

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
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FILER

TECH ELECTRO INDUSTRIES INC/TX

CIK: **886912** | IRS No.: **752408297** | State of Incorporation: **TX** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **000-27210** | Film No.: **96662834**
SIC: **5065** Electronic parts & equipment, nec

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1996

Commission File Number 0-27210

TECH ELECTRO INDUSTRIES, INC.

TEXAS

75-2408297

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

4300 Wiley Post Road, Dallas, Texas

75244-2131

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(972) 239-7151

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

As of September 30, 1996 the registrant had 1,308,275

shares of common equity outstanding.

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TECH ELECTRO INDUSTRIES, INC.

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Part 1
Financial Information

Item 1 - Financial Statement

Tech Electro Industries, Inc. and Subsidiaries

Consolidated Balance Sheets

(Prepared from the books without verification by audit)

September 30, 1996 and 1995

<TABLE>

<CAPTION>

ASSETS

	1996	1995
	<hr style="width: 10%;"/>	<hr style="width: 10%;"/>
CURRENT ASSETS		
<S>	<C>	<C>
Cash	487,040	40,294
Certificate of Deposit	211,664	200,000
Marketable Securities	930,150	-0-
Accounts and Notes Receivable		
Trade, net of allowances	446,074	534,273
Notes Receivable	148,547	34,421
Other Receivables	14,772	8,815
Federal Income Tax Receivable	8,410	14,150
Inventory, at Lower of Cost or Market	1,457,111	1,115,079
Prepaid Expenses	133,527	70,250

Deferred Federal Income Tax	26,814	7,801
Deferred IPO Cost	-0-	28,799
TOTAL CURRENT ASSETS	<u>3,864,109</u>	<u>2,053,882</u>
PLANT & EQUIPMENT, at cost		
Lab and Computer Equipment	316,017	263,103
Furniture and Fixtures	158,231	127,093
Automobiles	21,943	21,943
	<u>496,191</u>	<u>412,139</u>
Less Accumulated Depreciation	310,190	284,309
TOTAL PLANT AND EQUIPMENT	<u>186,001</u>	<u>127,830</u>
OTHER ASSETS		
Deferred Federal Income Tax	22,070	25,676
Investment in Bonds	2,000	2,000
	<u>24,070</u>	<u>27,676</u>
TOTAL ASSETS	<u>4,074,180</u>	<u>2,209,388</u>

</TABLE>

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Tech Electro Industries, Inc. and Subsidiaries

Consolidated Balance Sheets

(Prepared from the books without verification by audit)

September 30, 1996 and 1995

LIABILITIES & STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

	1996	1995
	<u> </u>	<u> </u>
CURRENT LIABILITIES		
<S>	<C>	<C>
Accounts Payable - Trade	73,006	245,402
Accounts Payable - Others	-0-	30
Accrued Liabilities	60,132	40,800
Federal Income Tax Payable	-0-	18,419

Notes Payable - Banks	300,091	379,993
Notes Payable - Affiliates	245,000	100,000
Notes Payable - Others	77,975	2,212
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	756,204	786,856
LONG-TERM DEBT		
Notes Payable - Affiliates	-0-	145,000
Deferred Compensation Payable	99,651	99,651
	<hr/>	<hr/>
TOTAL LONG-TERM DEBT	99,651	244,651
STOCKHOLDERS' EQUITY		
Preferred Stock, \$1.00 par value; 1,000,000 shares authorized; 65,000 Class B issued and out- standing, liquidation preference of \$341,250; 300,000 Class A issued and outstanding, liquidation pre- ference of \$1,575,000	365,000	-0-
Common Stock, \$0.01 par value; 10,000,000 shares authorized, 1,308,275 shares issued and outstanding	13,083	10,880
Additional Paid-in Capital	2,431,697	534,690
Retained Earnings	408,545	632,311
	<hr/>	<hr/>
	3,218,325	1,177,881
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	4,074,180	2,209,388
	=====	=====

</TABLE>

See notes to Consolidated Financial Statements

Tech Electro Industries and Subsidiaries
Consolidated Statement of Operations

(Prepared from the books without verification by audit)

