

Edgar Filing: UNIV EC INC - Form 10QSB

UNIV EC INC
Form 10QSB
November 14, 2003

UNITED STATES
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, 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

UNIV EC, 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)

(Former name, former address, and former fiscal year,
if changed since last report)

As of November 14, 2003, the Issuer had 34,366,095 shares of Common Stock,
\$0.001 par value, outstanding.

Transitional Small Business Disclosure Format:

Yes No X

UNIV EC, INC. AND SUBSIDIARIES
FORM 10-QSB
INDEX

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PART 1	FINANCIAL INFORMATION	
ITEM 1	CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)	
	CONSOLIDATED BALANCE SHEET - September 30, 2003	3
	CONSOLIDATED STATEMENT OF OPERATIONS - Three and nine months ended September 30, 2003 and 2002	4
	CONSOLIDATED STATEMENT OF CASH FLOWS - Three and nine months ended September 30, 2003 and 2002	5
	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	6
ITEM 2	MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS	8
ITEM 3	CONTROLS AND PROCEDURES	11
PART II	OTHER INFORMATION	
ITEM 1	LEGAL PROCEEDINGS	12
ITEM 2	CHANGES IN SECURITIES	12
ITEM 4	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	12
ITEM 6	EXHIBITS AND REPORTS ON FORM 8-K	12
	SIGNATURES	13

PART I
FINANCIAL INFORMATION

Item 1: Consolidated Financial Information

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

ASSETS

Current assets

Cash	\$	5,968
Accounts receivable		61,308
Inventories		398,438
Equipment for sale		251,717
Other current assets		157,422

Total current assets		874,853

Fixed assets, net

Goodwill		2,328,662
Other assets		46,691

Total assets	\$	3,680,908
		=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities

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Accounts payable and accrued expenses	\$ 1,382,297
Deferred payroll-officers	681,047
Loans payable-stockholders/officers	200,419
Notes and loans payable-current	412,997
Due to affiliated companies	133,224
Escrow deposit	10,000

Total current liabilities	2,819,984
Notes and loans payable	403,246

Total liabilities	3,223,230

STOCKHOLDERS' EQUITY	
Preferred stock \$.001 par value; 3,748,000 authorized; issued and outstanding: none	
Series D 5% cumulative convertible preferred stock, \$.001 par value; authorized: 1,250,000; issued and outstanding: 104,167 shares (aggregate liquidation value: value: \$271,111)	104
Series E 5% cumulative convertible preferred stock, \$.001 par value; authorized: 522; issued and outstanding: 522 shares (aggregate liquidation value: value: \$525,361)	1
Common stock \$.001 par value; authorized: 75,000,000 shares; issued and outstanding: 34,366,095	34,366
Additional paid-in capital	10,410,745
Accumulated deficit	(9,987,538)

Total stockholders' equity	457,678

Total liabilities and stockholders' equity	\$ 3,680,908
	=====

See notes to the consolidated financial statements.

UNIV EC, Inc. and Subsidiaries
Consolidated Statement of Operations (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
	-----	-----	-----	-----
Revenues	\$ 4,064,148	\$ 712,145	\$ 10,643,663	\$ 2,226,160
	-----	-----	-----	-----
Expenses:				

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Cost of sales	4,054,338	608,630	10,143,535	1,783,298
Marketing and selling	109,546	75,571	367,810	443,889
Product development	2,850	9,519	23,073	34,034
General and administrative	224,063	199,183	1,090,315	742,570
Interest expense, net	27,501	20,621	71,425	68,569
Settlement of litigation				(202,385)
Loss on sale of equipment				100,414
Forgiveness of deferred payroll				(429,150)
	-----	-----	-----	-----
Total expenses	4,418,298	913,524	11,696,158	2,541,239
	-----	-----	-----	-----
Net loss	(354,150)	(201,379)	(1,052,495)	(315,079)
Dividends attributable to preferred stockholders	(8,811)	(8,438)	(29,321)	(107,498)
	-----	-----	-----	-----
Loss attributable to common stock	\$ (362,961)	\$ (209,817)	\$ (1,081,816)	\$ (422,577)
	=====	=====	=====	=====
Share information:				
Basic net loss per share	\$ (.01)	\$ (.01)	\$ (.03)	\$ (.03)
	=====	=====	=====	=====
Weighted average number of shares outstanding:				
Basic	33,790,008	16,667,678	33,421,349	15,822,694
	=====	=====	=====	=====

See notes to the consolidated financial statements.

