

Edgar Filing: BIOQUAL INC - Form 10QSB

BIOQUAL INC
Form 10QSB
January 16, 2001

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, 2000

Commission file number 1-13527

BIOQUAL, INC.

State of Delaware

(State or other jurisdiction of
incorporation or organization)

13-3078199

(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; 880,425
shares outstanding as of January 10, 2001.

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, 2000 AND NOVEMBER 30, 2000

| ASSETS | NOVEMBER |
|--|----------|
| ----- | |
| CURRENT ASSETS: | |
| Cash and cash equivalents | \$ 7 |
| Accounts receivable: | |
| Trade | 1,31 |
| Unbilled - current | 32 |
| Other | 1 |
| Prepaid expenses | 12 |
| Inventories | 24 |
| Deferred income taxes - current | 3 |
| | ----- |
| Total current assets | 2,13 |
| | ----- |
| FIXED ASSETS: | |
| Leasehold improvements | 99 |
| Furniture, fixtures and equipment | 3,60 |
| | ----- |
| Total | 4,60 |
| Less accumulated depreciation and amortization | 3,09 |

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| | |
|---|---------|
| Fixed assets, net | 1,50 |
| DEFERRED INCOME TAXES - NONCURRENT | 49 |
| UNBILLED ACCOUNTS RECEIVABLE - NONCURRENT | 33 |
| OTHER NONCURRENT ASSETS | |
| CASH VALUE OF OFFICERS' LIFE INSURANCE POLICIES | 28 |
| TOTAL | \$ 4,74 |
| LIABILITIES | |
| ----- | |
| CURRENT LIABILITIES: | |
| Borrowings under line of credit | \$ 27 |
| Current maturities of long-term debt | 10 |
| Accounts payable | 11 |
| Accrued compensation and related costs | 36 |
| Other accrued liabilities | 8 |
| Total current liabilities | 94 |
| LONG-TERM DEBT | 13 |
| Total liabilities | 1,08 |
| STOCKHOLDERS' EQUITY | |
| Convertible 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, 2000, 880,425 shares, May 31, 2000, 880,091 shares outstanding | 1 |
| Additional paid-in capital | 7,47 |
| Accumulated deficit | (3,13) |
| Total | 4,35 |
| Less - treasury stock November 30, 2000, 719,983 shares, May 31, 2000, 720,317 shares, at cost | (69) |
| Total stockholders' equity | 3,66 |
| TOTAL | \$ 4,74 |
| ===== | |

See notes to financial statements.

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BIOQUAL, INC. AND SUBSIDIARY

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED NOVEMBER 30,

| | 2000 | 1999 |
|--------------------------|--------------|--------------|
| | ---- | ---- |
| REVENUES AND SALES: | | |
| Contract revenues | \$ 2,930,652 | \$ 2,962,977 |
| Product sales | 8,577 | 8,139 |
| | ----- | ----- |
| Total Revenues and Sales | 2,939,229 | 2,971,116 |

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| | | |
|---|-----------|-----------|
| OPERATING EXPENSES: | | |
| Contract | 2,260,600 | 2,380,552 |
| Cost of goods sold | 8,070 | 8,891 |
| Research and development | 14,078 | 46,950 |
| General and administrative | 523,523 | 486,441 |
| | ----- | ----- |
| Total | 2,806,271 | 2,922,834 |
| | ----- | ----- |
| OPERATING INCOME | 132,958 | 48,282 |
| INTEREST INCOME | 1,127 | 807 |
| INTEREST EXPENSE | (14,035) | (14,789) |
| | ----- | ----- |
| INCOME BEFORE INCOME TAX | 120,050 | 34,300 |
| PROVISION FOR INCOME TAX | 48,000 | 10,000 |
| | ----- | ----- |
| NET INCOME | \$ 72,050 | \$ 24,300 |
| | ===== | ===== |
| BASIC EARNINGS PER SHARE | \$ 0.08 | \$ 0.03 |
| | ===== | ===== |
| DILUTED EARNINGS PER SHARE | \$ 0.08 | \$ 0.03 |
| | ===== | ===== |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR BASIC EARNINGS PER SHARE | 880,157 | 869,286 |
| EFFECT OF DILUTIVE SECURITIES - OPTIONS | 12,197 | 15,450 |
| | ----- | ----- |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING OPTIONS FOR DILUTIVE EARNINGS PER SHARE | 892,354 | 884,736 |
| | ===== | ===== |

See notes to financial statements.

