | ----- |
| Net loss | \$ (24,904) | \$ (438,429) |
| | ===== | ===== |
| Loss per share: | | |
| Basic and diluted (loss) per common share from | | |
| continuing operations | \$ (0.11) | \$ (0.66) |

Edgar Filing: TECHLABS INC - Form 10KSB

| | | |
|------------------------------------------------------------------------------|-----------|-----------|
| Basic and diluted (loss) per common share from discontinued operations | 0.08 | (0.11) |
| | ----- | ----- |
| | \$ (0.03) | \$ (0.77) |
| | ===== | ===== |

| | | |
|-------------------------------------------------------------|---------|---------|
| Basic and diluted weighted average shares outstanding | 710,162 | 571,813 |
| | ===== | ===== |

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

F-5

Techlabs, Inc. and Subsidiaries
 Statements of Changes in Stockholders' Deficit
 For the Years Ended December 31, 2005 and 2004

| | Preferred Stock | | | | | | Common Stock | | Additional Paid-In Capital |
|-------------------------------------------------------------|-----------------|----------|---------|--------|---------|--------|--------------|--------|----------------------------------|
| | Class A | | Class B | | Class C | | Shares | Amount | |
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balance, January 1, 2004 | 12,500,000 | \$12,500 | - | \$ - | 225,000 | \$ 225 | 492,964 | \$ 493 | \$8,007,947 |
| In kind contribution of interest expense | - | - | - | - | - | - | - | - | 4,120 |
| Shares issued to consultants - related party | - | - | - | - | - | - | 100,000 | 100 | 124,900 |
| Shares issued to officer ... | - | - | - | - | - | - | 60,000 | 60 | 167,940 |
| Net loss | - | - | - | - | - | - | - | - | - |
| Balance, December 31, 2004 | 12,500,000 | \$12,500 | 0 | \$ 0 | 225,000 | \$ 225 | 652,964 | \$ 653 | \$8,304,907 |
| Shares issued to consultant - related party | - | - | - | - | - | - | 60,000 | 60 | 62,940 |
| Amortization of deferred consulting ... | - | - | - | - | - | - | - | - | - |

Edgar Filing: TECHLABS INC - Form 10KSB

| | | | | | | | | | | |
|----------------------------------------|------------|----------|-------|-------|---------|--------|---------|--------|-------------|-------|
| Net loss | - | - | - | - | - | - | - | - | - | - |
| Balance, December 31, 2005 | 12,500,000 | \$12,500 | 0 | \$ 0 | 225,000 | \$ 225 | 712,964 | \$ 713 | \$8,367,847 | |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

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

F-6

Techlabs, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the year ended December 31, 2005 and 2004

| | 2005 | 2004 |
|------------------------------------------------------------------------------------|-------------|--------------|
| | ----- | ----- |
| Operating Activities: | | |
| Net (loss) | \$ (24,904) | \$ (438,429) |
| Net income (loss) loss from discontinued operations .. | 54,720 | (379,589) |
| Loss from continuing operations | (79,624) | (58,840) |
| Adjustments to reconcile net (loss) to net cash (used in) operating activities: | | |
| Depreciation and amortization | - | 70,404 |
| Amortization of deferred compensation | 63,000 | 297,120 |
| Changes in operating assets and liabilities: | | |
| Increase in other current assets | - | 966 |
| Increase in accounts payable | 5,797 | (6,639) |
| Discontinued operations, net | (6,857) | 6,915 |
| | ----- | ----- |
| Net Cash (Used in) Operating Activities | 37,036 | (69,663) |
| | ----- | ----- |
| Investing Activities: | | |
| Deposits | - | - |
| Discontinued investing activities, net | 24,467 | (25,093) |
| | ----- | ----- |
| Net Cash (Used in) Investing Activities | 24,467 | (25,093) |
| | ----- | ----- |
| Financing Activities: | | |
| (Repayments) advance from stockholder | (19,173) | 15,670 |
| Discontinued operations, net | (72,330) | 72,330 |
| Proceeds from convertible notes | 30,000 | - |
| Advance from related party | - | 6,500 |
| | ----- | ----- |
| Net Cash Provided by Financing Activities | (61,503) | 94,500 |
| | ----- | ----- |
| Increase (decrease) in Cash and Cash Equivalents | - | (256) |
| Cash, beginning of period | - | 256 |
| | ----- | ----- |
| Cash, end of period | \$ - | \$ - |

Edgar Filing: TECHLABS INC - Form 10KSB

=====

The accompanying notes are an integral part of these financial statements

F-7

TECHLABS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Nature of Operations

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, a full service spa located in South Florida. The Company abandoned this business in October 2005 due to excessive competition.

