

Edgar Filing: UNIVEC INC - Form 10QSB/A

UNIVEC INC  
Form 10QSB/A  
August 20, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
-----  
FORM 10-QSB/A

Quarterly report pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2003

Transition report under Section 13 or 15(d) of the Securities  
Exchange Act of 1934 (No Fee Required)

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-22413

UNIVEC, INC.  
(Exact name of small business issuer as specified in its charter)

Delaware 11-3163455  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) (Identification No.)

10 E. Baltimore Street, Suite 1404, Baltimore, MD 21202  
(Address of principal executive offices)

(410) 347-9959  
(Issuers telephone number)

22 Dubon Court, Farmingdale, New York, 11735  
(Former name, former address, and former fiscal year,  
if changed since last report)

As of July 14, 2003, the Issuer had 33,616,095 shares of Common Stock,  
\$0.001 par value, outstanding.

Transitional Small Business Disclosure Format:

Yes No X  
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UNIVEC, INC. AND SUBSIDIARIES  
FORM 10-QSB  
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PART I  
FINANCIAL INFORMATION

Item 1: Consolidated Financial Information

UNIV EC, Inc. and Subsidiaries  
Consolidated Balance Sheet (Unaudited)  
June 30, 2003

ASSETS

Current assets  
Cash

\$ 7,738

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Accounts receivable	72,820
Inventories	407,021
Equipment for sale	251,717
Other current assets	137,832
	-----
Total current assets	877,128
Fixed assets, net	478,405
Goodwill	2,328,662
Other assets	55,581
	-----
Total assets	\$ 3,739,776
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	
Accounts payable and accrued expenses	\$ 1,372,534
Capitalized lease obligation	112,789
Deferred payroll-officers	582,167
Loans payable-stockholders/officers	112,419
Notes and loans payable-current	305,756
Due to affiliated companies	54,037
Escrow deposit	10,000
	-----
Total current liabilities	2,549,702
Notes and loans payable	403,246
	-----
Total liabilities	2,952,948
	-----
STOCKHOLDERS' EQUITY	
Preferred stock \$.001 par value; 3,748,000 authorized; issued and outstanding: none	
Series A 8% cumulative convertible preferred stock, \$.001 par value; authorized: 2,500 shares; issued and outstanding: none	
Series B 5% cumulative convertible preferred stock, \$.001 par value; authorized: 1,000 shares; issued and outstanding: 122 shares (aggregate liquidation value: \$154,450)	1
Series C 5% cumulative convertible preferred stock, \$.001 par value; authorized: 1,000 shares; issued and outstanding: 250 shares (aggregate liquidation value:\$304,931)	1
Series D 5% cumulative convertible preferred stock, \$.001 par value; authorized: 1,250,000; issued and outstanding: 104,167 shares (aggregate liquidation value: value: \$267,986)	104
Common stock \$.001 par value; authorized: 75,000,000 shares; issued and outstanding: 33,616,095	33,616
Additional paid-in capital	10,294,788
Accumulated deficit	(9,541,682)
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Total stockholders' equity	786,828
	-----
Total liabilities and stockholders' equity	\$ 3,739,776
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See notes to the consolidated financial statements.

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### UNIVEC, Inc. and Subsidiaries Consolidated Statement of Operations (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Revenues	\$4,327,899	\$ 863,027	\$6,579,515	\$1,514,015
<b>Expenses:</b>				
Cost of sales	4,021,459	601,719	6,089,197	1,174,670
Marketing and selling	121,398	135,385	258,264	368,189
Product development	15,530	22,623	20,223	24,515
General and administrative	634,440	257,575	866,252	543,722
Interest expense, net	20,108	30,894	43,924	47,949
Settlement of litigation				(202,385)
Loss on sale of equipment		100,414		100,414
Forgiveness of deferred payroll		(429,150)		(429,150)
Total expenses	4,812,935	719,460	7,277,860	1,627,924
Net (loss) income	(485,036)	143,567	(698,345)	(113,909)
Dividends attributable to preferred stockholders	(10,255)	(49,878)	(20,510)	(99,060)
(Loss) income attributable to common stock	\$ (495,291)	\$ 93,689	\$ (718,855)	\$ (212,969)
<b>Share information:</b>				
Basic net (loss) income per share	\$ (.01)	\$ .01	\$ (.02)	\$ (.01)
Diluted net income per share		\$ .01		
<b>Weighted average number of shares outstanding:</b>				
Basic	33,616,095	15,883,308	32,307,211	15,393,200
Diluted		22,529,137		

See notes to the consolidated financial statements.

