QUEST PRODUCTS CORP
Form 10QSB
August 09, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the Quarterly Period ended June 30, 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 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

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 June 30, 2001
Common Stock, par value $.00003 per share	231,005,001

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

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 June 30, 2001 and the related consolidated statements of operations for each of the three and six month periods ended June 30, 2001 and 2000 and consolidated statement of cash flows for the six months ended June 30, 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.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally 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
August 2, 2001

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheet
June 30, 2001
(Unaudited)

Assets	
Current Assets	
Cash	$152,502
Inventory	28,667
Prepaid expenses	15,335
	196,504
Investment in Unconsolidated Subsidiary	1,841
Furniture and Equipment - at cost - net of accumulated depreciation of $50,793	21,180
Deferred Royalties	10,000
License acquisition cost - net of accumulated amortization of $3,848	25,152
Patents - at cost - net of accumulated amortization of $20,495	28,940
Security Deposits	405

	87,518
	$284,022

See accompanying notes and accountants' report.

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheet
June 30, 2001
(Unaudited)

Liabilities and Shareholders' (Deficit)	
Current Liabilities	
1992 convertible debentures - including accrued interest of $9,400	$ 19,400
Accounts payable	229,080
Due to officers and directors	665,928
Loans from shareholders - including accrued interest of $3,472	103,472
Accrued expenses	20,023
	1,037,903
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 - 231,005,001 shares issued and outstanding	6,930
Capital in excess of par	5,724,361
Accumulated (deficit)	(6,485,172)
	(753,881)
	$ 284,022

See accompanying notes and accountants' report.

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

	For the Six Months Ended June 30, 2001	2000
Sales - net	$ 4,229	$ 2,483
Cost of Sales	349	403
	3,880	2,080
Research and Development Expenses	107,653	36,106
Selling Expenses	17,606	6,830
General and Administrative Expenses	308,392	351,984
	433,651	394,920
(Loss) Before Other Income (Expenses)	(429,771)	(392,840)
Other Income (Expenses)		
Write-off of deferred registration costs	(25,000)	--
Write-off of discount on debt	(34,000)	--
Interest (expense)	(3,972)	(966)
Loss on investment in unconsolidated subsidiary	(82)	--
	(63,054)	(966)
Net (Loss)	$ (492,825)	$ (393,806)
Basic and Diluted Net (Loss) Per Share	$ NIL	$ NIL
Weighted Average Number of Shares Outstanding (to nearest 1,000,000)	226,000,000	194,000,000

See accompanying notes and accountants' report.

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

	For the Quarter Ended June 30, 2001	For the Quarter Ended June 30, 2000
Sales - net	$ 1,955	$ 1,601
Cost of Sales	165	255
	1,790	1,346
Research and Development Expenses	74,083	21,106
Selling Expenses	7,348	2,308
General and Administrative Expenses	155,240	190,195
	236,671	213,609
(Loss) Before Other Income (Expenses)	(234,881)	(212,263)
Other Income (Expenses)		
Write-off of deferred registration costs	(25,000)	--
Interest (expense)	(2,407)	(250)
Loss on investment in unconsolidated subsidiary	(41)	--
	(27,448)	(250)
Net (Loss)	$ (262,329)	$ (212,513)
Basic and Diluted Net (Loss) Per Share	$ NIL	$ NIL
Weighted Average Number of Shares Outstanding (to nearest 1,000,000)	228,000,000	199,000,000

See accompanying notes and accountants' report.