For the Three Months and Nine Months Ended September 30, 1996 and 1995

<TABLE>

<CAPTION>

	Quarter		Year to Date	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
SALES	1,106,225	953,736	2,950,616	2,772,715
COST OF GOODS SOLD	782,790	707,958	2,099,696	2,007,264
GROSS PROFIT	323,435	245,778	850,920	765,451
GENERAL AND ADMINISTRATIVE	361,213	202,622	911,810	608,265
INCOME (LOSS) FROM OPERATIONS	(37,778)	43,156	(60,890)	157,186
OTHER INCOME (EXPENSE)				
Interest Income	21,450	1,787	62,370	2,149
Interest Expense	(13,645)	(12,277)	(40,322)	(41,606)
INCOME (LOSS) BEFORE TAX	(29,973)	32,666	(38,842)	117,729
INCOME TAX EXPENSE (BENEFIT)				
Current	-0-	11,266	-0-	31,642
Deferred	(7,437)	-0-	(9,416)	-0-
NET INCOME (LOSS)	(22,536)	21,400	(29,426)	86,087
Income (Loss) Attributable to Common Stockholders	(55,387)	21,400	(117,024)	86,087
EARNINGS (LOSS) PER SHARE	(.04)	.02	(.09)	.07

</TABLE>

See notes to Consolidated Financial Statements

(Prepared from the books without verification by audit)

September 30, 1996 and 1995

<TABLE>
<CAPTION>

	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES		
<S>	<C>	<C>
Net income (loss)	(29,426)	86,087
Adjustments to reconcile net income (loss) to cash provided (used) by operations		
Depreciation	21,300	12,657
Provision for obsolete inventory	12,600	-0-
Deferred taxes	(9,416)	13,223
Changes in operating assets and liabilities		
(Increase) decrease in -		
Marketable Securities	(45,000)	-0-
Accounts receivable	(67,583)	(134,674)
Other receivable	(4,206)	22,125
Advance to employee	(84,000)	-0-
Inventory	(296,107)	181,303
Prepaid Federal Income Tax	-0-	(14,150)
Deferred IPO costs	-0-	(28,799)
Prepaid expenses	(14,024)	(5,844)
Interest earned on certificate of deposit	(7,821)	-0-
Increase (decrease) in -		
Accounts payable	(224,634)	(121,056)
Accrued liabilities	40,642	28,757
Federal income tax payable	-0-	18,419
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(707,675)	58,048
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(58,822)	(44,381)
Advances on Note Receivable	(33,061)	-0-
Repayments on Note Receivable	5,000	-0-
Purchase of Marketable Securities	(885,150)	(201,688)
NET CASH USED BY INVESTING ACTIVITIES	(972,033)	(246,069)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term debt	191,301	203,539
Payments on short-term debt	(193,227)	(61,330)
Payments on related party borrowing	-0-	(134,000)
Proceeds from related party borrowing	-0-	100,000
Proceeds from sale of preferred, common, warrants	2,103,891	-0-
Dividends paid	(76,650)	-0-

NET CASH PROVIDED BY FINANCING ACTIVITIES	2,025,315	108,209
NET INCREASE (DECREASE) IN CASH	345,607	(79,812)
CASH AT BEGINNING OF PERIOD	141,433	120,106
CASH AT END OF PERIOD	487,040	40,294
SUPPLEMENTAL INFORMATION		
Interest paid	40,406	42,675
Income taxes paid	-0-	14,150
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITY		
Stock exchange with Vary Brite Tech., Inc.	12,178	-0-
Common stock issued for debt cancellation	-0-	387,341

</TABLE>

See notes to Consolidated Financial Statements

TECH ELECTRO INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

September 30, 1996

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions per Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine month period ended September 30, 1996 are not necessarily indicative of the results that may be expected for the year ending December 31, 1996.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiaries, Computer Components Corporation and Vary Brite Technologies, Inc. All significant intercompany transactions and balances have been eliminated in consolidation.

INCOME TAXES

The Company utilizes the asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

INCOME (LOSS) PER SHARE

Income (loss) per share has been computed by dividing net income (loss), adjusted for preferred stock dividends of \$87,600 and \$0.00 for the quarters ended September 30, 1996 and 1995, by the weighted average number of shares of common shares and common stock equivalents outstanding. Common stock equivalents include the dilutive effect of all warrants outstanding as though they had been outstand-

TECH ELECTRO INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

September 30, 1996

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ing for all periods presented. Fully diluted loss per share for the quarter and nine month ending September 30, 1996 (which are the only periods for which the preferred stock was issued and subject to

conversion) is the same as primary loss per share since the assumed conversion of common stock warrants and preferred stock would be anti-dilutive.