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	Six months ended June 30,	
	2003	2002
Cash flows from operating activities:		
Net loss	\$ (698,345)	\$ (113,909)
Adjustments to reconcile net loss to net cash used in operating activities:		
Issuance of shares and options for services		72,088
Depreciation	96,575	131,798
Write-off of inventories	50,000	
Write-off of deferred compensation	(18,016)	
Write-off of accounts payable		(111,339)
Loss on sale of equipment		100,414
Forgiveness of deferred payroll		(429,150)
Changes in assets and liabilities, net of effects from acquisition:		
Accounts receivable	262,493	239,226
Due from factor		(14,250)
Inventories	8,107	29,305
Other current assets and other assets	(17,051)	1,318
Accounts payable and accrued expenses	(9,288)	(506,423)
Other current liabilities		6,358
Deferred payroll-officers	214,217	140,865
Net cash used in operating activities	(111,308)	(453,699)
Cash flows from investing activities:		
Proceeds from sale of equipment		130,706
Investment in TWT (net of cash acquired of \$31 and notes payable of \$37,888 and \$60,000)		(80,226)
Purchase of fixed assets		(22,424)
Net cash provided by investing activities		28,056
Cash flows from financing activities:		
Proceeds from sale of securities		250,000
Gross proceeds from loans payable-stockholders/officers	112,419	237,450
Proceeds from exercise of options		39,550
Payments of notes and loans payable	(114,150)	(58,103)
Payments of capitalized lease obligations	(36,250)	(54,375)
Proceeds from notes and loans payable	51,375	22,586
Increase in due to affiliated companies	18,392	
Net cash provided by financing activities	31,786	437,108
Net (decrease) increase in cash	(79,522)	11,465
Cash, beginning of period	87,260	22,203
Cash, end of period	\$ 7,738	\$ 33,668

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See notes to the consolidated financial statements.

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### UNIVEC, Inc. and Subsidiaries Notes to Consolidated Financial Statements (Unaudited)

#### 1. Nature of Operations

Univec, Inc. (Company) produces, licenses and markets safer medical products, primarily syringes, on a global basis. Physician and Pharmaceutical Services, Inc. (PPSI), a subsidiary of the Company, provides fulfillment services of samples, group purchasing arrangement (GPO) distribution and marketing for the pharmaceutical industry. Thermal Waste Technologies, Inc. (TWT), a subsidiary of the Company, markets a medical waste disposal unit.

#### 2. Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-QSB and 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 only of normal recurring accruals) considered necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for the interim periods presented have been included. These consolidated financial statements should be read in conjunction with the consolidated financial statements of Univec, Inc. together with Management's Discussion and Analysis included in the Company's Form 10-KSB for the year ended December 31, 2002. Interim results are not necessarily indicative of the results for a full year.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### 3. Net (Loss) Income Per Share

Basic net (loss) income per share was computed based on the weighted-average number of common shares outstanding. Diluted net income per share was computed using the weighted-average number of common and dilutive common equivalent shares outstanding during the three months ended June 30, 2002. Dilutive common equivalent shares consisted of common shares issuable upon the assumed exercises of certain stock options using the treasury stock method and the assumed conversions of all the preferred stock. For 2002, an adjustment was made for purposes of per share diluted computations to increase net income available to common shareholders for the dividends attributable to preferred stock of \$49,878. Certain other options were not assumed exercised because inclusion would be anti-dilutive due to the exercise price being higher than the stock price used in the computation. Dilutive net loss per share for the six month periods ended June 30, 2003 and 2002, and for the three month period ended June 30, 2003 have not been presented because they were anti-dilutive.

For the three months ended June 30, 2002, a reconciliation of the shares used in the computation of diluted net income per share is as follows:

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Basic weighted-average number of common shares outstanding	15,883,308
Effects of dilutive common equivalents	
Conversions of preferred shares	5,495,163
Exercises of stock options outstanding	1,150,666
	-----
Diluted weighted-average number of common shares and common equivalent shares outstanding	22,529,137
	=====

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4. Loans Payable-Stockholders/Officers

As of June 30, 2003, included in loans payable-stockholders/officers were \$108,000 of loans from two stockholders/officers payable on demand with interest at 5.5% per annum. These terms are equivalent to the borrowing obtained by the stockholders/officers who provided the loans to the Company.

Subsequent to June 30, 2003, the Company borrowed an additional \$66,249 from these two stockholders/officers under the same terms.

5. Preferred stock

During the quarter ended June 30, 2003, the Company adjusted the September 2002 exchange of Series A preferred stock by canceling an additional 124 shares, the remaining outstanding shares, without issuing any additional shares of common stock, resulting in the transfer of \$1.00 to additional paid-in capital.

