UNIVEC INC
Form 10QSB
September 13, 2006

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, 2006

¨ **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.)

822 Guilford Avenue, Suite 208, Baltimore, MD 21202
(Address of principal executive offices)

(410) 347-9959
(Issuers telephone number)

Former address: 4810 Seton Drive, Baltimore, MD 21215
(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 June 30, 2006 the Issuer had 59,044,921 shares of Common Stock, $0.001 par value, outstanding.

Transitional Small Business Disclosure Format: Yes¨ No x

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PART I
FINANCIAL INFORMATION

Item 1: Consolidated Financial Information

Univec, Inc. and Subsidiaries
Consolidated Balance Sheet (Unaudited)
March 31, 2006

ASSETS		
Accounts receivable	$	27,904
Inventories		187,922
Investment and other miscellaneous balances receivable		151,200
Total current assets		367,026
Fixed assets, net		520,092
Other assets		53,431
Total assets	$	940,549
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Cash overdraft	$	391
Accounts payable and accrued expenses		1,668,777
Deferred payroll		1,940,658
Notes and loans payable - current		890,438
Loans payable - officers/directors		261,800
Due to affiliated companies		818,918
Total current liabilities		5,580,982
Officers/directors notes and loans payable - long-term		50,000
Notes and loans payable - long-term		318,183
Total liabilities		5,949,165
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: 208,333 shares (aggregate liquidation value: $558,638		208
Series E cumulative convertible preferred stock, $.001 par value; authorized: 2,000 shares; issued and outstanding: 312 shares (aggregate liquidation value: $354,594)		1
Common stock $.001 par value; authorized: 75,000,000 shares; issued: 59,044,921 and outstanding: 58,640,767 shares		59,045
Additional paid-in capital		11,542,462

Treasury stock, 404,154 shares - at cost		(28,291)
Accumulated deficit		(16,582,041)
Total stockholders' deficit		(5,008,616)
Total liabilities and stockholders' deficit	$	940,549

See notes to the consolidated financial statements.

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

	Three months ended March 31, 2006	2005
Revenues	$ 7,204	$ 40,011
Cost of revenues	(5,403)	(14,946)
Gross Margin	1,801	25,065
Operating Expenses		
Marketing and selling	(12,297)	(92,090)
Product development	(338)	
General and administrative	(136,962)	(338,405)
Total operating expenses	(149,597)	(430,495)
Loss from Operations	(147,796)	(405,430)
Other Income (Expense)		
Interest expense, net	(34,775)	(29,421)
Net loss	(182,571)	(434,851)
Dividends attributable to preferred stock	(8,213)	(10,205)
Loss attributable to common stockholders	($190,784)	($445,056)
Share information		
Basic net loss per common share	($0.01)	($0.01)
Basic weighted average number of common shares outstanding	58,527,687	47,330,653

See notes to the consolidated financial statements.

Univec, Inc. and Subsidiaries
Consolidated Statement of Cash Flows (Unaudited)
Three months ended March 31, 2006 and 2005

		2006		2005
Cash flows from operating activities				
Net loss	$	(182,571)	$	(434,851)
Adjustments to reconcile net loss to net cash				
used in operating activities				
Depreciation and amortization		4,007		94,007
Receipt of gain on marketable securities				36,349
Other				17,158
Changes in assets and liabilities				
Accounts receivable		(3,040)		166,902
Inventories		5,403		
Other current assets and other assets				40,663
Accounts payable and accrued expenses		105,736		(227,776)
Deferred payroll		62,175		165,922
Net cash provided by (used in) operating activities		(8,290)		(141,626)
Cash flows from investing activities				
Fixed assets acquired				(13,500)
Net cash used in investing activities				(13,500)
Cash flows from financing activities				
Increase in due from affiliated companies		3,408		106,423
Increase in loans payable - officers/directors		3,500		
Proceeds from sale of stock				85,000
Payments on notes and loans payable				(55,662)
Net cash provided by financing activities		6,908		135,761
Net (decrease) in cash		(1,382)		(19,365)
Cash, beginning of period		991		29,444
Cash, end of period	$	(391)	$	10,079

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 and specialty pharmaceutical drugs. Physician and Pharmaceutical Services, Inc. (PPSI), a subsidiary, provides pharmaceutical samples 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, 2005. 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 month periods ended March 31, 2006 and 2005. 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, 2005, the Company borrowed a net total of $ 3,408 from affiliated companies, owned by the chief executive officer of the Company.

4. Common Stock

In February 2006, the Company issued an aggregate of 1,410,639 shares of common stock to an executive officer of the Company in exchange for accrued employment contract benefits of $29,842.

In July 2006, the Company issued an aggregate of 3,264,669 shares of common stock to an executive officer of the Company in exchange for accrued employment contract benefits of $42,441.

On July 19, 2006 the Board of Directors declared of a one for ten common share reverse stock split. The reverse stock split was authorized by the corporate shareholders at the annual stockholders meeting, which was held on October 14, 2005.

5. Due to Affiliated Companies and Officers

Subsequent to December 31, 2005, the Company borrowed an additional $3,408 from the affiliated companies.

