

Edgar Filing: BIOQUAL INC - Form 10QSB

BIOQUAL INC
Form 10QSB
January 14, 2002

U.S. 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 November 30, 2001

Commission file number 1-13527

BIOQUAL, INC.

State of Delaware

13-3078199

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

9600 Medical Center Drive, Rockville, Maryland

20850

(Address of principal executive office)

(Zip Code)

Issuer's telephone number, including area code (301) 251-2801

Not Applicable

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

Check whether the registrant filed all documents required to be filed by Section
12, 13 or 15(d) of the Exchange Act after the distribution of securities under a
plan confirmed by a court.

Yes

No

Common Stock, \$.01 par value per share; authorized 25,000,000 shares; 882,592
shares outstanding as of January 9, 2002.

Transitional Small Business Disclosure Format (Check one): Yes No

BIOQUAL, INC.

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BIOQUAL, INC. AND SUBSIDIARY

UNAUDITED CONSOLIDATED BALANCE SHEETS, MAY 31, 2001 AND NOVEMBER 30, 2001

ASSETS	NOVEMBER 30, 2001

CURRENT ASSETS:	
Cash and cash equivalents	\$ 77,304
Accounts receivable:	
Trade	2,015,030
Unbilled - current	32,177
Other	13,192
Prepaid expenses	163,115
Inventories	158,302
Deferred income taxes - current	70,200

Total current assets	2,529,320

FIXED ASSETS:	
Leasehold improvements	1,052,212
Furniture, fixtures and equipment	3,907,232

Total	4,959,444

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Less accumulated depreciation and amortization	3,443,214

Fixed assets, net	1,516,230

Deferred income taxes - noncurrent	199,000
Unbilled accounts receivable - noncurrent	426,962
Cash value of officers' life insurance policies	341,695

TOTAL	\$ 5,013,207
	=====
LIABILITIES	

CURRENT LIABILITIES:	
Borrowings under line of credit	\$ 372,200
Current maturities of long-term debt	107,031
Accounts payable	209,915
Accrued compensation and related costs	283,613
Other accrued liabilities	50,232

Total current liabilities	1,022,991
Long-term debt	22,434

Total liabilities	1,045,425

STOCKHOLDERS' EQUITY	

Preferred stock - par value of \$1.00 per share, 500,000 shares authorized; no shares issued and outstanding	
Common stock - par value of \$.01 per share; 25,000,000 shares authorized; 1,600,408 shares issued; November 30, 2001, 882,592 shares, May 31, 2001, 880,925 shares outstanding	16,004
Additional paid-in capital	7,478,867
Accumulated deficit	(2,836,684)

Total	4,658,187
Less - treasury stock November 30, 2001, 717,816 shares, May 31, 2001, 719,483 shares, at cost	(690,405)

Total stockholders' equity	3,967,782

TOTAL	\$ 5,013,207
	=====

See notes to financial statements.

BIOQUAL, INC. AND SUBSIDIARY

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED NOVEMBER 30,

2001

2000

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REVENUES AND SALES:		
Contract revenues	\$ 3,072,653	\$ 2,930,652
Product sales	1,838	8,577
	-----	-----
Total Revenues and Sales	3,074,491	2,939,229
	-----	-----
OPERATING EXPENSES:		
Contract	2,382,145	2,260,600
Cost of goods sold	1,979	8,070
Research and development		14,078
General and administrative	558,308	523,523
	-----	-----
Total	2,942,432	2,806,271
	-----	-----
OPERATING INCOME	132,059	132,958
INTEREST INCOME	567	1,127
INTEREST EXPENSE	(8,798)	(14,035)
	-----	-----
INCOME BEFORE INCOME TAX	123,828	120,050
PROVISION FOR INCOME TAX	49,500	48,000
	-----	-----
NET INCOME	\$ 74,328	\$ 72,050
	=====	=====
BASIC EARNINGS PER SHARE	\$ 0.08	\$ 0.08
	=====	=====
DILUTED EARNINGS PER SHARE	\$ 0.08	\$ 0.08
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR BASIC EARNINGS PER SHARE	882,592	880,157
EFFECT OF DILUTIVE SECURITIES - OPTIONS	8,000	12,197
	-----	-----
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING OPTIONS FOR DILUTED EARNINGS PER SHARE	890,592	892,354
	=====	=====

See notes to financial statements.