6. Subsequent Events

Office Lease

In connection with the Company's move of its principal office to Baltimore, Maryland, the Company has entered into a lease for approximately 23,000 square feet of office, production and warehouse space, effective July 15, 2003, for a term of one year, plus ten one year renewals. The Company is committed for an initial rent of \$72,000, per year, increasing no more than 3% every three years. The Company shall pay as additional rent all operating costs, including labor, maintenance, taxes, licenses, insurance, utilities, etc.

Equipment Lease

A company owned by the majority stockholder of the Company is currently negotiating to acquire the equipment presently being leased to the Company, with a remaining balance of \$112,789, and will continue to lease the equipment to the Company.

7. Sales

For the three and six months ended June 30, 2003, sales included approximately \$1,700,000 and \$5,800,000, respectively, to affiliated companies owned by a stockholder/officer of the Company.

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

#### Results of Operations

#### Condensed Consolidated Results of Operations

	Three months ended June 30,			Six months ended June 30,		
	2003	2002	change	2003	2002	change
Revenues	\$ 4,327,899	\$ 863,027	401 %	\$6,579,515	\$1,514,015	335%
Expenses:						
Cost of Sales	4,021,459	601,719	568%	6,089,197	1,174,670	418%
Marketing and Selling	121,398	135,385	(10%)	258,264	368,189	(30%)
Product Development	15,530	22,623	(31%)	20,223	24,515	(18%)
General and Administrative	634,440	257,575	146%	866,252	543,722	59%
Interest Expense, Net	20,108	30,894	(35%)	43,924	47,949	(8%)
Settlement of Litigation					(202,385)	
Loss on Sale of Equipment		100,414			100,414	
Forgiveness of Deferred Payroll		(429,150)			(429,150)	
Net (Loss) Income	\$ (485,036)	\$ 143,567	(438%)	\$ (698,345)	\$ (113,909)	(513%)

Revenues for Univec, Inc. ("Univec", "we" or "our") for the three month period ended June 30, 2003 increased by \$ 3,464,872 (401%) as compared to the comparable period ended June 30, 2002, primarily as a result of the first full quarter of revenue of Physician and Pharmaceutical Services, Inc. ("PPSI") from its group purchasing arrangement (GPO) for the distribution of pharmaceuticals, which contributed revenues of \$3,846,269. During the quarter ended June 30, 2003, PPSI revenue from its GPO has continued from the first quarter and will be a continuing source of revenues for us, while we continue to manufacture, sell and license syringe and medical waste products.

Our international syringe product sales decreased \$610,507 during the quarter due to our restructuring to enable us to increase internal production capability enabling us to build the necessary inventory levels. In the past, insufficient inventory levels resulted in lost revenues. Product sales consisted primarily of the lcc locking clip syringe, a difficult-to-reuse syringe. These syringes are produced by our contract manufacturers. We are continuing to concentrate on both the sales of products and licensing of the technology of our proprietary locking



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clip syringe, in addition to focusing on the marketing of our new products, including the sliding sheath syringe designed to protect health care workers from accidental needle-stick injury and our medical waste product.

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Gross profit for the quarter ended June 30, 2003 increased by \$45,132, (17%) to \$306,440 from \$261,308. The gross profit percentage decreased from 30% to 7%. The lower gross profit percentage results from the lower gross profit contribution from PPSI's GPO revenue. Gross profit on the Univec syringe sales decreased approximately \$164,000 (56%) to 18% from 20%. We anticipate gross profit levels to remain at the reduced levels until our market-share provides increased gross profits, resulting from price increases.

Sales for the six months ended June 30, 2003 increased by \$5,065,500 (335%) as compared to the six months ended June 30, 2002, primarily as a result of PPSI's GPO revenue, which commenced in 2003.

Sales of new products, including the sliding sheath syringe, medical disposal products, and PPSI's GPO, comprised 94% of the total sales for the three month period ending June 30, 2003 and 88% of the total sales for the six month period ended June 30, 2002, without consideration of sales of technology.

As a result of the acquisitions of PPSI and Thermal Waste Technologies, Inc. ("TWT"), we have substantially broadened our product base and anticipate even greater increases in sales.

Marketing and selling costs decreased \$13,987 (10%) and \$109,925 (30%) over the comparable three and six month periods, respectively, ended June 30, 2002. These decreases were primarily the result of decreases in licensing fees, freight expense and travel offset in part by wage increase in marketing.