4

UNIV EC, Inc. and Subsidiaries
Consolidated Statement of Cash Flows (Unaudited)

	Nine months ended September 30,	
	2003	2002
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (1,052,495)	\$ (315,079)
Adjustments to reconcile net loss to net cash used in operating activities:		
Issuance of shares and options for services		72,088
Depreciation	144,278	193,731
Write-off of inventories	45,000	
Issuance of common stock and options for services	22,000	
Write-off of deferred compensation	(18,016)	

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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	274,005	128,904
Inventories	21,690	68,701
Other current assets and other assets	(42,751)	47,238
Accounts payable and accrued expenses	(6,526)	(428,831)
Other current liabilities		22,799
Deferred payroll-officers	313,097	221,080
	-----	-----
Net cash used in operating activities	(299,718)	(429,444)
	-----	-----
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		(17,554)

Net cash provided by investing activities		32,926

Cash flows from financing activities:		
Proceeds from sale of securities	20,000	250,000
Proceeds from loans payable-stockholders/officers	200,419	223,450
Proceeds from exercise of options		39,550
Payments of notes and loans payable	(144,985)	(100,451)
Payments of capitalized lease obligations	(149,039)	(72,500)
Proceeds from notes and loans payable	179,452	70,981
Increase in due to affiliated companies	112,579	
	-----	-----
Net cash provided by financing activities	218,426	411,030
	-----	-----
Net (decrease) increase in cash	(81,292)	14,512
Cash, beginning of period	87,260	22,203
	-----	-----
Cash, end of period	\$ 5,968	\$ 36,715
	=====	=====

See notes to the consolidated financial statements.

5

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

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Services, Inc. (PPSI), a subsidiary of the Company, provides fulfillment services for pharmaceutical 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 Per Share

Basic net loss per share was computed based on the weighted-average number of common shares outstanding during the three and nine months ended September 30, 2003 and 2002. Dilutive net loss per share has not been presented because it was anti-dilutive.

4. Equipment Financing

During August, 2003, the Company purchased all of the equipment previously being leased under a capitalized lease in exchange for the remaining lease payments.

5. Preferred Stock and Note Payable

On August 12, 2003, the Company designated 2000 shares of Series E convertible preferred stock (Series E), with a par value of \$.001 and a stated value of \$1,000 per share. The Series E: (a) are non-voting, (b) have a liquidation preference equal to the stated value, plus unpaid cumulative dividends, (c) are entitled to receive dividends of 5%, per annum, of the liquidation value, prior to all other classes, and (d) are convertible into common stock through August 2006, when they become mandatorily convertible, at the lesser of \$1.10 or market price, as defined, per share. The dividends may be paid in cash or common stock at the conversion price.

6

On August 14, 2003 the Company issued 522 shares of Series E in exchange for all the outstanding shares of the Company's Series B and Series C preferred stock and all unpaid cumulative dividends thereon.

On August 14, 2003, the Company borrowed \$85,000 from the Series E

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holder, with interest at 8%, per annum, and principal payable on August 14, 2005, in cash or convertible shares of common stock. The note is convertible into shares of common stock at \$.17, per share, as adjusted.

6. Common Stock

In August 2003, the Company sold 500,000 shares of common stock at \$.04, per share, in cash, and a director converted a note payable of \$5,000 into 250,000 shares of common stock, resulting in a loss of \$15,000. As of September 30, 2003, an additional \$10,000 may be converted into 500,000 shares.

Effective April 2003, the Company granted options to purchase 2,000,000 shares of common stock to three officers, exercisable at \$.04, per share, through April 2008, of which 1,333,334 are fully vested, 333,334 will vest in April 2004 and 333,333 will vest in April 2005, assuming the officer is still employed by the Company. The options were valued at \$8,000. In addition, the Company granted these three officers the right to convert their loans into common stock at 110% of market value at the date of conversion. As of September 30, 2003, the aggregate value of such loans was \$419,658.