BIOQUAL, INC. AND SUBSIDIARY

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE SIX MONTHS ENDED NOVEMBER 30,

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	2001 ----	2000 ----
REVENUES AND SALES:		
Contract revenues	\$ 6,133,861	\$ 6,002,930
Product sales	27,755	11,837
	-----	-----
Total Revenues and Sales	6,161,616	6,014,767
	-----	-----
OPERATING EXPENSES:		
Contract	4,712,802	4,718,965
Cost of goods sold	22,620	10,663
Research and development		31,510
General and administrative	1,127,359	1,029,133
	-----	-----
Total	5,862,781	5,790,271
	-----	-----
OPERATING INCOME	298,835	224,496
INTEREST INCOME	1,300	2,308
INTEREST EXPENSE	(16,580)	(27,352)
	-----	-----
INCOME BEFORE INCOME TAX	283,555	199,452
PROVISION FOR INCOME TAX	113,500	80,000
	-----	-----
NET INCOME	\$ 170,055	\$ 119,452
	=====	=====
BASIC EARNINGS PER SHARE	\$ 0.19	\$ 0.14
	=====	=====
DILUTED EARNINGS PER SHARE	\$ 0.19	\$ 0.13
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR BASIC EARNINGS PER SHARE	882,062	880,124
EFFECT OF DILUTIVE SECURITIES - OPTIONS	9,965	11,795
	-----	-----
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING OPTIONS FOR DILUTIVE EARNINGS PER SHARE	892,027	891,919
	=====	=====

See notes to financial statements.

BIOQUAL, INC. AND SUBSIDIARY

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

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FOR THE SIX MONTHS ENDED NOVEMBER 30,

	2001 ----	2000 ----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 170,055	\$ 119,452
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	172,060	203,972
Deferred income taxes	113,500	80,000
(Increase) decrease in accounts receivable	(84,057)	424,408
Increase in prepaid expenses	(86,874)	(26,341)
Decrease (increase) in inventories	22,620	(17,330)
Decrease in other assets		20,000
Decrease in accounts payable and accrued expenses	(116,517)	(196,844)
	-----	-----
Total Adjustments	20,732	487,865
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	190,787	607,317
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(274,808)	(104,595)
	-----	-----
NET CASH USED FOR INVESTING ACTIVITIES	(274,808)	(104,595)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds (payments) under line-of-credit agreement	177,519	(409,373)
Dividend paid	(35,304)	(26,401)
Proceeds from exercise of stock options	3,782	581
Principal payments on long-term debt	(60,733)	(65,408)
	-----	-----
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	85,264	(500,601)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,243	2,121
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	76,061	72,099
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 77,304	\$ 74,220
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$ 16,969	\$ 30,663
	=====	=====

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Interim Financial Statements

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In the opinion of management, all adjustments consisting only of normal recurring accruals necessary for a fair presentation of such amounts have been included. The results of operations for the quarter and the six month period are not necessarily indicative of results for the year.

Inventories

Inventories are stated at the lower of cost or market using the average cost method.

Recent Accounting Pronouncements

SFAS No. 141 eliminates the use of the pooling-of-interests method of accounting for business combinations and requires that all such transactions be accounted for by the purchase method. In addition, SFAS No. 141 requires that intangible assets be recognized as assets apart from goodwill and that they meet specific criteria described in the Standard. This Standard is applicable to all business combinations initiated after June 30, 2001 and all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001 or later. Management will follow the Standard in accounting for all future business combinations and does not believe that adoption will have any significant impact on the Company's financial statements.