(B) Basis of Consolidation

The accompanying consolidated financial statements for fiscal 2005 and 2004 include the accounts of Techlabs and its wholly-owned subsidiary Florida Fountain of Youth Spas from November 2004 to October 2005. 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, 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.

(E) Concentration of Credit Risk

The Company did not rely on any one significant customer for more than 10% of its revenues.

(F) Revenue Recognition

Revenue from Florida Fountain of Youth Spas was recognized upon delivery of services.

(H) 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

Edgar Filing: TECHLABS INC - Form 10KSB

three to seven years. Significant improvements are capitalized while maintenance and repairs are expensed as incurred.

F-8

(I) Web Site Development Costs

The Company accounts for costs incurred in connection with the development of its 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. At December 31, 2005, all capitalized web site development costs had been fully amortized and or impaired.

(J) 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.

(K) 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.

(L) Reclassification

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

(M) 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.

Edgar Filing: TECHLABS INC - Form 10KSB

F-9

(N) 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.

(O) 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 December 31, 2005 and 2004, the Company did not have any outstanding common stock equivalents.

(P) Business Segments

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

(Q) 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.

(R) Advertising Costs

Advertising costs are expensed as incurred. Advertising expense included in discontinued operations totaled \$2,963 and \$1,395 for the years ended December 31, 2005 and 2004, respectively.

(S) 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.

F-10

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

Edgar Filing: TECHLABS INC - Form 10KSB

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.

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 \$24,904, a working capital deficiency of \$70,450, an accumulated deficit of \$8,451,735, a stockholders' deficiency of \$70,450 and used cash in operations of \$10,827. 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 it will be able to raise additional capital and borrowings from its principal shareholder and will be able to continue as a going concern.

NOTE 3 PROPERTY AND EQUIPMENT

Included in property, plant & equipment at December 31, 2005 are:

| | |
|--------------------------------------|------------|
| Hardware & computer equipment | \$ 223,618 |
| Less reserve for impairment | (55,904) |
| | ----- |
| | 167,714 |
| Less: accumulated depreciation | (167,714) |
| | ----- |
| | \$ - |
| | ===== |

Depreciation expense was \$4,910 and \$626 for the years ended December 31, 2005 and 2004, respectively and is included in the loss from discontinued operations.

F-11

The Hardware & computer equipment, reflected above is not currently in use by the Company. The net book value of the equipment is \$0 at December 31, 2005 and 2004.

NOTE 4 CONVERTIBLE NOTE PAYABLE

During 2005, the Company entered into a convertible note payable with an

Edgar Filing: TECHLABS INC - Form 10KSB

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.

NOTE 5 RELATED PARTY TRANSACTIONS

From time to time Yucatan Holding Company, the Company's principal shareholder, has advanced funds for working capital. In December the Company paid Mrs. Jayme Dorrrough, the Company's sole officer and director and the principal of Yucatan Holding Company, Inc. \$30,000 in compensation for 2005. In addition, effective January 1, 2004 the Company began accruing compensation of \$15,000 annually for Mrs. Dorrrough and 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.

Mrs. Dorrrough has served as the Company's president since February 2002. Mrs. Dorrrough is not a party to an employment agreement with the Company.

At December 31, 2005, the Company owed Yucatan Holding Company \$8,237. This amount will be paid by the Company when working capital permits.

At December 31, 2005, the Company owed a third party \$6,500 under an oral agreement on a non-interest bearing, unsecured loan, due on demand basis.

During the year ended December 31, 2005, various entities owned by the president of Florida Fountain of Youth Spa made advances totaling \$117,944 to the Company under an oral agreement. The outstanding balance of \$187,575 has been extinguished pursuant to an agreement to transfer the net assets of Florida Fountain of Youth Spas to the president resulting on a gain on disposal of \$133,528. These advances were non-interest bearing, unsecured, and due on a demand basis.

In conjunction with the advances and or loans noted above, the Company recorded an in kind contribution of interest totaling \$4,120, representing interest at 8% on the advances, during the year ended December 31, 2004.

NOTE 6 COMMITMENTS AND CONTIGINCIES

LITIGATION

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

F-12

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. During the fourth quarter of fiscal 2004, the suit was dismissed.

Edgar Filing: TECHLABS INC - Form 10KSB

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.

NOTE 7 GAIN ON SALE OF STARTING POINT

On December 2, 2005, The Company sold for \$90,000 the Starting Point website and all applicable content, trademarks, databases and domains resulting in a \$60,000 gain after attorney fees. The Company had no book basis in the Starting Point website in that the costs associated with the technology had been impaired in prior years.

