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BIOQUAL INC
Form 10QSB
April 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 February 28, 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; 880,425
shares outstanding as of April 9, 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 FEBRUARY 28, 2001

ASSETS -----	FEBRUARY -----
CURRENT ASSETS:	
Cash and cash equivalents	\$ 7
Accounts receivable:	
Trade	1,66
Unbilled - current	14
Other	
Prepaid expenses	11
Inventories	22
Deferred income taxes - current	
Total current assets	2,23
FIXED ASSETS:	
Leasehold improvements	99
Furniture, fixtures and equipment	3,61
Total	4,60
Less accumulated depreciation and amortization	3,19
Fixed assets, net	1,41
DEFERRED INCOME TAXES - NONCURRENT	49
UNBILLED ACCOUNTS RECEIVABLE - NONCURRENT	53
OTHER NONCURRENT ASSETS	5
CASH VALUE OF OFFICERS' LIFE INSURANCE POLICIES	28

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TOTAL	\$ 5,00
=====	
LIABILITIES	

CURRENT LIABILITIES:	
Borrowings under line of credit	\$ 52
Current maturities of long-term debt	12
Accounts payable	20
Accrued compensation and related costs	34
Other accrued liabilities	

Total current liabilities	1,20
LONG-TERM DEBT	9

Total liabilities	1,30

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; February 28, 2001, 880,425 shares, May 31, 2000, 880,091 shares outstanding	1
Additional paid-in capital	7,47
Accumulated deficit	(3,08)

Total	4,40
Less - treasury stock February 28, 2001, 719,983 shares, May 31, 2000, 720,317 shares, at cost	(69)

Total stockholders' equity	3,70

TOTAL	\$ 5,00
=====	

See notes to financial statements.

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BIOQUAL, INC. AND SUBSIDIARY

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED FEBRUARY 28, 2001 AND FEBRUARY 29, 2000

	FEBRUARY 28, 2001 ----	FEBRUARY 29, 2000 ----
REVENUES AND SALES:		
Contract revenues	\$ 3,005,642	\$ 2,867,429
Product sales	48,964	55,299
	-----	-----
Total Revenues and Sales	3,054,606	2,922,728
	-----	-----
OPERATING EXPENSES:		

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Contract	2,231,597	2,272,950
Cost of goods sold	42,262	40,892
Research and development	2,944	33,947
General and administrative	684,224	544,550
	-----	-----
Total	2,961,027	2,892,339
	-----	-----
OPERATING INCOME	93,579	30,389
INTEREST INCOME	1,125	1,151
INTEREST EXPENSE	(16,143)	(14,387)
	-----	-----
INCOME BEFORE INCOME TAX	78,561	17,153
PROVISION FOR INCOME TAX	31,000	7,000
	-----	-----
NET INCOME	\$ 47,561	\$ 10,153
	=====	=====
BASIC EARNINGS PER SHARE	\$ 0.05	\$ 0.01
	=====	=====
DILUTED EARNINGS PER SHARE	\$ 0.05	\$ 0.01
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR BASIC EARNINGS PER SHARE	880,425	872,083
EFFECT OF DILUTIVE SECURITIES - OPTIONS	8,061	9,381
	-----	-----
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING OPTIONS FOR DILUTIVE EARNINGS PER SHARE	888,486	881,464
	=====	=====

See notes to financial statements.

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BIOQUAL, INC. AND SUBSIDIARY

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE NINE MONTHS ENDED FEBRUARY 28, 2001 AND FEBRUARY 29, 2000

	FEBRUARY 28, 2001 ----	FEBRUARY 29, 2000 ----
REVENUES AND SALES:		
Contract revenues	\$ 9,008,572	\$ 8,564,407
Product sales	60,798	94,809
	-----	-----
Total Revenues and Sales	9,069,370	8,659,216
	-----	-----
OPERATING EXPENSES:		

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Contract	6,950,562	6,814,748
Cost of goods sold	52,925	76,932
Research and development	34,454	134,818
General and administrative	1,713,357	1,517,040
	-----	-----
Total	8,751,298	8,543,538
	-----	-----
OPERATING INCOME	318,072	115,678
INTEREST INCOME	3,433	2,771
INTEREST EXPENSE	(43,495)	(41,994)
	-----	-----
INCOME BEFORE INCOME TAX	278,010	76,455
PROVISION FOR INCOME TAX	111,000	31,000
	-----	-----
NET INCOME	\$ 167,010	\$ 45,455
	=====	=====
BASIC EARNINGS PER SHARE	\$ 0.19	\$ 0.05
	=====	=====
DILUTED EARNINGS PER SHARE	\$ 0.19	\$ 0.05
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR BASIC EARNINGS PER SHARE	880,223	870,624
EFFECT OF DILUTIVE SECURITIES - OPTIONS	10,550	9,381
	-----	-----
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING OPTIONS FOR DILUTIVE EARNINGS PER SHARE	890,773	880,005
	=====	=====

See notes to financial statements.

