QUEST PRODUCTS CORP
Form 10QSB
August 14, 2002

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, 2002

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, 2002
Common Stock, par value $.00003 per share	232,338,334

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 accompanying consolidated balance sheet of Quest Products Corporation and Subsidiaries as of June 30, 2002 and the related consolidated statements of operations for each of the three and six month periods ended June 30, 2002 and 2001 and consolidated statement of cash flows for the six months ended June 30, 2002 and 2001 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 reviews 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 in the accompanying consolidated financial statements for them to be 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 1 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 June 30, 2002, current liabilities exceed current assets by $1,439,180. 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
August 6, 2002

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheet
June 30, 2002
(Unaudited)

Assets	
Current Assets	
Cash	$ 1,822
Inventory	25,492
Prepaid expenses	2,693
	30,007
Investment in Unconsolidated Subsidiary	1,677
Furniture and Equipment - at cost - net of accumulated depreciation of $59,877	12,096
Deferred Royalties	10,000
License acquisition cost - net of accumulated amortization of $6,591	27,409
Patents - at cost - net of accumulated amortization of $24,760	24,675
Security Deposits	405
	76,262

	$106,269

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See accompanying notes and accountants' report.

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheet
June 30, 2002
(Unaudited)

Liabilities and Shareholders' (Deficit)	
Current Liabilities	
1992 convertible debentures - including accrued interest of $10,400	$ 20,400
Accounts payable	252,255
Due to officers and directors	1,010,788
Loans from shareholders - including accrued interest of $15,067	163,067
Accrued expenses and other current liabilities	22,677
	1,469,187
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 - 232,338,334 shares issued and outstanding	6,970
Capital in excess of par	5,912,954
Accumulated (deficit)	(7,282,842)
	(1,362,918)
	$ 106,269

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See accompanying notes and accountants' report.

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

For the Six Months Ended
June 30,

	2002	2001
Sales - net	$ 3,451	$ 4,229
Cost of Sales	279	349
	3,172	3,880
Research and Development Expenses	78,550	107,653
Selling Expenses	16,738	17,606
General and Administrative Expenses	259,189	308,392
	354,477	433,651
(Loss) Before Other Income (Expenses)	(351,305)	(429,771)
Other Income (Expenses)		
Write-off of discount on debt	(34,000)	(34,000)
Interest (expense)	(7,095)	(3,972)
Write-off of deferred registration costs	--	(25,000)
Loss on investment in unconsolidated subsidiary	(82)	(82)
	(41,177)	(63,054)
Net (Loss)	$ (392,482)	$ (492,825)
Basic and Diluted Net (Loss) Per Share	$ NIL	$ NIL
Weighted Average Number of Shares Outstanding (to nearest 1,000,000)	232,000,000	226,000,000

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See accompanying notes and accountants' report.

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

	For the Quarter Ended June 30,	
	2002	2001

Sales - net	$ 1,456	$ 1,955
Cost of Sales	118	165
	1,338	1,790
Research and Development Expenses	36,575	74,083
Selling Expenses	7,950	7,348
General and Administrative Expenses	118,372	155,240
	162,897	236,671
(Loss) Before Other Income (Expenses)	(161,559)	(234,881)
Other Income (Expenses)		
Write-off of deferred registration costs	--	(25,000)
Interest (expense)	(3,950)	(2,407)
Loss on investment in unconsolidated subsidiary	(41)	(41)
	(3,991)	(27,448)
Net (Loss)	$ (165,550)	$ (262,329)
Basic and Diluted Net (Loss) Per Share	$ NIL	$ NIL
Weighted Average Number of Shares Outstanding (to nearest 1,000,000)	232,000,000	228,000,000

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See accompanying notes and accountants' report.

