UNIVEC INC
Form 10QSB
September 22, 2005

**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 June 30, 2005

¨ **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)**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ] Yes [X] No

As of September 21, 2005, the Issuer had 56,060,278 sharesof Common Stock, $0.001 par value, outstanding.

Transitional Small Business Disclosure Format: Yes¨ No x

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FINANCIAL INFORMATION

Item 1: Consolidated Financial Information

Univec, Inc. and Subsidiaries
Consolidated Balance Sheet (Unaudited)
June 30, 2005

| | | |
|---|---|---|
| ASSETS | | |
| Cash | $ | 2,970 |
| Accounts receivable | | 3,066,601 |
| Inventories | | 179,878 |
| Certificates of deposit - restricted | | 340,407 |
| Total current assets | | 3,589,856 |
| Fixed assets, net | | 578,139 |
| Other assets | | 70,117 |
| Total assets | $ | 4,238,112 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Accounts payable and accrued expenses | $ | 4,279,589 |
| Deferred payroll | | 1,535,309 |
| Notes and loans payable - current | | 1,337,946 |
| Loans payable - officers/directors | | 260,493 |
| Due to affiliated companies | | 684,175 |
| Total current liabilities | | 8,097,512 |
| Notes and loans payable - long-term | | 258,352 |
| Total liabilities | | 8,355,864 |

See notes to the consolidated financial statements.

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| | | |
|---|---|---|
| STOCKHOLDERS' DEFICIT | | |
| Preferred stock $.001 par 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: 145,833 shares (aggregate liquidation | | |
| value: $395,540) | | 146 |
| Series E cumulative convertible preferred stock, | | |
| $.001 par value; authorized: 2,000 shares; issued and | | |
| outstanding: 312 shares (aggregate liquidation | | |
| value: $443,053) | | 1 |
| Common stock $.001 par value; authorized: 75,000,000 shares; | | 56,465 |
| issued: 56,464,432 and outstanding: 56,060,278 shares | | |
| Additional paid-in capital | | 11,352,754 |
| Treasury stock, 404,154 shares - at cost | | (28,291) |
| Stock Subscription Receivable | | (90,000) |
| Accumulated deficit | | (15,408,827) |
| Total stockholders' deficit | | (4,117,752) |
| Total liabilities and stockholders' deficit | $ | 4,238,112 |

See notes to the consolidated financial statements.

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

| | Three months ended June 30, 2005 | Three months ended June 30, 2004 | Six months ended June 30, 2005 | Six months ended June 30, 2004 |
|---|---|---|---|---|
| Revenues | $ 4,553,703 | $ 4,513,205 | $ 9,000,570 | $ 8,721,528 |
| Cost of revenues | (4,519,786) | (4,388,986) | (8,938,650) | (8,563,451) |
| Gross Margin | 33,917 | 124,219 | 61,920 | 158,077 |
| Operating Expenses | | | | |
| Marketing and selling | (65,988) | (4,070) | (158,078) | (126,481) |
| Product development | (648) | (1,886) | (648) | (2,732) |
| General and administrative | (389,941) | (477,414) | (728,346) | (898,239) |
| | (456,577) | (483,370) | (887,072) | (1,027,452) |
| Loss from Operations | (422,660) | (359,151) | (825,152) | (869,375) |
| Other Income (Expense) | | | | |
| Interest expense, net | (43,874) | (31,878) | (73,295) | (45,980) |
| Gain on extinguishment of debt | | | | 40,040 |
| Total other expenses | (43,874) | (31,878) | (73,295) | (5,940) |
| Loss from continuing operations | (466,534) | (391,029) | (898,447) | (875,315) |
| Loss from discontinued operations | | (1,340) | | (10,160) |
| Net loss | (466,534) | (392,369) | (898,447) | (885,475) |
| Dividends attributable to preferred stock | (8,213) | (9,275) | (18,418) | (18,550) |
| Loss attributable to common stockholders | (474,747) | (401,644) | ($916,865) | ($904,025) |
| Share information | | | | |
| Basic net loss per common share | ($0.01) | ($0.01) | ($0.02) | ($0.02) |
| Basic weighted average number | | | | |

| | | | | |
|---|---|---|---|---|
| of common shares outstanding | 49,500,728 | 37,871,795 | 48,222,239 | 36,962,559 |

See notes to the consolidated financial statements.

