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QUEST PRODUCTS CORP
Form 10QSB
November 06, 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 September 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
State or other jurisdiction of
Incorporation or organization)

11-2873662
(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 ☒ 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 September 30, 2001
Common Stock, par value \$.00003 per share	231,205,001

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

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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 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
October 26, 2001

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

Assets

Current Assets	
Cash	\$ 96,400
Inventory	25,986
Prepaid expenses	10,467

	132,853

Investment in Unconsolidated Subsidiary	1,800
Furniture and Equipment - at cost - net of accumulated depreciation of \$53,441	18,532
Deferred Royalties	10,000
License acquisition cost - net of accumulated amortization of \$4,406	24,594
Patents - at cost - net of accumulated amortization	

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of \$21,271	28,164
Security Deposits	405

	83,495

	\$216,348
	=====

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See accompanying notes and accountants' report.

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

Liabilities and Shareholders' (Deficit)

Current Liabilities

1992 convertible debentures - including accrued interest of \$9,650	\$ 19,650
Accounts payable	230,130
Due to officers and directors	750,493
Loans from shareholders - including accrued interest of \$5,972	105,972
Accrued expenses	26,273

1,132,518

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 - 231,205,001 shares issued and outstanding	6,936
Capital in excess of par	5,762,930
Accumulated (deficit)	(6,686,036)

(916,170)

\$ 216,348

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See accompanying notes and accountants' report.

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

	For the Nine Months Ended September 30,	
	2001	2000
Sales - net	\$ 16,559	\$ 4,558
Cost of Sales	6,675	519
	9,884	4,039
Research and Development Expenses	151,460	65,103
Selling Expenses	25,313	50,885
General and Administrative Expenses	460,955	513,606
	637,728	629,594
(Loss) Before Other Income (Expenses)	(627,844)	(625,555)
Other Income (Expenses)		
Write-off of deferred registration costs	(25,000)	--
Write-off of discount on debt	(34,000)	--
Interest (expense)	(6,722)	(1,216)
Loss on investment in unconsolidated subsidiary	(123)	--
Gain on settlement of debt	--	32,374
Gain on settlement of lawsuit	--	93,411
	(65,845)	124,569
Net (Loss)	\$ (693,689)	\$ (500,986)
Basic and Diluted Net (Loss) Per Share	\$ NIL	\$ NIL

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Weighted Average Number of Shares		
Outstanding (to nearest 1,000,000)	227,000,000	197,000,000

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See accompanying notes and accountants' report.

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

	For the Quarter Ended September 30,	
	2001	2000
Sales - net	\$ 12,329	\$ 2,075
Cost of Sales	6,325	116
	6,004	1,959
Research and Development Expenses	43,807	28,997
Selling Expenses	7,707	44,055
General and Administrative Expenses	152,563	161,622
	204,077	234,674
(Loss) Before Other Income (Expenses)	(198,073)	(232,715)
Other Income (Expenses)		
Interest (expense)	(2,750)	(250)
Loss on investment in unconsolidated subsidiary	(41)	--
Gain on settlement of debt	--	32,374
Gain on settlement of lawsuit	--	93,411
	(2,791)	125,535

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Net (Loss)	\$ (200,864)	\$ (107,180)
	=====	=====
Basic and Diluted Net (Loss) Per Share	\$ NIL	\$ NIL
	=====	=====
Weighted Average Number of Shares Outstanding (to nearest 1,000,000)	231,000,000	202,000,000
	=====	=====

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See accompanying notes and accountants' report.

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

	For the Nine Months Ended September 30,	
	2001	2000
Cash Flows from Operating Activities		
Net (loss)	\$ (693,689)	\$ (500,986)
Adjustments to reconcile net (loss) to net cash (used for) operating activities:		
Depreciation	7,944	7,501
Amortization	3,999	3,991
Warrants issued for compensation	95,150	15,000
Write-off of deferred registration costs	25,000	--
Gain on settlement of debt	--	(32,374)
Write-off of discount on debt	34,000	--
Gain on settlement of lawsuit	--	(93,411)
Accrued interest	6,722	966
Proceeds from settlement of lawsuit	--	150,000
Equity in net loss of unconsolidated subsidiary	123	--
(Increase) decrease in:		
Inventories	3,030	519
Security Deposits	--	(405)
Prepaid Expenses	4,868	1,596
Increase (decrease) in:		
Accounts payable	6,562	40,153
Accrued officer compensation	202,049	229,782
Accrued expenses	24,750	(1,434)
	-----	-----
	(279,492)	(178,853)
	-----	-----
Cash Flows from Investing Activities		

