QUEST PRODUCTS CORP
Form 10KSB
March 28, 2001

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

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

OR

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

For the fiscal year ended December 31, 2000
Commission File Number: 33-18099-NY and 33-23169-NY

QUEST PRODUCTS CORPORATION
(Exact Name of small business issuer as specified in its charter)

| | |
|---|---|
| DELAWARE | 11-2873662 |
| (State or other jurisdiction of Incorporation or organization) | (IRS Employer I.D. No.) |

6900 Jericho Turnpike, Syosset, New York 11791
(Address of principal executive offices)

Issuer's telephone number, including area code: (516) 364-3500

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: None

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934, during the preceding 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 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 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]

The registrant's operating revenues for its most recent fiscal year were $6,434.

The number of shares outstanding on December 31, 2000 was 223,005,001 shares of Common Stock, .00003 par value.

Continued...

The aggregate market value of the voting Common Stock held by non-affiliates (1) of the registrant based on the average of the high and low bid prices ($.042) of the Company's Common Stock, as of December 31, 2000, is approximately $7,730,356 based upon the 183,756,901 shares of Registrant's Common Stock held by non-affiliates.

(1) "Affiliates" solely for purposes of this item refers to those persons who, during the three months preceding the filing of this Form 10-KSB were officers or directors of the Company and/or beneficial owners of 5% or more of the Company's outstanding stock.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

Transitional Small Business Disclosure Format: (check one)

YES [_]       NO [X]

QUEST PRODUCTS CORPORATION
Form 10-KSB
Fiscal Year Ended December 31, 2000

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PART 1

Item 1. Business

The Company

Quest Products Corporation (the "Company") was organized as a Delaware Corporation on July 17, 1987 and operated as a development stage company through 1993. The Company has two wholly-owned subsidiaries, The ProductIncubator.com, Inc., Rainbow Shades, Inc., and a majority-owned subsidiary, Wynn Technologies, Inc., through which it intends to identify and bring to the marketplace unique proprietary products. The Company also intends to continue to market and distribute its patented "Phase-Out" system smoking cessation device (the "PhaseOut device").

During 1999, the Company entered into a License Agreement with the holders of a patent for the exclusive worldwide license to make, use and sell inventions related to an adjustable lens product such as sunglasses, ski goggles or diving masks. In June 2000 the Company entered into a comprehensive agreement with Opsales and its President and Vice President, Sidney and Dean Friedman, to manufacture and distribute the Company's rotatable variable polarized lenses to be used in the Company's new sunglass product, Rainbow Shades(TM). In January 2001, the Company made its final selection of frame designs for its Rainbow Shades(TM) sunglasses. The initial line of Rainbow Shades(TM) sunglasses consists of three separate frames created and designed in Italy. The Rainbow Shades(TM) sunglasses feature Quest's patented and revolutionary new lens system which allows the wearer to select up to three different lens colors by simply moving a slider on the frame. The slider causes the lens to rotate which, in turn, changes the lens color. With the Rainbow Shades(TM) sunglasses, there is no need to remove or replace the lens.

During 2000, the Company developed a multi-account card system which will allow a subscribing card holder to access all of their Credit card, Debit card, frequent flyer, telephone calling card and other membership accounts by using one plastic "smart" credit card which will be commercialized and marketed under the name "BIG1CARD"(TM). On March 1, 2001, the Company signed a five-year Consulting Agreement with Alex W. Hart to serve as a Special Consultant to the Company on the development and commercialization of the Company's patented Big1Card(TM) technology. Quest, through its subsidiary, Wynn Technologies, Inc., owns all rights to the Big1Card(TM) patent, U. S. Patent No. 5,859,419. Mr. Hart's duties will be to use his best efforts to locate and approach appropriate organizations to participate in the Company's Big1Card(TM) SmartCard project. This will include introducing the Company and assisting in completing agreements with all such organizations.

The PhaseOut Device

The PHASEOUT device is a simple, easy to use, mechanical, light-weight instrument that allows the smoker to continue to smoke their preferred brand of cigarettes and at the same time, gradually and sequentially reduce their nicotine intake by over 80%. This weaning process is the same type of detoxification methodology that has proven successful with many other addictive substances. Once the smoker has been weaned, their chances to quit for good are greatly enhanced.

PHASEOUT's weaning methodology has an important additional psychological benefit for all smokers. It allows the smoker to continue to smoke their preferred brand until they are ready to quit. Of course, to achieve these results under normal smoking conditions, smokers must avoid compensatory practices, such as smoking more cigarettes and blocking the ventilation holes created by the PHASEOUT device.



The PHASEOUT system works without the use of any drugs, chemicals or attachments. The average retail price to consumers is $19.95 plus shipping and handling. The wholesale price averages approximately $12.00.

The Company is currently having the product manufactured by one vendor in South Korea. This source of supply should be able to produce all future PhaseOut units required for sale.

How PhaseOut Works

A smoker inserts their entire unopened pack of cigarettes (filtered or unfiltered - soft pack or box) into the PHASEOUT device. With a simple press and release that takes just seconds, PHASEOUT processes all of the cigarettes within the pack.

The device strategically creates from one to four microfine perforations in the lip end of each cigarette. These perforations filter and ventilate the smoke drawn through the cigarette, thereby reducing the amount of nicotine and other toxins inhaled by the smoker.

One miniature filter (perforation) is created in Phase one, filtering out up to 26% of the nicotine, and similar amounts of other toxins such as carbon monoxide and tar. Additional perforations are created as the smoker proceeds through each of the four Phases. With each additional perforation there is a progressive reduction of nicotine and other harmful substances based upon controlled laboratory studies. By Phase IV, 80.7% of the nicotine, 91.6% of the tar, 89.2% of carbon monoxide and 90% of all other tobacco constituents (Total Particulate Matter) have been eliminated. As discussed above, these reductions under normal smoking conditions depend upon proper use of the product and the treated cigarettes by smokers. The suggested period on each phase is two weeks (eight week total), however, smokers can tailor the program to their own individual liking and proceed at their own pace, under their own timetable. The smoker is in control. There is no pressure, no fear of failure. Importantly, any change in the taste, flavor or draw of the cigarette is lessened as the smoker proceeds through the program due to the gradual transition from phase to phase.

In the United States, there are currently reported to be approximately 46 million smokers and worldwide the number of smokers is estimated to be 1.2 billion.

Patents

The United States Patent Office has issued two patents for the PhaseOut System (Patent Number 4,231,378 issued November 4, 1980 and Patent number

5,218,976 issued June 15, 1993). The Company has received patents in China, Taiwan and Japan. In addition, the Company has applied for patents in fifteen (15) foreign countries, including England, France, Germany and Italy.

Marketing

The Company is currently developing a multifaceted strategy to reinvigorate the sales of PhaseOut by selling PhaseOut directly on the Company's website and developing brand recognition through a targeted international/domestic advertising program.



New Products:

Sunglasses

In October 1999, the Company successfully completed development of adjustable polarized sunglasses, which allow the wearer to change the color of the sunglass lenses to a variety of colors without changing the lenses or altering the frame. The Company will strive to begin worldwide distribution during 2001.

In addition, on October 31, 1999 the Company entered into a license agreement with the owner of a patented technology as it pertains to eyewear. Under the agreement, the licensor grants under the provisions of his patent the exclusive license to make, use, and sell the patented inventions through all channels of distribution and to otherwise practice the patent on an exclusive basis to the exclusion of the entire world, including the inventor. The patent licensed hereunder relates to an adjustable glasses product including but not limited to sunglasses, ski goggles and diving masks. The territory covered by the patent is the World.

In consideration for this license granted to the Company, the licensor will receive royalty payments based on the number of glasses sold. A $10,000 advance royalty was paid up on signing of the contract. Also, in consideration for this license being granted to the Company, the licensor received warrants to purchase 1,000,000 shares of the Company's Common Stock.