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

	For the Six Months Ended June 30,	
	2002	2001
Cash Flows from Operating Activities		
Net (loss)	$(392,482)	$(492,825)
Adjustments to reconcile net (loss) to net cash (used for) operating activities:		
Depreciation	3,788	5,296
Amortization	3,953	2,665

Warrants issued for compensation	73,150	58,575
Write-off of deferred registration costs	--	25,000
Write-off of discount on debt	34,000	34,000
Accrued interest	7,095	3,972
Equity in net loss of unconsolidated subsidiary	82	82
(Increase) decrease in:		
Inventories	278	349
Prepaid expenses	573	--
Increase (decrease) in:		
Accounts payable	19,024	5,512
Accrued officer compensation	171,230	117,484
Accrued expenses and other current liabilities	(3,846)	18,500
	(83,155)	(221,390)
Cash Flows from Financing Activities		
Proceeds from issuance of common stock	1,333	235,000
Proceeds of loans from shareholders	48,000	100,000
	49,333	335,000
Net Increase (Decrease) in Cash	(33,822)	113,610
Cash - beginning	35,644	38,892
Cash - end	$ 1,822	$ 152,502

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See accompanying notes and accountants' report.

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2002

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 continues to market and distribute its patented "Phase-Out" system smoking cessation device (the "PhaseOut device") both domestically and internationally.

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 March 2001, the Company amended this License Agreement to extend its terms. As compensation, the Company agreed to allow the holders of the patent to exercise their warrants at no cost. The value of this amendment, added to the License Acquisition Cost, was the excess of the fair value of the stock issued over the fair value (using the Black-Scholes option pricing method) of the warrants cancelled. 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.

In connection with its November 2, 2000 investment agreement with Domain Investments, Inc., the Company decided, on July 31, 2002, not to file an SB2 registration which, accordingly, terminates this agreement.

On July 31, 2002, the Company entered into a six-month consulting agreement with Tribe Communications, Inc., an investment banking firm specializing in webcasting, exposure, corporate consulting and finance. Tribe will provide guidance and assistance in raising awareness, educating potential investors, retail support and capital formation. The Company issued 700,000 shares to Tribe upon the execution of this agreement. Additional compensation is dependent upon Tribe's assistance in raising capital for the Company. Such compensation could aggregate $125,000 in stock or cash, plus 5% of the total investment received by the Company.

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 was formed by the Company, named Wynn Technologies Inc. ("Wynn Tech"), which has now acquired all right, title and interest to the Wynn patent. Therefore, Wynn Technologies Inc. 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 and 35% by Mr. Wynn. The Company's 65% interest is subject to the resolution of certain contingencies. Accordingly, the Company is not currently consolidating this subsidiary. There would be no effect on the Company's equity or operations if this subsidiary was consolidated.

The Company also applied for additional patent claims to further enhance the BIG1CARD(TM) technology. In August 2001, Quest received an official notice from the United States Patent and Trademark Office that the Company's application to add 25 additional claims to its multi-account credit card system patent will be allowed.

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, 2002, current liabilities exceed current assets by $1,439,180. 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, 2002 are not necessarily indicative of the results to be expected for the year ending December 31, 2002. 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, 2001.

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

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, 2002 and 2001, potentially dilutive securities of approximately 9,000,000 and 33,000,000 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 $48,000 during the six months ended June 30, 2002. 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 2,000,000 shares at $.02 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.

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

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. All statements other than statements of historical fact in this report are forward-looking statements. Such forward-looking statements are based on the current beliefs of management and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Quest Products Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: Quest's history of losses; the need to obtain additional financing and the ability to obtain such financing; and uncertainties relating to business and economic conditions in markets in which Quest operates. The words, believe, expect, anticipate, intend and plan and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made.

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, 2002 Compared
to Six Months Ended June 30, 2001

The Company incurred a net loss of $392,482 for the six months ended June 30, 2002 as compared to a loss of $492,825 for the six months ended June 30, 2001.

Sales remained approximately at the same level in 2002 and 2001, respectively. The Company's sales continue to be primarily generated via e-commerce.

The Company sold 173 and 217 PhaseOut units in 2002 and 2001 respectively at an average price of approximately $20 per unit. The cost per unit sold was $1.61 in 2002 and 2001, respectively.

The Company's research and development expenses decreased by $29,103 from $107,653 in 2001 to $78,550 in 2002. The decrease is attributable to an approximate $16,000 decrease related to the Company's sunglass project and an approximate $13,000 decrease related to the Company's Smartcard project.

The Company's selling expenses decreased by $868 from $17,606 in 2001 to $16,738 in 2002. The decrease was primarily in travel and entertainment expenses.

