TECHLABS INC
Form 10QSB
September 15, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2006

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

For the transition period from ________ to _________

Commission File Number: 000-26233

TECHLABS, INC.
(Exact name of small business issuer as specified in its charter)

| | |
|---|---|
| Florida | 65-0843965 |
| (State or other jurisdiction of Incorporation or organization) | (IRS Employer Identification No.) |

8905 Kingston Pike, Suite 307, Knoxville, TN 37923
(Address of Principal executive offices)

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 815,464 shares of common stock as of September 12, 2006.

TECHLABS, INC.
Form 10-QSB for the period ended June 30, 2006

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this quarterly report on Form 10-QSB contain or may contain forward-looking statements that are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause our actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to economic, political and market conditions and fluctuations, government and industry regulation, interest rate risk, U.S. and global competition, and other factors. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Readers should carefully review this quarterly report in its entirety, including but not limited to our financial statements and the notes thereto. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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



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PART I. FINANCIAL INFORMATION

Techlabs, Inc. and Subsidiaries
Consolidated Balance Sheet
June 30, 2006
(unaudited)

| | |
|---|---|
| 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 | $ 45,370 |
| Due to stockholders | 10,892 |
| Convertible note payable - related party, net | 30,000 |
| Loan - related party | 6,500 |
| Total Current Liabilities | 92,762 |
| 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 | 816 |
| Deferred compensation | (25,625) |
| Additional paid-in capital | 8,418,994 |
| Accumulated deficit | (8,499,672) |
| Total Stockholders' Deficiency | (92,762) |
| | $ - |

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



Techlabs, Inc. and Subsidiaries
Consolidated Statements of Operations
For the three and Six Months ended June 30, 2006 and 2005
(unaudited)

| | For the Three Months Ended June 30, 2006 | For the Three Months Ended June 30, 2005 | For the Six Months Ended June 30, 2006 | For the Six Months Ended June 30, 2005 |
|---|---|---|---|---|
| Revenues | $ - | $ - | $ - | $ - |
| Cost of sales | - | - | - | - |
| Gross profit | - | - | - | - |
| Operating expenses | | | | |
| General and administrative | 18,509 | 6,930 | 21,562 | 14,990 |
| Amortization of deferred compensation | 25,625 | 31,500 | 25,625 | 57,750 |
| Total operating expenses | 44,134 | 38,430 | 47,187 | 72,740 |
| Loss from continuing operations | (44,134) | (38,430) | (47,187) | (72,740) |
| Other income (expense) | | | | |
| Interest expense | (375) | (375) | (750) | (563) |
| | (375) | (375) | (750) | (563) |
| Loss from operations before discontinued operations | (44,509) | (38,805) | (47,937) | (73,303) |
| Loss from discontinued operations | - | (27,692) | - | (50,775) |
| Net loss | $ (44,509) | $ (66,497) | $ (47,937) | $(124,078) |
| Loss per share: | | | | |
| Basic and diluted (loss) per common share from continuing operations | $ (0.05) | $ (0.07) | $ (0.06) | $ (0.14) |
| Basic and diluted (loss) per common share from discontinued operations | 0.00 | (0.05) | 0.00 | (0.10) |
| | $ (0.03) | $ (0.12) | $ (0.03) | $ (0.24) |
| Basic and diluted weighted average shares outstanding | 812,085 | 532,524 | 762,798 | 512,854 |

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



Techlabs, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the six months ended June 30, 2006 and 2005
(unaudited)

| | For the Six Months Ended June 30, 2006 | 2005 |
|---|---|---|
| Operating Activities: | | |
| Net (loss) .......................................... | $ (47,937) | $(124,078) |
| Net income (loss) loss from discontinued operations .. | - | (50,775) |
| Loss from continuing operations ..................... | - | (73,303) |
| Adjustments to reconcile net (loss) to net cash (used in) operating activities: | | |
| Amortization of deferred compensation ............. | 25,625 | 57,750 |
| Changes in operating assets and liabilities: | | |
| Increase in accounts payable .................... | 19,657 | 9,837 |
| Discontinued operations, net .................... | - | (445) |
| Net Cash (Used in) Operating Activities ........ | (2,655) | (56,936) |
| Investing Activities: | | |
| Discontinued investing activities, net .............. | - | (19,604) |
| Net Cash (Used in) Investing Activities ........ | - | (19,604) |
| Financing Activities: | | |
| Discontinued operations, net ........................ | - | 73,483 |
| Proceeds from convertible notes ..................... | - | 30,000 |
| Proceeds (Payments) to due to stockholder ........... | 2,655 | (24,285) |
| Net Cash Provided by Financing Activities ...... | 2,655 | 79,198 |
| Increase (decrease) in Cash and Cash Equivalents ....... | - | 2,658 |
| Cash, beginning of period ............................. | - | - |
| Cash, end of period ................................... | $ - | $ 2,658 |

The accompanying notes are an integral part of these financial statements

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TECHLABS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2006

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.