The Company continues to add new technology to the patent in relating to design and function.

In connection with the abovementioned License Agreement, in June 2000 the Company entered into a comprehensive agreement with Opsales and its President and Vice President, Sidney and Dean Friedman, to manufacture and distribute the Company's rotatable, variable polarized lenses to be used in the Company's new sunglass product, Rainbow Shades(TM).

In January 2001, the Company made its final selection of frame designs for its Rainbow Shades(TM) sunglasses. The initial line of Rainbow Shades(TM) sunglasses consists of three separate frames created and designed in Italy. The Rainbow Shades(TM) sunglasses feature Quest's patented and revolutionary new lens system which allows the wearer to select up to three different lens colors by simply moving a slider on the frame. The slider causes the lens to rotate which, in turn, changes the lens color. With the Rainbow Shades(TM) sunglasses, there is no need to remove or replace the lens. Opsales has also agreed to introduce us to all suppliers that would be necessary for the completion of all sunglass products.

Research and Development expenses for the sunglass product were approximately $133,000 and $54,000 in 2000 and 1999, respectively.

Big1Card

During 2000, the Company developed a multi-account card system which will allow a subscribing card holder to access all of their Credit card, Debit card, frequent flyer, telephone calling card and other membership accounts by using one plastic "smart" credit card which will be commercialized and marketed under the name "BIG1CARD"(TM). The multiple account card system is protected by United States Patent No. 5,859,419 which was obtained by the system's inventor, Sol H. Wynn. Therefore, Wynn Technologies Inc. now has the exclusive rights in the United States to make, use, offer and sell this new multi-account card system. Wynn Technologies Inc. is owned 65% by Quest Products Corporation and 35% by Mr. Wynn subject to resolution of certain contingencies. Quest also applied for additional patents to further enhance the BIG1CARD(TM) technology. On March 1, 2001, the Company signed a five-year Consulting Agreement with Alex W. Hart to serve as a Special Consultant to the Company on the development and commercialization of the Company's patented Big1Card(TM) technology. Quest, through its subsidiary, Wynn



Technologies, Inc., owns all rights to the Big1Card(TM) patent, U. S. Patent No. 5,859,419. Mr. Hart's duties will be to use his best efforts to locate and approach appropriate organizations to participate in the Company's Big1Card(TM) SmartCard project. This will include introducing the Company and assisting in completing agreements with all such organizations. The five-year Consulting Agreement consists of the following terms:

Mr. Hart will receive options to purchase 5 million shares of the Company's stock, which can be exercised at any time during the five-year Agreement, either on a cash or cashless basis. Two million options will be issued at $.10, 1 million options will be issued at $.15, 1 millions options at $.20, and 1 million options at $.30.

Research and Development expenses for the Big1Card(TM) were approximately $4,000 and $-0- in 2000 and 1999 respectively.

Competition

The Company competes with numerous products and techniques designed to aid smokers to stop smoking. Many of the companies promoting these products have been in existence for longer periods of time, are better established than the Company, have financial resources substantially greater than the Company and have more extensive facilities than those which now or in the foreseeable future will become available to the Company. In addition, other firms may enter into competition with the Company in the near future.

One type of significant competitive product is the nicotine patch, which requires a prescription by licensed physicians for treatment of nicotine withdrawal. This appears to be the quit smoking method that is now most commonly prescribed.

Employees

At the present time, the Company has four employees, including the Company's two officers and directors and two administrative and secretarial personnel.

Item 2. Properties

The Company leases approximately 2,600 square feet of office space at 6900 Jericho Turnpike, Syosset, New York 11791.

Item 3. Legal Proceedings

In December 1999, a former officer and director, Bernard Gutman, brought an action against the Company in New York State Supreme Court, Nassau County, for alleged consulting fees and loan repayments due him in the amount of $100,445. The Company counterclaimed for fraud and breach of contract. The action was settled as of March 6, 2000, and the final settlement documents have been executed. The Company issued to the former director 400,000 shares of common stock that, on the date of settlement was valued at 17 cents per share based upon its closing price on that date.



On March 30, 2000, Quest Products Corporation initiated a lawsuit in the United States District Court for the Southern District of New York against SAS Group Inc., Michael Sobo, Scott Sobo and Century Factors. SAS Group Inc. has been the Company's joint venture partner since 1998 in connection with the distribution of the Company's patented PhaseOut product to drug stores and other retailers. The lawsuit asserts claims for patent and trademark infringement, unfair competition, breach of the joint venture agreement, fraud, conversion and breach of fiduciary duty, and seeks injunctive relief, monetary damages in excess of $750,000 and punitive damages of at least $7,500,000. In connection with the abovementioned lawsuit, a mediation settlement was reached in principle on July 19, 2000 wherein the Company received $150,000 and approximately 17,000 PhaseOut units and is still waiting for delivery on additional inventory of approximately 2,000 more PhaseOut units.

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

On May 3, 2000 a Written Consent of the Stockholders of Quest Products Corporation In Lieu of a Meeting was mailed in a proxy vote to shareholders. The vote was to approve a Certificate of Amendment which would increase the number of authorized shares of the Capital Stock of the Company to 400,000,000 shares consisting of 390,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock of the Company. The result of this mailing was that the necessary majority of shareholders (approximately 97 million votes) approved the abovementioned Certificate of Amendment.

Item 5. Market for Company's Common Equity and Related Stockholder Matters

(a) Market information - The principal U.S. market in which the Company's Common Shares ($.00003 par value) were tradable is in the over-the-counter market.

The OTC Bulletin Board symbol for the Company's Common Stock is "QPRC". The following table sets forth the range of high and low bid quotes of the Company's Common Stock per quarter as provided by the National Quotation Bureau (which reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions).

| Period | Bid Price High | Low |
|---|---|---|
| Quarter Ended March 31, 1999 | .01 | .007 |
| Quarter Ended June 30, 1999 | .058 | .008 |
| Quarter Ended September 30, 1999 | .063 | .022 |
| Quarter Ended December 31, 1999 | .056 | .021 |
| Quarter Ended March 31, 2000 | .480 | .032 |
| Quarter Ended June 30, 2000 | .220 | .080 |
| Quarter Ended September 30, 2000 | .140 | .080 |
| Quarter Ended December 31, 2000 | .080 | .032 |

(b) Holders -- As of December 31, 2000, the approximate number of the Company's shareholders was 7,200.



c) Dividends -- The Company has not paid or declared any dividends upon its Common Stock since its inception and, by reason of its present financial status and its contemplated financial requirements, does not contemplate or anticipate paying any dividends upon its Common Stock in the foreseeable future.

Recent Sales of Unregistered Securities

During the year ended December 31, 2000, we made the following sales of unregistered securities:

| Date of Sale | Type of Security | Number Sold | Consideration Received and Description of Underwriting or Other Discounts to Market Price Afforded to Purchasers | Exemption f Registration C |
|---|---|---|---|---|
| 1/5/00 | 1 | 3,000,000 | Common stock issued pursuant to a private placement consummated on January 5, 2000. The common stock was issued at $.02 per share. We received proceeds of $60,000. | 4(2) |
| 5/12/00 | 1 | 4,100,000 | Common stock issued pursuant to a private placement consummated on May 12, 2000. The common stock was issued at $.05 per share. We received proceeds of $205,000. | 4(2) |
| 5/12/00 | 2 | 4,100,000 | Warrants issued in connection with our private placement. No | 4(2) |

| | | | | |
|---|---|---|---|---|
| | | | cash consideration received by us until exercise. | |
| 6/7/00 | 2 | 2,000,000 | Warrants issued in connection with Comprehensive Consulting and Representation Agreement. No cash consideration received by us until exercise. | 4(2) |



| | | | | |
|---|---|---|---|---|
| 6/19/00 | 2 | 1,000,000 | Warrants issued in connection with an exclusive license agreement. No cash consideration received by us until exercise. | 4(2) |
| 6/29/00 | 1 | 333,333 | Common stock issued pursuant to Warrants issued February 15, 1998. The common stock was issued at $.015 per share. We received proceeds of $5,000. | 4(2) |
| 10/2/00 | 1 | 32,317,016 | Common stock issued in connection with conversions of debt to equity. | 4(2) |
| 11/7/00 | 2 | 5,000,000 | Warrants issued in connection with acquisition of 65% interest in Wynn Technologies Inc. | 4(2) |
| 12/27/00 | 1 | 166,667 | Common stock issued pursuant to Warrants issued February 15, 1999. The Common Stock was issued at $0.15 per share. We received proceeds of $1,667. | 4(2) |

