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TECHLABS INC
Form 10KSB
April 22, 2004

U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 2003

[] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission file number 000-30451

Techlabs, Inc.

(Name of small business issuer in its charter)

Florida

(State or other jurisdiction
of incorporation or organization)

65-0843965

(IRS Employer Identification No.)

8905 Kingston Pike
Suite 307
Knoxville, Tennessee

(Address of principal executive offices)

37923

(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)

Common Stock

(Title of class)

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

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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 []

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. [X]

State issuer's revenues for its most recent fiscal year. \$ 14,969 for the 12 months ended December 31, 2003.

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 Techlab's common stock on March 31, 2004 is approximately \$88,000.

State the number of shares outstanding of each of the issuer's class of common equity, as of the latest practicable date. As of March 31, 2004, 492,964 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 _____ X _____

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

All per share information contained in this annual report gives proforma effect to the one for 25 reverse stock split of our common stock effected on November 14, 2002.

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 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.

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OVERVIEW

We generate our revenues from fees earned by us from the rental of our Starting Point.com email list. This email list is derived from opt-ins to our Starting Point web site located at www.stpt.com. This web site was designed to offer a variety of web searching tools. Users can 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 its own easy-to-use, organized format. Starting Point is managed for us by a third party.

For the years ended December 31, 2002 and 2003 our sole customer was ResponseBase, a third party direct marketing company. We were recently advised by ResponseBase that they were exiting that segment of their business. We are presently sourcing replacements for ResponseBase.

In addition to Starting Point, we also own Interplanner.com and InternetChic Marketing. Neither of these web site properties are generating revenues at this time. Interplanner.com was designed as a free online calendar and personal information management (PIM) service that offered a

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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.

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.

COMPETITION

We compete 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 cannot assure you that we will ever compete effectively in our market segment.

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 take to protect our intellectual property may not be adequate to deter

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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.

EMPLOYEES

As of March 31, 2004 we have one part-time employee, Jayme Dorrough our sole officer and director.

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

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carefully the following risk factors and other information in this annual report 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 REVENUES OR A PROFIT UNTIL WE CONSUMMATE A MERGER OR A BUSINESS COMBINATION WITH A THIRD PARTY.

We reported a net loss of \$199,335 for the fiscal year ended December 31, 2002. While we reported net income of \$132,586 for the fiscal year ended December 31, 2003, included in our net income was one time, non-recurring gain of \$345,339 on forgiveness of indebtedness. For the fiscal year ended December 31, 2003 we reported an operating loss of \$212,753, which included non-cash expenses of \$213,447 for depreciation and amortization and impairment of fixed assets and intangibles. At December 31, 2003 we have an accumulated deficit of \$7,988,402. While a significant portion of our accumulated losses are non-cash, our operations generate only limited revenues and we cannot predict when, if ever, that we will generate sufficient revenues to cover our operating expenses. Our business and prospects must be considered in light of the risks, expenses and problems frequently encountered by companies in their early stages of development. We cannot guarantee you that we will be successful in increasing our revenues or that we will ever achieve profitability.

WE HAVE RECENTLY LOST OUR SOLE SOURCE OF REVENUE.

During fiscal 2003 and 2002 our sole source of revenue was fees paid by ResponseBase, an unaffiliated third party, for the rental of our opt-in email list. In January 2004 we were advised by ResponseBase that they were exiting that segment of their business. It will be necessary for us to identify and contract with one or more replacements for ResponseBase. While we are presently sourcing replacement customers for ResponseBase, we cannot assure you that we will be successful. If we do not replace the revenues previously generated by fees from ResponseBase, or identify and implement other sources of revenues, we will not generate any revenues in future periods.

WE WILL REQUIRE ADDITIONAL FINANCING WHICH WE MAY NOT BE ABLE TO OBTAIN ON ACCEPTABLE TERMS. ANY INABILITY TO RAISE ADDITIONAL CAPITAL WHEN NEEDED COULD

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ADVERSELY AFFECT OUR ABILITY TO GROW OUR COMPANY.

While our principal shareholder has committed to provide sufficient funds to cover our overhead and general corporate expenses, including increased costs as a result of the termination of our revenue source from ResponseBase, we will require additional capital in order to expand our operations. We do not have any commitments for additional financing and there can be no assurance that such additional funding, if required, will be available, or if available, will be available upon favorable terms. Insufficient funds may prevent us from implementing our business strategy. In the event we raise additional funds through the issuance of equity securities, dilution to the then existing stockholders will result and future investors may be granted rights superior to those of existing stockholders.

OUR STOCK PRICE WILL FLUCTUATE FROM TIME TO TIME AND MAY FALL BELOW EXPECTATIONS OF INVESTORS.