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BIOQUAL, INC. AND SUBSIDIARY

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE SIX MONTHS ENDED NOVEMBER 30,

| | 2000 | 1999 |
|--------------------------|--------------|--------------|
| | ---- | ---- |
| REVENUES AND SALES: | | |
| Contract revenues | \$ 6,002,930 | \$ 5,696,978 |
| Product sales | 11,837 | 39,510 |
| | ----- | ----- |
| Total Revenues and Sales | 6,014,767 | 5,736,488 |
| | ----- | ----- |

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| | | |
|---|------------|-----------|
| OPERATING EXPENSES: | | |
| Contract | 4,718,965 | 4,541,798 |
| Cost of goods sold | 10,663 | 36,040 |
| Research and development | 31,510 | 100,871 |
| General and administrative | 1,029,133 | 972,490 |
| | ----- | ----- |
| Total | 5,790,271 | 5,651,199 |
| | ----- | ----- |
| OPERATING INCOME | 224,496 | 85,289 |
| INTEREST INCOME | 2,308 | 1,620 |
| INTEREST EXPENSE | (27,352) | (27,607) |
| | ----- | ----- |
| INCOME BEFORE INCOME TAX | 199,452 | 59,302 |
| PROVISION FOR INCOME TAX | 80,000 | 24,000 |
| | ----- | ----- |
| NET INCOME | \$ 119,452 | \$ 35,302 |
| | ===== | ===== |
| BASIC EARNINGS PER SHARE | \$ 0.14 | \$ 0.04 |
| | ===== | ===== |
| DILUTED EARNINGS PER SHARE | \$ 0.13 | \$ 0.04 |
| | ===== | ===== |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR BASIC EARNINGS PER SHARE | 880,124 | 870,696 |
| EFFECT OF DILUTIVE SECURITIES - OPTIONS | 11,795 | 15,450 |
| | ----- | ----- |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING OPTIONS FOR DILUTIVE EARNINGS PER SHARE | 891,919 | 886,146 |
| | ===== | ===== |

See notes to financial statements.

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BIOQUAL, INC. AND SUBSIDIARY

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED NOVEMBER 30,

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income

\$ 119,45

Adjustments to reconcile net income to net cash
provided by (used for) operating activities:

Depreciation and amortization

203,97

2000

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| | |
|--|----------|
| Deferred income taxes | 80,00 |
| Decrease (increase) in accounts receivable | 424,40 |
| Increase in prepaid expenses | (26,34) |
| Increase in inventories | (17,33) |
| Decrease (increase) in other assets | 20,00 |
| Decrease in accounts payable and accrued expenses | (196,84) |
| Common stock gifted to employees | |
| Decrease in income taxes payable | |
| | ----- |
| Total Adjustments | 487,86 |
| | ----- |
| NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | 607,31 |
| | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Capital expenditures | (104,59) |
| | ----- |
| NET CASH USED FOR INVESTING ACTIVITIES | (104,59) |
| | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Net (payments) proceeds under line-of-credit agreement | (409,37) |
| Net proceeds from exercise of stock options | 58 |
| Dividend paid | (26,40) |
| Principal payments under notes payable and capital lease obligations | (65,408) |
| | ----- |
| NET CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES | (500,60) |
| | ----- |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 2,12 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 72,09 |
| | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 74,22 |
| | ===== |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

| | |
|----------------------------------|----------|
| Cash paid during the period for: | |
| Interest | \$ 30,66 |
| | ===== |
| Income taxes | |

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:

Treasury stock received for payment of loans to officer

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Interim Financial Statements

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 are not necessarily indicative of results for the year.

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Inventories

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

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary Analysis

In this second quarter of fiscal year 2001, BIOQUAL, Inc. ("BIOQUAL") realized net income of \$72,050. Net income for the six months of fiscal year 2001 totaled \$119,452.

On October 1, 2000, BIOQUAL won a renewal competition for a National Cancer Institute (NCI) contract to support researchers at the NCI. The contract entitled "Development of New Methods and Strategies for Diagnosis and Treatment of Invasive Infections in Patients with Cancer" totals \$376,536 and extends for five years to September 2005.

On December 18, 2000, BIOQUAL won a renewal competition for a NCI contract to support the Institute's AIDS researchers. The contract entitled "Nonhuman Primate Models of AIDS: Prophylactic and Therapeutic Studies" totals \$4,628,783 and extends for five years to December 2005.