(1) Common Stock
(2) Warrants

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

During 1998, the Company began distribution of the PhaseOut product into retail chain stores, totaling approximately 12,000 stores, pursuant to an oral joint venture agreement with SAS Group, Inc. ("SAS"), for which it was entitled to 50% of the income. SAS handled all the marketing and operational activities of the joint venture. The Company's results of operations for 1999 included its 50% share of the income from the joint venture as a separate line item. As such, sales, cost of sales and selling expenses of the joint venture in 1999 were reported in this separate "equity in net income of the joint venture" line item.

For 2000, the Company sold 287 units at an average price of $22.42, for sales of $6,434. For 1999, the Company sold 59 units at an average price of $20.80, for sales of $1,227, and the joint venture sold 3,188 units at an average price of $12.93, for sales of $41,225. The 1999 sales for the joint venture were then reduced by current and estimated future sales returns and allowances totaling $669,820. The Company disputed the various adjustments to sales and had instituted legal proceedings against SAS Group, Inc. to recover all monies for which it was entitled. In connection with the abovementioned legal proceedings, a mediation settlement was reached in principle on July 19, 2000 wherein the Company received $150,000 and approximately 17,000 PhaseOut units and is still waiting for delivery on additional inventory of approximately 2,000 more PhaseOut units. Consequently, the Company realized a gain on this settlement of $93,411 in 2000.

For 2000, the Company's average cost was $2.34, for a cost of sales of $672. Also in 2000, the Company wrote-off 2,053 older generation PhaseOut units made in Korea at an average cost of $3.36. For 1999, the Company's average cost was $3.36 for a cost of sales of $198, and the joint venture had an average cost of sales of $3.87. During 1999, the Company adjusted its cost of sales figure as a result of current and future cost estimates based on information provided by SAS Group, Inc. The Company disputed the various adjustments to sales and had instituted legal proceedings against SAS Group, Inc., as discussed above.

Research and development expenses incurred by the Company increased by $82,587 from $53,703 in 1999 to $136,290 in 2000. This increase is primarily attributable to an approximately $79,000 increase in product development costs as it relates to the Company's sunglass product, and an approximately $4,000 increase in expenses related to the Company's Smartcard product.

Selling expenses incurred by the Company increased by $41,562 from $25,348 in 1999 to $66,910 in 2000. This increase is primarily due to an approximately $50,000 increase in travel-related expenses, offset by an approximate $8,000 decrease in website and other expenses.

General and administrative expenses incurred by the Company increased by $100,560 from $556,308 in 1999 to $656,868 in 2000. This increase is primarily attributable to an approximately $102,000 increase in professional fees, and approximately $31,000 decrease in consulting fees, and approximately $21,000 increase in salaries and related payroll costs and an approximately $9,000 increase in computer-related expenses.

Interest expense decreased by $18,156 from $19,622 in 1999 to $1,466 in 2000 due to conversions of debt to equity in 2000 and 1999.

As discussed in the notes to the financial statements, the Company recognized various gains on the settlements of debt and lawsuits. These gains totaled approximately $166,000 in 2000, which represented an increase of $119,000 over 1999's gains of approximately $47,000.

Liquidity and Capital Resources

Cash of $447,555 was used for operations for the year ended December 31, 2000 as compared to $343,907 used last year. Cash decreased during the year by $74,446.

The Company's working capital deficiency has been reduced primarily due to the settlements of debt for equity. Working capital and current ratios were:

| | December 31, 2000 | December 31, 1999 |
|---|---|---|
| Working capital (deficiency) | $(709,192) | $(1,108,922) |
| Current ratios | 0.11:1 | 0.15:1 |

In order to meet short-term marketing goals, in July 1997 certain officers and directors agreed to acquire an aggregate of 10,000,000 shares of the Company's common stock (representing 8% of total shares outstanding) for an aggregate purchase price of $100,000. Through December 31, 2000, the Company received $1,070,367 of financing under the same terms offered to the Directors and Officers. There is no assurance that the Company will be able to obtain additional financing.

In October 1999, the Company successfully completed development of adjustable polarized sunglasses which allow the wearer to change the color of the sunglass lenses to a variety of colors without changing the lenses or altering the frame. Further research and development expenditures in 2001 are not expected to exceed $50,000. Funding for the sunglass project, expected to be generated through the following Equity Financing Agreement.

The Company signed an Investment Agreement with Domain Investments Inc. of New York City, New York which provides for the Company to receive up to twenty million dollars of funding for working capital over a 24-month period in exchange for Common Stock and Warrants. Under the Agreement dated November 2, 2000, the Company shall sell to Domain unrestricted shares in the Common Stock of Quest Products Corporation at a discount from market price of at least 9% plus Warrants equal to 10% of the number of shares purchased by Domain with an exercise price of 110% of the purchase price paid for the shares of Domain. Within certain guidelines, the Company shall determine when and in what amounts it requires capital from Domain. The Company, after its submission of its 2000 10KSB with the Securities and Exchange Commission, intends to file an SB2 Registration in order to generate unrestricted shares required for this Agreement.

The funds obtained by the Company shall be used for the production, marketing and distribution of the Company's new patented sunglass product--Rainbow Shades(TM). The Company will strive to begin worldwide distribution during 2001.

During 2000, the Company developed a multi-account card system which will allow a subscribing card holder to access all of their Credit card, Debit card, frequent flyer, telephone calling card and other membership accounts by using one plastic "smart" credit card which will be commercialized and marketed under the name BIG1CARD(TM). The multiple account card system is protected by United States Patent No. 5,859,419 which was obtained by the system's inventor, Sol H. Wynn. As part of the BIG1CARD(TM) project, a new corporation formed by the Company, named Wynn Technologies Inc., has now acquired all right, title, and interest to the Wynn patent. Therefore, Wynn Technologies Inc. now has the exclusive rights in the United States to make, use, offer and sell this new multi-account card system. Wynn Technologies Inc. is owned 65% by Quest Products Corporation, subject to resolution of certain contingencies, and 35% by Mr. Wynn. Quest also applied for additional patents to further enhance BIG1CARD(TM) technology. Further Research and Development expenditures in 2001 are not expected to exceed $25,000.

Item 7. Financial Statements

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QUEST PRODUCTS CORPORATION AND SUBSIDIARIES

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Independent Auditors' Report

To the Board of Directors and Shareholders
Quest Products Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheet of Quest Products Corporation and Subsidiaries as of December 31, 2000 and the related consolidated statements of operations, shareholders' (deficit), and cash flows for the years ended December 31, 2000 and 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Quest Products Corporation and Subsidiaries as of December 31, 2000 and the results of its operations and its cash flows for the years ended December 31, 2000 and 1999 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company has had recurring net operating losses since its inception, has relied upon debt and equity financing to provide funds for operations and, as of December 31, 2000 current liabilities exceed current assets by $709,192. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

RAICH ENDE MALTER & CO. LLP
East Meadow, New York
March 12, 2001



QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheet
December 31, 2000

| | |
|---|---|
| Assets | |
| Current Assets | |
| Cash | $ 38,892 |
| Inventory | 29,016 |

| | |
|---|---|
| Prepaid expenses | 15,335 |
| | 83,243 |
| Investment in Unconsolidated Subsidiary | 1,923 |
| Furniture and Equipment - at cost - net of accumulated depreciation of $45,497 | 26,476 |
| Deferred royalties | 10,000 |
| License acquisition cost - net of accumulated amortization of $2,732 | 26,268 |
| Patents - at cost - net of accumulated amortization of $18,946 | 30,489 |
| Deferred registration and financing costs | 25,000 |
| Security Deposits | 405 |
| | 120,561 |
| | $ 203,804 |

See notes to consolidated financial statements.



QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheet
December 31, 2000

| | |
|---|---|
| Liabilities and Shareholders' (Deficit) | |
| Current Liabilities | |
| 1992 convertible debentures - including accrued interest of $8,900 | $ 18 |
| Accounts payable | 223 |
| Due to Officers and Directors | 548 |
| Accrued expenses | 1 |
| | 792 |
| Commitments and Contingencies | |
| Shareholders' (Deficit) | |

| | |
|---|---|
| Convertible Preferred Stock - par value $.00003 - authorized 10,000,000 shares - no shares issued and outstanding | |
| Common Stock - par value $.00003 - authorized 390,000,000 shares - 223,005,001 shares issued and outstanding | 6 |
| Capital in excess of par | 5,397 |
| Accumulated (deficit) | (5,992 |
| | (588 |
| | $ 203 |

See notes to consolidated financial statements.



QUEST PRODUCTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations 

| | For the Years En December31, 2000 | |
|---|---|---|
| Sales - net | $ 6,434 | $ |
| Cost of Sales | 7,570 | |
| | (1,136) | |
| Research and Development Expenses | 136,290 | |
| Selling Expenses | 66,910 | |
| General and Administrative Expenses | 656,868 | |
| | 860,068 | |
| (Loss) Before Other Income (Expenses) and Equity in Net Income (Loss) of PhaseOut Partners | (861,204) | |
| Other Income (Expenses) | | |
| Gains on settlements of lawsuits | 125,787 | |

| | | |
|---|---|---|
| Interest (expense) | (1,466) | |
| | 124,321 | |
| (Loss) Before Equity in Net Income (Loss) of PhaseOut Partners | (736,883) | |
| Equity in Net Income (Loss) of PhaseOut Partners | -- | |
| Net (Loss) Before Extraordinary Item | (736,883) | |
| Extraordinary Item - Gain on Settlement of Debt (Net of applicable income taxes of -0- and -0- respectively) | 40,450 | |
| Net (Loss) | $(696,433) | $ |

See notes to consolidated financial statements.



QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations



| | | |
|---|---|---|
| Net (Loss) per Share: | | |
| Basic: | | |
| (Loss) from Continuing Operations | - 0 - | - 0 - |
| Extraordinary Item | - 0 - | - 0 - |
| Net (Loss) | - 0 - | - 0 - |
| Diluted: | | |
| (Loss) from Continuing Operations | - 0 - | - 0 - |
| Extraordinary Item | - 0 - | - 0 - |
| Net (Loss) | - 0 - | - 0 - |
| Weighted Average Number of Shares Outstanding (to nearest 1,000,000) | 202,000,000 | 169,000,000 |

See notes to consolidated financial statements.



QUEST PRODUCTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Shareholders' (Deficit)
For the Years Ended December 31, 2000 and 1999

| | Number of Common Stock Shares (Post-Split) | Amount $.00003 Par Value | Capital in Excess of Par Value |
|---|---|---|---|
| Balance - December 31, 1998 | 160,912,985 | $ 4,827 | $ 3,555,925 |
| Proceeds from sales of stock | 19,000,000 | 570 | 379,430 |
| Proceeds from issuance of warrants | -- | -- | 50,000 |
| Stock issued in settlement of debt | 3,175,000 | 95 | 171,244 |
| Net (loss) | -- | -- | -- |
| Balance - December 31, 1999 | 183,087,985 | 5,492 | 4,156,599 |
| Proceeds from sales of stock | 7,600,000 | 228 | 271,439 |
| Stock issued in settlement of debt | 32,317,016 | 970 | 908,038 |
| Warrants issued for services | -- | -- | 30,000 |
| Warrants issued to acquire assets | -- | -- | 30,950 |
| Net (loss) | -- | -- | -- |
| Balance - December 31, 2000 | 223,005,001 | $ 6,690 | $ 5,397,026 |

See notes to consolidated financial statements.



QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows 

| | For the Years Ended December 31, 2000 | 1999 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Net (loss) | $(696,433) | $(835,738) |
| Adjustments to reconcile net (loss) to net cash (used for) operating activities: | | |
| Depreciation | 9,984 | 8,708 |
| Amortization | 5,322 | 3,541 |
| Warrants issued for compensation | 30,000 | -- |

| | | |
|---|---|---|
| Gains on settlement of debt | (40,450) | (46,952) |
| Gains on settlements of lawsuits | (125,787) | -- |
| Accrued interest | 1,000 | 19,236 |
| Equity in net (income) loss of PhaseOut Partners | -- | 228,738 |
| Equity in net loss of subsidiary | 27 | -- |
| Write-off of security deposits | 3,456 | -- |
| (Increase) decrease in: | | |
| Inventories | 7,570 | 199 |
| Prepaid expenses | (9,101) | (6,234) |
| Increase (decrease) in: | | |
| Accounts payable | 70,005 | (9,936) |
| Accrued officer compensation | 320,302 | 290,143 |
| Accrued expenses | (23,450) | 4,388 |
| | (447,555) | (343,907) |
| Cash Flows from Investing Activities | | |
| Acquisition of equipment | (23,558) | -- |
| Deferral of royalty paid | -- | (10,000) |
| Distributions from PhaseOut Partners | -- | 25,000 |
| Payment of security deposits | -- | (355) |
| Proceeds from settlement of lawsuit | 150,000 | -- |
| | 126,442 | (14,645) |
| Cash Flows from Financing Activities | | |
| Proceeds from sales of common stock | 271,667 | 380,000 |
| Proceeds from issuance of stock options | -- | 50,000 |
| Payment of deferred registration and financing costs | (25,000) | -- |
| | 246,667 | 430,000 |

See notes to consolidated financial statements.

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QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows Page 2 of 2

| | For the Years Ended December 31 | |
|---|---|---|
| | 2000 | 1999 |
| Net Decrease in Cash | $ (74,446) | $ 100,738 |
| Cash - beginning | 113,338 | 12,600 |

| | | |
|---|---|---|
| Cash - end | $ 38,892 | $ 113,338 |
| Cash paid for: | | |
| Interest | -- | 386 |
| Supplemental Disclosures | | |
| Non-cash Investing and Financing Transactions: | | |
| Stock and warrants issued for settlement of debt | $ 938,008 | $ 171,339 |
| License acquisition cost accrued | $ -- | $ 29,000 |
| Warrants issued to acquire assets | $ 1,950 | $ -- |

See notes to consolidated financial statements.

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QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2000

1 - The Company

Quest Products Corporation (the "Company") was organized as a Delaware Corporation on July 17, 1987 and operated as a development stage company through 1993. The Company has two wholly-owned subsidiaries, The ProductIncubator.com, Inc. and Rainbow Shades, Inc., and a majority-owned subsidiary, Wynn Technologies, Inc., through which it intends to identify and bring to the marketplace unique proprietary products. The Company also intends to continue to market and distribute its patented "Phase-Out" system smoking cessation device (the "PhaseOut device").

During 1999, the Company distributed the PhaseOut device through a joint venture. This joint venture was terminated in January 2000. See Note 4.

During 1999, the Company entered into a License Agreement with the holders of a patent for the exclusive worldwide license to make, use and sell inventions related to an adjustable lens product such as sunglasses, ski goggles or diving masks. See Note 5.