The market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control. These factors include:

- quarterly variations in operating results;
 - changes in accounting treatments or principles;
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- announcements by us or our competitors of new products and services offerings, significant contracts, acquisitions or strategic relationships;
 - additions or departures of key personnel;
 - any future sales of our common stock or other securities;
 - stock market price and volume fluctuations of publicly-traded companies in general and Internet-related companies in particular; and
 - general political, economic and market conditions.

It is likely that in some future quarter our operating results may fall below the expectations of investors, which could result in a decrease in the trading price of our common stock. The trading prices of Internet-related companies and e-commerce companies in particular have been especially volatile. In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. We may be the target of similar litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources, which could seriously harm our business and operating results.

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 there will be any increased liquidity in our common stock in the foreseeable future due in part to our limited revenues. Even if we are successful in increase our revenues, 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.

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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 15c-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.

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.

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ITEM 2. DESCRIPTION OF PROPERTY.

Our principal stockholder, Yucatan Holding Company, provides us office space at no cost to us.

ITEM 3. LEGAL PROCEEDINGS.

We are not a party to any pending legal proceedings.

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

None.

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 2002 | | |
| First Quarter ended March 31, 2002 | \$1.00 | \$0.75 |
| Second Quarter ended June 30, 2002 | \$1.00 | \$0.75 |
| Third Quarter ended September 30, 2002 | \$1.00 | \$0.75 |
| Fourth Quarter ended December 31, 2002 | \$0.60 | \$0.59 |

FISCAL 2003

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| | | |
|--|--------|--------|
| First Quarter ended March 31, 2003 | \$0.59 | \$0.51 |
| Second Quarter ended June 30, 2003 | \$2.75 | \$0.51 |
| Third Quarter ended September 30, 2003 | \$4.15 | \$2.75 |
| Fourth Quarter ended December 31, 2003 | \$3.75 | \$1.30 |

On March 31, 2004 the last sale price of our common stock as reported on the OTCBB was \$1.25. As of March 31, 2004 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.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

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 approved by our stockholders as of December 31, 2003.

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| | 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 OR PLAN OF OPERATIONS.

RESULTS OF OPERATIONS

We reported revenues of \$14,969 and \$57,670 for the fiscal years 2003 and 2002, respectively, and net income (loss) of \$ 132,586 and \$(199,335) for those respective periods. Revenues in fiscal 2003 and 2002 represented fees earned by us from the rental of our StartingPoint.com email list to ResponseBase, a third party direct marketing company. ResponseBase was our sole source of revenues and we were materially reliant on revenues from this customer. Subsequent to fiscal 2003 ResponseBase informed us that they were exiting that segment of their business. We are presently sourcing replacements for ResponseBase.

Selling, general and administrative expenses decreased approximately 82% in fiscal 2003 compared to fiscal 2002 primarily as a result of a reduction in compensation expense paid to third parties. For fiscal 2003 and 2002 we also recorded depreciation and amortization of \$125,543 and \$136,724, respectively. For fiscal 2003 we recognized an impairment of \$32,000 on the value of certain

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intangible assets which represent the opt-in email list we market, and an impairment of \$55,904 which represented fixed assets related to our Interplanner.com website. We did not have comparable expenses in fiscal 2002.

Other income (expense) for fiscal 2003 and 2002 included \$0 and \$29,547, respectively, of interest expense due on loans made to us by our stockholders. In addition, during fiscal 2002 we reported a \$10,000 realized loss on investment securities as described in Note 4 of the Notes to Consolidated Financial Statements appearing elsewhere in this report. We did not have a comparable expense in fiscal 2003. For fiscal 2003 we also reported a one-time gain of \$345,339 on forgiveness of indebtedness. We did not have a comparable transaction in fiscal 2002.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2003, we had a working capital deficit of \$37,015 as compared to a deficit of \$317,048 at December 31, 2002. Net cash provided by operating activities for fiscal 2003 was \$23,383 as compared to \$33,881 for fiscal 2002. This change is primarily attributable to a one-time gain of \$345,339 on forgiveness of indebtedness. Net cash used by investing activities in fiscal 2003 was \$0 as compared to

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\$40,000 for fiscal 2002. Net cash used in financing activities in fiscal 2003 was \$23,141 as compared to net cash used in financing activities of \$73,867 in fiscal 2002.

We have an accumulated deficit of \$7,988,402 at December 31, 2003, and the report from of our independent auditor on our audited financial statements at December 31, 2003 contains a going concern modification. We will continue to incur losses during the foreseeable future. Our principal shareholder has agreed to provide us sufficient funds to pay our direct expenses and corporate overhead until such time as we generate sufficient revenues to fund these costs. We do not have any present commitments for capital expenditures.