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BIOQUAL, INC. AND SUBSIDIARY

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED FEBRUARY 28, 2001 AND FEBRUARY 29, 2000

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income	\$ 167,010

Adjustments to reconcile net income to net cash provided by (used for) operating activities:	
Depreciation and amortization	301,700
Deferred income taxes	111,000
Decrease (increase) in accounts receivable	62,330
Increase in prepaid expenses	(21,300)

FEBRUARY 28, 2001

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Decrease in inventories	3,47
Increase in other assets	(30,00)
Decrease in accounts payable and accrued expenses	(197,54)
Common stock gifted to employees	
Decrease in income taxes payable	
Total Adjustments	229,65
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	396,66
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital expenditures	(107,58)
NET CASH USED FOR INVESTING ACTIVITIES	(107,58)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net (payments) proceeds under line-of-credit agreement	(166,27)
Net proceeds from exercise of stock options	58
Dividend paid	(26,40)
Principal payments under notes payable and capital lease obligations	(93,80)
NET CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES	(285,90)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,18
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	72,09
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 75,28
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash paid during the period for:	
Interest	\$ 44,73
Income taxes	

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:

Treasury stock received for payment of loans to officer

See notes to financial statements.

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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.

Inventories

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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 third quarter of fiscal year 2001, BIOQUAL, Inc. ("BIOQUAL") realized net income of \$47,561. Net income for the nine months of fiscal year 2001 totaled \$167,010.

On December 18, 2000, BIOQUAL won a renewal competition for a National Cancer Institute (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.

On March 1, 2001, BIOQUAL won and began work on a contract to support the recently established National Institutes of Health Vaccine Research Center. The contract entitled "Housing and Maintenance of Nonhuman Primates for the Vaccine Research Center" totals \$8,230,253 and extends for seven years to February 2008.

Results of Operations

Three Month Comparison

For the three months of operations ended February 28, 2001 (BIOQUAL's third quarter), contract revenues increased by 4.8% or \$138,213 to \$3,005,642 compared to \$2,867,429 in the third quarter of fiscal year 2000. This increase is primarily due to an increase in government contract activity. Product sales decreased to \$48,964 compared to \$55,299 in fiscal year 2000. This decrease was primarily due to two factors, 1) an increase in the number of units of Immunogam sold (267 units) at a temporarily reduced price compared to the same quarter in fiscal year 2000 and 2) a reduction in number of units sold (approximately 200 units) of Eqstend compared to the previous year. Contract operating expenses decreased 1.8% or \$41,353 compared to the third quarter of fiscal year 2000 primarily due to 1) the effect of a one-time retroactive adjustment of reallocating certain fringe benefit costs (totaling \$86,620) from contract expenses to general and administrative expenses, and 2) a decrease in overhead costs of approximately \$27,000 supporting the equine production facility as compared to the third quarter of fiscal year 2000. An increase in government contract activity partially offset the above net decrease. Cost of goods sold increased to \$42,262 from \$40,892 in the third

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quarter of fiscal year 2000. Research and development (R&D) expenses decreased to \$2,944 compared to \$33,947 in the third 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 25.6% compared to the third 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, and the effect of a one-time retroactive adjustment of reallocating certain fringe benefit costs (totaling \$86,620) from contract expenses to general and administrative expenses as mentioned above. Total operating expenses increased 2.4% due to the above.

Operating income increased to \$93,579 compared to \$30,389 in the same quarter of

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the prior fiscal year. The increase is primarily due to 1) the decrease in R&D expenses, and 2) the decrease in overhead expenses supporting the equine production facility.

For this quarter, BIOQUAL had interest expense of \$16,143 compared to interest expense of \$14,387 in the prior year.

In accordance with SFAS No. 109, "Accounting for Income Taxes", the Company reported a deferred federal income tax expense of \$31,000 for the three months ended February 28, 2001. 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 Diagon Corporation and its wholly owned subsidiary, BIOQUAL, Inc.

Earnings Per Share (EPS) - For the three month comparison, options to purchase 29,335 shares of common stock at prices ranging from \$2.8875 per share to \$3.375 per share were outstanding on February 28, 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 29,502 shares of common stock at prices ranging from \$2.8875 per share to \$3.375 per share were outstanding on February 29, 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.

Nine Month Comparison

For the nine months of operations ended February 28, 2001, contract revenues increased by 5.2% or \$444,165 compared to the first nine 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 loss due to an indirect cost overrun on a contract that expired on December 27, 1999, and 3) the funding in fiscal year 2001 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 \$60,798 compared to \$94,809 in fiscal year 2000. This decrease was primarily due to a decrease in units sold during the current fiscal year and two factors which occurred during the third quarter of fiscal year 2001, 1) an increase in the number of units of Immunogam sold (267 units) at a temporarily reduced price compared to the third quarter in fiscal year 2000 and 2) a reduction in number of units sold (approximately 200 units) of Eqstend compared to the previous year. Contract operating expenses increased 2.0% or \$135,814 compared to the first nine months of fiscal year 2000 primarily due to increased

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government contract activity, offset by a decrease in contract overhead expenses as a percentage of contract sales and a decrease in overhead expenses of approximately \$67,000 in support of the equine production facility compared to the first nine months in fiscal year 2000. Cost of goods sold decreased to \$52,925 from \$76,932 in the first nine months of fiscal year 2000. This decrease was primarily due to the decrease in units sold during this fiscal year. Research and development (R&D) expenses decreased to \$34,454 compared to \$134,818 in the first nine 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 12.9% compared to the first nine 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 2.4% due to the above.