DIVIDENDS

Dividends are accrued monthly on 300,000 shares of Class A Preferred Stock and 65,000 shares of Class B Preferred Stock, \$0.030625 per share. Dividends paid during the quarter ended September 30, 1996 were \$32,850 and dividends payable at September 30, 1996 were \$10,950. There was no Class A Preferred declared during 1995 and the Class B Preferred (issued November, 1995) shareholders waived accrual or payment of dividends until such time as the Class A Preferred shares were issued.

MARKETABLE SECURITIES

Marketable securities consist of market debt and equity securities and are classified as trading securities or available-for-sale securities.

NOTE C - ACCOUNTS RECEIVABLE

The Company recognizes revenue upon shipment of goods and billing to a customer and does not maintain any set policy regarding the customer's right of return. Customer requests to return products for refund or credit are handled on an individual basis at the discretion of management. The refunds or credits in any given year are not significant.

In the normal course of business, the Company extends unsecured credit to virtually all of its customers doing business in the manufacture of various consumer and industrial electronic goods. The Company's customers are located throughout the United States.

Because of the credit risk involved, management has provided an allowance for doubtful accounts which reflects its opinion of amounts which will eventually become uncollectible. In the event of complete non-performance by the Company's customers, the maximum exposure to the Company is the outstanding accounts receivable balance at the date of non-performance.

TECH ELECTRO INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

September 30, 1996

NOTE D - INVENTORIES

A small portion of the inventory consists of materials which are used in the assembly of batteries into packs. Inventory as of September 30, 1996 and 1995, consisted of the following:

<TABLE>

<CAPTION>

	1996 ----	1995 ----
<S>	<C>	<C>
Electronic Components	\$1,414,183	\$1,065,678
Pack materials	56,879	51,697
Reserve for obsolescence	<13,951>	< 2,296>
	<u>\$1,457,111</u>	<u>\$1,115,079</u>
	=====	=====

</TABLE>

NOTE E - PREPAID EXPENSES

Prepaid expenses at September 30, 1996 and 1995, consisted of the following:

<TABLE>

<CAPTION>

	1996 ----	1995 ----
<S>	<C>	<C>
Advance payments on overseas inventory orders	\$ 57,027	\$31,491
Prepaid two year consulting fees, net of amortization	40,000	-0-
Prepaid insurance	7,532	26,031
Other prepaid expenses	28,968	12,728
	<u>\$133,527</u>	<u>\$70,250</u>
	=====	=====

</TABLE>

NOTE F - ADVANCE TO EMPLOYEE

During February, 1996 the Company advanced \$105,000 to an employee.

The advance earns interest at 6%. In accordance with an employment agreement the advance amount will be amortized as earned compensation evenly over the two year period of the employment agreement. During the third quarter the Company reduced the note by \$9,000 in compensation.

TECH ELECTRO INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

September 30, 1996

NOTE G - MARKETABLE SECURITIES

The Company has placed a portion of its cash in security accounts with Dean Witter and Comerica Securities. These accounts have invested in various equity securities with the intent to generate profits based on short term price movements (trading securities), and in various certificates of deposit and treasury securities, (available-for-sale securities). Realized gains and losses and income and expenses are recorded monthly and reflected in the income from operations.

For trading securities, unrealized gains and losses at the balance sheet date are recorded and reflected in the statement of operations. For the quarters ended September 30, 1996 and 1995, respectively, unrealized losses of \$36,286 and \$-0- had been recorded.

Cost and fair value of the various categories of available-for-sale securities and for the trading securities at September 30, 1996 are as follows. There were no such securities at September 30, 1995.

<TABLE>

<CAPTION>

	Amortized Cost	Value	Unrealized Losses
<S>	<C>	<C>	<C>
Available-for-Sale			
Treasury Notes (mature 7-98)	\$ 98,500	\$ 98,500	-0-

Treasury Bills (mature 4-97)	486,650	486,650	-0-
Cash Equivalents	300,000	300,000	-0-
	<u>\$885,150</u>	<u>\$885,150</u>	<u>-0-</u>
Trading			
Equity Securities	81,286	45,000	\$(36,286)
	<u>\$966,436</u>	<u>\$930,150</u>	<u>\$(36,286)</u>
	=====	=====	=====

</TABLE>

Trading securities valued at \$885,150 were transferred to available-for-sale securities at September 30, 1996. The related unrealized gain or loss on these securities through that date was \$0.00 and the gain or loss recognized at the date of transfer \$0.00.