ITEM 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 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

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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.

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.

On September 30, 2002 we notified Rodefer Moss & Co PLLC, our principal independent accountant, that we were terminating their services. The report of Rodefer Moss & Co PLLC on our financial statements for the fiscal years ended December 31, 2001 and 2000 each contained an explanatory paragraph as to our ability to continue as a going concern. Other than such going concern modification, such reports did not contain an adverse opinion or disclaimer of opinion, nor was it modified as to uncertainty, audit scope, or accounting principles. During the two most recent fiscal years and the subsequent interim period prior to their termination, there were no disagreements between our

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company and Rodefer Moss & Co PLLC on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to such firm's satisfaction, would have caused it to make reference to the subject matter of the disagreement(s) in connection with its report.

On September 30, 2002 we engaged Dempsey Vantrease & Follis PLLC 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 Dempsey Vantrease & Follis PLLC 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.

In accordance with the requirements of Item 304 of Regulation S-B of the Securities Act of 1933, we provided Rodefer Moss & Co PLLC with a copy of Item 4 of our Report on Form 8-K as filed on October 1, 2002 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/A filed on October 7, 2002. We have also filed as an exhibit to our Report on Form 8-K/A as filed on October 23, 2002 a letter from Rodefer Moss & Co, PLLC addressed to the SEC confirming that they agree with the statements contained in this Report as they relate to that firm.

The change in our principal independent accountants was approved by our board of directors.

Accordingly, during the two most recent fiscal years and any subsequent interim period prior to each of their respective resignation or termination, there were no disagreements between our company and either of Dempsey Vantrease & Follis LLP or Rodefer Moss & Co. PLLC on any matter of accounting principles

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or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to such firm's satisfaction, would have caused it to make reference to the subject matter of the disagreement(s) in connection with its report.

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 December 31, 2003, 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 has 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.

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.

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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 | 35 | 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 been a member of the board of directors of 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 October 31, 2003, we are not aware

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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, 2003.

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.

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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 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.

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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 (#) | Other Compensation |
| Jayme Dorrrough, President and Director (1) | 2003 | \$ 12,000 | - | - | - | - | - |
| | 2002 | \$ 12,000 | - | - | - | - | - |
| Thomas J. Taule (2) | 2002 | \$ 12,500 | - | - | - | - | - |
| | 2001 | \$150,000 | - | - | - | - | - |

1) Mrs. Dorrrough has served as our president since February 2002. Mrs. Dorrrough is not a party to an employment agreement with us. While we do not pay Mrs. Dorrrough a salary, we have recognized an expense of \$12,000 for the period of February 1, 2002 through December 31, 2002 and an expense of \$12,000 for fiscal 2003 which we believe equals the fair value of her services during these periods. This compensation has been treated as imputed compensation.

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(2) Mr. Taule served as our president and CEO from April 2000 until February 2002. Mr. Taule was a party to an employment agreement with our company which provided for annual compensation of \$150,000. This agreement terminated upon his resignation from our company on February 1, 2002 and as a result of his voluntary resignation we were not obligated to pay him any severance benefits. The amount of annual compensation paid in fiscal 2001 represents 7,200 shares of our common stock, valued at \$138,050, issued to him, and an accrual of 11,950. The amount of compensation paid to him in fiscal 2002 reflects an accrual for one month's salary. In December 2002 we determined not to pay these amounts to him as described later in this annual report under Item 12. Certain Relationships and Related Transactions.

OPTION / SAR GRANTS IN LAST FISCAL YEAR

The following table sets forth information concerning individual grants of options made during fiscal 2003 to the Named Executive Officers.

| Name | Number of Shares Underlying Options Granted (#) (1) | Options Granted to Employees in Fiscal Year | % of Total Exercise or Base Price (\$/Sh) | Expiration Date |
|-----------------|---|---|---|-----------------|
| Jayme Dorrrough | 0 | n/a | n/a | n/a |

STOCK INCENTIVE PLAN

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In October 1999, we adopted our 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 we 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 our 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 March 31, 2004 the maximum number of shares of our common stock available for issuance upon grants of restricted stock awards or stock options was 1,977,024 shares. To date, we have granted restricted stock awards or stock options which have been exercised for an aggregate of 1,521,662 shares of our common stock. Accordingly, we currently have 455,362 shares available under the Plan.

The Plan is to be administered by a committee consisting of two or more outside directors who shall 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. Our 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.

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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 our 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-

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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.