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Univec, Inc. and Subsidiaries
Consolidated Statement of Cash Flows (Unaudited)
Six months ended June 30, 2005 and 2004

| | 2005 | 2004 |
|---|---|---|
| Cash flows from operating activities | | |
| Net loss | $ (898,447) | $ (885,475) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 187,397 | 91,135 |
| Stock based compensation | 167,199 | 108,104 |
| Gain on extinguishment of debt | | (40,040) |
| Receipt of gain on marketable securities | 36,349 | |
| Changes in assets and liabilities | | |
| Accounts receivable | 56,891 | (235,611) |
| Inventories | | (10,198) |
| Other current assets and other assets | 46,630 | 51,338 |
| Accounts payable and accrued expenses | (128,243) | 306,120 |
| Deferred payroll | 346,592 | 388,689 |
| Net cash used in operating activities | (185,632) | (225,938) |
| Cash flows from investing activities | | |
| Purchases of fixed assets | (13,500) | |
| Increase in restricted cash | | (335,000) |
| Net cash used in investing activities | (13,500) | (335,000) |
| Cash flows from financing activities | | |
| Increase in due from affiliated companies | 175,375 | 429,693 |
| Increase in loans payable - officers/directors | 50,000 | 54,000 |
| Proceeds from notes and loans payable | | 140,585 |
| Proceeds from sale of stock | 85,000 | |
| Payments on notes and loans payable | (137,717) | (25,999) |
| Net cash provided by financing activities | 172,658 | 598,279 |
| Net increase (decrease) in cash | (26,474) | 37,341 |
| Cash, beginning of period | 29,444 | 11,821 |
| Cash, end of period | $ 2,970 | $ 49,162 |

See notes to the consolidated financial statements.

UNIVEC, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Un-audited)

## 1. Nature of Operations

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

## 2. Summary of Significant Accounting Policies

### Financial Statements

The accompanying un-audited 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, 2004. Interim results are not necessarily indicative of the results for a full year.

### 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 six month periods ended June 30, 2005 and 2004. 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 consolidated 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. Related Party Transactions

Due to Affiliated Companies

Subsequent to December 31, 2004, the Company borrowed a net total of $175,375 from affiliated companies, owned by the chief executive officer of the Company.

5. Sales to Affiliated Company

For the three months ended June 30, 2005, sales to a company owned by an officer of the Company were approximately 99% of total sales and, as of June 30, 2005, accounts receivable from this customer were approximately 99% of total accounts receivable.

6. Common Stock

On April 6, 2005, the Company issued 1,386,527 common shares to a preferred stockholder in exchange for 70 shares of Series E preferred stock and unpaid dividends worth an aggregate of $5,843.

On June 28, 2005, the Company issued 1,896,970 shares of common stock to two officers in exchange for operating expenses incurred by them but not previously paid.

On June 29, 2005, the Company issued 1,500,000 shares of common stock to an independent marketing consultant in exchange for fees not paid of $45,000.

On June 30, 2005, the Company issued 1,286,082 shares of common stock to an officer/director of the Company in exchange for benefits not taken of $42,441.

On June 30, 2005, the Company converted $70,000 of notes payable to an affiliate owned by an executive officer in exchange for 2,333,333 shares of common stock.

**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, | | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | Change | 2005 | 2004 | Change |
| Revenues | $ 4,553,703 | $ 4,513,205 | 1% | $ 9,000,570 | $ 8,721,528 | 3% |
| Cost of Revenues | (4,519,786) | (4,388,986) | 3% | (8,938,650) | (8,563,451) | 4% |
| Gross Margin | 33,917 | 124,219 | (73%) | 61,920 | 158,077 | (61%) |
| Expenses: | | | | | | |
| Marketing and Selling | 65,988 | 4,070 | 1,521% | 158,078 | 126,481 | 25% |
| Product Development | 648 | 1,886 | (66%) | 648 | 2,732 | (76%) |
| General and Administrative | 389,941 | 477,414 | (18%) | 728,346 | 898,239 | (19)% |
| | 456,577 | 483,370 | | 887,072 | 1,027,452 | |
| Other Income (Expense) | | | | | | |
| Interest Expense, Net | (43,874) | (31,878) | 38% | (73,295) | (45,980) | 59% |
| Gain on Extinguishment of Debt | | | | | 40,040 | |
| Net Loss from Continuing Operations | $ (466,534) | $ (391,029) | (19%) | $ (898,447) | $ (875,315) | (3%) |
| Discontinued Operations | | (1,340) | | | (10,160) | |
| Net Loss | $ (466,534) | $ (392,369) | (19%) | $ (898,447) | $ (885,475) | (1%) |