In connection with the security account at Dean Witter, the Company has incurred a margin loan with interest payable monthly at 9.125%. At September 30, 1996, the margin loan balance was \$77,975.

TECH ELECTRO INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

September 30, 1996

NOTE H - BANK DEBT

Bank debt as of September 30, 1996 and 1995, consisted of the following:

<TABLE>

<CAPTION>

	1996	1995
	<u><C></u>	<u><C></u>
<S> \$200,000 term note to Nations Bank Texas NA, dated December 29, 1995 and due March 31, 1997, with interest due monthly at 7.5% per annum, secured by a \$211,664 certificate of deposit and personally guaranteed by the majority shareholder.	\$200,000	\$200,000
\$750,000 line of credit with Texas Central Bank payable on demand with interest at prime plus 1/2%, maturing June 30, 1997, and secured by accounts receivable, inventory and automotive equipment.		

	100,091	-0-
\$113,326 term note to Bank One, Texas with \$6,666 principal due monthly plus interest at base rate plus 1%. The note was paid off on July 31, 1996.	-0-	179,993
	<u>\$300,091</u>	<u>\$379,993</u>
	=====	=====

</TABLE>

NOTE I - NOTES PAYABLE TO AFFILIATES

Notes payable to related parties at September 30, 1996 and 1995, consisted of the following.

<TABLE>

<CAPTION>

	1996	1995
<S>	<C>	<C>
Unsecured note payable to Jacqueline G. La Taste, a majority shareholder, interest payable at 9.5% in monthly installments of \$792, with principal due March 31, 1997.	\$100,000	\$100,000
Unsecured note payable to Jacqueline G. La Taste a majority shareholder, interest payable at 10.25% in monthly installments of \$1,239.00, with principal due March 31, 1997.	145,000	145,000
	<u>\$245,000</u>	<u>\$245,000</u>
Less current portion	245,000	100,000
Long term portion	<u>\$ -0-</u>	<u>\$145,000</u>
	=====	=====

</TABLE>

TECH ELECTRO INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

September 30, 1996

NOTE J - ORGANIZATION

On January 10, 1992, Electric & Gas Technology, Inc. (E>) formed a Texas corporation, Tech Electro Industries, Inc. (TEI). E> acquired 1,550,000 shares of common stock of TEI for \$50,000. On January 31, 1992, pursuant to an Agreement and Plan of Reorganization, TEI issued to the shareholders of Computer Components Corporation (CCC) (a Texas corporation) an aggregate of 4,198,192 shares of its common stock in exchange for 100% of the outstanding shares of CCC. As a result of the issuance of said shares of TEI as described above, the former shareholders of CCC became, as a group (5 persons), the holders of 73% of the issued and outstanding shares of TEI and the holdings of E> were reduced to 27%.

On February 3, 1992, E> declared a dividend consisting of approximately 1,200,000 of its TEI shares to be distributed to E> shareholders of record as of March 10, 1992. After the distribution of the dividend shares, the holdings of E> were reduced to approximately 6.08% of the total issued and outstanding shares.

The Company closed on a Form SB-2 Registration Statement on February 1, 1996, to issue 300,000 units, of which each unit comprised 1 common share and 1 class A preferred share. The offering price was \$8.25 per unit resulting in an aggregate offering price of \$2,475,000 before underwriting fees and other costs (excluding underwriters' over-allotment option of 45,000 units). In connection with the offering, 300,000 warrants (excluding underwriters' over-allotment option) were also separately offered at \$0.10 per warrant exercisable at \$3.50 per share. A net offering price of \$2,178,315 was received for the units and the warrants at closing and the Company incurred additional offering costs of \$138,338 which were netted against the proceeds. In addition, the Company sold at \$0.10 per warrant an additional 1,600,000 warrants to purchase 1,600,000 common shares at an exercise price of \$3.50 per share. In March of 1996, the underwriter purchased the 45,000 over-allotment warrants for a net price of \$3,915 after a 10% discount and the 3% expense allowance, to make a total of 1,945,000 warrants outstanding.

