FORM 10QSB

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

Filing Date: **1999-09-10** | Period of Report: **1999-07-31**
SEC Accession No. 0000950130-99-005212

FILER

HI TECH PHARMACAL CO INC

CIK:**887497**| IRS No.: **112638720** | State of Incorp.:**NY** | Fiscal Year End: **0430**
Type: **10QSB** | Act: **34** | File No.: **000-20424** | Film No.: **99709549**
SIC: **2834** Pharmaceutical preparations

Mailing Address
369 BAYVIEW AVE.
AMITYVILLE NY 11701

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369 BAYVIEW AVENUE
AMITYVILLE NY 11701
5167898228

U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 10-QSB

[x] QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 1999

[_] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from_____to_____

Commission file number 0-20424

Hi-Tech Pharmacal Co., Inc.
(Exact name of small business issuer as specified in its charter)

Delaware	112638720
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

369 Bayview Avenue, Amityville, New York 11701
(Address of principal executive offices)

516 789-8228
(Issuer's telephone number)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act During the past 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 xx No ____

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports 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 ____

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common Stock, $.01 Par Value - 4,526,000 shares as of September 10, 1999.

Transitional Small Business Disclosure Format: Yes ___; No x

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HI-TECH PHARMACAL CO.,INC.

PART I. ITEM 1

HI-TECH PHARMACAL CO., INC.

CONDENSED BALANCE SHEETS (unaudited)

<TABLE>
<CAPTION>

	July 31, 1999 (unaudited)	April 30, 1999 (From Audited Financial Statements)
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,013,000	4,204,000
Accounts receivable, less allowances of $320,000 at July 31, 1999 and $305,000 at April 30, 1999	3,574,000	4,214,000
Inventories	5,023,000	4,285,000
Prepaid taxes	669,000	669,000
Prepaid expenses and other receivables	536,000	429,000
TOTAL CURRENT ASSETS	13,815,000	13,801,000
PROPERTY, PLANT AND EQUIPMENT -net	9,246,000	9,204,000

OTHER ASSETS	205,000	205,000
TOTAL ASSETS	$ 23,266,000	23,210,000

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Current Portion - Long-term debt	$ 447,000	447,000
Accounts payable and accrued expenses	3,443,000	3,415,000
TOTAL CURRENT LIABILITIES	3,890,000	3,862,000
LONG-TERM DEBT	892,000	1,003,000
DEFERRED TAXES	1,038,000	1,038,000
TOTAL LIABILITIES	5,820,000	5,903,000
SHAREHOLDERS' EQUITY		
Preferred stock, par value $ .01 per share; authorized 3,000,000 shares	-	-
Common stock, par value $ .01 per share; authorized 10,000,000 shares, issued 4,526,000 at July 31, 1999 and April 30, 1999	45,000	45,000
Additional capital	8,634,000	8,634,000
Retained earnings	9,226,000	8,965,000
Treasury stock, 111,300 and 82,700 shares of common stock, at cost on July 31, 1999 and April 30, 1999	(459,000)	(337,000)
TOTAL SHAREHOLDERS' EQUITY	17,446,000	17,307,000
LIABILITIES AND SHAREHOLDERS' EQUITY	$ 23,266,000	23,210,000

</TABLE>

See notes to condensed financial statements

HI-TECH PHARMACAL CO., INC.

CONDENSED STATEMENTS OF OPERATIONS (unaudited)

<TABLE>
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	Three months ended July 31, 1999	1998
<S>	<C>	<C>
Net sales	$ 4,727,000	4,387,000
Cost of goods sold	2,731,000	2,650,000
Gross profit	1,996,000	1,737,000
Selling, general, and administrative expense	1,375,000	1,215,000
Research & product development costs	291,000	256,000
Contract research (income)	(28,000)	(116,000)
Interest expense	31,000	65,000
Interest and other (income)	(90,000)	(40,000)
Total	1,579,000	1,380,000

INCOME BEFORE INCOME TAXES	417,000	357,000
Provision for income taxes	156,000	140,000
NET INCOME	$ 261,000	217,000
Basic and diluted income per share	$ 0.06	0.05
Weighted average common shares outstanding - basic	4,434,000	4,513,000
Effect of potential common shares	36,000	96,000
Weighted average common shares outstanding - diluted	4,470,000	4,609,000

</TABLE>

See notes to condensed financial statements

HI-TECH PHARMACAL CO., INC.