SFAS No. 142 eliminates the requirement to amortize goodwill and requires that other intangible assets be separated into assets that have a finite useful life and those with an indefinite useful life. Intangible assets with a finite useful life are to be amortized over that useful life. Intangible assets with an indefinite life are to be measured for impairment annually, or more frequently if circumstances indicate impairment may have occurred. With respect to goodwill, the Standard requires that it be measured annually for impairment under a defined two-step process that begins with an estimation of the fair value of a "reporting unit," which is defined in the Standard. The first step in the process is a screening for impairment and the second step measures the amount of impairment, if any. Upon initial adoption of SFAS No. 142, the change is to be reported on the financial statements as a change in accounting principle with the cumulative effect reported in the statement of income in the period of adoption. The Standard is required to be applied starting with fiscal years beginning after December 15, 2001, with early application permitted for entities with fiscal years beginning after March 15, 2001. The Company has adopted this new Standard with its fiscal year beginning June 1, 2001. The Company has no goodwill or other intangible assets as of November 30, 2001 and, therefore, does not believe that adoption of the Standard will have any impact on its financial statements.

SFAS No. 143 requires that asset retirement obligations be recognized as a liability in the period in which they are incurred at their fair value if a reasonable estimate can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the

long-lived asset. The Standard requires that the liability be discounted and accretion expense be recognized. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2001, with earlier application permitted. The Company does not have any asset retirement obligations as of November 30, 2001 and, therefore, does not believe that this

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new Standard will have any impact upon its financial statements when adopted.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary Analysis

In this second quarter of fiscal year 2002, BIOQUAL, Inc. ("BIOQUAL" or the "Company") realized net income of \$74,328. Net income for the six months of fiscal year 2002 totaled \$170,055.

On September 21, 2001, the Company was notified by the National Institute on Aging of the award of the Phase II Small Business Innovation Research (SBIR) grant entitled "Comparative DNA Sequence Variation in Alzheimer Genes". This two year grant began on September 30, 2001 and totals \$738,847.

On October 31, 2001, the Company was notified by the National Cancer Institute (NCI) of the renewal of its contract to support NCI researchers. The contract entitled "Facility for Breeding, Housing, and Handling Virus Infected Mice, Genetically Manipulated Mice, and Chimeric Mice" is for a base year and four option years totaling \$13,740,310.

The National Institute of Child Health and Human Development approved an extension of its contract entitled "Biological Testing Facility" from December 31, 2001 to January 18, 2002, while it continues to review BIOQUAL's proposal for the renewal contract.

Results of Operations

Three Month Comparison

For the three months of operations ended November 30, 2001 (the Company's second quarter), contract revenues increased by 4.8% or \$142,001 to \$3,072,653 compared to \$2,930,652 in the second quarter of fiscal year 2001. This increase in government contract revenues compared to the second quarter of fiscal year 2001 is primarily due to an increase in contract activity. Product sales decreased to \$1,838 for the second quarter of fiscal year 2002 compared to \$8,577 for the second quarter of fiscal year 2001. Contract operating expenses increased 5.4% or \$121,545 for the second quarter of fiscal year 2002 compared to the second quarter of fiscal year 2001 primarily due to increased government contract expenses partially offset by an increase in the allocation of fringe benefit costs from contract expenses to general and administrative (G&A) expenses that was previously reported and affected the first and second quarter of fiscal year 2001. Cost of goods sold decreased to \$1,979 from \$8,070 in the second quarter of fiscal year 2001. As previously reported, the Company has ceased all Research and development (R&D) activities, consequently, the Company did not incur any R&D expenses during this quarter compared to \$14,078 in the second quarter of fiscal year 2001. General and administrative

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expenses increased 6.6% compared to the second quarter of fiscal year 2001 primarily due to increases in the fringe benefits allocation from contract expenses to G&A expenses as mentioned above. Total operating expenses increased 4.9% due to the above.

Operating income was level this quarter, \$132,059 compared to \$132,958 in the same quarter of the prior fiscal year. The increase in total revenues and sales

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was relatively the same and the increase in operating expenses resulting in relatively the same gross margin percentage during the second quarter of fiscal year 2002.

