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QUEST PRODUCTS CORP
Form 10QSB
May 14, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 For the Quarterly Period ended March 31, 2001

OR

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

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 (IRS Employer I.D. No.)
Incorporation or organization)

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

Indicate by check mark whether the registrant (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

Indicate the number of shares outstanding of each of the issuer's classes of
Common Stock, as of the last practicable date.

Class	Outstanding at March 31, 2001
Common Stock, par value	224,005,001
\$.00003 per share	

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements	
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REPORT OF INDEPENDENT ACCOUNTANTS

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

We have reviewed the consolidated balance sheet of Quest Products Corporation and Subsidiaries at March 31, 2001 and the related consolidated statements of operations and consolidated statements of cash flows for the three months ended March 31, 2001 and 2000 as set forth in the accompanying unaudited consolidated financial statements. These consolidated financial statements are the responsibility of the Company's management.

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We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists primarily of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, certain conditions indicate that the Company may be unable to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

RAICH ENDE MALTER & CO. LLP
East Meadow, New York
May 4, 2001

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES Consolidated Balance Sheet

March 31, 2001

(Unaudited)

Assets

Current Assets	
Cash	\$ 60,329
Inventory	28,832
Prepaid expenses	15,335

	104,496

Investment in Unconsolidated Subsidiary	1,882
Furniture and Equipment - at cost - net of accumulated depreciation of \$48,145	23,828
Deferred Royalties	10,000
License acquisition cost - net of accumulated amortization of \$3,290	25,710
Patents - at cost - net of accumulated amortization	

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of \$19,719	29,716
Deferred Registration and financing costs	25,000
Security Deposits	405

	116,541

	\$221,037
	=====

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See accompanying notes and accountants' report.

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheet

March 31, 2001

(Unaudited)

Liabilities and Shareholders' (Deficit)

Current Liabilities

1992 convertible debentures - including accrued interest of \$9,150	\$ 19,150
Accounts payable	212,617
Due to officers and directors	634,559
Loans from shareholders - including accrued interest of \$1,315	101,315
Accrued expenses	1,523

	969,164

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 - 224,005,001 shares issued and outstanding	6,720
Capital in excess of par	5,467,996
Accumulated (deficit)	(6,222,843)

	(748,127)

	\$ 221,037
	=====

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See accompanying notes and accountants' report.

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations

(Unaudited)

	For the Three Months Ended March 31,	
	2001	2000
Sales - net	\$ 2,274	\$ 882
Cost of Sales	184	148
	-----	-----
	2,090	734
	-----	-----
Research and Development Expenses	33,570	15,000
Selling Expenses	10,258	4,522
General and Administrative Expenses	153,152	161,789
	-----	-----
	196,980	181,311
	-----	-----
(Loss) Before Other Income (Expenses)	(194,890)	(180,577)
	-----	-----
Other Income (Expenses)		
Write-off of discount on debt	(34,000)	--
Interest (expense)	(1,565)	(716)
Loss on investment in unconsolidated subsidiary	(41)	--
	-----	-----
	(35,606)	(716)
	-----	-----
Net (Loss)	\$ (230,496)	\$ (181,293)
	=====	=====
Basic and Diluted Net (Loss) Per Share	\$ NIL	\$ NIL
	=====	=====
Weighted Average Number of Shares Outstanding (to nearest 1,000,000)	224,000,000	194,000,000
	=====	=====

See accompanying notes and accountants' report.

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows

(Unaudited)

	For the Three Months Ended March 31,	
	2001	2000
Cash Flows from Operating Activities		
Net (loss)	\$ (230,496)	\$ (181,293)
Adjustments to reconcile net (loss) to net cash (used for) operating activities:		
Depreciation	2,648	2,527
Amortization	1,331	1,318
Warrants issued for compensation	22,000	--
Write-off of discount on debt	34,000	--
Accrued interest	1,565	716
Equity in net loss of subsidiary	41	--
 (Increase) decrease in:		
Inventories	184	148
Increase (decrease) in:		
Accounts payable	(10,951)	2,552
Accrued officer compensation	86,115	75,000
Accrued expenses	--	(1,434)
	-----	-----
	(93,563)	(100,466)
	-----	-----
Cash Flows from Investing Activities		
Acquisition of equipment	--	(25,585)
	-----	-----
Cash Flows from Financing Activities		
Proceeds from issuance of common stock	15,000	60,000
Proceeds of loans from shareholders	100,000	--
	-----	-----
	115,000	60,000
	-----	-----
Net Increase in Cash	21,437	(66,051)
Cash - beginning	38,892	113,338
	-----	-----

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Cash - end	\$ 60,329	\$ 47,287
	=====	=====
Supplemental Disclosures		
Non-cash Investing and Financing Transactions:		
Stock issued for settlement of debt	\$ --	\$ 334,716
	=====	=====

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See accompanying notes and accountants' report.