During the three months ended June 30, 2006, the Company reported that as a result of its two-year effort to research and develop business opportunities in the Caribbean basin and South America, it is moving forward with two new potential ventures. First, the company has entered into contract negotiations for an approximate 26,000 square-foot property located on Margarita Island, a Caribbean island of Venezuela, which will serve as its first micro-resort property. The company intends for the facility to serve as a destination for high-end vacations, catering to the adults-only market segment. Margarita Island, a part of the Minor Antilles chain, is situated only about 15 miles off the northern coast of Venezuela and is well known for the high quality of its beaches. Second, the Company has entered into an initial stage of negotiations to acquire Venezuelan-based Corporacion SportAlum C.A. (SportAlum), corporate website: www.sportalum.com, and will shortly commence a full due-diligence effort with respect to structuring a purchase transaction with SportAlum's principals. SportAlum specializes in the fabrication, sale and installation of sport seating solutions for stadiums, arenas and other sports and entertainment facilities around the world. Techlabs intends to complete its initial due-diligence efforts before the end of June, with an eye towards entering into definitive purchase agreement by the end of July 2006. Further, the Company has entered into a joint venture agreement with the controlling shareholder of SportAlum for the import into the United States of aluminum extrusions in a variety of custom shapes. Techlabs intends to resell the aluminum extrusions to a variety of companies engaged in the manufacture of home building materials and products, including window and door frames and assemblies.

(B) Basis of Consolidation

The accompanying consolidated financial statements for three and six months ended June 30, 2006 and 2005 include the accounts of Techlabs and its wholly-owned subsidiary Florida Fountain of Youth Spas from (inception) to June 30, 2006. 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 three to seven years. Significant improvements are capitalized while maintenance and repairs are expensed as incurred.

(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 June 30, 2006, 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.

(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 June 30, 2006 and 2005, 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 $0 and $1,395 for the six months ended June 30, 2006 and 2005, 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.

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

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 $47,937, a working capital deficiency of $92,762, an accumulated deficit of $8,499,672, a stockholders' deficiency of $92,762. 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   CONVERTIBLE NOTE PAYABLE

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

NOTE 4 RELATED PARTY TRANSACTIONS

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

At June 30, 2006, the Company owed Yucatan Holding Company $10,892. This amount will be paid by the Company when working capital permits.

At June 30, 2006, the Company owed a third party $6,500 under an oral agreement on a non-interest bearing, unsecured loan, due on demand basis.

NOTE 5 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 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.

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 6 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 following operating results for the Florida Fountain of Youth Spas have been presented as loss from discontinued operations for all periods presented:

| | 2006 | 2005 |
|---|---|---|
| Sales ............................... | $ - | $ 156,194 |
| Cost of sales ....................... | - | 114,583 |
| Gross profit ........................ | - | 41,611 |
| Other costs and expenses ............ | - | 92,386 |
| Loss from discontinued operations .... | $ - | $ (50,775) |

NOTE 7 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 Shares were issued and outstanding at June 30, 2006.

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,

* 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:

- 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 sto, 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.

NOTE 8 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.

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.

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 the three months ended June 30, 2006.



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

RESULTS OF OPERATIONS

As a result of the Company's decision to discontinue the operations of its Florida Fountain of Youth Spa during the fourth quarter of fiscal 2005, operating results for this business segment for the three and six months ended June 30, 2005 have been classified as a loss from discontinued operations. In addition, in December 2005 the Company completed the sale for $90,000 of the Starting Point.com website and all applicable content, trademarks, databases and domains. 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 three months ended June 30, 2006 and June 30, 2005, respectively, as results of operations from the Company's Florida Fountain of Youth Spa for the 2005 period have been classified as discontinued operations. For the six months ended June 30, 2006 and June 30, 2005, we reported revenues of $0 and $0, respectively.