As illustrated in the table above, overall revenues for the three and six month periods ended June 30, 2005 increased by $40,498 (1%) and $279,042 (3%), respectively, as compared to the comparable periods ended June 30, 2004. Product sales alone accounted for all of this increase. Sales within PPSI's GPO, comprised 99% of the total sales for the six months ended June 30, 2005.

The Company has its focus on the marketing, production, development and distribution of its pharmaceutical and proprietary products and licensing of the technology of its insulin and tuberculin sliding sheath safety syringes.

Physician and Pharmaceutical Services, Inc. (PPSI) is a Group Purchasing Organization (GPO) and formulary management company. Group purchasing allows companies to get better prices by combining purchasing power. It is also important that the products being purchased are appropriate for the drug formulary that is approved by the state correctional facility. The seller's pharmaceutical price to PPSI is substantially fixed at the date of sale based on the seller's national drug rates. PPSI maintains latitude in the prices being charged to its customers. PPSI has financial responsibility for payments to the seller, upon dispensing of the product. After the goods have been dispensed, PPSI's obligation to the seller will not change if the merchandise were stolen, damaged or destroyed. PPSI has no obligation to help the buyer sell the merchandise. PPSI's immediate customer is Pharmacy Services, Inc. which is a private company owned by the chief executive officer of Univec, which acts as the dispensing pharmacy.

Gross profit for the three and six month periods ended June 30, 2005 decreased to 0.7% from 2.7% and to 0.7% from 1.8%, respectively, as compared to the comparable periods ended June 30, 2004. The reduced gross profit is primarily due to the lower gross profit contribution from PPSI's GPO revenue and also from lower sales volume of our syringes. The GPO gross profit was 0.7% and 1.6% for the six months ended June 30, 2005 and 2004, respectively. We anticipate gross profit levels to remain at current levels, unless we increase our market penetration, our prices, product mix and/or realize anticipated production.

As a result of the acquisition of PPSI during 2002, we have broadened our pharmaceutical product distribution base. We anticipate increases in sales on a period by period basis from PPSI if we can increase our market penetration in these areas.

Marketing and selling costs the three and six month periods increased by $61,981 (1,521%) and $31,597 (25%), respectively, as compared to the comparable periods ended June 30, 2004. This increase is primarily due to increases in marketing consultant costs.

There were very minimal product development expenses incurred for three and six month periods ended June 30, 2005. This decrease was the result of negligible expenditures for patent legal costs and product testing expense.

General and administrative expenses for the three and six month periods ended June 30, 2005 decreased $87,473 (18%) and $169,893 (19%), respectively, as compared to the comparable periods ended June 30, 2004. These decreases are due primarily to decreases in insurance, depreciation, legal fees, securities maintenance and compensation expenses offset in part by increases in financial consulting and travel expenses.

Interest expense for the three and six month periods ended June 30, 2005 increased by $11,996 (38%) and $27,315 (59%)compared to the comparable periods ended June 30, 2004, primarily as a result increased debt outstanding during 2005.

Net loss for the three and six month periods ended June 30, 2005 increased by $74,165 (19%) and $12,972,respectively, primarily due to the reduction of gross profit of $96,157 (61%) and $90,302 (73%) during the three and six month periods ended June 30, 2005 as compared to the comparable periods ended June 30, 2004. Also, a non-recurring $40,040 gain on extinguishment of debt decreased the net loss for the six months ended June 30, 2004.

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**Liquidity and Capital Resources**

The working capital deficit of $4,207,570 at December 31, 2004, increased to a deficit of $4,507,656 (3%) at June 30, 2005 primarily from net increases in loans payable and deferred compensation, which were partially offset by a decrease in accounts payable and accrued expenses.