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

As of March 31, 2004, there were 492,964 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 March 31, 2004 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.

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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, 2004, 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.

| Name of Beneficial Owner ----- | Amount and Nature of Beneficial Ownership ----- | Percentage of Class ----- | Percentage of Voting Control(1) ----- |
|--|---|---------------------------------|---|
| Common Stock ----- | | | |
| Jayme Dorrrough (2) | 342,530 | 69.5% | 82.4% |
| All executive officers and directors as a group (one person) (2) | 342,530 | 69.5% | 82.4% |

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| | | | |
|---------------------------------|---------|-------|-------|
| Yucatan Holding Company (2) ... | 342,530 | 69.5% | 82.4% |
| Ella Chesnutt (3) | 80,000 | 16.6% | * |

Class A Special Preferred Stock

| | | | |
|--|-----------|-------|-------|
| Jayme Dorrrough (2) | 8,330,000 | 66.6% | 82.4% |
| All executive officers and directors as a group (one person) (2) | | | |
| | 8,330,000 | 66.6% | 82.4% |
| Thomas J. Taule (4) | 4,170,000 | 33.3% | 5.8% |
| Yucatan Holding Company (2) ... | 8,330,000 | 66.6% | 82.4% |

Class C Preferred Stock (4)

| | | | |
|--|---------|------|-------|
| Jayme Dorrrough (2) | 225,000 | 100% | 82.4% |
| All executive officers and directors as a group (one person) (2) | | | |
| | 225,000 | 100% | 82.4% |
| Yucatan Holding Company (2) ... | 225,000 | 100% | 82.4% |

* 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. Dorrrough, our sole officer and director, is the sole officer and director of Yucatan Holding Company. All shares owned beneficially by Mrs. Dorrrough 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 entitled to 33,750,000 votes) are aggregated together in determining the Percent of Voting Control held by Mrs. Dorrrough through Yucatan Holding Company.

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- (3) Mrs. Chesnutt's address is 6200 Devon Drive, Columbia, MD 21044.

- (4) 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.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In August 2002 we issued Yucatan Holding Company 225,000 shares of our Class C Preferred Stock and in October 2002 we issued Yucatan Holding Company 303,030 shares of our common stock. These shares were issued as consideration for the conversion \$216,824 of the amount due Yucatan Holding Company by us.

During fiscal 2001 each of Yucatan Holding Company and Thomas J. Taule, our former president and CEO, returned an aggregate of 60,000 shares of our

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common stock to the treasury (30,000 shares each), which such shares were cancelled and returned to the status of authorized but unissued shares as a contribution to capital by these shareholders. These transactions were facilitated to assure that we had a sufficient number of authorized but unissued shares of common stock and, as a result of the number of preferred shares held by each party, did not affect the voting control of our company. In conjunction with these transactions, our Board of Directors agreed that at such time as we had filed an amendment to our Articles of Incorporation increasing the number of authorized shares of our common stock that we would issue each of Yucatan Holding Company and Mr. Taule 30,000 shares of common stock to replace the shares which had been returned to treasury and an additional 4,000 shares each of common stock as consideration for the earlier contribution to capital by these shareholders. We also granted these shareholders demand registration rights covering these shares. In August 2002 following the filing of Articles of Amendment to our Articles of Incorporation, we issued Yucatan Holding Company 34,000 shares of our common stock.

In May 2002 we discovered that in January 2002 Thomas J. Taule, our former president, had sold certain investment securities we owned without our consent, and had failed to disclose the transaction to us either prior to his resignation or thereafter. We have offset the proceeds of \$40,000 received by him from this unauthorized transaction as a reduction in the long-term note payable to shareholders in the original principal amount of \$45,000 due him by Techlabs. The asset was a long term investment held by us with a historical cost of \$50,000 and which appeared on our balance sheet as investment securities. The asset was not used in our operations and has no material effect on our continuing operations. We engaged in discussions with our former president and other attendant parties to the transaction regarding the facts and circumstances surrounding this matter, and we attempted to ascertain if the amount received by our former president from the sale of this asset approximated its fair value.

We were never able to ascertain if the amount of proceeds derived by Mr. Taule from the unauthorized sale of our asset approximated the fair value thereof as a result of the refusal by the issuer of those investment securities, a privately-held company, to cooperate in our investigation. In addition to Mr. Taule's actions related to the conversion of this asset, during the course of our review of the status of our business and operations following his resignation in February 2002 and our discovery of the unauthorized sale of our asset, we determined that he had taken a number of other actions which we did

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not believe to be in our best interests and failed to protect and enhance our assets during his tenure as president. In December 2002 our Board of Directors determined that as a result of Mr. Taule's actions which we believe put his personal interests in front of those of Techlabs that our company would not pay him the accrued but unpaid compensation due him in the amount of \$45,000 nor would it issue to him the 34,000 shares of common stock described above. On December 10, 2002 we notified Mr. Taule's father, who we were advised was serving as his representative as Mr. Taule is no longer a resident of the U.S., of our decision and all adjustments related thereto have been made in our financial statements during the fourth quarter of fiscal 2002.