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QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

For the Six Months Ended
June 30,

	2001	2000
Cash Flows from Operating Activities		
Net (loss)	$(492,825)	$(393,806)
Adjustments to reconcile net (loss) to net cash (used for) operating activities:		
Depreciation	5,296	5,054
Amortization	2,665	2,636
Warrants issued for compensation	58,575	--
Write-off of deferred registration costs	25,000	--
Write-off of discount on debt	34,000	--
Accrued interest	3,972	966
Equity in net loss of subsidiary	82	--
(Increase) decrease in:		
Inventories	349	403
Increase (decrease) in:		
Accounts payable	5,512	47,365
Accrued officer compensation	117,484	150,000
Accrued expenses	18,500	(1,434)
	(221,390)	(188,816)
Cash Flows from Investing Activities		
Acquisition of equipment	--	(25,585)
Refund of acquisitions of equipment	--	1,156
	--	(24,429)
Cash Flows from Financing Activities		
Proceeds from issuance of common stock	235,000	115,000
Proceeds of loans from shareholders	100,000	--
	335,000	115,000
Net Increase (Decrease) in Cash	113,610	(98,245)
Cash - beginning	38,892	113,338
Cash - end	$ 152,502	$ 15,093
Supplemental Disclosures		
Non-cash Investing and Financing Transactions:		
Stock issued for settlement of debt	$ --	$ 334,716

See accompanying notes and accountants' report.

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 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 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., Quest's unconsolidated subsidiary, is owned 65% by Quest Products Corporation, subject to resolution of certain contingencies, and 35% by Mr. Wynn. Quest also applied for additional patent claims 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 Wynn Technologies, Inc.'s patented Big1Card(TM) technology. The five-year Consulting Agreement called 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 have been issued at $.10; 1 million options issued at $.15; 1 million options at $.20; and 1 million options at $.30. The fair value of these options is being amortized over the life of the consulting agreement. Quest, through its unconsolidated 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 June 30, 2001, current liabilities exceed current assets by $841,399. 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

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.

Operating results for the three and six months ended June 30, 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 and options. For the six months ended June 30, 2001 and 2000, potentially dilutive securities of approximately 33,000,000 and 49,000,000 shares that related to shares issuable upon the exercise of warrants and options 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 six months ended June 30, 2001. The loans are payable on demand plus accrued interest at 10% per annum. In connection with these loans, the shareholders were issued warrants and options 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. During the six months ended June 30, 2001, two of the abovementioned shareholders each exercised warrants and options resulting in the Company's receiving $50,000. In addition, three other shareholders exercised warrants and options to purchase 1,000,000 shares at $.015, 5,000,000 shares at $.03 and 1,000,000 shares at $.02 respectively, resulting in the Company's receiving $185,000.

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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.

Results of Operations
Six Months Ended June 30, 2001 Compared
to Six Months Ended June 30, 2000

The Company incurred a net loss of $492,825 for the six months ended June 30, 2001 as compared to a loss of $393,806 for the six months ended June 30, 2000.

Sales increased by $1,746 from $2,483 in 2000 to $4,229 in 2001 as a result of the Company's increasing sales via e-commerce.

The Company sold 217 PhaseOut units in 2001 and 120 PhaseOut 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 Company's research and development expenses increased by $71,547 from $36,106 in 2000 to $107,653 in 2001. The increase is attributable to an approximate $27,000 increase related to the Company's sunglass project and an approximate $44,000 increase related to the Company's Smartcard project.

The Company's selling expenses increased by $10,776 from $6,830 in 2000 to $17,606 in 2001. The increase was attributable to expenses incurred in connection with travel and entertainment.

The Company's general and administrative expenses decreased by $43,592 from $351,984 in 2000 to $308,392 in 2001. This decrease is attributable to a decrease in professional and consulting fees and other operating expenses.

Interest expense increased by $3,006 from $966 in 2000 to $3,972 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 June 30, 2001 of $841,399 as compared to a working capital deficit at December 31, 2000 of $709,192. During the six months ended June 30, 2001, the Company used $221,390 in operating activities and generated $335,000 from financing activities from the exercise of warrants in the amount of $235,000 and loans from shareholders in the amount of $100,000. The Company currently has $152,502 in cash.

The Company has historically funded its cash flow needs through the sale of equity securities in private placements. The Company has raised $1,290,367 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. 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 unconsolidated subsidiary, Wynn Technologies, Inc., subject to the resolution of certain contingencies, 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.

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

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: August 8, 2001

/s/ Herbert M. Reichlin

Herbert M. Reichlin, President