Product development expense for the three and six month periods ended June 30, 2003 decreased by \$7,093 (31%) and \$4,292 (18%), respectively, over the comparable periods during 2002. These decreases were the result of decreased expenditures for patent legal fees. As the Company continues to focus on marketing and sales of existing and already developed new products, product development expense will continue to remain relatively low.

General and administrative costs for the three and six month periods ended June 30, 2003 increased \$376,865 (146%) and \$322,530 (59%), respectively, primarily resulting from developing the PPSI GPO.

Interest expense, net decreased by \$10,786 (35%) and \$4,025 (8%) during the three and six months ended June 30, 2003, respectively, from the comparative periods in 2002, as a result of a decrease in factoring expense and a decrease of approximately \$11,000 in letter of credit fees.

Non-recurring forgiveness of deferred payroll of \$429,150 by two officer/directors of the Company during the three months ended June 30, 2002 net of the loss on sale of equipment reduced expenditures during the six months ended June 30, 2002.

Net loss for the three and six month periods ended June 30, 2003 increased by \$628,603 (438%) and \$584,436 (513%), respectively, as compared to the three and six month periods ended June 30, 2002. Without considering the nonrecurring items, the net loss increased by \$299,867 (162%) and \$53,315 (8%). The increases in the loss were primarily related to the cost of developing PPSI's GPO.

During July 2003, we moved our principal office to Baltimore, Maryland. We entered into a lease for approximately 23,000 square feet for office, production

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and warehouse space for a term of one year, plus ten one year renewals, with an initial rent of \$72,000, per year. Additionally, we are required to pay all operating costs, including labor, maintenance, taxes, licenses, insurance, utilities, etc. This lease increases our usable space at a cost lower than its previous facility. The new location also provides enhanced domestic sales opportunities and the capacity to realize its stated goal of increased internal production capabilities.

### Liquidity and Capital Resources

Our working capital deficit of \$1,070,807 at December 31, 2002, increased to a deficit of \$1,672,574 (56%) at June 30, 2003, primarily resulting from increases in deferred compensation and decreases in accounts receivable.

Net cash used in operating activities decreased by \$342,391 (75%) to \$111,308 for the six months ended June 30, 2003 from \$453,699 for the six months ended June 30, 2002, primarily due to the costs of developing the PPSI GPO and the reduction in the increase in accounts payable and accrued expenses, offset in part by an increase in deferred payroll.

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There was no cash provided by investing activities for the six months ended June 30, 2003.

Net cash provided by financing activities decreased by \$405,322 (93%) to \$31,786 for the six months ended June 30, 2003 from \$437,108 for the six months ended June 30, 2002. This decrease resulted from no sales of equity and reduced borrowings.

Although revenue increased with the addition of PPSI's GPO operations and the continued marketing, sales and licensing of existing safety syringes, and the Demolizer, we still do not anticipate positive net cash flow from operating activities in 2003. We are actively seeking bank and private financing that, if received, will be utilized to expand production, which is needed to increase revenue. The relatively low trading price and volume of the common shares together with our "Bulletin Board" listing hampered our ability to raise equity capital.

Except for the historical information contained herein, the matters discussed in this report are forward-looking statements that involve risks and uncertainties, including market acceptance of our products, timely development and acceptance of new products, impact of competitive products, development of an effective organization, interruptions to production, and other risks detailed from time to time in our SEC reports and our Registration Statements.

### Item 3. Controls and Procedures.

Within 90 days prior to the filing of this report, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design of the Company's disclosure controls and procedures, as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, in all material respects, to ensure that the information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

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There have been no significant changes (including corrective actions with regards to significant deficiencies and material weaknesses) in the Company's internal controls or in other factors subsequent to the date the Company carried out its evaluation that could significantly affect these controls.

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### PART II

#### OTHER INFORMATION

##### Item 1. Legal Proceedings

There has been no material developemnts on the litigation matter as previously disclosed in Form 10-KSB for the year ended December 31, 2002.

##### Item 6. Exhibits and Reports on Form 8-K

###### (a) Exhibits

- 31.1 Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a).\*
- 31.2 Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a).\*
- 32.1 Certification of the Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.\*
- 32.2 Certification of the Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.\*

\* Filed herewith.

###### (b) Form 8-K

None

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#### SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNIVEC, INC.

Dated: August 13, 2003

By: /s/ David Dalton

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David Dalton  
Chief Executive Officer  
(Principal Executive Officer)

Dated: August 13, 2003

By: /s/ Michael A. Lesisko

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Michael A. Lesisko  
Chief Financial Officer  
(Principal Financial  
and Accounting Officer)