Historically, Yucatan Holding Company has advanced us funds for working capital. At December 31, 2003 we owned Yucatan Holding Company \$11,740, net of repayments.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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| | |
|----------|--|
| 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 |
| 16.1 | Letter from Rodefer Moss & Co PLLC regarding change in certifying accountants (4) |
| 16.2 | Letter from Rodefer Moss & Co PLLC regarding change in certifying accountants (5) |
| 16.3 | Letter from Dempsey Vantrease & Follis PLLC regarding change in certifying accountants (6) |
| 21 | Subsidiaries of the registrant |
| 31.1 | Section 302 Certificate of President |
| 32.1 | Section 906 Certificate of President |

-
- (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/A as filed with the SEC on October 7, 2002.
 - (5) Incorporated by reference to the registrant's Report on Form 8-K/A as filed with the SEC on October 23, 2002.
 - (6) Incorporated by reference to the registrant's Report on Form 8-K as filed with the SEC on March 31, 2004.

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(b) Reports on 8-K

We did not file any reports on Form 8-K during the fourth quarter of fiscal 2003.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Audit Fees

The aggregate audit fees billed by Webb & Company, P.A. for professional services rendered for the audit of our annual financial statements included in our annual report on Form 10-KSB during the fiscal year ended December 31, 2003 were \$0.

The aggregate audit fees billed to us by Dempsey Vantrease & Follis PLLC during the fiscal year ended December 31, 2002 were approximately \$ 11,270. The aggregate audit fees billed to us by Dempsey Vantrease & Follis PLLC for the review of quarterly financial statements included in our quarterly reports on

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Form 10-QSB for the quarters ending March 31, June 30 and September 30, 2003 were approximately \$3,000.

Audit Related Fees

For the fiscal year ended December 31, 2003 the aggregate fees billed for assurance and related services by Webb & Company, P.A. relating to the performance of the audit of our financial statements which are not reported under the caption "Audit Fees" above was \$0.

For the fiscal year ended December 31, 2002 the aggregate fees billed for assurance and related services by Dempsey Vantrease & Follis PLLC relating to the performance of the audit of our financial statements which are not reported under the caption "Audit Fees" above was \$0.

Tax Fees

We do not use our principal accountant for tax compliance, tax advice or tax planning and did not pay such firms any fees for these related matters during either fiscal 2003 or fiscal 2002.

All Other Fees

Other than fees relating to the services described above under "Audit Fees," "Audit-Related Fees" and "Tax Fees," there were no additional fees billed by our principal accountant for services rendered to us for the fiscal years ended December 31, 2003 or 2002.

We do not have an audit committee of our board of directors.

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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 13, 2004

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 ----- Jayme Dorrrough | Director, President and Secretary | April 13, 2004 |

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TECHLABS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Balance Sheet -
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Consolidated Statements of Operations -
For the Years Ended December 31, 2003 and 2002.....F-4

Consolidated Statements of Changes in Stockholders' Equity -
For the Years Ended December 31, 2003 and 2002.....F-5

Statements of Cash Flows -
For the Years Ended December 31, 2003 and 2002.....F-6

Notes to Financial Statements.....F-7

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of:
Techlabs, Inc.

We have audited the accompanying consolidated balance sheet of Techlabs, Inc. and subsidiaries as of December 31, 2003, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of Techlabs, Inc. as of December 31, 2002 were audited by other auditors whose report dated April 11, 2003 included a paragraph describing conditions that raised substantial doubt about the Company's ability to continue as a going concern.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Techlabs, Inc. and subsidiaries as of December 31, 2003 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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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 has a working capital deficiency of \$37,015 and an accumulated deficit of \$7,988,402. 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 1, 2004

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TECHLABS, INC. AND SUBSIDIARIES Consolidated Balance Sheet December 31, 2003

ASSETS

Current Assets

| | | |
|----------------------------|----|-------|
| Cash | \$ | 256 |
| Accounts receivable | | 966 |
| | | ----- |
| Total Current Assets | | 1,222 |