Results of Operations

----- Three Month Comparison

For the three months of operations ended November 30, 2000 (BIOQUAL's second quarter), contract revenues decreased by 1.1% or \$32,325 to \$2,930,652 compared to \$2,962,977 in the second quarter of fiscal year 2000. This decrease is primarily due to a decrease of \$141,000 in reimbursable costs related to a toxicity study compared to similar costs recorded in the second quarter of fiscal year 2000. Offsetting the above decrease in revenues was the fiscal year 2000 reserve of \$50,000 for an indirect cost overrun on a contract that expired on December 27, 1999. An increase in government contract activity also partially offsets the above net decrease. Product sales increased to \$8,577 compared to \$8,139 in fiscal year 2000. Contract operating expenses decreased 5.0% or \$119,952 compared to the second quarter of fiscal year 2000 primarily due to 1) a decrease of \$141,000 in reimbursable costs related to a toxicity study compared to similar costs recorded in the second quarter of fiscal year 2000, and 2) a decrease in overhead costs of approximately \$40,000 supporting the equine production facility as compared to the second quarter of fiscal year 2000. An increase in government contract activity partially offsets the above net decrease. Cost of goods sold decreased to \$8,070 from \$8,891 in the second quarter of fiscal year 2000. This decrease was primarily due to the decrease in

the number of complimentary samples provided to customers during this fiscal year compared to the previous year. Research and development (R&D) expenses decreased to \$14,078 compared to \$46,950 in the second quarter of fiscal year 2000. This decrease is primarily due to a voluntary reduction in staffing in BIOQUAL's Department of Discovery Research. General and administrative expenses increased 7.6% compared to the second quarter of fiscal year 2000 primarily due to inflationary increases in several items of expense and additional indirect labor costs incurred by senior technical staff. Total operating expenses

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decreased 4.0% due to the above.

Operating income increased to \$132,958 compared to \$48,282 in the same quarter of the prior fiscal year. The increase is primarily due to 1) the decrease in R&D expenses, 2) the decrease in overhead expenses supporting the equine production facility, and 3) the fiscal year 2000 reserve for a \$50,000 indirect cost overrun on a contract that ended on December 27, 1999.

For this quarter, BIOQUAL had interest expense of \$14,035 compared to interest expense of \$14,789 in the prior year.

In accordance with SFAS No. 109, "Accounting for Income Taxes", the Company reported a deferred federal income tax expense of \$48,000 for the three months ended November 30, 2000. The Company will utilize available state net operating loss ("NOL") carryforwards to offset state income tax. The state NOL carryforwards became available for use as a result of the December 31, 1999 merger between Diagnon Corporation and BIOQUAL, Inc.

Earnings Per Share (EPS) - For the three month comparison, options to purchase 38,670 shares of common stock at prices ranging from \$2.52 per share to \$3.375 per share were outstanding on 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. Options to purchase 29,502 shares of common stock at prices ranging from \$2.8875 per share to \$3.375 per share were outstanding on November 30, 1999 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, 2000, contract revenues increased by 5.4% or \$305,952 compared to the first six months of fiscal year 2000. This increase was primarily due to 1) increased government contract activity, 2) the fiscal year 2000 reserve of \$50,000 for an indirect cost overrun on a contract that expired on December 27, 1999, and 3) the funding of a \$25,858 indirect rate variance cost overrun of a contract that expired in fiscal year 1996 (the contract was administratively closed out on August 24, 2000). Product sales decreased to \$11,837 compared to \$39,510 in fiscal year 2000. Contract operating expenses increased 3.9% or \$177,167 compared to the first six months of fiscal year 2000 primarily due to increased government contract activity, offset by a decrease in overhead expenses of approximately \$40,000 supporting the equine production facility compared to the first six months in fiscal year 2000. Cost of goods sold decreased to \$10,663 from \$36,040 in the first six months of fiscal year 2000. This decrease was primarily due to the decrease in units sold

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during this fiscal year. Research and development (R&D) expenses decreased to \$31,510 compared to \$100,871 in the first six months of fiscal year 2000. This decrease is primarily due to a voluntary reduction in staffing in BIOQUAL's Department of Discovery Research. General and administrative expenses increased 5.8% compared to the first six months of fiscal year 2000 primarily due to inflationary increases in several items of expense and additional indirect labor costs incurred by senior technical staff. Total operating expenses increased 2.5% due to the above.

Operating income increased to \$224,496 compared to \$85,289 in the same period of the prior fiscal year. The increase is primarily due to 1) the funding of a \$25,858 indirect rate variance cost overrun of a contract that expired in fiscal

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year 1996 as mentioned above, 2) the decrease in R&D expenses, 3) the decrease in overhead expenses supporting the equine production facility, and 4) the fiscal year 2000 reserve for a \$50,000 indirect cost overrun on a contract that ended on December 27, 1999.