The Company's general and administrative expenses decreased by $49,203 from $308,392 in 2001 to $259,189 in 2002. This decrease is attributable to a decrease in salaries and consulting fees.

Interest expense increased by $3,123 from $3,972 in 2001 to $7,095 in 2002 due to interest on additional loans from shareholders received during the first quarter of 2002.

Liquidity and Capital Resources

The Company has a working capital deficit at June 30, 2002 of $1,439,180 as compared to a working capital deficit at December 31, 2001 of $1,163,004. During the six months ended June 30, 2002, the Company used $83,155 in operating activities and generated $49,333 from financing activities from loans from shareholders in the amount of $48,000 and the exercise of warrants in the amount of $1,333. The Company currently has $1,822 in cash.

The Company has historically funded its cash flow needs through the sale of equity securities in private placements. The Company has raised $1,339,700 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 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 expects to initially produce 1,000 pair of sunglasses funded through an outside source to be sold mainly to Company shareholders. The proceeds of these initial sales will be used to repay the outside funding sources and fund future research and development expenditures and continued production. Cash paid for further research and development expenditures related to the sunglass project is not expected to exceed $50,000 during 2002.

During 2000, the Company acquired the rights to and 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 Big1CardTM SmartCard project. This will include introducing the Company and assisting in completing agreements with all such organizations.

In January 2001, the Company filed a reissue application to significantly broaden its patent rights for its multi-account credit card system. In August 2001, the Company received an official notice from the United States Patent and Trademark Office that the Company's application to add 25 additional claims to its multi-account credit card system patent will be allowed. In light of this favorable action of the Patent Office on the Company's application, the original 7 patent claims will be enlarged to a total of 32 claims. The Company's management believes the Patent Office action allowing these additional 25 claims significantly broadens and strengthens the Company's patent and materially increases its value in the marketplace. The new claims allowed by the Patent Office, when combined with the original claims, make it extremely unlikely that a competitor will be able to design around or otherwise circumvent the Company's patent in launching a smart card multi-account credit card system and best insures that no one else in the United States will be able to commercialize a multi-account credit card system without obtaining license rights from the Company. The Company's patent, which has a 1995 priority date is, to their knowledge, the only U.S. patent which covers a multi-account credit card system employing a processing chip and on-board memory. In addition, Quest Products Corporation is in the process of contacting corporations in order to apply the Company's patented multi-account credit card system to the myriad of security issues facing Government and industry. Cash paid for further research and development expenditures related to the Big1Card(TM) smart card project in 2002 is not expected to exceed $25,000. The Company intends to use the profits from this venture to fund the Company's other ventures.

On July 31, 2002, the Company entered into a six-month consulting agreement with Tribe Communications, Inc., an investment banking firm specializing in webcasting, exposure, corporate consulting and finance. Tribe will provide guidance and assistance in raising awareness, educating potential investors, retail support and capital formation. The Company issued 700,000 shares to Tribe upon the execution of this agreement. Additional compensation is dependent upon Tribe's assistance in raising capital for the Company. Such compensation could aggregate $125,000 in stock or cash, plus 5% of the total investment received by the Company.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

Recent Sales of Unregistered Securities

During the Six Months ended June 30, 2002, 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 from Registration Claime

3/14/02	2	3,500,000	Warrants issued to Directors in connection with Board services. No cash consideration received until exercise.	4(2)
3/14/02	2	3,500,000	Warrants issued to Directors in connection with Board services. No cash consideration received until exercise.	4(2)
3/14/02	2	3,500,000	Warrants issued to Directors in connection with Board services. No cash consideration received until exercise.	4(2)
3/15/02	2	2,000,000	Warrants issued in connection with private placement. No cash consideration received until exercise.	4(2)
4/2/02	1	133,333	Common stock issued pursuant to warrants issued February 15, 1999. The common stock was issued at $0.01 per share. We received proceeds of $1,333.	4(2)

(1) Common Stock

(2) Warrants

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

A) Exhibits

99.1 - Certification of CEO pursuant to Section 906 of Sarbanes-Oxley Act of 2002

99.2 - Certification of CFO pursuant to Section 906 of Sarbanes-Oxley Act of 2002

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 14, 2002

/S/ Herbert M. Reichlin

Herbert M. Reichlin, President