Net cash used in operating activities decreased by $40,306 (18%) to $185,632 for the six months ended June 30, 2005 from the comparable period in 2004, primarily due to the decreases in accounts receivable and corresponding increases in depreciation and amortization, stock based compensation and deferred payroll, which was offset by a reduction in accounts payable and accrued expenses.

Net cash used in investing activities of $13,500 resulted from the purchases of fixed asset equipment during the six months ended June 30, 2005.

Net cash provided by financing activities decreased by $425,621 (71%) to $172,658 for the six months ended June 30, 2005 from $598,279 provided during the six months ended June 30, 2004. This decrease resulted from an aggregate $510,621 decrease in borrowing activity offset by an $85,000 increase in proceeds from the sale of Company stock as compared to the six month period ended June 30, 2004.

Although revenue increased $279,042 as a result of the 2005 PPSI GPO operations for the six month period, we continue to market our safety syringes. We suffered from a serious shortage of working capital, which has resulted in the Company's limited ability to market and sell its products.

As a result of these actions, Univec's management anticipates that operations will generate a positive cash flow during our next fiscal year, but there can be no assurance this will occur. Management will continue its efforts to obtain debt and/or equity financing.

The relatively low trading price and volume of our common shares hampers our ability to raise equity capital. There is no assurance that any such equity financing will be available to the Company or on terms we deem favorable. Management will continue its efforts to obtain debt and/or equity financing.

**New Products**

We are in the process of bringing new syringe products to market and re-establishing the marketing of our existing syringe products and other PPSI services. There is no assurance that we will be successful in increasing our revenues or achieving profitability.

**Significant Estimates**

Univec's business plan upon acquiring PPSI was to fully utilize its distribution capabilities to increase sales and profitability. A shortage of cash flow has slowed the effectiveness of the plan. Management has reviewed the carrying amount of goodwill and fixed assets, considering their fair value based on anticipated future undiscounted cash flows and appraisals of the equipment

We have also reviewed the carrying value of both our accounts receivable and inventory. Based on both our anticipated future undiscounted cash flows and recent financings, no impairment is required.

**Major Customer**

For the six months ended June 30, 2005, substantially all our sales were to a company owned by a Company officer. We intend to reduce our reliance on this customer, by marketing PPSI products to other customers and reestablishing our product sales, which had been slowed because of poor cash flow.

**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.

**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.

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

The Annual Meeting of Stockholders of Univec, Inc. for the year ended December 31, 2003, was held on August 12, 2004, to consider and vote upon a proposal to elect S. Robert Grass, Dr. David Dalton, John Frank and William Wooldridge as directors.

The number of votes cast for and against each of the foregoing proposals and the number of abstentions are set forth below.

Proposals to Elect Directors:

| | For | Withhold |
|---|---|---|
| S. Robert Grass | 19,641,801 | 0 |
| David Dalton | 19,620,601 | 21,200 |
| John Frank | 19,620,601 | 21,200 |
| William Wooldridge | 19,641,801 | 0 |

**PART II**

**OTHER INFORMATION**

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

(b) Forms 8-K

A Form 8-K was filed on February 10, 2005, reporting the sale of certain unregistered equity securities.

A Form 8-K was filed on June 13, 2005 and amended by a Form 8-K/A filed on August 1, 2005, reporting the resignation of the Company's principal registered independent public accounting firm. Further, the Registrant reported that the auditor's report for the previously issued Form 10-KSB for the year ended December 31, 2003 could no longer be relied upon. Also, the former principal registered independent public accounting firm has informed the Registrant that it may no longer rely upon review reports issued for all Form 10-QSB for all quarters starting with the quarter-ended March 31, 2003 through the quarter-ended September 30, 2004. Finally, the Form 8-K reported the voluntary resignation of a member of the Board of Directors on June 9, 2005.

A Form 8-K was filed on August 1, 2005 reporting the engagement of a new Company principal registered independent public accounting firm.

**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: September 22, 2005 | /s/ Dr. David Dalton |
| | Dr. David Dalton<br>Chief Executive Officer<br>(Principal Executive Officer) |
| Dated: September 22, 2005 | /s/ Michael A. Lesisko |
| | Mr. Michael A. Lesisko<br>Chief Financial Officer<br>(Principal Financial and Accounting Officer) |