During 2000, the Company developed a multi-account card system which will allow a subscribing card holder to access all of their Credit card, Debit card, frequent flyer, telephone calling card and other membership accounts by using one plastic "smart" credit card which will be commercialized and marketed under the name "BIG1CARD"(TM).

2 - Summary of Significant Accounting Policies

a. Principles of Consolidation - The consolidated financial statements include the accounts of Quest Products Corporation and its wholly owned subsidiaries after elimination of all inter-company accounts and transactions.

b. Cash and Cash Equivalents - The Company considers all short-term, highly liquid investments with maturities of three months or less at the date of their acquisition to be cash equivalents. These balances are maintained at a high quality financial institution. At times, these balances are in excess of FDIC insurance limits.

c. Inventory - Inventory is valued at cost (on a first-in, first-out basis) which is not in excess of market value. Inventory is comprised entirely of finished goods.

d. Furniture and Equipment - Furniture and equipment are carried at cost. Depreciation is computed using the straight-line and accelerated methods over the estimated useful lives (three to seven years) of the assets.



e. Long-lived Assets - The Company's policy is to review furniture and equipment and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A review for impairment includes comparing the carrying value of an asset to an estimate of the undiscounted net future cash inflows over the life of the asset. An asset is considered impaired when the carrying value exceeds the calculation of the undiscounted net future cash inflows or fair market value. An impairment loss is defined as the amount of the excess of the carrying value over the fair market value of the asset.

f. Intangibles:

Patents - Patents represent a patent dated June 15, 1993 that was acquired by the Company on October 25, 1994 and a foreign patent acquired in 1997. The acquisition cost has been capitalized and amortized (straight-line method) over the life of 16 years.

License Acquisition Cost -- The cost of obtaining the license will be amortized using the straight-line method over the remaining life of the agreement.

g Stock-Based Compensation:

Employees - When stock based compensation is issued to employees and directors, in connection with their services as directors, Statement of Financial Accounting Standards ("SFAS") No. 123 Accounting for Stock-Based Compensation, encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. APB No. 25 requires no recognition of compensation expense for the stock-based compensation arrangements provided by the Company where the exercise price is equal to the market price at the date of the grants.

Non-Employees - When stock based compensation is issued to non-employees, the Company records these transactions at the fair market value of the equity instruments issued or the goods or services received, whichever is more reliably measurable.

h. Basic and Diluted Earnings (Loss) per Share - Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average numbers of shares of common stock outstanding during the period. Diluted earnings (loss) per share is computed giving effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential common shares consist of the incremental common shares issuable upon the exercise of warrants. For 2000 and 1999, potentially dilutive securities that related to shares issuable upon the exercise of stock options granted by the Company were excluded, as their effect was antidilutive. See Note 8.

i. Advertising - The Company expenses the cost of advertising as incurred. Advertising expense was $2,000 and $4,000 in 2000 and 1999 respectively.

j. Revenue Recognition - The Company's customers include end users, retailers and distributors. Revenue, less reserves for returns, is generally recognized upon shipment to the customer.



The Joint Venture had no customers due to the fact that the Joint Venture ended in January 2000. During 1999, the Joint Venture's customers were primarily retail chain drug stores. For customers to whom sales were subject to return, revenue was recognized upon collection, at which time the sale was considered final. For customers to whom sales were not subject to return, revenue was recognized upon shipment.

k. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

l. Reclassification - Certain amounts from prior years have been restated to conform to the current year's presentation. These reclassifications have no effect on the previously reported loss.

3 - Status of the Company

The financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time.

The Company has had recurring net operating losses since its inception and has made use of privately-placed debt and equity financing to provide funds for operations. As of December 31, 2000, current liabilities exceeded current assets by $709,192. Those factors create an uncertainty about the Company's ability to continue as a going concern.

The Company has intentions of expanding and refining its marketing efforts to improve the efficiency of these efforts and to increase revenues. In addition, the Company is continuing its efforts to obtain long-term financing through the issuance of equity securities.

The financial statements do not include any adjustments that might be necessary should the above or other factors affect the Company's ability to continue as a going concern.

4 - Joint Venture

In 1998, the Company began distribution of the PhaseOut device into domestic retail chain drug stores through PhaseOut Partners, an oral joint venture arrangement with SAS Group Inc. ("SAS"). During 1999, the Company reduced its investment to $85,874 based on information provided by SAS which included purported price concessions given to certain retail chain drug stores, estimates of future returns, projected future price concessions and charges for certain other costs. The Company disputed these price concessions and charges, which it believed were not originally agreed to nor actually incurred in connection with the PhaseOut program.



In January 2000, the Company informed SAS that the Joint Venture was terminated. In March 2000 the Company had instituted legal proceedings against SAS to recover all monies for which it was entitled under the joint venture agreement, which the Company believed to be in excess of $750,000. In connection with the abovementioned lawsuit, a mediation settlement was reached in principle on July 19, 2000 wherein the Company received $150,000 and approximately 17,000 PhaseOut units and is still waiting for delivery on additional inventory of approximately 2,000 more PhaseOut units. Consequently, the Company realized a gain on this settlement of $93,411 in 2000.

5 - Sunglass Product Agreements

License Agreement -- During 1999, the Company entered into a License Agreement with the holders of a patent for the exclusive worldwide license to make, use and sell inventions related to an adjustable lens product such as sunglasses, ski goggles or diving masks. Under this Agreement, in July 2000 the Company issued warrants to purchase 1,000,000 shares of stock at $.0275 per share. The Company estimated the fair value of these warrants to be $29,000 and has recorded this License Acquisition Cost as a long-term asset on its balance sheet. These acquisition costs are being amortized using the straight-line method over the remaining life of the Agreement. The life of the Agreement is based on the remaining life of the Patent which, at acquisition date, had 13 years remaining.

Pursuant to the License Agreement, the Company is subject to annual minimum royalty payments of $25,000, commencing from the date of the first commercial sale of any product covered by the License Agreement.

The Company paid $10,000, which will be used to offset future royalty payments due.

Consulting and Representation Agreement -- In June 2000 the Company entered into a comprehensive agreement with Opsales and its President and Vice President, Sidney and Dean Friedman, to manufacture and distribute the Company's rotatable, variable polarized lenses to be used in the Company's new sunglass product, Rainbow Shades(TM). Under this Agreement, Opsales and its President and Vice President will provide consultation and expertise in the developing, manufacturing and distributing of its sunglass product in the United States and abroad.

In exchange, the Company paid a one-time fee of $2,500 each to Sidney and Dean Friedman in June 2000 and is paying $1,000 per month each through June 2003. The Company also issued options to purchase 1,000,000 shares each of the Company's stock at $.09 per share expiring June 30, 2003. The Company is recognizing compensation for the fair value of these options over the term of the agreement.



6 - BIG1CARD(TM) Agreements

Wynn Technologies Inc. During 2000, the Company developed a multi-account card system which will allow a subscribing card holder to access all of their Credit card, Debit card, frequent flyer, telephone calling card and other membership accounts by using one plastic "smart" credit card which will be commercialized and marketed under the name "BIG1CARD"(TM). The multiple account card system is protected by United States Patent No. 5,859,419 which was obtained by the system's inventor, Sol H. Wynn ("Wynn"). As part of the BIG1CARD(TM), a new corporation formed by the Company, named Wynn Technologies Inc. ("Wynn Tech"), has now acquired all right, title and interest to the Wynn patent. Therefore, Wynn Tech has the exclusive rights in the United States to make, use, offer and sell this new multi-account card system. Wynn Tech is owned 65% by Quest Products Corporation, subject to resolution of certain contingencies, and 35% by Wynn. Quest also applied for additional patents to further enhance BIG1CARD(TM) technology.