Cost of goods sold during the three months ended June 30, 2006 totaled $0, resulting in gross margin of $0, as compared to cost of goods sold of $0 during the three months ended June 30, 2005 and a resulting gross margin of $0, as results of operations from the Company's Florida Fountain of Youth Spa for the 2005 period have been classified as discontinued operations.

Cost of goods sold during the six months ended June 30, 2006 totaled $0, resulting in gross margin of $0, as compared to cost of goods sold of $0 during the six months ended June 30, 2005 and a resulting gross margin of $0, as results of operations from the Company's Florida Fountain of Youth Spa for the 2005 period have been classified as discontinued operations.

Operating expenses during the three months ended June 30, 2006 totaled $44,134, as compared to operating expenses totaling $38,430 during the three months ended June 30, 2005. Operating expenses during the fiscal 2006 period included $25,625 for the amortization of deferred compensation to a third party pursuant to a consulting agreement that called for services to be performed through September 2006. Operating expenses during the fiscal 2005 period included $31,500 for the amortization of deferred compensation to a third party pursuant to a consulting agreement that called for services to be performed through July 2005.

Operating expenses during the six months ended June 30, 2006 totaled $47,187, as compared to operating expenses totaling $72,740 during the six months ended June 30, 2005. Operating expenses during the fiscal 2006 period included $25,625 for the amortization of deferred compensation to a third party pursuant to a consulting agreement that called for services to be performed through September 2006. Operating expenses during the fiscal 2005 period included $57,750 for the amortization of deferred compensation to a third party pursuant to a consulting agreement that called for services to be performed through July 2005.

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Other income (expense) for the fiscal 2006 and 2005 three month periods was ($375) and ($375), respectively, which amounts for both periods represented interest expense. Other income (expense) for the fiscal 2006 and 2005 six month periods was ($750) and ($563), respectively, which amounts for both periods represented interest expense.

The loss from operations before discontinued operations for the three months ended June 30, 2006 totaled $44,509, as compared to a loss from operations before discontinued operations for the three months ended June 30, 2005 totaling $38,805. The Company recorded a loss from discontinued operations of $0 in the fiscal 2006 period, compared to $27,692 in the fiscal 2005 period.

The loss from operations before discontinued operations for the six months ended June 30, 2006 totaled $47,937, as compared to a loss from operations before discontinued operations for the six months ended June 30, 2005 totaling $73,303. The Company recorded a loss from discontinued operations of $0 in the fiscal 2006 period, compared to $50,775 in the fiscal 2005 period.

The net loss for three months ended June 30, 2006 and June 30, 2005, respectively, were $(44,509) and ($66,497). The net loss for six months ended June 30, 2006 and June 30, 2005, respectively, were $(47,937) and ($124,078).

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2006, we had a working capital deficit of $92,762 as compared to a deficit of $70,450 at December 31, 2005. Net cash used by operating activities was $2,655 for the six months ended June 30, 2006, as compared to net cash used by operating activities of $56,936 for the six months ended June 30, 2005. This change primarily reflects the effect of the net loss from discontinued operations of $50,775 in the fiscal 2005 period.

Net cash used in investing activities in the fiscal 2006 period was $0, compared to $19,604 the fiscal 2005 period. Net cash provided by financing activities in the fiscal 2006 period was $2,655, compared to net cash provided by financing activities in the fiscal 2005 period of $56,936.

We have an accumulated deficit of $8,499,672 at June 30, 2006 and the report from 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.

ITEM 3. CONTROLS AND PROCEDURES

Our management, which includes our President, has conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of June 30, 2006 (the "Evaluation Date). Based upon that evaluation, our management has concluded that our disclosure controls and procedures are effective for timely gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, no change in our company's internal controls over financial reporting has occurred during the quarter then ended, which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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 among.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

Exhibit No. Description

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive and Financial Officer

32.1 Section 1350 Certification of Chief Executive and Financial Officer

(b) Reports on Form 8-K

| | | | |
|---|---|---|---|
| (1) | Current report, items 7.01 and 9.01 | 2006-06-08 | 000-26233 |
| (2) | Current report, items 4.01 | 2006-04-24 | 000-26233 |

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Techlabs, Inc.

By: /s/ Jayme Dorrrough
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Jayme Dorrough, President

Dated: September 15, 2006

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