On June 1, 1996, pursuant to a Stock Exchange Agreement, TEI issued an aggregate of 50,000 shares of its common stock in exchange for 100% of the outstanding shares of Vary Brite Technologies, Inc. (VBT), a Texas corporation. The acquisition has been accounted for on a pooling basis, whereby the assets and liabilities of the acquired company

NOTES TO FINANCIAL STATEMENTS

September 30, 1996

NOTE J - ORGANIZATION (CONTINUED)

(VBT) would be included in the historical financial information of the acquiring company (TEI) as if the acquisition had been consummated at the beginning of the earliest period shown, however, due to the immateriality of the activities of VBT prior to acquisition by TEI, these consolidated financial statements include the operations of VBT from June 1, 1996.

The assets, liabilities and equity of VBT at the date of acquisition were as follows.

<TABLE>

<CAPTION>

<S>	<C>
Assets	51,020
Liabilities	<38,842>
Capital	<60,318>
Accumulated Deficit	48,140

</TABLE>

Item 2. Managements Discussion and Analysis of Financial
Condition and Results of Operations

GENERAL

In June, 1996 the Company acquired 100% of Vary Brite Technologies (VBT), a company which is principally engaged in research, development and marketing custom light sources utilizing solid state light emanating diode arrays towit: Light Emitting Diodes ("LED's"). While sales revenue for 1996 should approximate one hundred thousand (\$100,000) dollars, the Company anticipates that this subsidiary in calendar 1997, as indicated by customer inquires, should develop substantial sales. During the balance of fiscal 1996, product research and development will be continued. Management believes that VBT will be a niche supplier of LED products to various industries. VBT also permits the Company to have its own line of proprietary products as distinguished from its distribution operations in electric components.

In the area of distribtion of electronic components, the Company has continued its philosophy of increasing its line of product as well as its customer base. In his visit to Taiwan, Hong Kong and Mainland China during the second quarter of Fiscal 1996, the President of the Company selected several new products to add to the Company's product line. Arrangements have been made to have samples of these products sent to the Company's Hong Kong office for testing and quality control evaluation. In the selection of new products the Company seeks to make available to its existing customer base, products which these customers presently purchase from other suppliers. This approach permits the Company to take advantage of its position as an existing supplier of quality products, but does not preclude the Company from expanding into new products to increase its customer base. An example of this approach is the introduction to the security industry of a 40 Volt transformer for OEM utilization as well as for the replacement market. Previously, the Company only offered the 20 Volt configuration.

To expand its market share in the battery and battery products (power packs) market, the Company in November 1996 formed a new subsidiary, Universal Battery Corporation. This company will concentrate its efforts in the main battery and battery products OEM market. To head this division the Company has employed a Vice President in charge of

marketing and sales with over thirteen years experience wholly within the battery industry.

The Company in all its areas of operations is seeking to increase sales through new products and increased marketing activities.

Item 2. Managements Discussion and Analysis of Financial
Condition and Results of Operations

- continued -

RESULTS OF OPERATIONS

Three Months Ended September 30, 1996 and 1995

Revenues. Net revenues in the third quarter of \$1,106,225 represent a nearly 16% increase over the third quarter in the prior fiscal year. The increase was predominately in the area of import products and is due not only to increased marketing of existing products, but also to the introduction of additional imported product lines. Management is continuing its focus on the profitable area of import products while decreasing the Company's distribution sales. Although this change in emphasis will continue in future periods, management does see a decline in the customer sales order backlog from \$1,350,000 at the beginning of 1996 to \$1,004,000 at the end of the third quarter. Consequently, this sales increase may not further increase though year end.

Cost of Sales. Cost of sales as a percentage of net revenues decreased for the third quarter as compared to the prior fiscal year. This improvement in gross profit to 29.2% of sales from 25.8% of sales is attributable to a combination of factors and reflects managements's goal of operating with a gross profit of 25% to 28% through better controls of foreign currency exchange rates, better control of foreign products purchasing and choice of products which offer better market sales conditions. Management plans to maintain these gross profits within the stated rates and does not anticipate any problem.

General and Administrative. General and administrative expenses as a percentage of net revenues increased for the third quarter to 32.7% as

compared to 21.1% for the prior fiscal period. While this seems like an alarming increase, much of it is attributable to the increased costs associated with the use of public offering proceeds received in the first quarter of 1996. The Company is in the process of using these offering proceeds to increase its marketing and advertising base and has expended additional funds in the area of enhanced public relations and in consulting, accounting and legal fees paid in association with its growth and expansion plans. The Company has also incurred a short-term loss in the value of its trading securities which is included in general and administrative expenses but expects this to turn around before year end. Many of these added costs will continue through the next quarter and into the next fiscal year, but management expects to reap the benefit of these expenses through additional sales markets and through acquisitions of new products and product lines.