Intangible and Other Assets

| | | |
|------------------------|----|--------|
| Intangibles, net | | 69,778 |
| | | ----- |
| | \$ | 71,000 |
| | | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities

| | | |
|---|----|--------|
| Accounts payable & accrued expenses | \$ | 26,497 |
| Due to stockholder | | 11,740 |
| | | ----- |
| Total Current Liabilities | | 38,237 |
| | | ----- |

STOCKHOLDERS' EQUITY

| | | |
|---|--|--------|
| 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 authorized, no shares issued and outstanding | | - |
| Preferred stock - \$.001 par value, 10,000,000 shares authorized, 225,000 and no shares Class C Preferred Stock issued and outstanding | | 225 |
| Common stock (\$.001 par value, 200,000,000 shares authorized, 492,964 shares issued | | |

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| | |
|----------------------------------|-------------|
| and outstanding) | 493 |
| Additional paid-in capital | 8,007,947 |
| Accumulated deficit | (7,988,402) |
| | ----- |
| | 32,763 |
| | ----- |
| | \$ 71,000 |
| | ===== |

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

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TECHLABS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Years Ended December 31, 2003 and 2002

| | 2003 | 2002 |
|---|------------|--------------|
| | ----- | ----- |
| Revenue Net revenue | \$ 14,969 | \$ 57,670 |
| | ----- | ----- |
| Selling, general and administrative expenses | 14,275 | 80,734 |
| Depreciation and amortization expense | 125,543 | 136,724 |
| Impairment of intangible assets | 32,000 | - |
| Impairment of fixed assets | 55,904 | - |
| | ----- | ----- |
| Total Expenses | 227,722 | 217,458 |
| | ----- | ----- |
| Operating loss | (212,753) | (159,788) |
| Other income (expense) | | |
| Interest expense | - | (29,547) |
| Realized loss on investment securities | - | (10,000) |
| Gain on forgiveness of indebtedness | 345,339 | - |
| | ----- | ----- |
| Total other income (expense) | 345,339 | (39,547) |
| | ----- | ----- |
| Net income (loss) | \$ 132,586 | \$ (199,335) |
| | ===== | ===== |
| Earnings per share: | | |
| Basic and diluted income (loss) per common share | \$ 0.27 | \$ (1.22) |
| | ===== | ===== |
| Basic and diluted weighted average shares outstanding | 492,964 | 162,742 |
| | ===== | ===== |

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

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TECHLABS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2003 and 2002

| | Preferred Stock | | | | | | | | | |
|--|-----------------|----------|---------|--------|---------|--------|--------------|--------|---------|-------|
| | Class A | | Class B | | Class C | | Common Stock | | Additi | |
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | Paid- | Capit |
| Balance, January 1, 2002 .. | 12,500,000 | \$12,500 | - | \$ - | - | \$ - | 75,908 | \$ 76 | \$7,741 | |
| Issuance of shares for conversion of debt..... | - | - | - | - | 225,000 | 225 | 303,056 | 303 | 216 | |
| Issuance of shares for services | - | - | - | - | - | - | 80,000 | 80 | 26 | |
| Issuance of shares for 2001 return to treasury | - | - | - | - | - | - | 34,000 | 34 | | |
| Net loss and comprehensive loss..... | - | - | - | - | - | - | - | - | - | |
| Balance, January 1, 2003 .. | 12,500,000 | 12,500 | - | - | 225,000 | 225 | 492,964 | 493 | 7,983 | |
| Capital contribution of accrued salary | - | - | - | - | - | - | - | - | 12 | |
| Imputed salary | - | - | - | - | - | - | - | - | 12 | |
| Net income and comprehensive income..... | - | - | - | - | - | - | - | - | | |
| | 12,500,000 | \$12,500 | - | \$ - | 225,000 | \$ 225 | 492,964 | \$ 493 | \$8,007 | |

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

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TECHLABS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2003 and 2002

2003

2002

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| | | |
|--|------------|-------------|
| Operating Activities | | |
| Net income (loss) | \$ 132,586 | \$(199,335) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | | |
| Realized loss on investment securities | - | 10,000 |
| Common stock issued for compensation | - | 26,480 |
| Imputed compensation | 12,000 | - |
| Amortization and depreciation | 125,543 | 136,724 |
| Loss on impairment of fixed assets | 87,904 | - |
| Gain on forgiveness of indebtedness | (345,339) | - |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | 8,463 | - |
| Decrease in prepaid expenses | - | (9,429) |
| Increase in accounts payable | 2,226 | 69,441 |
| | ----- | ----- |
| Net Cash Provided By Operating Activities ... | 23,383 | 33,881 |
| Investing Activities | | |
| Proceeds from stock sales | - | 40,000 |
| | ----- | ----- |
| Net Cash Provided by Investing Activities ... | - | 40,000 |
| Financing Activities | | |
| Repayment on advances from stockholders | (23,141) | (73,867) |
| | ----- | ----- |
| Net Cash Used In Financing Activities | (23,141) | (73,867) |
| Change in Cash and Cash Equivalents | 242 | 14 |
| Cash and cash equivalents, beginning of period | - | - |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 242 | \$ 14 |
| | ===== | ===== |