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2001

1. BACKGROUND AND STATUS OF 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 consumer 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. The Company will strive to begin worldwide distribution during 2001.

The Company signed an Investment Agreement with Domain Investments Inc. of New York City, New York, in November 2000, 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 intends to file an SB2 Registration in order to generate unrestricted shares required for this Agreement.

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

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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), 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 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.

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QUEST PRODUCTS CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) March 31, 2001

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 Wynn Technologies, Inc.'s patented Big1Card(TM) technology. 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. The fair value of these warrants is being amortized over the life of the consulting agreement. 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) project. This will include introducing the Company and assisting in completing agreements with all such organizations.

The consolidated 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 March 31, 2001, current liabilities exceed current assets by \$864,668. Those factors, as well as the Company's inability, thus far, to establish a marketable product, 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 include other products. In addition, the Company is continuing its efforts to obtain long-term financing through the issuance of long-term debt and equity securities. The consolidated 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.

2. UNAUDITED INTERIM STATEMENTS

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The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-QSB and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) necessary for a fair presentation have been included.

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QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2001

Operating results for the three months ended March 31, 2001 are not necessarily indicative of the results to be expected for the year ending December 31, 2001. These consolidated financial statements and notes should be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 2000.

3. 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 the three months ended March 31, 2001 and 2000, potentially dilutive securities of approximately 41,000,000 and 54,000,000 shares that related to shares issuable upon the exercise of warrants granted by the Company were excluded, as their effect was antidilutive.

4. RELATED PARTY TRANSACTIONS AND ISSUANCES OF EQUITY SECURITIES

The Company received loans from Shareholders in the amount of \$100,000 during the three months ended March 31, 2001. The loans are payable on demand plus accrued interest at 10% per annum. In connection with these loans, the shareholders were issued warrants to purchase 500,000 shares at \$.05 per share. The portion of the proceeds allocable to the warrants was accounted for as paid-in capital. The corresponding discount was written off as these loans are payable on demand.

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QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Item 2 - Management's Discussion and Analysis

The Company intends, through its newly incorporated subsidiaries, to identify and bring to the marketplace, unique proprietary consumer products.

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Results of Operations Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000

The Company incurred a net loss of \$230,496 for the three months ended March 31, 2001 as compared to a loss of \$181,293 for the three months ended March 31, 2000.

Sales increased by \$1,392 as a result of the Company's initiating sales via e-commerce beginning in July 1999.

The Company sold 114 units in 2001 and 44 units in 2000 at an average price of approximately \$20 per unit. The cost per unit decreased from \$3.36 in 2000 to \$1.61 in 2001 as a result of sales of units in 2001 being purchased at a lower cost.

The increase in the Company's research and development expenses of \$18,570 is primarily attributable to an approximate \$6,000 increase related to the Company's sunglass project and an approximate \$12,000 increase related to the Company's Smartcard project.

The increase in the Company's selling expenses of \$5,736 was attributable to expenses incurred in connection with travel and entertainment.

General and administrative expenses decreased by \$8,637 from \$161,789 to \$153,152. This decrease is attributable to a decrease in professional and consulting fees and other operating expenses.

Interest expense increased by \$849 from \$716 in 2000 to \$1,565 in 2001 due to interest on loans from shareholders received during the first quarter of 2001.

Liquidity and Capital Resources

The Company has a working capital deficit at March 31, 2001 of \$864,668 as compared to a working capital deficit at December 31, 2000 of \$709,192. During the three months ended March 31, 2001, the Company used \$93,563 in operating activities and generated \$115,000 from financing activities from the proceeds from exercise of stock options in the amount of \$15,000 and loans from shareholders in the amount of \$100,000. The Company currently has \$60,329 in cash.

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QUEST PRODUCTS CORPORATION AND SUBSIDIARIES Management's Discussion and Analysis

The Company has historically funded its cash flow needs through the sale of equity securities in private placements. The Company has raised \$1,070,367 since July of 1997 through such private placements and will attempt to raise additional cash in a similar manner to fund its ongoing operations.

In October 1999, the Company 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. Management will strive to begin worldwide distribution of this product in 2001. The Company's plans for the marketing of this new product in the near future will require additional funding above and beyond the normal amount of cash required for recurring operations.

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There can be no assurance that the Company will be able to obtain the required additional financing. 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. 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).

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.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

None

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SIGNATURES

Pursuant to the requirements 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: May 11, 2001

/s/: Herbert M. Reichlin

Herbert M. Reichlin, President

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