CONDENSED STATEMENTS OF CASH FLOWS (unaudited)

<TABLE>
<CAPTION>

	Three months Ended July 31,	
	1999	1998
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES	$ 424,000	656,000
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Notes payable - bank	-	815,000
Mortgaged property - repayments	(47,000)	(47,000)
Repayments of equipment debt	(64,000)	(64,000)
Purchase of common stock	(122,000)	-
CASH FROM (USED IN) FINANCING ACTIVITIES	(233,000)	704,000
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of property, plant and equipment and other assets	(382,000)	(386,000)
CASH USED IN INVESTING ACTIVITIES	(382,000)	(386,000)
NET INCREASE (DECREASE) IN CASH	(191,000)	974,000
Cash at beginning of the period	4,204,000	2,604,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4,013,000	3,578,000
Supplemental disclosures of cash flow information:		
Interest	$ 33,000	50,000
Income taxes	$ 30,000	-

</TABLE>

See notes to condensed financial statements

BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The preparation of the Company's financial statements in conformity with generally accepted principles necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expense during the reporting periods. Actual results could differ from these estimates and assumptions. Operating results for the three month period ended July 31, 1999 are not necessarily indicative of the results that may be expected for the year ended April 30, 2000. For further information, refer to the financial statements and footnotes thereto for the year ended April 30, 1999 on Form 10-KSB.

The financial statements include the accounts of the Company and its wholly owned subsidiary, Rose Laboratories Inc. ("Rose") through September 1, 1998, when the Company sold Rose. In consolidation, all significant intercompany transactions and balances have been eliminated.

CONTRACT RESEARCH INCOME

Contract research income is recognized as work is completed and as billable costs are incurred. In some cases, contract research income is based on attainment of certain designated milestones.

NET EARNINGS PER SHARE

In a prior year the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share (EPS)," which replaced the previously reported primary and fully diluted EPS with basic and diluted EPS. Unlike primary EPS, basic EPS excludes any dilutive effects of options, warrants and convertible securities. Diluted EPS is similar to the previously reported fully diluted EPS. EPS amounts for fiscal periods prior to adoption of SFAS 128 have been restated to conform to the requirements of SFAS No. 128.

Employees' stock options outstanding to purchase shares of the Company's Common Stock were 388,000 for the three month period ended July 31, 1999, and 197,000 for the three month period ended July 31, 1998 and were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the shares of common stock.

HI-TECH PHARMACAL CO., INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

July 31, 1999

WORKING CAPITAL REVOLVING LOAN

On June 1, 1999 the Company's working capital credit line expired. The Company expects to execute a new agreement with the same lender with the same basic

terms. At April 25, 1999 the rate was 6.7% and the balance outstanding was paid. Borrowings under the line were limited to 80% of eligible receivables and were collateralized by inventory, accounts receivable and all other assets. The agreement contained covenants with respect to working capital, net worth and certain ratios, as well as other covenants and prohibited the payment of cash dividends.

INVENTORIES

The components of inventory consist of the following:

	July 31, 1999	April 30, 1999
Raw materials	$ 2,869,000	2,481,000
Finished products and work in process	2,154,000	1,804,000
	$ 5,023,000	4,285,000

FIXED ASSETS

The components of net plant and equipment consist of the following:

	July 31, 1999	April 30, 1999
Land and Building	$ 4,821,000	4,936,000
Machinery and equipment	10,801,000	10,325,000
Transportation equipment	13,000	13,000
Computer equipment	446,000	428,000
Furniture and fixtures	269,000	266,000
	16,350,000	15,968,000
Depreciation and amortization	7,104,000	6,764,000
TOTAL FIXED ASSETS	$ 9,246,000	9,204,000

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The components of accounts payable and accrued expenses consist of the following:

	July 31, 1999	April 30, 1999
Accounts payable	$ 2,024,000	2,104,000
Accrued expenses	1,419,000	1,311,000
	$ 3,443,000	3,415,000

CONTINGENCIES AND OTHER MATTERS

In March 1999, the Food & Drug Administration, ("FDA") completed and issued Form 483, "Inspectional Observations", for their inspection of the Company's facilities. On March 31, 1999, the Company responded to these observations. In July 1999 the FDA issued a "Warning Letter" which indicated certain areas of particular concern. The Company is currently formulating a Corrective Action Plan as a result of the Warning Letter. The plan may include the hiring of additional personnel in certain areas of the Company's operations which would result in additional overhead expense. The Company believes that such additional expense will not have a material adverse affect on the Company's operations or financial condition.

Zenith Goldline Laboratories, an Ivax company, accounted in the aggregate for approximately 13% of the gross sales during the quarter ended July 31, 1999. In addition, the Company had gross sales to Bergen Brunswig Corporation and Watson Pharmaceuticals (formerly Rugby Laboratories) which accounted for approximately 10% and 11%, respectively, of the gross sales during the quarter ended July 31, 1999.