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

| | | |
|--|-------------|-------------|
| Capital contribution of accrued salary | \$ 12,000 | \$ - |
| | ===== | ===== |
| Accounts payable | \$ (12,000) | \$ - |
| | ===== | ===== |
| Proceeds from sale of investment securities | \$ - | \$ 40,000 |
| | ===== | ===== |
| Repayments to stockholders | \$ - | \$ (40,000) |
| | ===== | ===== |

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

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TECHLABS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Nature of Operations

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Techlabs, Inc. ("Techlabs") was incorporated in the State of Florida in May 1998 under the name Coordinated Physician Services, Inc. to organize and operate primary care physician networks for managed medical care organizations. In February 1999 we abandoned this business due to excessive competition and changed our name to Techlabs, Inc. We generate revenues through the rental of our list of targeted, opt-in email addresses which are generated from our website.

(B) Basis of Consolidation

The accompanying consolidated financial statements for fiscal 2003 and fiscal 2002 include the accounts of Techlabs and its wholly-owned subsidiaries StartingPoint.com, Inc. and Interplanner.com, Inc.. All significant intercompany accounts and transactions have been eliminated in the consolidation.

(C) Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, 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

Revenue from one customer represented 100% of the Company's consolidated revenue for the years ended December 31, 2003 and 2002. At December 31, 2003 100% of the Company's accounts receivable was due from that customer. The allowance for doubtful accounts at December 31, 2003 is \$0. The Company considers all accounts receivable fully collectible therefore it has not recorded a provision for doubtful accounts.

(F) Revenue Recognition

The Company's revenue is derived from rentals of its opt-in email lists to third party list management companies. Revenue from email lists is recognized when billed by the company that manages the list, and is recognized on a net basis in that the Company does not act as the principal in the transaction and the amount the Company earns is fixed. The Company believes revenues from rental of its email lists to be fully collectible and has not provided for an allowance for doubtful accounts.

(G) Property and Equipment

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

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(H) Web Site Development Costs

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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.

(I) 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. See Note 4.

(J) 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. The Company adopted the provisions of SFAS No. 142 effective October 1, 2002. See Note 5.

(K) Reclassification

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

(L) Fair Value of Financial Instruments

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

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(M) 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

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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.

(N) 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, 2003 and 2002, the Company did not have any outstanding common stock equivalents.

(O) Business Segments

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

(P) 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.

(Q) New Accounting Pronouncements

In May 2003, SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" was issued. SFAS No. 150 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 is effective for financial instruments entered into on or modified after May 31, 2003 and otherwise shall be effective at the beginning of the first fiscal interim period beginning after June 15, 2003. The adoption of this pronouncements did not have a material effect on the Company's financial position or results of operations.

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The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has a working capital deficiency of \$37,015 and an accumulated deficit of \$7,988,402. This raises substantial doubt about its ability to continue as a going concern. During fiscal 2004 the Company intends to secure additional customers to both replace its lost revenues and in an effort to increase revenues. In addition, Yucatan Holding Company, the Company's principal shareholder, will provide sufficient working capital to the Company to fund its current operations until such time as it can increase its revenues. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3 PROPERTY AND EQUIPMENT

Included in property, equipment and capitalized web site at December 31, 2003 are:

| | 2003 |
|--|------------|
| Capitalized web site costs | \$ 223,618 |
| Hardware and computer equipment | 288,889 |
| | ----- |
| | 512,507 |
| Less: Accumulated depreciation and amortization .. | (456,603) |
| Less: impairment | (55,904) |
| | ----- |
| | \$ 0 |
| | ===== |

Depreciation expense was \$35,573 and \$44,724 for the years ended December 31, 2003 and 2002, respectively.

NOTE 4 INTANGIBLES

Included in intangibles at December 31, 2003 are:

| | |
|---|--------------|
| Domain names, trade names and contracts of MyStartingPoint.com | \$ 1,000,000 |
| Loss on impairment | (665,333) |
| Less: Accumulated amortization | (264,889) |
| | ----- |
| Intangible, net | \$ 69,778 |
| | ===== |

Depreciation expense was \$92,000 and \$92,000 for the years ended December 31, 2003 and 2002, respectively.

