

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: 1996-01-11 | Period of Report: 1995-11-30
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FILER

GENETIC LABORATORIES WOUND CARE INC

CIK: 831365 | IRS No.: 411604048 | State of Incorporation: MN | Fiscal Year End: 0531
Type: 10QSB | Act: 34 | File No.: 000-16664 | Film No.: 96502817
SIC: 3842 Orthopedic, prosthetic & surgical appliances & supplies

Mailing Address
2726 PATTON ROAD
ST PAUL MN 55113

Business Address
2726 PATTON ROAD
ST PAUL MN 55113
6126330805

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 QUARTER ENDED November 30, 1995
NUMBER 0-16664

COMMISSION FILE

GENETIC LABORATORIES WOUND CARE, INC.

State of Incorporation: Minnesota
I.R.S. Employer Identification No: 41-1604048

Executive Offices: 2726 Patton Road, St. Paul, MN 55113
Telephone Number: (612) 633-0805

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

On November 30, 1995, there were 2,389,100 shares of the Registrant's \$.01 par value common stock outstanding.

PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

<TABLE>

GENETIC LABORATORIES WOUND CARE, INC.
BALANCE SHEETS
(Unaudited)
ASSETS

<CAPTION>

| | November 30, 1995 | May 31 1995 |
|---|----------------------|----------------|
| CURRENT ASSETS | | |
| <S> | <C> | <C> |
| Cash and cash equivalents | \$437,409 | \$295,830 |
| Receivables | | |
| Trade, less allowance | 270,764 | 277,541 |
| Other | 0 | 10,787 |
| Inventories | 445,340 | 429,105 |
| Prepaid expenses | 88,578 | 29,141 |
| Total current assets | 1,242,091 | 1,042,404 |
| PROPERTY AND EQUIPMENT | | |
| Production equipment and tooling | 59,093 | 59,093 |
| Office equipment | 134,412 | 132,492 |
| | 193,505 | 191,585 |
| Less accumulated depreciation and amortization | 167,085 | 159,990 |
| | 26,420 | 31,595 |
| OTHER ASSETS, net | 10,043 | 11,952 |
| | \$1,278,554 | \$1,085,951 |
| | ===== | ===== |

</TABLE>

<TABLE>

LIABILITIES AND STOCKHOLDERS' EQUITY

<CAPTION>

CURRENT LIABILITIES

| <S> | <C> | <C> |
|---------------------------|----------------|----------------|
| Accounts payable | \$165,808 | \$132,368 |
| Accrued expenses | 45,268 | 65,804 |
| Income taxes payable | 42,246 | 9,800 |
| Total current liabilities | <u>253,322</u> | <u>207,972</u> |

STOCKHOLDERS' EQUITY

| | | |
|-------------------------------|--------------------|--------------------|
| Common stock, \$.01 par value | 23,891 | 23,261 |
| Additional paid-in capital | 641,781 | 625,186 |
| Retained earnings | 359,560 | 229,532 |
| | <u>1,025,232</u> | <u>877,979</u> |
| | <u>\$1,278,554</u> | <u>\$1,085,951</u> |
| | ===== | ===== |

</TABLE>

<TABLE>

GENETIC LABORATORIES WOUND CARE, INC.

STATEMENT OF OPERATIONS
(unaudited)

<CAPTION>

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|------------------------|------------------------------------|----------------|----------------------------------|----------------|
| <S> | 1995 | 1994 | 1995 | 1994 |
| <C> | <C> | <C> | <C> | <C> |
| Net revenues | \$567,262 | \$548,772 | \$1,213,418 | \$1,106,700 |
| Cost of revenues | <u>234,897</u> | <u>214,247</u> | <u>503,925</u> | <u>421,085</u> |
| Gross profit | 332,365 | 336,525 | 709,493 | 685,615 |
| Operating expenses | <u>330,262</u> | <u>289,083</u> | <u>687,177</u> | <u>569,002</u> |
| Income from operations | 2,103 | 47,442 | 22,316 | 116,613 |
| Other income | <u>3,138</u> | <u>862</u> | <u>169,712</u> | <u>1,721</u> |

| | | | | |
|--------------------------------|-----------|-----------|-----------|-----------|
| Income before taxes | 5,241 | 48,304 | 192,028 | 118,334 |
| Provision for taxes | 1,000 | 11,500 | 62,000 | 34,500 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net income | \$4,241 | \$36,804 | \$130,028 | \$83,834 |
| | ===== | ===== | ===== | ===== |
| Per common share data | | | | |
| Net income | \$.00 | \$.02 | \$.05 | \$.04 |
| | ===== | ===== | ===== | ===== |
| WEIGHTED AVERAGE COMMON SHARES | | | | |
| OUTSTANDING | 2,583,050 | 2,344,020 | 2,580,200 | 2,344,020 |
| | ===== | ===== | ===== | ===== |

</TABLE>

<TABLE>

GENETIC LABORATORIES WOUND CARE, INC.