For this quarter, BIOQUAL had interest expense of \$8,798 compared to interest expense of \$14,035 in the prior year.

In accordance with SFAS No. 109, "Accounting for Income Taxes", the Company reported a deferred federal and state income tax expense of \$49,500 for the three months ended November 30, 2001. The Company will utilize available federal and state net operating loss ("NOL") carryforwards to offset future taxable income. The operating loss carryforwards expire in fiscal year 2002 for federal tax purposes and fiscal year 2002 to 2014 for state tax purposes.

Earnings Per Share (EPS) - For the three month comparison, options to purchase 30,335 shares of common stock at prices ranging from \$2.625 per share to \$3.375 per share were outstanding at November 30, 2001 but were not included in the computation of diluted EPS because the exercise prices were greater than the market price of the common shares. Options to purchase 38,670 shares of common stock at prices ranging from \$2.52 per share to \$3.375 per share were outstanding at November 30, 2000 but were not included in the computation of diluted EPS because the exercise prices were greater than the market price of the common shares.

Six Month Comparison

For the six months of operations ended November 30, 2001, contract revenues increased by 2.2% or \$130,931 to \$6,133,861 compared to \$6,002,930 in the first six months of fiscal year 2001. This increase is primarily due to an increase in contract activity. Product sales increased to \$27,755 compared to \$11,837 in fiscal year 2001. Contract operating expenses decreased .1% or \$6,163 compared to the first six months of fiscal year 2001 primarily due to an increase in the allocation of fringe benefit costs from contract expenses to general and administrative (G&A) expenses (that was previously reported and affected the first and second quarter of fiscal year 2001) offset by increased government contract expenses. Cost of goods sold increased to \$22,620 from \$10,663 in the first six months of fiscal year 2001. This increase was primarily due to the increase in units of products sold during this fiscal year. As previously reported, the Company has ceased all research and development (R&D) activities, consequently, the Company did not incur any R&D expenses during this six month period compared to \$31,510 in the same period of fiscal year 2001. General and administrative expenses increased 9.5% compared to the first six months of fiscal year 2001 primarily due to increases in the fringe benefits allocation from contract expenses to G&A expenses as mentioned above. Total operating expenses increased 1.3% due to the above.

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Operating income increased to \$298,835 compared to \$224,496 in the same period of the prior fiscal year. The increase is primarily due to 1) the decrease in R&D expenses, 2) the increase in total revenues exceeding the increase in operating expenses resulting in an increase in the gross margin percentage, and 3) a decrease in the overhead expenses supporting the equine IgG production facility.

For this six month period, BIOQUAL had interest expense of \$16,580 compared to interest expense of \$27,352 in the prior year.

In accordance with SFAS No. 109, "Accounting for Income Taxes", the Company

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reported a deferred federal and state income tax expense of \$113,500 for the six months ended November 30, 2001. The Company will utilize available federal and state net operating loss ("NOL") carryforwards to offset future taxable income. The operating loss carryforwards expire in fiscal year 2002 for federal tax purposes and fiscal year 2002 to 2014 for state tax purposes.

Earnings Per Share (EPS) - For the six month comparison, options to purchase 30,335 shares of common stock at prices ranging from \$2.625 per share to \$3.375 per share were outstanding at November 30, 2001 but were not included in the computation of diluted EPS because the exercise prices were greater than the market price of the common shares. Options to purchase 38,670 shares of common stock at prices ranging from \$2.52 per share to \$3.375 per share were outstanding at November 30, 2000 but were not included in the computation of diluted EPS because the exercise prices were greater than the market price of the common shares.