For the six months of this fiscal year, the Company had interest expense of \$27,352 compared to interest expense of \$27,607 in the prior year.

In accordance with SFAS No. 109, "Accounting for Income Taxes", the Company reported a deferred federal income tax expense of \$80,000 for the six months ended November 30, 2000. The Company will utilize available state net operating loss ("NOL") carryforwards to offset state income tax. The state NOL carryforwards became available for use as a result of the December 31, 1999 merger between Diagnon Corporation and its wholly owned subsidiary, BIOQUAL, Inc.

Earnings Per Share (EPS) - For the six month comparison, options to purchase 38,670 shares of common stock at prices ranging from \$2.52 per share to \$3.375 per share were outstanding on November 30, 2000 but were not included in the computation of diluted EPS because the option exercise prices were greater than the market price of the common shares. Options to purchase 29,502 shares of common stock at prices ranging from \$2.8875 per share to \$3.375 per share were outstanding on November 30, 1999 but were not included in the computation of diluted EPS because the option 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 decreased \$577,993. This amount was primarily attributable to a decrease in accounts receivable of \$424,408 consisting mainly of 1) a decrease of \$318,079 in trade accounts receivable reflecting a faster collection rate compared to the previous fiscal year end, 2) a \$102,640 decrease in unbilled accounts receivable (current plus noncurrent) primarily resulting from a \$108,630 decrease in reimbursable indirect rate variances for the current fiscal year, a net \$11,273 increase in month end accrued sales on accrued direct labor comparing the current period and the accrual at the end of fiscal year 2000, and a \$5,283 decrease in prior year rate variance billed this six month period, and 3) a \$3,689 decrease in other

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accounts receivable. Other noncurrent assets decreased \$20,000 representing a final payment on a nonhuman primate housing unit order from the previous fiscal year end. Deferred income taxes decreased by \$80,000 as a result of utilizing a portion of the federal income tax loss carryforward. Fixed assets, net of accumulated depreciation and amortization decreased \$99,377 reflecting depreciation and amortization of \$203,972 reduced by a \$57,720 fully amortized facility improvement write off and disposal during the first six months of fiscal year 2001 offset by fixed asset purchases of \$104,595 (mainly laboratory equipment and facility improvements) reduced by the \$57,720 fully amortized facility improvement write off.

The decrease in total assets above is partially offset by 1) an increase in prepaid expenses of \$26,341 primarily due to the prepayment of business liability and life insurance premiums, and 2) an increase in inventories of \$17,330. The balance of the decrease was due to other miscellaneous factors.

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Liabilities

In the first six months of operations, total liabilities decreased \$671,625 from \$1,757,815 at May 31, 2000 to \$1,086,190 at November 30, 2000. This decrease is primarily attributable to 1) a decrease to borrowings under line-of-credit of \$409,373 reflecting the faster collection of trade accounts receivable, 2) a decrease in accrued compensation and related costs of \$108,605 reflecting the payment of accrued bonuses from fiscal year 2000 during the first six months of fiscal year 2001, 3) payments totaling \$65,408 on capital leases and notes payable reducing long-term debt, and 4) a decrease in accounts payable of \$83,841 reflecting the increase in contract activity. The balance of the decrease was due to other miscellaneous factors.

Stockholders' Equity

In the first six months of operation in fiscal year 2001, stockholders' equity increased \$93,632 primarily due to the Company realizing \$119,452 of net income offset by the \$26,401 cash dividend declared on July 12, 2000.

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; uncertainties relating to clinical trials; dependence on third parties' future capital needs; and risks relating to the commercialization, if any, of BIOQUAL's

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proposed products (such as marketing, safety, regulatory, patent, product liability, supply, competition and other risks).

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

Annual Meeting - October 25, 2000

Election of Directors

Four directors were elected:

| | For ----- | Withheld ----- |
|------------------------|--------------|-------------------|
| J. Thomas August, M.D. | 764,344 | 2,180 |
| Charles C. Francisco | 763,410 | 2,114 |
| Charles F. Gauvin | 763,410 | 2,114 |
| John C. Landon, Ph.D. | 763,375 | 2,209 |

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

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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, 2001

/s/ John C. Landon

Chairman of the Board,
President and Chief Executive
Officer

DATE January 10, 2001

/s/ Michael P. O'Flaherty

Chief Operating Officer and
Secretary

DATE January 10, 2001

/s/ David A. Newcomer

Chief Financial Officer