UNIVEC INC
Form 10QSB
May 21, 2004

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

FORM 10-QSB

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

For the quarterly period ended March 31, 2004

[ ] 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 registrant as specified in its charter)

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

4810 Seton Drive, Baltimore, MD 21215
(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 May 18, 2004, the Issuer had 37,871,795 shares of Common Stock, $0.001 par value, outstanding.

Transitional Small Business Disclosure Format:

Yes _____ No _X_

UNIVEC, INC. AND SUBSIDIARIES
FORM 10-QSB
INDEX

PART I
FINANCIAL INFORMATION

Item 1: Consolidated Financial Information

UNIVEC, Inc. and Subsidiaries
Consolidated Balance Sheet (Unaudited)
March 31, 2004

ASSETS	
Current assets	
Cash	$ 852
Accounts receivable	1,472,635
Inventories	295,248
Other current assets	124,888

Total current assets	1,893,623
Fixed assets, net	587,598
Goodwill	2,328,662
Other assets	6,000
Total assets	$ 4,815,883
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current liabilities	
Accounts payable and accrued expenses	$ 2,762,038
Deferred payroll - officers	1,064,292
Loans payable - officers/directors	270,493
Notes and loans payable - current	166,376
Due to affiliated companies	328,017
Total current liabilities	4,591,216
Notes and loans payable	497,033
Total liabilities	5,088,249
STOCKHOLDERS' DEFICIT	
Preferred stock $.001 per value; 3,743,500 shares authorized; none issued and outstanding	
Series D 5% cumulative convertible preferred stock, $.001 par value; authorized: 1,250,000; issued and outstanding: 104,167 shares (aggregate liquidation value: $277,361)	104
Series E 5% cumulative convertible preferred stock, $.001 par value; authorized: 2,000 shares; issued and outstanding: 442 shares (aggregate liquidation value: $507,802)	1
Common stock $.001 par value; authorized: 75,000,000 shares; issued and outstanding: 37,871,795	37,872
Additional paid-in capital	10,661,408
Accumulated deficit	(10,971,751)
Total stockholders' deficit	(272,366)
Total liabilities and stockholders' deficit	$ 4,815,883

See notes to the consolidated financial statements.

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

Three months ended March 31,

	2004	2003
Revenues	$ 4,226,857	$ 2,251,616
Expenses		
Cost of revenues	4,186,571	2,067,738
Marketing and selling	124,138	136,866
Product development	846	4,693
General and administrative	434,071	231,812
Interest expense, net	14,377	23,816
Gain on extinguishment of debt	(40,040)	
Total expenses	4,719,963	2,464,925
Net loss	(493,106)	(213,309)
Dividends attributable to preferred stock	(9,275)	(10,255)
Loss attributable to common stockholders	$ (502,381)	$ (223,564)
Share information:		
Basic net loss per share	$ (.01)	$ (.01)
Basic weighted-average number of shares outstanding:	35,331,157	32,847,588

See notes to the consolidated financial statements.

4

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

	Three months ended March 31, 2004	2003
Cash flows from operating activities		
Net loss	$(493,106)	$(213,309)
Adjustments to reconcile net loss to net cash used in operating activities		
Stock based compensation	108,104	
Depreciation	45,938	51,402
Gain on extinguishment of debt	(40,040)	
Changes in assets and liabilities, net of effects from acquisition		
Accounts receivable	(199,313)	171,462
Due from factor		(48,125)

Inventories	(3,533)	5,648
Other current assets and other assets	28,332	24,605
Accounts payable and accrued expenses	228,872	(50,359)
Deferred payroll - officers	191,393	116,296
Net cash (used in) provided by operating activities	(133,353)	57,620
Cash flows from financing activities		
Increase in due to affiliated companies	92,283	
Proceeds from loans payable - officers/directors	54,000	5,019
Payments of notes and loans payable	(23,899)	(77,026)
Payments of capitalized lease obligations	(36,250)	
Proceeds from notes and loans payable		18,200
Net cash provided by (used in) financing activities	122,384	(90,057)
Net decrease in cash	(10,969)	(32,437)
Cash, beginning of period	11,821	87,260
Cash, end of period	$ 852	$ 54,823

See notes to the consolidated financial statements.

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

1. Nature of Operations

Univec, Inc. (Company) produces and markets medical products, primarily syringes, on a global basis. Physician and Pharmaceutical Services, Inc. (PPSI), a subsidiary, provides group purchasing services of pharmaceutical products. Thermal Waste Technologies, Inc. (TWT), a subsidiary, markets a medical waste disposal unit.

2. Summary of Significant Accounting Policies

Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and with the rules and regulations of the Securities and Exchange Commission for Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States 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 the Company's Management's Discussion and Analysis included in the Company's Form 10-KSB for the year ended December 31, 2003. 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.