Liquidity and Capital Resources

Assets

The changes in cash and cash equivalents are detailed in the Statements of Consolidated Cash Flows on page 5. Total assets increased \$138,802 from \$4,874,405 at May 31, 2001 to \$5,013,207 at November 30, 2001. This amount was primarily attributable to an increase to accounts receivable of \$84,057 consisting mainly of 1) an increase of \$602,552 in trade accounts receivable reflecting higher billings and a slower collection rate compared to the previous fiscal year end, 2) a \$514,660 decrease in unbilled accounts receivable (current plus noncurrent) primarily resulting from a \$237,151 decrease in reimbursable indirect rate variances for the current fiscal year, a net \$277,509 decrease in month end accrued sales on accrued direct labor comparing the current period (no accrual needed as the pay period ended on November 30, 2001) and the accrual at the end of fiscal year 2001, and 3) a \$3,835 decrease in other accounts receivable. Fixed assets, net of accumulated depreciation and amortization, increased \$102,748 reflecting fixed asset purchases of \$274,808 (mainly nonhuman primate enclosures, laboratory equipment and facility improvements) offset by depreciation and amortization of \$172,060. Prepaid expenses increased \$86,874 primarily due to the prepayment of business liability and life insurance premiums, and real estate and personal property taxes.

The increase above is partially offset by 1) a decrease in inventories of \$22,620 and 2) a decrease in deferred income taxes of \$113,500 as a result of utilizing a portion of federal and state income tax loss

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carryforwards.

Liabilities

In the first six months of operation in fiscal year 2002, total liabilities increased \$268 from \$1,045,157 at May 31, 2001 to \$1,045,425 at November 30, 2001. This increase is primarily attributable to 1) an increase to borrowings under line-of-credit of \$177,519 reflecting the slower collection of trade accounts receivable, 2) an increase in accounts payable of \$41,667, and 3) a \$45,134 increase in other accrued liabilities. This increase reflects an overpayment of \$45,000 on an invoice which will be repaid next quarter.

The increase above is partially offset by 1) a decrease in accrued compensation and related costs of \$203,319 reflecting a shorter accrual period this six month

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period when compared to the prior year end and the payment of accrued bonuses from fiscal year 2001 during the first quarter of fiscal year 2002, and 2) payments totaling \$60,733 on capital leases and notes payable reducing long-term debt.

Stockholders' Equity

In the first six months of operation in fiscal year 2002, stockholders' equity increased \$138,534 primarily due to the Company realizing \$170,055 of net income offset by the \$35,304 cash dividend declared on August 8, 2001.

Capital Resources

The Company believes it has sufficient cash and financing sources to provide for its ongoing operations and the Company continues to believe that the impact of inflation, or the absence of it, will have no significant effect on its operations.

Forward Looking Information

Statements herein that are not descriptions of historical facts are forward-looking and subject to risk and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors including those set forth in BIOQUAL's Securities and Exchange Commission filings under "Risk Factors", including risks relating to the early stage of products under development; the ability to continue to extend its government contracts and obtain new contracts; uncertainties relating to clinical trials; dependence on third parties' future capital needs; and risks relating to the commercialization, if any, of BIOQUAL's proposed products (such as marketing, safety, regulatory, patent, product liability, supply, competition and other risks).

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Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Annual Meeting - October 23, 2001

Election of Directors

Four directors were elected:

	For	Withheld
	-----	-----
J. Thomas August, M.D.	676,577	818
Charles C. Francisco	676,577	818
Charles F. Gauvin	676,577	818
John C. Landon, Ph.D.	676,544	851

There were no other directors whose term of office as a director continued after the meeting.

Other Matters Voted Upon at the Meeting

Proposal 2 To ratify the selection of Aronson, Fetridge and Weigle as the

Company's independent auditors.

Affirmative Votes	677,175
Negative Votes	53

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Abstain

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused the report to be signed on its behalf by the undersigned thereunto duly authorized.

BIOQUAL, INC.

DATE January 10, 2002

/s/ John C. Landon

Chairman of the Board,
President and Chief Executive
Officer

DATE January 10, 2002

/s/ Michael P. O'Flaherty

Chief Operating Officer and
Secretary

DATE January 10, 2002

/s/ David A. Newcomer

Chief Financial Officer

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