Under the agreement, Wynn shall be entitled to receive 2% of the gross revenues of Wynn Tech and other compensation as certain milestones are achieved. Upon Wynn Tech achieving cumulative gross revenues of $10,000,000, Wynn shall receive options to purchase 5,000,000 shares of the Company's stock at $.07 per share. Upon Wynn Tech achieving cumulative gross revenues of $30,000,000, Wynn shall receive options to purchase 10,000,000 shares of the Company's stock at $.10 per share. Upon Wynn Tech achieving cumulative gross revenues of $100,000,000, Wynn shall be entitled to one seat on the Company's Board. Upon Wynn Tech achieving cumulative gross revenues of $200,000,000, Wynn shall be entitled to lead a design-engineering center in California, which shall be financed by Wynn Tech.

The Company issued options to purchase 5,000,000 shares of Quest stock at $.05 per share to Wynn in exchange for a 65% interest in Wynn Tech which owns the patent covering the Big1Card(TM) technology. Since Wynn is considered a "promoter," the patent contributed to Wynn Tech was valued at his historical cost of $3,000.

The Company has not included Wynn Tech in its consolidated financial statement since there are significant contingencies related to the control of Wynn Tech. The Company accounts for its investment in Wynn Tech under the equity method whereby the investment account is increased for contributions by the Company plus its 65% share of the income and reduced for distributions and its 65% share of any losses incurred by Wynn Tech without restriction and regardless of whether the investment balance goes below zero.

Following are condensed financial data of Wynn Technologies, Inc.:

| | |
|---|---|
| As of December 31, 2000 | |
| Patent, net of accumulated amortization of $42 | $2,958 |
| Shareholders' Equity | $2,958 |
| | |
| For the Year ended December 31, 2000 | |
| Net Loss | $(42) |



Consulting Agreement. On March 1, 2001, the Company signed a five-year Consulting Agreement with Alex W. Hart to serve as a Special Consultant to the Company on the development and commercialization of the Company's patented Big1Card(TM) technology. Mr. Hart's duties will be to use his best efforts to locate and approach appropriate organizations to participate in the Company's Big1Card(TM) SmartCard project. This will include introducing the Company and assisting in completing agreements with all such organizations.

The five-year Consulting Agreement calls for Mr. Hart to receive options to purchase 5 million shares of the Company's stock, which can be exercised at any time during the five-year Agreement, either on a cash or cashless basis. Two million options will be issued at $.10; 1 million options will be issued at $.15; 1 million options at $.20; and 1 million options at $.30.

7 - Domain Investments Inc. Equity Financing Agreement

On November 2, 2000, the Company signed an Investment Agreement with Domain Investments Inc. of New York City, New York, which provides for the Company to receive up to twenty million dollars of funding for working capital over a 24-month period in exchange for Common Stock and Warrants. Under the Agreement dated November 2, 2000, The Company shall sell to Domain shares in the Common Stock of Quest Products Corporation and Subsidiaries at a discount from market price of at least 9% plus Warrants equal to 10% of the number of shares purchased by Domain, with an exercise price of 110% of the purchase price paid for the shares by Domain. Within certain guidelines, the Company shall determine when and in what amounts it requires capital from Domain. The Company, after its submission of its 2000 10KSB with the Securities and Exchange Commission, intends to file an SB2 in order to generate unrestricted shares required for this Agreement.

8 - Warrants and Convertible Debentures

The pro forma information required by SFAS 123 regarding net income and earnings per share has been presented as if the Company had accounted for its warrants under the fair value method. The fair value of each warrant is estimated on the date of the warrant grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | 2000 | 1999 |
|---|---|---|
| Assumptions: | | |
| Expected life of warrants | 3 years | 3.9 years |
| Risk free interest rate | 6.0% | 6.0% |
| Volatility of stock | 191% | 194% |
| Expected dividend yield | -- | -- |

The weighted average grant date fair value of the warrants granted to employees and board members during 2000 and 1999 was $1,507,660 and $45,900, respectively. Had the fair value of the warrants been amortized to expense over the related service period, the pro forma impact on earnings of the stock-based compensation for the warrants under the provision would have been as follows:



| | 2000 | 1999 |
|---|---|---|
| Net (Loss): | | |
| As reported | $ (696,433) | $ (835,738) |
| Pro forma | $ (2,308,495) | $ (1,080,239) |
| Earnings Per Share: | | |
| As reported | $ - 0 - | $ - 0 - |
| Pro forma | $ (.01) | $ (.01) |

In accordance with SFAS 123, the weighted average fair value of warrants is required to be based on a theoretical statistical model using the preceding assumptions. In actuality, the Company's warrants do not trade on a secondary exchange and, therefore, the employees and directors cannot derive any benefit from holding the warrants under these plans without an increase in the market price of Company stock. Such an increase in stock price would benefit all shareholders commensurately.

a. Warrants -Presented below is a summary of warrant activity for the years shown: All warrants are immediately exercisable upon grant.

| | Warrants | Weighted Average Exercise Price |
|---|---|---|
| Balance - December 31, 1998 | 64,783,345 | 0.05 |
| Granted | 9,000,000 | 0.02 |
| Expired | (5,156,061) | 0.13 |

| | | |
|---|---|---|
| Balance - December 31, 1999 | 68,627,284 | 0.04 |
| Granted | 12,100,000 | 0.05 |
| Exercised | (500,000) | 0.02 |
| Expired | (1,500,000) | 0.08 |
| Balance - December 31, 2000 | 78,727,284 | 0.04 |

The following table summarizes information for warrants currently outstanding and exercisable at December 31, 2000:

| | Warrants Outstanding | | |
|---|---|---|---|
| Range of Prices | Number | Weighted Average Remaining Life | Weighted Average Exercise Price |
| $ 0.01 -.0.03 | 10,250,000 | 2 years | 0.01 |
| 0.03 -.0.04 | 21,500,000 | 2 years | 0.03 |
| 0.05 - 0.09 | 46,977,284 | 4 years | 0.05 |
| $ 0.01- 0.09 | 78,727,284 | 3 years | 0.04 |



On December 12, 2000, the Board extended by three years all warrants held by Directors which were scheduled to expire in 2001. Since the extension was to compensate the Directors for their service as Board members, the Company did not recognize any compensation cost since there was no intrinsic value at the time of the extension. The fair value of the compensation was $1,327,660

b. 1992 Convertible Debentures - In 1992, the Company initiated a series of private placement offerings of two and three-year Subordinated Convertible Debentures with an annual interest rate of 10% and with variable conversion rates (ranging from $.05 to $.10 per share). These offerings raised a total of $117,500. The Company is in default on interest payments and is in violation of covenants. Of the original $117,500 raised, $107,500 has been paid back or converted into stock. As of December 31, 2000, $10,000 of principal and $8,900 of interest remain unpaid or unconverted on these debentures.

c. Authorized Shares - During 2000, the Company increased the number of its authorized shares of capital stock to 390,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock.

9 - Related Party Transactions

a. Loans from Former Officer and Director - A former officer and director, Bernard Gutman, was owed $100,445 for various expenses and loans which were included in the December 31, 1999 Balance Sheet. In December 1999, he brought suit against the Company in New York State Supreme Court, Nassau County, for alleged consulting fees and loan repayments due him. The Company counterclaimed for fraud and breach of contract. The action was settled in March 2000, and 400,000 shares were issued in September 2000. Consequently, a gain of $32,376 was recognized on this settlement.