6. Subsequent Event

On July 31, 2006 the Compsany completed a private placement of a $2,000,000 6% Note and Warrants Securities Purchase Agreement. The agreement allows the investor to purchase 10,000,000 common stock warrants for seven years at an exercise price of $0.02 each. The Note and Warrants were issued in reliance upon exemptions from registration pursuant to Section 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D promulgated thereto. Each of the Investors is an accredited investor as defined in Rule 501 of Regulation D under the Securities Act of 1933.

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 March 31, 2006	2005	Change
Revenues	$ 7,204	$ 40,011	(82%)
Cost of Revenues	(5,403)	(14,946)	(64%)
Gross Margin	1,801	25,065	(93%)
Expenses:			
Marketing and Selling	(12,297)	(92,090)	(87%)
Product Development	(338)		
General and Administrative	(136,962)	(338,405)	(60%)
	(149,597)	(430,495)	(65%)
Other Income (Expense)			
Interest Expense, Net	(34,775)	(29,421)	18%
Net Loss	$ (182,571)	$ (434,851)	(58%)

As illustrated in the table above, overall revenues for the three month period ended March 31, 2006 decreased by $32,807 (82%), as compared to the comparable periods ended March 31, 2005. Product sales alone accounted for all of this decrease. Sales within Univec, Inc. comprised all of the total sales for the three month ended March 31, 2006. PPSI has experienced a complete reduction in sales to its principal Group Purchasing Organization (GPO) customer. This sales depletion will continue to have a detrimental effect on Company operations for the impending future period. The Company management has decided to concentrate resources on the distribution sector having direct control of product purchases and distribution that management feels will have greater gross margin opportunity although gross revenue will be maintained. Management feels that this model will allow a direct relationship with the end purchaser and not be dependent on an intermediary.

The Company will endeavor to replace these revenues by placing increased product sales in the direct marketplace and by expanding its higher gross profit atypical product sales.

The Company will 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.

Gross margin for the three month period ended March 31, 2006 decreased to 25.0% from 63.0%, as compared to the comparable period ended March 31, 2006. The reduced gross margin is primarily due to the lower gross profit contribution from lower sales volume of our pharmaceutical drugs and syringes. We anticipate gross margin levels to decrease due to the GPO’s principal customer’s commercial activity decline.

Marketing and selling costs for the three month periods decreased by $79,793 (87%) as compared to the comparable period ended March 31, 2005. This decrease is primarily due to decreases in sales volume.

There were very minimal product development expenses incurred for three month period ended March 31, 2006. This decrease was the result of negligible expenditures for patent legal costs and product testing expense.

General and administrative expenses for the three month period ended March 31, 2006 decreased $201,443 (60%) as compared to the comparable periods ended March 31, 2005. These decreases are due primarily to decreases in insurance, depreciation, payroll, legal and professional fees, and securities maintenance expenses.

Interest expense for the three month period ended March 31, 2006 increased by $5,354 (18%) compared to the comparable periods ended March 31, 2005, primarily as a result increased debt outstanding during 2006.

Net loss for the three month period ended March 31, 2006 decreased by $275,544 (58%) primarily due to the reduction of gross profit by $32,807 (82%) during the three month period ended March 31, 2006 as compared to the comparable period ended March 31, 2005. Also, the $201,443 reduction in general and administrative expenses resulted in the reduction in the net loss for the three months ended March 31, 2006.

Liquidity and Capital Resources

The working capital deficit of $5,072,075 at December 31, 2005, increased to a deficit of $5,213,956 (3%) at March 31, 2006 primarily from net loss incurred, increases in deferred compensation and accounts payable and accrued expenses.

Net cash used in operating activities decreased by $133,336 (94%) to $8,290 for the three months ended March 31, 2006 from the comparable period in 2005, primarily due to the net loss incurred, increases in accounts payable and deferred payroll which were offset in part by decreases in depreciation and amortization.

Net cash used in investing activities decreased by $13,500 as a result of not expending cash for the purchases of fixed asset equipment during the three months ended March 31, 2006 as compared with the three months ended March 31, 2005.

Net cash provided by financing activities decreased by $128,853 (95%) to $6,905 for the three months ended March 31, 2005 as compared with the three months ended March 31, 2005. This decrease resulted from an aggregate $43,853 decrease in borrowing activity which was offset by an $85,000 decrease in proceeds from the sale of Company stock during the comparable three month period ended March 31, 2005.

As a result of these actions, Univec's management anticipates that operations will generate a negative cash flow during our fiscal year.

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.

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 three months ended March 31, 2006, substantially all of our sales were to a company owned by a Company officer. We intend to reduce our reliance on this customer, by marketing specialty pharmaceutical and PPSI products to other customers and reestablishing our product sales, which had been slowed because of long evaluation periods of clients.

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.

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) Form 8-K

A Form 8-K was filed on July 31, 2006, reporting the completion of a private placement of a $2,000,000 6% Note and Warrants Securities Purchase Agreement. The agreement allows the investor to purchase 10,000,000 common stock warrants for seven years at an exercise price of $0.02 each. The Note and Warrants were issued in reliance upon exemptions from registration pursuant to Section 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D promulgated thereto. Each of the Investors is an accredited investor as defined in Rule 501 of Regulation D under the Securities Act of 1933.

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 13, 2006

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

Dated: September 13, 2006

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