Effective April 2003, the Company granted options to purchase 500,000 shares of common stock to each of seven outside directors, exercisable at \$.04, per share, through April 2008, which will vest over four years, assuming still a director of the Company. These options were valued at \$14,000.

7. Sales

For the three and nine months ended September 30, 2003, sales included approximately \$4,000,000 and \$9,800,000, respectively, to affiliated companies owned by a stockholder/officer of the Company.

7

Item 2. Management's Discussion and Analysis

Results of Operations

Condensed Consolidated Results of Operations

	Three months ended September 30,			Nine months ended September 30,		
	2003	2002	change	2003	2002	change
Revenues	\$ 4,064,148	\$ 712,145	471%	\$10,643,663	\$2,226,160	378%
Expenses:						
Cost of Sales	4,054,338	608,630	566%	10,143,535	1,783,298	469%
Marketing and Selling	109,546	75,571	45%	367,810	443,889	(17%)

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Product Development	2,850	9,519	(70%)	23,073	34,034	(32%)
General and Administrative	224,063	199,183	12%	1,090,315	742,570	47%
Interest Expense, Net	27,501	20,621	33%	71,425	68,569	4%
Settlement of Litigation					(202,385)	
Loss on Sale of Equipment					100,414	
Forgiveness of Deferred Payroll					(429,150)	
	-----	-----		-----	-----	
Net Loss	\$ (354,150)	\$ (201,379)	(76%)	\$ (1,052,495)	\$ (315,079)	(234%)
	=====	=====		=====	=====	

8

Revenues for Univec, Inc. ("Univec", "we" or "our") for the three month period ended September 30, 2003 increased by \$ 3,352,003 (471%) as compared to the comparable period ended September 30, 2002, primarily as a result of the second full quarter of revenue of Physician and Pharmaceutical Services, Inc. ("PPSI") from its group purchasing arrangements (GPO) for the distribution of pharmaceuticals, which contributed revenues of \$4,012,334. During the quarter ended September 30, 2003, PPSI revenue from its GPO continued to be a source of revenues for Univec, while the company continues to manufacture, distribute, sell and license auto-disabled and safety syringes and the (Demolizer) medical waste disposal units.

Our international syringe product sales decreased \$581,108 during the quarter due to relocation of our production, warehouse and administration facilities to Baltimore, Maryland. We believe the move will enable us to increase internal production capability that will help to build inventory levels. In the past, our insufficient inventory levels resulted in lost revenues. Syringe product sales consisted of lcc locking clip syringe, a difficult-to-reuse syringe, and our other products. We are continuing to concentrate on both the sales of products and licensing of the technology of our proprietary auto-disable locking clip syringe internationally, in addition to focusing on the marketing of our new products, including the sliding sheath syringe in the United States. Univec Sliding Sheath syringes are designed to protect health care workers from accidental needle-stick injury as required by the needle stick prevention law.

Gross profit for the quarter ended September 30, 2003 decreased by \$93,705, to \$9,810 from \$103,515. The gross profit percentage decreased from 15% to none. The lower gross profit percentage results from the lower sales of our lcc locking clip syringe and the lower gross profit contribution from PPSI's GPO revenue. Further, as a result of the previously mentioned relocation, gross profit on the Univec syringe sales decreased approximately \$186,000 (148%) from \$125,041 (18%). Gross profit from syringe sales decreased primarily as a result of continuing depreciation of \$43,642 and non-variable overhead costs of \$76,290. We anticipate gross profit levels to remain at current levels until we increase our market penetration, increase our prices and/or realize anticipated

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production or economic benefits as a result of our relocation.

Sales for the nine months ended September 30, 2003 increased by \$8,417,503 (378%) as compared to the nine months ended September 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 units (Demolizer) and PPSI's GPO, comprised 99% of the total sales for the three month period ending September 30, 2003 and 91% of the total sales for the nine month period ended September 30, 2003.

As a result of the acquisitions of PPSI and Thermal Waste Technologies, Inc. ("TWT"), we have broadened our product bases and we anticipate increases in sales on a period by period basis if we can increase our market penetration.

Marketing and selling costs increased \$33,975 (45%) over the comparable three month period ended September 30, 2002. However, such costs decreased \$76,079 (17%) over the nine month period ended September 30, 2002. These nine month decreases were primarily the result of decreases in consulting fees, advertising, commissions, freight and travel expenses offset in part by increases in marketing salaries.