Other Income and Expense. Interest income increased more than ten-fold during the third quarter due primarily to the short term investment of offering proceeds until such time as they will be used for

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Item 2. Managements Discussion and Analysis of Financial Condition and Results of Operations

- continued -

expansion. Interest expense has remained fairly consistent as compared to the prior fiscal period and will probably decrease as the fixed periods loans of the Company are retired.

Quarterly Results. While the net loss of \$22,537 for the third quarter is a disappointment as compared to the prior fiscal period, which reflected a net gain of \$21,400 management continues to feel that its long range goals of expanded sales through increased marketing and advertising will eventually pay off. The continued emphasis on import product sales and improvement in controlling general and administrative costs, other than those that are increasing as a result of expansion, will potentially help improve the results for the coming quarter.

Nine Months Ended September 31, 1996 and 1995

Revenues. The Company's net sales year to date have increased some 6% to \$2,950,617 as compared to the prior fiscal quarter of \$2,772,715. Again, this increase is due to the continued management belief in its import product line and the phasing out of distribution sales. Although the Company is currently working on an increased marketing

and advertising campaign to increase its product sales, it is not anticipated that the benefit of this strategy will be realized until next year. Sales through calendar 1996 are expected to maintain only this slight increase over 1995.

Cost of Sales. The Company's cost of sales as a percentage of net revenues has decreased slightly to 71.5% as compared to 72.4% for the prior fiscal period. This gross profit percentage of approximately 28.5% year to date is in the normal range that management attempts to maintain. There is no indication that the gross profit percentage will fluctuate for the remaining quarter of 1996.

General and Administrative. General and administrative expenses year to date have increased to approximately 31% of net revenues as compared to 22% for the prior year to date. As previously discussed, this result is due mainly to the increased costs relative to the Company's growth plans through expanded marketing and advertising activities and the additional use of outside consultants and legal fees in association with expansion and potential acquisition of new products and operations. Although these costs will continue to be higher than in previous years, the Company anticipates that they will be down to 28% of net revenue by the end of the year.

Other Income and Expenses. Interest income has increased drastically year to date to \$62,370 from \$2,149 for the prior year to date. This increase is due primarily to the short term investment of offering

Item 2. Managements Discussion and Analysis of Financial
Condition and Results of Operations

- continued -

proceeds until such time as they will be used in operations. Interest expense has remained fairly consistent with the prior year to date and is expected to decrease as the Company's notes are paid.

Year to Date Results. The Company has incurred a net loss year to date of \$29,424 as compared to a net income of \$86,087 for the prior fiscal period due primarily to the increase in general and administrative expense incurred this year. Company management feels that these expenditures are necessary in order to ensure future growth of the Company and believes that the benefit of these expenses will be realized in future years.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow used by operations year to date is \$707,675 as compared to cash generated by operations of \$58,048 for the prior year to date. This cash used by operations is primarily due to an increase in inventory and in trade accounts receivable year to date along with an accompanying decrease in accounts payable to date.

Along with this loss from operations, the Company has used cash for investing activities of \$972,033 year to date as compared to \$246,069 for the prior fiscal year. The investing activities consist mainly of the investment of offering proceeds in short term securities.

This use of a combined \$1.6 million to cover operations and investing activities has not negatively impacted the overall cash position of the Company because these funds were provided from financing activities through the proceeds of the public offering received in early 1996. The Company anticipates that the use of these proceeds will eventually enable increased sales and operating profitability and positive cash flow from operations.

The current cash and short term investments on hand should prove sufficient to supply the cash needs of the Company in the foreseeable future, however, the Company has recently established a new \$750,000 bank line of credit which is well beyond any projected cash requirements at this time. Initially, the new line of credit has been used to replace the Bank One note which was paid in full with proceeds from the new loan.

Part II

Other Information

Item 1. Legal Proceedings.

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.

TECH ELECTRO INDUSTRIES, INC.

November 13, 1996

/s/ Craig D. La Taste

Date

Craig D. La Taste
Chairman of the Board and
President

November 13, 1996

/s/ Julie Sansom-Reese

Date

Julie Sansom-Reese
Chief Financial Officer

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