NOTE 8 LOSS ON DISCONTINUED OPERATIONS

In October 2005, the Company closed the Florida Fountain of Youth Spa due to excessive competition and the inability to attract professional competent staff. The net assets of the spa were transferred to the president of Florida Fountain of Youth Spa in exchange for the forgiveness of advances totaling of \$187,575. The gain on disposal was calculated as follows:

| | |
|----------------------------------------------|-------------|
| Current assets | \$ 4,743 |
| Inventory of supplements | 28,559 |
| Net Book value of property & equipment | 35,705 |
| Liabilities related to assets | (14,960) |
| | ----- |
| Net assets | 54,047 |
| Less: Advances forgiven | (187,575) |
| | ----- |
| Gain on disposal | \$(133,528) |
| | ===== |

The operating results for the Florida Fountain of Youth Spas is classified as loss from discontinued operations for all periods presented.

| | 2005 | 2004 |
|---------------------------------------|-------------|-------------|
| | ----- | ----- |
| Sales | \$ 207,735 | \$ 30,718 |
| Cost of sales | 149,028 | 41,874 |
| | ----- | ----- |
| Gross profit | 58,707 | (11,156) |
| Other costs and expenses | (137,515) | (47,684) |
| | ----- | ----- |
| Loss from discontinued operations ... | \$ (78,808) | \$ (58,840) |
| | ===== | ===== |

F-13

NOTE 9 CAPITAL STOCK

The Company's authorized capital consists of:

a. 200,000,000 shares of common stock, par value \$.001 per share, of which 712,964 and 652,964 shares were issued and outstanding at December 31, 2005 and 2004, respectively.

Edgar Filing: TECHLABS INC - Form 10KSB

b. 10,000,000 of preferred stock, par value \$.001 per share, of which no shares are issued and outstanding;

c. 25,000,000 shares of special preferred stock, par value \$.001 per share, of which 12,500,000 shares have been designated Special Class A Preferred Stock, all of which are outstanding. Of these shares, 8,330,000 shares are held by the Company's principal shareholder, Yucatan Holding Company, and the remaining 4,170,000 shares are held by Thomas J. Taule, the Company's former CEO and member of its board of directors. The designations, rights and preferences of the Special Class A Preferred Stock provide:

* the holders are not entitled to receive any assets in the event of the liquidation or wrap up of the Company;

* each share of Special Class A Preferred Stock entitles the holder to three votes on all matters submitted to the Company's shareholders for a vote, and the Special Class A Preferred Stock votes together with the Company's common stock and its Class C Preferred Stock as one class; and

* the shares of Special Class A Preferred Stock are redeemable at the sole option of the Company, with the manner of redemption, the redemption price or prices and the terms and conditions of the redemption being determined by the Company's board of directors; and

d. 10,000,000 shares of blank check preferred stock, par value \$.001 per share (the "Blank Check Preferred Stock"). Series of the Blank Check Preferred Stock may be created and issued from time to time, with such designations, preferences, conversion rights, cumulative, relative, participating, optional or other rights, including voting rights, qualifications, limitations or restrictions thereof as shall be stated and expressed in the resolution or resolutions providing for the creation and issuance of such series of Blank Check Preferred Stock as adopted by the Board of Directors in its sole discretion. The Board has designated 225,000 shares of Blank Check Preferred Stock as Class C Preferred Stock, all of which such shares are issued and outstanding and held by the Company's principal shareholder, Yucatan Holding Company. The designations, rights and preferences of the Class C Preferred Stock include:

* the stated value of each share is \$ 0.001,

* the shares are not redeemable without the consent of the holders of a majority of the issued and outstanding shares of Class C Preferred Stock,

* each share of Class C Preferred Stock is convertible into shares of the Company's common stock at the option of the Company at a conversion price to be established by the holder and the Company at the time of conversion,

* the shares of Class C Preferred Stock do not pay any dividends,

F-14

* each share of Class C Preferred Stock entitles the holder to 150 votes on all matters submitted to the Company's shareholders for a vote, and the Class C Preferred Stock votes together with the Company's common stock and its Special Class A Preferred Stock as one class, and

* so long as the shares of Class C Preferred Stock are outstanding, the Company will not be able to take certain actions without the approval of the holders of a majority of the issued and outstanding shares, including:

Edgar Filing: TECHLABS INC - Form 10KSB

- sell, convey, or otherwise dispose of or encumber all or substantially all of its property or business or merge into or consolidate with any other corporation (other than a wholly-owned subsidiary corporation) or effect any transaction or series of related transactions in which more than 50% of the voting power of the Company is transferred or disposed of;

- alter or change the rights, preferences or privileges of shares of Class C Preferred Stock;

- increase or decrease the total number of authorized shares of Class C Preferred Stock;

- authorize or issue, or obligate the Company to issue, any other equity security, including any other security convertible into or exercisable for any equity security having rights, preferences or privileges over, or being on a parity with or to, the Class C Preferred Stock;

- redeem, purchase or otherwise acquire (or pay into or set aside for a sinking fund for such purpose) any of the Company's securities;

- amend its articles of incorporation or bylaws;

- change the authorized number of its directors; or

- declare, order or pay any dividends on any class of its securities.