NOTE 5 LOSS FROM IMPAIRMENT OF LONG LIVED ASSETS

During the year ended December 31, 2003 the Company determined that certain recorded property, equipment and intangible assets were impaired, resulting in an impairment loss of \$87,904, which is included in selling, general and administrative expenses.

NOTE 6 RELATED PARTY TRANSACTIONS

During the fiscal years ended December 31, 2003 and 2002 from time to time Yucatan Holding Company, the Company's principal shareholder, has advanced funds for working capital. At December 31, 2003 and 2002, the Company owed Yucatan Holding Company \$11,740 and \$20,881, respectively. This amount will be repaid by the Company as its working capital permits.

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During the year ended December 31, 2002 the Company issued 225,000 shares of its Class C Preferred Stock and 303,030 shares of its common stock to Yucatan Holding Company, its principal shareholder, in satisfaction of \$216,824 due Yucatan by the Company and for Yucatan making a credit line of up to \$250,000 available to the Company.

During fiscal 2001 each of Yucatan Holding Company returned an 30,000 shares of common stock to the treasury, which such shares were cancelled and returned to the status of authorized but unissued shares as a contribution to capital by these shareholders. These transactions were facilitated to assure that the Company had a sufficient number of authorized but unissued shares of common stock and, as a result of the number of preferred shares held by each party, did not affect the voting control of the Company. In conjunction with these transactions, the Board of Directors agreed that at such time as the Company had filed an amendment to its Articles of Incorporation increasing the number of authorized shares of its common stock that the Company would issue each of Yucatan Holding Company 30,000 shares of common stock to replace the shares which had been returned to treasury and an additional 4,000 shares of common stock as consideration for the earlier contribution to capital by this shareholders. In August 2002 following the filing of Articles of Amendment to the Company's Articles of Incorporation, the Company issued Yucatan Holding Company 34,000 shares of its common stock.

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. While the Company does not Mrs. Dorrrough a salary, it has recognized an expense of \$12,000 for the period of February 1, 2002 though December 31, 2002 and an expense of \$12,000 for fiscal 2003 which it believes equals the fair value of her services during these periods. This compensation has been treated as imputed compensation.

NOTE 7 GAINS ON FORGIVENESS OF INDEBTEDNESS

During the fiscal year ended December 31, 2003 the Company adjusted certain liabilities as set forth below which had been reflected on the Company's balance sheet at December 31, 2002. These one-time extinguishments resulted in a gain of \$345,339 as reflected on the Company's Consolidated Statements of Operations for the fiscal year ended December 31, 2003.

| | Liability At 2002 | Adjustment | Gain |
|--|-------------------------|-------------|-----------|
| | ----- | ----- | ----- |
| Accounts payable and accrued expenses | \$329,491 | \$(255,339) | \$255,339 |
| Due to stockholders | \$ 90,000 | \$ (90,000) | 90,000 |
| | | | ----- |
| | | | \$345,339 |
| | | | ===== |

NOTE 11 CAPITAL STOCK

The Company's authorized capital consists of:

a. 200,000,000 shares of common stock, par value \$.001 per share, of which 492,964 shares were issued and outstanding at December 31, 2003. In November 2002, the Company amended its articles of incorporation reducing the number of shares of its authorized common stock from 5,000,000,000 shares to 200,000,000 shares and concurrently declared a 25:1 reverse stock split on all of its outstanding shares of common stock. The reduction in the number of the

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Company's authorized and issued and outstanding shares of common stock has been retroactively applied to all share data for all periods presented herein;

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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 wup 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

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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:

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- 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 years ended December 31, 2003 and 2002, the Company issued 0 and 80,000 of common stock, respectively, with a fair value of \$0 and \$26,400, respectively. During the years ended December 31, 2003 and 2002 the Company issued 0 shares and 225,000 shares of its Class C Preferred Stock.

NOTE 12 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

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shares. As of December 31, 2003 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 1,521,662 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

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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 our 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.

NOTE 13 INCOME TAXES

As of December 31, 2003 and 2002, the Company had net operating loss

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("NOL") carryforwards of approximately \$4,880,000 and \$5,100,000, respectively, available to reduce future federal and state taxable income. These NOL carryforwards will expire from 2020 through 2023. 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 \$1,660,000 and \$2,090,000 as of December 31, 2003 and 2002, respectively, by an equivalent valuation allowance as of December 31, 2003 and 2002.

NOTE 14 SUBSEQUENT EVENTS

For the years ended December 31, 2002 and 2003 the Company's sole customer was ResponseBase, a third party direct marketing company. Subsequent to December 31, 2003 the Company was advised by ResponseBase that they were exiting that segment of their business. The Company is presently sourcing replacements for this customer.

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