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Acquisition of equipment	--	(25,585)
Refund of acquisitions of equipment	--	2,027
	-----	-----
	--	(23,558)
	-----	-----
Cash Flows from Financing Activities		
Proceeds from issuance of common stock	237,000	270,000
Proceeds of loans from shareholders	100,000	--
	-----	-----
	337,000	270,000
	-----	-----
Net Increase (Decrease) in Cash	57,508	67,589
Cash - beginning	38,892	113,338
	-----	-----
Cash - end	\$ 96,400	\$ 180,927
	=====	=====
Supplemental Disclosures		
Non-cash Investing and Financing Transactions:		
Stock issued for settlement of debt	\$ --	\$ 404,958
	=====	=====

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See accompanying notes and accountants' report.

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) September 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 signed an Investment Agreement with Domain Investments Inc. of

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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 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). 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 in March 2000 named Wynn Technologies Inc. ("Wynn Tech"), which 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 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. The Company also applied for additional patent claims to further enhance the BIG1CARD(TM) technology.

QUEST PRODUCTS CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) September 30, 2001

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. 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.

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

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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 September 30, 2001, current liabilities exceed current assets by \$999,665. 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.

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QUEST PRODUCTS CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) September 30, 2001

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 nine months ended September 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.

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 nine months ended September 30, 2001 and 2000, potentially dilutive

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securities of approximately 25,000,000 and 52,000,000 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 nine months ended September 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.

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During the nine months ended September 30, 2001, two of the above mentioned shareholders each exercised warrants and options resulting in the Company's receiving \$50,000. In addition, four other shareholders exercised warrants and options to purchase 1,000,000 shares at \$.015, 5,000,000 shares at \$.03, 1,000,000 shares at \$.02 and 200,000 shares at \$.01 respectively, resulting in the Company's receiving \$187,000.

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

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

The Company incurred a net loss of \$693,689 for the nine months ended September 30, 2001 as compared to a loss of \$500,986 for the nine months ended September 30, 2000.

Sales increased by \$12,001 from \$4,558 in 2000 to \$16,559 in 2001 as a result of the Company's increasing sales via e-commerce and international sales.

The Company sold 1,882 PhaseOut units in 2001 at an average price of approximately \$9 per unit and 120 PhaseOut units in 2000 at an average price of approximately \$20 per unit. The cost per unit sold decreased from \$3.36 in 2000 to \$1.61 in 2001 as a result of sales of units in 2001 being from stock purchased at a lower cost. In addition, cost of sales for 2001 include storage cost incurred due to an increase in inventory.

The Company's research and development expenses increased by \$86,357 from \$65,103 in 2000 to \$151,460 in 2001. The increase is attributable to an approximate \$5,000 increase related to the Company's sunglass project and an approximate \$81,000 increase related to the Company's Smartcard project.

The Company's selling expenses decreased by \$25,572 from \$50,885 in 2000 to \$25,313 in 2001. The decrease was primarily in travel and entertainment expenses.

The Company's general and administrative expenses decreased by \$52,651 from

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\$513,606 in 2000 to \$460,955 in 2001. This decrease is attributable to a decrease in professional and consulting fees and other operating expenses.

Interest expense increased by \$5,506 from \$1,216 in 2000 to \$6,772 in 2001 due to interest on loans from shareholders received during the first quarter of 2001.

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QUEST PRODUCTS CORPORATION AND SUBSIDIARIES Management's Discussion and Analysis

Liquidity and Capital Resources

The Company has a working capital deficit at September 30, 2001 of \$999,665 as compared to a working capital deficit at December 31, 2000 of \$709,192. During the nine months ended September 30, 2001, the Company used \$279,492 in operating activities and generated \$337,000 from financing activities from the exercise of warrants in the amount of \$237,000 and loans from shareholders in the amount of \$100,000. The Company currently has \$96,400 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.

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 Big1Card(TM) 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

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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

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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.

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

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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: November 5, 2001

/S/:

Herbert M. Reichlin, President