Product development expense decreased as a result of reduced expenditures for patent legal fees and product testing. As the Company continues to focus on marketing and sales of existing products, product development expense will continue to remain relatively low.

9

General and administrative costs for the three and nine month periods ended September 30, 2003 increased \$24,880 (12%) and \$347,745 (47%), respectively, primarily resulting from developing the PPSI GPO. This increase during the nine month period was offset in part by payroll expenditure reductions of \$79,975 (32%) and professional fee reductions of \$88,919 (44%).

Interest expense, net, increased by \$6,880 (33%) and \$2,856 (4%) during the three and nine months ended September 30, 2003, respectively, from the comparative periods in 2002, as a result of increases in borrowings offset by reductions in interest rates.

Non-recurring forgiveness of deferred payroll of \$429,150 by two officer/directors of the Company and a \$202,385 litigation settlement during the nine months ended September 30, 2002 net of the \$100,414 loss on sale of equipment reduced expenditures during the nine months ended September 30, 2002.

Net loss for the three and nine month periods ended September 30, 2003 increased by \$152,771 (76%) and \$737,416 (234%), respectively, as compared to the three and nine month periods ended September 30, 2002. Without considering the nonrecurring items, the net loss increased by \$152,771 (76%) and \$206,295 (24%), respectively. The increases in the loss were primarily related to the costs of relocating the production, warehouse and administrative site and developing PPSI's GPO.

The working capital deficit of \$1,070,807 at December 31, 2002, increased to a deficit of \$1,945,131 (82%) at September 30, 2003, primarily from net increases in notes and loans payable and deferred compensation and decreases in accounts receivable, resulting from the relocation and developing the PPSI GPO.

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Net cash used in operating activities decreased by \$129,726 (30%) to \$299,718 for the nine months ended September 30, 2003 from \$429,444 for the nine months ended September 30, 2002, primarily due to the reduction in accounts payable and accrued expenses, offset in part by the costs of developing the PPSI GPO and an increase in deferred payroll.

Net cash provided by financing activities decreased by \$192,604 (47%) to \$218,426 for the nine months ended September 30, 2003 from \$411,030 for the nine months ended September 30, 2002. This decrease resulted from an approximate \$270,000 reduction in proceeds from equity securities and an increase in payments of borrowings of approximately \$121,000, offset by an approximate \$198,000 increase in new 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 do not anticipate positive net cash flow from operating activities in 2003. We are actively seeking bank and/or 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 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 reception of new products, impact of competitive products, development of an effective organization, interruptions to production, our ability to increase internal production capability that will help to build inventory levels, our ability to increase our market penetration, our ability to increase our prices, whether we realize anticipated production or economic benefits as a result of our relocation and other risks detailed from time to time in our SEC reports and our Registration Statements.

10

Item 3. Controls and Procedures.

Based on their evaluation required by Rule 13a-15(b) or 15d-15(b) under the Securities and Exchange Act of 1934 (the "Exchange Act"), management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of the end of the period covered by this report.

11

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities

During the quarter ended September 30, 2003, the Company issued 500,000 shares of common stock to an accredited investor in exchange for \$20,000. These shares were issued in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933.

During the quarter ended September 30, 2003, the Company issued 250,000 shares of common stock to a director in exchange for a note payable of \$5,000. These shares were issued in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933.

No commissions or fees were incurred or discounts given in connection with these sales of securities.

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

On August 5, 2003 the Company conducted its annual meeting for the year 2002.

The following directors were elected for the ensuing year. The election tabulation of the directors election is as follows:

Name	For	Withheld
David Dalton	27,115,269	15,373
John Frank	27,115,269	15,373
Alan Gold	27,115,269	15,373
S. Robert Grass	27,115,269	15,373
Richard Mintz	27,115,269	15,373
Andrew Rosenberg	27,115,269	15,373
Joel Schoenfeld	27,115,269	15,373
William Wooldridge	27,047,269	83,373

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).

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- 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.

(b) Form 8-K

None

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: November 14, 2003

By: /s/ David Dalton

David Dalton
Chief Executive Officer
(Principal Executive Officer)

Dated: November 14, 2003

By: /s/ Michael A. Lesisko

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