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Operating income increased to \$318,072 compared to \$115,678 in the same period of the prior fiscal year. The increase is primarily due to 1) the funding in fiscal year 2001 of a \$25,858 indirect rate variance cost overrun of a contract that expired in fiscal year 1996 as mentioned above, 2) the decrease in R&D expenses, 3) the decrease in overhead expenses supporting the equine production facility, 4) the fiscal year 2000 reserve for a \$50,000 loss due to an indirect cost overrun on a contract that ended on December 27, 1999, and 5) increased government contract activity.

For the nine months of this fiscal year, the Company had interest expense of \$43,495 compared to interest expense of \$41,994 in the prior year.

In accordance with SFAS No. 109, "Accounting for Income Taxes", the Company reported a deferred federal income tax expense of \$111,000 for the nine months ended February 28, 2001. 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 nine month comparison, options to purchase 29,335 shares of common stock at prices ranging from \$2.8875 per share to \$3.375 per share were outstanding on February 28, 2001 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 February 29, 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.

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 \$316,436. This amount was primarily attributable to a decrease in accounts receivable of \$62,332 consisting mainly of 1) a \$78,423 decrease in

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unbilled accounts receivable (current plus noncurrent) primarily resulting from a \$91,494 increase in reimbursable indirect rate variances for the current fiscal year, a net \$164,634 decrease in month end accrued sales on accrued direct labor comparing the current period with the accrual at the end of fiscal year 2000, and a \$5,283 decrease in prior year rate variance billed this nine month period, 2) a \$13,221 decrease in other accounts receivable and 3) an increase of \$29,312 in trade accounts receivable reflecting a slower collection rate compared to the previous fiscal year end. Deferred income taxes decreased by \$111,000 as a result of utilizing a portion of the federal income tax loss carryforward. Fixed assets, net of accumulated depreciation and amortization decreased \$194,116 reflecting depreciation and amortization of \$301,700 reduced by a \$57,720 fully amortized facility improvement write off and disposal during the first nine months of fiscal year 2001 offset by fixed asset purchases of \$107,584 (mainly laboratory equipment and facility improvements) reduced by the \$57,720 fully amortized facility improvement write off. Inventories decreased \$3,470.

The decrease in total assets above is partially offset by 1) an increase in

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prepaid expenses of \$21,301 primarily due to the prepayment of business liability insurance premiums and personal property and real estate taxes and 2) a \$30,000 increase to other noncurrent assets reflecting a \$50,000 deposit on a nonhuman primate housing unit order offset by a \$20,000 final payment on a nonhuman primate housing unit order from the previous fiscal year end. The balance of the decrease was due to other miscellaneous factors.

Liabilities

In the first nine months of operations, total liabilities decreased \$457,627 from \$1,757,815 at May 31, 2000 to \$1,300,188 at February 28, 2001. This decrease is primarily attributable to 1) a decrease to borrowings under line-of-credit of \$166,279 reflecting reduced spending for research and development, 2) a decrease in accrued compensation and related costs of \$126,870 reflecting the payment of accrued bonuses from fiscal year 2000 during the first quarter of fiscal year 2001 and a shorter accrual period at the end of February 2001 compared to the end of the previous fiscal year, 3) payments totaling \$93,805 on capital leases and notes payable reducing long-term debt, and 4) a decrease in other accrued liabilities of \$78,703 reflecting the third quarter reimbursement of an errant payment (\$77,243) from the National Institutes of Health from fiscal year 2000. The balance of the decrease was due to other miscellaneous factors.

Stockholders' Equity

In the first nine months of operation in fiscal year 2001, stockholders' equity increased \$141,191 primarily due to the Company realizing \$167,010 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.

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

Item 6. EXHIBITS

Exhibits filed

(10) Government Contracts.

1. Title: Non Human Primate Model of AIDS:
Prophylactic and Therapeutic Studies.

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Institute: National Cancer Institute
Contract Period: 12/19/2000 - 12/18/2005

2. Title: Housing and Maintenance of Non-Human Primates for VRC.
Institute: National Institute of Allergy and Infectious Diseases
Contract Period: 3/1/2001 - 2/28/2008

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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 April 10, 2001

/s/ John C. Landon

Chairman of the Board,
President and Chief Executive
Officer

DATE April 10, 2001

/s/ Michael P. O'Flaherty

Chief Operating Officer and
Secretary

DATE April 10, 2001

/s/ David A. Newcomer

Chief Financial Officer

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