Net Loss Per Share

Basic net loss per share was computed based on the weighted-average number of common shares outstanding during the three months ended March 31, 2004 and 2003. Dilutive net loss per share has not been presented because it was anti-dilutive.

Estimates

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.

New Accounting Pronouncements

Management does not believe that any recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

3. Common Stock

In February 2004, 50 shares of Series E and accrued dividends thereon of $1,160 were converted into 799,371 shares of common stock at $.06, per share.

In February 2004, the Company issued 500,000 shares of common stock to two officers of the Company in exchange for $50,000 of deferred compensation.

In April 2004, the Company issued 1,403,948 shares of common stock to an officer/director of the Company in exchange for benefits not taken of $108,104.

4. Related Party Transactions

For the three months ended March 31, 2004, sales to a company owned by the president of the Company was approximately 99% of total sales, and as March 31, 2004, accounts receivable from this customer was approximately 97% of total accounts receivable.

5. Financing

The Company has obtained a commitment from a city development agency and a state development agency to borrow an aggregate of $500,000, payable in equal monthly installments over five years, with interest at 4%, per annum. The proceeds shall be used to purchase equipment of at least $400,000, which shall be collateral under the loans. The Company shall also provide a $200,000 standby letter of credit as additional collateral.

As required under the loans, the Company obtained a line of credit from a stockholder of the Company in the amount of $500,000. Loans under the line bear interest at 12%, per annum, and may be converted to a term loan or into common stock at $.11, per share, as defined.

Also, all loans from stockholders shall be subordinated to the loans from the development agencies loans.

Item 2. Management's Discussion and Analysis

Results of Operations

Condensed Consolidated Results of Operations

	Three months ended March 31, 2004	2003	Change
Revenues	$4,226,857	$ 2,251,616	88%
Expenses			
Cost of Revenues	4,186,571	2,067,738	102%
Marketing and Selling	124,138	136,866	(9%)
Product Development	846	4,693	(82%)
General and Administrative	434,071	231,812	87%
Interest Expense, Net	14,377	23,816	(40%)
Gain on Extinguishment of Debt	(40,040)		
Net Loss	$ (493,106)	$(213,309)	(131%)

As illustrated in the table above, overall revenues for the three months ended March 31, 2004 increased by $1,975,241 (88%) as compared to the comparable period ended March 31, 2003. Product sales alone for the three months ended March 31, 2004 showed an increase of $1,983,321 (88%) as compared to the three months ended March 31, 2003. The commencement of group purchasing of pharmaceutical drugs (GPO),
which commenced during the three months ended March 31, 2003 was responsible for substantially all of the increase in sales during the first quarter of 2004.

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 March 31, 2004.

The increase in demand for improved syringe technology may be the result of the creation of the Immunization Safety Priority Project by the World Health Organization. The program targets countries with the goal of establishing a comprehensive system to insure the safety of all immunizations given in national immunization programs. The Priority Project includes UNICEF, UNAIDS, the World Bank, PATH, and the Bill and Melinda Gates Children's Vaccine Program and has had a Significant impact on the industry, professional organizations, and procurement requirements of development agencies.

8

The Company is concentrating on sales of product and on licensing of the technology of its sliding sheath syringe designed to protect health care workers from accidental needle-stick injury. As a result of the Federal Needlestick Safety and Prevention Law signed into law in November 2000, the Company anticipates an increasing domestic market for the sliding sheath syringe. The law revises the Bloodborne Pathogens Standard under the Occupational Safety and Health Act of 1970 to include safer medical devices, such as syringes or sharps with engineered sharps injury protections designed to eliminate or minimize occupational exposure to blood borne pathogens through needlestick injuries. It requires certain parties to adopt plans and changes in technology that eliminate or reduce exposure to needlestick injury. The effective compliance date for the law was April 18, 2001, and the Company is expending additional sales resources on this product.

Gross profit for the three months ended March 31, 2004 decreased to 1% from 8% realized during the three months ended March 31, 2003. The reduced gross profit is primarily due to the lower sales of our 1cc clip syringe and the lower gross profit contribution from PPSI's GPO revenue. Further, as a result of the previously reported relocation from New York to Maryland, gross profit on the Univec syringe sales decreased $98,060 (110%) from $89,547 (20%) to a gross loss of $(8,513). The lack of syringe gross profit is primarily the result of non-variable overhead costs of $7,763. We anticipate gross profit levels to remain at current levels unless we increase our market penetration, increase our prices, product mix and/or realize anticipated production or economic benefits as a result of our relocation.

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 for 2004 decreased $12,728 (9%) over the comparable three month period ended March 31, 2003 as a result of limited funds available to carry out marketing activities.

Product development expense decreased as the Company continues to focus on marketing and sales of existing products rather than product development. Product development expense will continue to remain relatively low.

General and administrative costs for the three month period ended March 31, 2004 increased $202,259 (87%) resulting primarily from the Company's charge to operations for the cost of certain employee benefits which were waived in a prior year by an officer and paid in the current period by the Company.