During the year ended December 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. Amortization of deferred consulting was \$63,000 during the year ended December 31, 2005. During the year ended December 31, 2004, the Company issued 60,000 shares of restricted common stock to the Company's president having a fair value of \$168,000 on the date of grant and 100,000 shares of restricted common stock to a related party for services having a fair value of \$125,000 on the date of grant.

NOTE 10 STOCK INCENTIVE PLAN

In October 1999, the Company adopted its 1999 Stock Incentive Plan (the "Plan"). The purpose of the Plan is to promote our long-term success and the creation of shareholder value by encouraging employees, directors and consultants to focus on critical long-range objectives, encouraging the attraction and retention of employees, outside directors and consultants and linking those individuals directly to shareholder interests through increased stock ownership. Under the Plan the Company can make awards either in the form of restricted shares or options, which may be either incentive stock options or non-statutory stock options.

F-15

Initially the maximum number of shares of common stock issuable upon the exercise of restricted stock awards or stock options granted under the Plan was 1,500,000 shares. This amount is subject to increase on January 1 of each year beginning on January 1, 2000 by the lesser of 1.5% of the total number of shares of common stock then outstanding on a fully-diluted basis or 300,000 shares. As of December 31, 2005 the maximum number of shares of the Company's common stock available for issuance upon grants of restricted stock awards or stock options was 1,977,024 shares. To date, the Company has granted restricted stock awards or stock options which have been exercised for an aggregate of 380,416 shares of our common stock. Accordingly, the Company currently has 455,362 shares available under the Plan.

Edgar Filing: TECHLABS INC - Form 10KSB

The Plan is to be administered by a committee consisting of two or more outside directors who review management's recommendation as to the employees, outside directors and consultants who are to receive awards under the Plan, determine the type, number, vesting requirements and other features and conditions of the awards, interpret the Plan and make all other decisions related to the Plan. The Company's Board of Directors may also appoint a secondary committee of the Board, composed of one or more directors who need not be independent, who may administer the Plan with respect to employees and consultants who are not considered officers or directors of Techlabs. This secondary committee may grant awards under the Plan to such employees and consultants, and may determine all features and conditions of those awards.

Options granted under the Plan may either be options qualifying as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, or non-statutory options. Incentive options can only be granted to a recipient who is our employee, and non-statutory options and restricted stock awards can be granted to employees, outside directors and consultants. Options granted to any optionee in a single fiscal year cannot exceed 1,000,000 shares, except that options granted to a new employee in his or her first year of employment cannot exceed 500,000 shares. Any incentive option granted under the Plan must provide for an exercise price of not less than 100% of the fair market value of the underlying shares on the date of such grant, but the exercise price of any incentive option granted to an eligible employee owning more than 10% of our common stock must be at least 110% of such fair market value as determined on the date of the grant. The exercise price of non-statutory options cannot be less than 85% of the fair market value of the underlying shares on the date of the grant; however, the option agreement can provide that the exercise price varies in accordance with a pre-determined formula while the option is outstanding. The term of each Plan Option and the manner in which it may be exercised is determined by the board of the directors, provided that no Plan Option may be exercisable more than 10 years after the date of its grant.

Payment for incentive options can only be made as specified in the option agreement and the form of payment for non-statutory options may be accepted by the Board from time to time. The Plan permits cashless exercise of options, and the payment of the exercise price of options through a full-recourse promissory note and other forms which are consistent with applicable laws. Restricted stock awards may be sold or awarded under the Plan for such consideration as our board may determine, including cash, cash equivalents, full-recourse promissory notes, past services and future services. In the event of a recapitalization of our company, a spin-off or similar occurrence, or the declaration of a dividend payable in shares of our common stock, in the Board's sole discretion it will determine if any adjustments are to be made in the number of options and restricted shares available for future awards and certain other matters. The Plan will terminate on its tenth anniversary, unless earlier terminated by our Board of Directors.

There were no issues under the plan during 2005 and 2004.

F-16

NOTE 12 INCOME TAXES

As of December 31, 2005 and 2004, the Company had net operating loss ("NOL") carryforwards of approximately \$5,031,080 and \$5,005,700, respectively, available to reduce future federal and state taxable income. These NOL carryforwards will expire from 2022 through 2025. The Company had no other material temporary differences. Due to uncertainties related to the extent and timing of its future taxable income, the Company offset deferred tax assets of approximately \$1,350,000 and \$1,325,000 as of December 31, 2005 and 2004,

Edgar Filing: TECHLABS INC - Form 10KSB

respectively, by an equivalent valuation allowance as of December 31, 2005 and 2004.

NOTE 13 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 first quarter of fiscal 2006.

F-17