STATEMENTS OF CASH FLOWS
(unaudited)

<CAPTION>

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|----------|------------------|----------|
| | November 30, | | November 30, | |
| | 1995 | 1994 | 1995 | 1994 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| <S> | <C> | <C> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income | \$4,241 | \$36,804 | \$130,028 | \$83,834 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 4,511 | 5,368 | 9,004 | 11,009 |
| Changes in current assets and liabilities | | | | |
| Receivables | 27,945 | 1,493 | 17,564 | (2,995) |
| Inventories | (100,644) | (17,614) | (16,235) | (70,560) |
| Prepaid expenses | (22,301) | (824) | (59,437) | (17,850) |
| Accounts payable | (5,767) | 755 | 33,440 | (17,574) |
| Accrued expenses | (33,606) | (14,567) | (20,536) | (8,636) |
| Income taxes payable | (20,554) | (8,500) | 32,446 | 7,500 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net cash provided by (used in) operating activities | (146,175) | 2,915 | 126,274 | (15,272) |
| | <hr/> | <hr/> | <hr/> | <hr/> |

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment

(1,920) 0 (1,920) (8,704)

Net cash used in investing activities

(1,920) 0 (1,920) (8,704)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds of issuance of

common stock 999 0 17,225 0

Net cash used in

financing activities 999 0 17,225 0

Net increase (decrease) in cash

and cash equivalents (147,096) 2,915 141,579 (23,976)

CASH and CASH EQUIVALENTS

Beginning 584,505 232,280 295,830 259,171

Ending \$437,409 \$235,195 \$437,409 \$235,195

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GENETIC LABORATORIES WOUND CARE, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. Basis of Presentation

The interim financial statements are unaudited but in the opinion of management, reflect all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the Company's financial position as of November 30, 1995, and the results of its operations and its cash flow for the three months ended November 30, 1995 and 1994. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year. These statements are condensed and therefore do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Form 10-KSB or Annual Report for the year ended May 31, 1995.

ITEM 2: MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Net Revenues:

Net revenues were \$567,262 for the three months ended November 30, 1995 compared to \$548,772 for the three months ended November 30, 1994, an increase of 3.4%. Domestic sales increased 9% comparing the three months ended November 30, 1995 to the three months ended November 30, 1994. Suture Strip wound closure strips sales were 68% of net revenues for the three months ended November 30, 1995, compared to 66% of net revenues for the three months ended November 30, 1994. Sales to international customers accounted for 15% of net revenues for the three months ended November 30, 1995, compared to 14% for the three months ended November 30, 1994.

Included in net revenues are royalties of \$13,069 for the three months ended November 30, 1994 and there are no royalties for the three months ended November 30, 1995. Royalty income has ceased.

Cost of Revenues:

Cost of revenues were \$234,897, 41.4% of net revenues, for the three months ended November 30, 1995 compared to \$212,247, 38.7% of net revenue for the three months ended November 30, 1994. The increase in cost of revenues was primarily the result of increases in costs of product components.

Operating Expenses:

Operating expenses were \$330,262, 58% of net revenues, for the three months ended November 30, 1995 compared to \$289,083, 53% of net revenues, for the three months ended November 30, 1994. Approximately \$19,000 of the increase was due to planned increases in product promotional activities.

Other Income:

On June 26, 1995 the Company sold its rights, title and interest in a royalty agreement with Bio-Vascular, Inc. for \$164,213. The royalty agreement was due to terminate in July 1995. Royalty revenues of \$56,237 and \$50,351 were earned under the royalty agreement for the years ended May 31, 1995 and 1994, respectively.

Liquidity and Capital Resources:

At November 30, 1995, the Company had working capital of \$988,769 and a working capital ratio of 4.9 to 1 compared to working capital of \$834,432 and a working capital ratio of 5.0 to 1 on May 31, 1995.

The Company has a revolving line of credit with a local bank in the amount of \$75,000. Outstanding balances on the line of credit at November 30, 1995 and May 31, 1995 were \$0.

The Company expects that it will be able to fund its working capital requirements for the year through internally generated funds.

Major Supplier:

As reported in the Company's November 30, 1994 10QSB a major supplier will discontinue production of an essential component material used in the Company's wound closure strips and fastener products. The Company immediately began identifying alternatives for the discontinued component material. The Company has qualified an alternative component material for its wound closure strips and fastener products.

Major Customers:

For the three months ended November 30, 1995 two customers accounted for more than 10% of net revenue. One customer accounted for approximately 16%, and the other customer 12% of net revenues for the three months ended November 30, 1995. These same customers accounted for 18.5% and 11.4% of net revenues for the year ended May 31, 1995.

FINANCIAL STATEMENTS

The interim financial statements are unaudited but in the opinion of the management, reflect all adjustment necessary for a fair presentation of results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

A) Exhibits

27 Financial Data Schedule

B) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENETIC LABORATORIES WOUND CARE, INC.

January 11, 1996

By: /s/ Arthur A. Beisang

Arthur A. Beisang
Chief Executive Officer

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5

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This schedule contains summary financial information extracted from the November 30, 1995 10QSB and is qualified in its entirety by reference to such financial statements

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