Interest expense, net, decreased by $9,439 (40%) during the three months ended March 31, 2004 from the comparable period in 2003, primarily due to no factoring in 2004.

Net loss for the three month period ended March 31, 2004 increased by $279,797 (131%) as compared to the three month period ended March 31, 2003. Without considering the gain on extinguishment of debt, the net loss increased by $319,837 (150%). The increase in net loss was primarily related to the reduction in gross profit of $143,592 and the additional payment of benefits of $119,568.

Liquidity and Capital Resources

The working capital deficit of $2,399,823 at December 31, 2003, increased to a deficit of $2,697,593 (12%) at March 31, 2004, primarily from net increases in accounts payable and accrued expenses, additional borrowings and increased deferred compensation, partially offset by an increase in accounts receivable. The introduction of the GPO program was responsible for these increases in accounts payable and accrued expenses and accounts receivable.

Net cash used in operating activities increased by $190,973 (331%) to $133,353 for the three months ended March 31, 2004 from the comparable period in 2003 primarily due to the increased net loss and an increase in accounts receivable, offset in part by the increases in accounts payable and accrued expenses and deferred payroll.

Net cash provided by financing activities increased by $212,441 (236%) to $122,384 for the three months ended March 31, 2004 from ($90,057) used during the three months ended March 31, 2003. This increase resulted from new borrowings of $123,000 and decreases in payments of borrowings of approximately $89,000.

Although revenue increased as a result of the 2004 PPSI GPO operations for the entire quarter and with our continued marketing and sales of existing safety syringes and the Demolizer, we still continue to suffer from a serious shortage of working capital, which has resulted in the Company's limited ability to market and sell its products. The Company has recently received commitments to borrow an aggregate of $1,000,000 from a city development agency, a state development agency and a stockholder, which Univec believes will close in the very near future, although there is no assurance that the borrowings will occur.

With the proceeds from the above loans or other sources and our designation as a minority business enterprise, we will be able to increase marketing of safety syringes, the Demolizer and marketing services for pharmaceutical companies. As a result of these actions, Univec's management anticipates that operations will generate a positive cash flow in the year 2004, but there can be no assurance this will occur.

Should the above financings not occur, we will continue to seek working capital to finance our financial needs from either debt or equity financing to enable us to implement our strategy. The relatively low trading price and volume of the common shares hampers our ability to raise equity capital. There is no assurance that any such financings will be available to the Company or on terms we deem favorable. In the event that the Company is unable to obtain any financing, it may be forced to initiate curtailment of portions of its business program. This could result in material adverse effects on the future of the Company. The Chief Executive Officer of the Company has committed to us that he will keep Univec operating through April 1, 2005.

Significant Estimates

Univec's business plan upon acquiring PPSI and TWT was to fully utilize each others capabilities to increase their sales and profitability. Although a shortage of cash flow has slowed the plan, management has reviewed the carrying amount of their goodwill and fixed assets. We have considered all the circumstances, specifically the fair value based on current and anticipated future undiscounted cash flows. In addition, as part of our relocation strategy, various production equipment is being reevaluated. Management has estimated no impairment loss is required at this time.

New Accounting Pronouncements

Management does not believe that any recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

Major Customer

For the year ended December 31, 2003, our largest customer was a company owned by our chief executive officer. We intend to reduce our reliance on this customer through expanding sales to others.

Forward Looking Statements

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 Univec's 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 Univec's SEC reports and its Prospectus dated April 24, 1997 (as supplemented by the Prospectus Supplement dated April 29, 1997) forming a part of its Registration Statement on Form SB-2 (File No. 333-20187), as amended, which was declared effective by the Commission on April 24, 1997.

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.

PART II

OTHER INFORMATION

Item 2. Changes in Securities

In February 2004, the Company issued 799,371 shares of common stock upon the conversion of 50 shares of Series E and accrued dividends thereon of $1,160 at $.06, per share.

In February 2004, the Company issued 250,000 shares of common stock to each of Mr. Michael Lesisko and Mr. Raphael Langford, both officers of the Company, in exchange for deferred compensation of $25,000, each.

In April 2004, the Company issued 1,403,948 shares of common stock to Dr. David Dalton, president and chief executive officer of the Company, in exchange for benefits not taken of $108,104.

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 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbannes-Oxley Act of 2002 .

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbannes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer pursuant U.S.C. Section 1350 as adopted pursuant Section 906 of the Sarbannes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant U.S.C. Section 1350 as adopted pursuant Section 906 of the Sarbannes-Oxley Act of 2002.

(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: May 20, 2004

/s/ Dr. David Dalton

Dr. David Dalton
Chief Executive Officer
(Principal Executive Officer)

Dated: May 20, 2004

/s/ Michael A. Lesisko

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