During 1998, the Company received from a former director $50,000 payable with a stated interest rate of 10%. Accrued interest at December 31, 1999 amounted to $5,986. Both the loan amount and accrued interest were included in the December 31, 1999 balance sheet. On February 3, 2000, the former director accepted 1,250,000 shares of common stock in settlement of this debt plus accrued consulting fees in the amount of $47,000.

b. Officer's and Director's Compensation - During 1996, an investor group brought in by Herbert M. Reichlin and Burton A. Goldstein ("the two individuals") acquired an 18% ownership interest for $500,000. The two individuals were awarded seats on the Board of Directors and officers positions. In addition, the two individuals each received 9,778,975 warrant shares. In December 1997, the Company entered into employment contracts with each of these two individuals for $150,000 per year for five years from December 1997 through November 2002 and issued warrants to purchase 7,500,000 shares each at an exercise price of $.03 per share. During 2000, these two individuals each agreed to receive 10,000,000 shares of stock in lieu of $400,000 in accrued salaries. As of December 31, 2000, the two individuals were owed $280,418 and $262,626 respectively in accrued salaries and expenses.

c. Director's Loans - During 2000, a group of Directors loaned the Company $5,400 in 2000 payable on demand without interest.

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10 - Settlements of Debt

On December 6, 2000, the Company settled a $286,450 debt with its largest vendor whereby the vendor received 6,000,000 shares of Company stock in full payment of the balance owed. Consequently, the Company realized a $40,450 gain on the conversion of this debt.

During 1996, the Company received $200,000 from an individual as a loan in connection with the Company's media campaign. Repayments of $35,000 were made in cash and $7,500 in stock. In November 1999, the Company issued 2,875,000 shares of Company stock in repayment of the $157,500 loan balance and any accrued interest. Consequently, the Company recognized a $46,952 gain on the settlement of this debt.

11 - Income Taxes

The Company has available net operating loss carryforwards of approximately $6,022,000, which expire in 2002 until 2015. Deferred income taxes reflect the net tax effects of net operating loss carryforwards and result in deferred tax assets of approximately

$2,051,000 and $2,086,000 at December 31, 2000 and 1999, respectively, which were fully offset by valuation allowances due to uncertainties surrounding the ultimate realization of these assets.

12 - Lease Commitments

The Company is obligated under a lease for office space through November, 2001. Rental expense was $60,351 and $60,361 for 2000 and 1999, respectively. The remaining future minimum lease payments required under this lease through November 2001 is $49,941.

13 - Economic Dependence

The Company purchased 100% of its PhaseOut devices from one vendor in 1998 and there were no purchases in 2000 and 1999.

14 - Disclosure About Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, accounts payable and other current assets and liabilities approximate fair value because of the short maturity of these items.

These fair value estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

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Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.

NONE

Item 9. Directors, Executive Officers, Promoters and Control Persons: Compliance with Section 16 (a) of the Exchange Act.

The following table sets forth certain information concerning the directors and executive officers of the Company:

| Name | Age | Position(s) with the Company |
|---|---|---|
| Burton A. Goldstein | 65 | Chairman of the Board of Directors Secretary, Chief Executive Officer |
| Herbert M. Reichlin | 59 | President, Treasurer, Chief Operating Officer, Director |
| Richard Bruno | 55 | Director |
| Alfred Fabricant | 47 | Director |
| Thomas Kirch | 56 | Director |

| | | |
|---|---|---|
| Angelo J. Vassallo | 55 | Director |
| Milton J. Walters | 56 | Director |

Directors are elected to serve until the next annual meeting of stockholders and until their successors have been elected and have qualified. Officers are appointed to serve until the meeting of the Board of Directors following the next annual meeting of stockholders and until their successors have been elected and have qualified. Each director receives warrants for 500,000 shares at market price each February, and out-of-pocket travel expenses.

A summary of the business experience of each officer and director of the Company is as follows:

BURTON A. GOLDSTEIN has been Chairman of the Board of Directors of the Company since March 10, 1997 and became its Secretary in December 1997. Mr. Goldstein is President of American Employer Services Corp., a provider of employee benefit consulting services to industry and associations. A chartered Life Underwriter, Mr. Goldstein is also active in estate preservation for business owners and wealthy individuals.

HERBERT M. REICHLIN has been a Director and Treasurer of the Company since July 30, 1996 and became its President in December 1997. Mr. Reichlin is a Certified Public Accountant and is also the President of Program Resource Organization, a consulting company to the health industry.



RICHARD BRUNO has been a Director of the Company since June 1998. Prior to retirement, Mr. Bruno was employed as Managing Director of NASDAQ trading at Paine Webber Inc. from 1964 thru June 1998.

THOMAS KIRCH is the managing partner of KV Partners, fixed income consultants and asset managers. Mr. Kirch is formerly a Managing Director of The First Boston Corporation, one of the nation's largest investment banking firms, as well as a First Vice President of Loeb Rhoades, Hornblower, and a Vice President at Morgan Stanley & Co., Inc.

ALFRED FABRICANT has been a Director since October 7, 1997. Mr. Fabricant is the founding partner of the New York law firm of Fabricant & Yeskoo LLP and is currently a partner of the law firm of Ostrolenk, Faber, Gerb & Sofken. Mr. Fabricant was educated at the University of Miami (1975) and at the John Marshall Law School (1978).

ANGELO J. VASSALLO has been a Director since October 22, 1999. Mr. Vassallo has 30 years of marketing and sales experience at Seagrams where he is presently the Director of Marketing for the North America Atlantic/Pacific Region.

MILTON J. WALTERS has been a Director since December 28, 1999. Mr. Walters is President of Tri-River Capital Group, a company that serves the specialized investment banking needs of the financial service industry.

Compliance With Section 16(a) of The Securities Exchange Act of 1934

The Company does not have any securities registered under Section 12 of the Securities Exchange Act of 1934, and, accordingly, compliance with Section 16(a) thereof is not required or applicable.

## Item 10. Executive Compensation

The following table sets forth the annual long-term compensation for the Company's Chief Executive Officer, and the only other executive officer during the Company's last three fiscal years:

Summary Compensation Table

| Name and Principal Positions | Year | Annual Compensation Salary | Long-Term Compensation Securities Underlying Warrants (#) | All Other Compensation |
|---|---|---|---|---|
| Burton A. Goldstein | 2000 | $ 150,000 | -- | $44,546 |
| (Chief Executive Officer) | 1999 | $ 150,000 | 500,000 | 7,200 |
| | 1998 | $ 150,000 | 4,511,108 | -- |
| Herbert M. Reichlin | 2000 | $ 150,000 | -- | $52,593 |
| (President and Chief | 1999 | $ 150,000 | 500,000 | 15,362 |
| Operating Officer) | 1998 | $ 150,000 | 4,511,108 | -- |

Warrant Grants in Last Fiscal Year

The following table sets forth certain information concerning warrants granted during 2000 to the named executives:

Individual Grants

| Name | Number of Securities Underlying Warrants Granted | % of Total Warrants Granted to Employees in Fiscal Year | Exercise or Base Price ($/share) | Expiration Date |
|---|---|---|---|---|
| Burton A. Goldstein | -- | 0% | 0 | -- |
| Herbert M. Reichlin | -- | 0% | 0 | -- |



Aggregated Warrant Exercises in Last Fiscal Year and Fiscal Year-End Warrant Values

The following table summarizes warrants exercised during 2000 and presents the value of unexercised warrants held by the named executives at fiscal year-end:

| Name | Shares Acquired on Exercise (#) | Value Realized ($) | Number of Securities Underlying Unexercised Warrants at Fiscal Year-End (#) All Exercisable | Value of Unexercised In-the-Money Warrants at Fiscal Year-End ($) |
|---|---|---|---|---|
| Burton A. Goldstein | 0 | 0 | 25,938,642 | $134,000 |
| Herbert M. Reichlin | 0 | 0 | 25,938,642 | $134,000 |

The Company has employment agreements with the above executives as discussed in Item 12.

Item 11. Security Ownership of Certain Beneficial Owners and Management

(a) Security Ownership of Certain Beneficial Owners -- The persons set forth on the charts below are known to the Company to be the beneficial owners of more than 5% of the Company's outstanding voting Common Stock as of the date hereof.

(b) Security Ownership of Management -- Information concerning the number and percentage of shares of voting Common Stock of the Company owned of record and beneficially by management, is set forth on the charts below:

| Name and Address Of Beneficial Owner | Shares of Common Beneficially Owned<br>Shares Owned | Shares Acquirable Within 60 Days (1) | Percent Owned |
|---|---|---|---|
| Burton A. Goldstein<br>6900 Jericho Turnpike<br>Syosset, New York 11791 | 15,383,333 | 25,938,642 | 16.6% |
| Herbert M. Reichlin<br>6900 Jericho Turnpike<br>Syosset, New York 11791 | 15,383,333 | 25,938,642 | 16.6% |
| Richard Bruno<br>6900 Jericho Turnpike<br>Syosset, New York 11791 | 1,250,000 | 1,250,000 | 1.1% |



| Name and Address Of Beneficial Owner | Shares Owned | Shares Acquirable Within 60 Days (1) | Percent Owned |
|---|---|---|---|
| Alfred Fabricant<br>6900 Jericho Turnpike<br>Syosset, New York 11791 | 4,981,434 | 1,250,000 | 2.8% |
| Thomas Kirch | 500,000 | 500,000 | 0.4% |

| | | | |
|---|---|---|---|
| 6900 Jericho Turnpike<br>Syosset, New York 11791 | | | |
| Angelo J. Vassallo<br>6900 Jericho Turnpike<br>Syosset, New York 11791 | 0 | 1,000,000 | 0.4% |
| Milton J. Walters<br>6900 Jericho Turnpike<br>Syosset, New York 11791 | 1,750,000 | 2,500,000 | 1.9% |
| All Directors and Officers and Beneficial Owners of more than 5% of the Company's Common Stock | | 97,625,384 | 34.6% |

Under the rules of the Securities and Exchange Commission (the "SEC"), a person is deemed to have "beneficial ownership" of any Common Stock over which that person has or shares voting or investment power, plus any Common Stock that person may acquire within 60 days, including through the exercise of a stock option or the conversion of a convertible security.

Item 12. Certain Relationships and Related Transactions

a. Loans from Former Officer and Director - A former officer and director, Bernard Gutman, was owed $100,445 for various expenses and loans which were included in the December 31, 1999 Balance Sheet. In December 1999, he brought suit against the Company in New York State Supreme Court, Nassau County, for alleged consulting fees and loan repayments due him. The Company counterclaimed for fraud and breach of contract. The action was settled in March 2000, and 400,000 shares were issued in September 2000. Consequently, a gain of $32,376 was recognized on this settlement.

   During 1998, the Company received $50,000 from a former director, Luther H. Hodges, Jr., payable with a stated interest rate of 10%. Accrued interest at December 31, 1999 amounted to $5,986. On February 3, 2000, the former director accepted 1,250,000 shares of common stock in settlement of this debt plus accrued consulting fees in the amount of $47,000.

b. Officer's and Director's Compensation - During 1996, an investor group brought in by Herbert M. Reichlin and Burton A. Goldstein ("the two individuals") acquired an 18% ownership interest for $500,000. The two individuals were awarded seats on the Board of Directors and officers positions. In addition, the two individuals each received 9,778,975 warrant shares. In December 1997, the Company entered into employment contracts with each of these two individuals for $150,000 per year for five years from December 1997 through November 2002 and issued warrants to purchase 7,500,000 shares each at an exercise price of $.03 per share. As of December 31, 1998, the investor group owned 28,064,340 shares and the two individuals had warrants to purchase 31,877,284 shares. During 2000, these two individuals each agreed to receive 10,000,000 shares of stock in lieu of $400,000 in accrued salaries. As of December 31, 2000, the two individuals were owed $280,418 and $262,626 respectively in accrued salaries and expenses.



c. During 2000, a group of Directors loaned the Company $5,400 in 2000 payable on demand without interest.

Item 13. Exhibits and Reports on Form 8-K

(A) Exhibits

| | |
|---|---|
| 3.1 | Articles of Incorporation (4) |
| 3.2 | By-laws (4) |
| 10.01 | Agreement dated August 21, 1995 with J&R Intercontinental (3) |
| 10.02 | Consulting Agreement dated July 9, 1996 between the Company and Herbert M. Reichlin (2) |
| 10.03 | Consulting Agreement dated July 9, 1996 between the Company and American Employer Service Corporation (2) |
| 10.04 | Warrant Agreement dated July 9, 1996 between the Company and Herbert M. Reichlin (2) |
| 10.05 | Warrant Agreement dated July 9, 1996 between the Company and Burton A. Goldstein (2) |
| 10.06 | Warrant Agreement dated July 9, 1996 between the Company and Milton J. Walters (2) |
| 10.07 | Securities Purchase Agreement dated July 9, 1996 (2) |
| 10.08 | Agreement dated April 30, 1997 with Kingdom Blinds Manufacturing, Inc. (1) |
| 10.09 | Employment Agreement dated December 1, 1997 between the Company and Burton A. Goldstein. (1) |
| 10.10 | Employment Agreement dated December 1, 1997 between the Company and Herbert M. Reichlin. (1) |
| 10.11 | Consulting Agreement dated December 9, 1997 between the Company and Bernard Gutman. (1) |
| 10.12 | License Agreement dated October 31, 1999 between the Company and Charles E. Wheatley, Geoff Coy and James A. Mitchell (5) |
| 10.13 | Comprehensive Consulting and Representation Agreement dated June 6, 2000 between the Company and Opsales Inc., its President, Sidney Friedman, and its Vice President, Dean Friedman. |
| 10.14 | Agreement dated November 2, 2000 between the Company and Sol H. Wynn. |
| 10.15 | Domain Investments Inc. Equity Financing Agreement dated November 2, 2000 |
| 10.16 | Alex W. Hart Consulting Agreement dated March 1, 2001 |
| 21 | Subsidiaries of Registrant |

(1) Incorporated by reference to Exhibits to Form 10-KSB for fiscal year ended December 31, 1997.
(2) Incorporated by reference to Exhibits to Form 10-KSB for fiscal year ended December 31, 1996.
(3) Incorporated by reference to Exhibits to Form 10-KSB for fiscal year ended December 31, 1995.
(4) Incorporated by reference to Exhibits to Form 10-KSB for fiscal year ended December 31, 1989.
(5) Incorporated by reference to Exhibits to Form 10-KSB for fiscal year ended December 31, 1999.

(B) Reports on Form 8-K

(6) No reports on Form 8-K were filed during the last quarter of 1998.

EXHIBIT 21 Subsidiaries of Registrant

| Name | Percent Ownership | State of Organization |
|---|---|---|
| The Product Incubator.com, Inc. | 100% | New York |
| Rainbow Shades Inc. | 100% | New York |
| Wynn Technologies Inc. | 65% | New York |



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. QUEST PRODUCTS CORPORATION

Dated: March 28, 2000 By: /S/:

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Herbert M. Reichlin, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURES AND TITLE | DATE |
|---|---|
| Burton A. Goldstein<br>Chairman of the Board of Directors<br>Secretary, Chief Executive Officer | March 28, 2001 |
| Herbert M. Reichlin<br>President, Treasurer, Chief<br>Operating Officer, Director | March 28, 2001 |
| Richard Bruno<br>Director | March 28, 2001 |
| Alfred Fabricant<br>Director | March 28, 2001 |
| Thomas Kirch<br>Director | March 28, 2001 |

--------------------------------------------- March 28, 2001

Angelo J. Vassallo
Director

--------------------------------------------- March 28, 2001

Milton J. Walters
Director



SUPPLEMENTAL INFORMATION

Supplemental Information to be Furnished with Reports Filed Pursuant to Section 15(d) of the Act by Registrants Which Have Not Registered Pursuant to Section 12 of the Act.

NONE