The Company has a net investment of approximately $137,000 in a joint venture for the marketing and development of a nutritional supplement. In addition, the Company has guaranteed $1,500,000 of revolving debt of this joint venture to its commercial lender. Mr. Reuben Seltzer, a director of the Company, has an interest in the joint venture. Mr. Reuben Seltzer is the son of Mr. Bernard Seltzer, Chairman of the Board of the Company.

In May 1997, the Company announced a stock buy-back program under which the Board of Directors authorized the purchase of up to $500,000 of its common stock. In August 1999 the Company increased the stock buy-back program to an aggregate of $1,000,000. As of July 31, 1999 the Company had purchased 111,300 shares at a cost of $459,000.

On September 1, 1998, the Company sold to the management of Rose Laboratories, Inc., ("Rose"), inventory used to make certain Rose products and the name "Rose Laboratories, Inc". In addition, the parties executed Royalty, Confidentiality and Non-Compete agreements. The Company received $200,000 for the inventory and transferred the equipment and the production of certain Rose products to its plant in Amityville, NY.

SUBSEQUENT EVENTS

As of September 1, 1999, the Company acquired 17,300 additional treasury shares at a cost of $65,000.

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

July 31, 1999

With the exception of the historical information contained in this Form 10-QSB, the matters described herein may include "forward-looking statements" within the meaning of the Private Securities Reform Act of 1995. Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to materially differ from those projected or implied. These risks include, but are not limited to, the ability of the Company to grow internally or by acquisition, and to integrate acquired businesses, changing industry and competitive conditions, and other risks outside the Company's control referred to in its registration statement and periodic reports filed with the Securities and Exchange Commission. The Company disclaims any obligation to update any forward-looking statements.

RESULTS OF OPERATIONS

For the three months ended July 31, 1999 net sales increased by $340,000, or 8% compared to the fiscal 1999 respective period. Total net sales were $4,727,000 for the three months period ended July 31, 1999. Zenith Goldline Laboratories, an Ivax company, accounted for approximately 13% of the gross sales during the quarter ended July 31, 1999. In addition, the Company had gross sales to Bergen Brunswig Corporation and Watson Pharmaceuticals (formerly Rugby Laboratories) which accounted for approximately 10% and 11%, respectively, of the gross sales during the quarter ended July 31, 1999. These three customers represented approximately 33% of the outstanding trade receivables at July 31, 1999.

The Company's Health Care Products division, for the three months ended July 31, 1999, had gross sales of $959,000, which was greater than the fiscal 1999 respective period sales of $433,000. Rose Laboratories' products shipped for the three months ended July 31, 1999 from Amityville, NY, were $93,000 as compared to $340,000 shipped from Madison, Ct for the three months ended July 31, 1998.

Cost of sales, as a percentage of net sales, decreased from 60.4% to 57.8% for the three months ended July 31, 1999 compared to the three months ended July 31, 1998. This decrease was principally the result of the mix of products produced or sold.

Contract research income decreased $88,000 and research and product development costs for the three months ended July 31, 1999 increased $35,000 or 14% compared to the fiscal 1999 respective period, as a result of the completion of fewer research projects.

Selling, general and administrative expenses, as a percentage of net sales, increased for the three months ended July 31, 1999 to 29% from 28% for the fiscal 1999 respective period. Such percentage increase resulted from increased selling expenses from additional sales personnel and increased advertising activities.

Net income for the three months ended July 31, 1999 and 1998 was $261,000 and $217,000, respectively, an increase of $44,000, because of the factors noted above.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

LIQUIDITY AND CAPITAL RESOURCES

The Company's operations are financed principally by cash flow from operations. During the July 31, 1999 period, working capital decreased to $9,925,000 from $9,939,000 at April 30, 1999. During the quarter ended July 31, 1999 the Company invested $ 382,000 in fixed assets.

On June 1, 1999 the Company's working capital credit line expired. The Company expects to execute a new agreement with the same lender with the same basic terms. At April 25, 1999 the rate was 6.7% and the balance outstanding was paid. Borrowings under the line were limited to 80% of eligible receivables and were collateralized by inventory, accounts receivable and all other assets. The agreement contained covenants with respect to working capital, net worth and certain ratios, as well as other covenants and prohibited the payment of cash dividends.

In March 1999, the Food & Drug Administration, ("FDA") completed and issued Form 483, "Inspectional Observations", for their inspection of the Company's facilities. On March 31, 1999, the Company responded to these observations. In July 1999 the FDA issued a "Warning Letter" which indicated certain areas of particular concern. The Company is currently formulating a Corrective Action Plan as a result of the Warning Letter. The plan may include the hiring of additional personnel in certain areas of the Company's operations which would

result in additional overhead expense. The Company believes that such additional expense will not have a material adverse affect on the Company's operations or financial condition.

The Company has a net investment of approximately $137,000 in a joint venture for the marketing and development of a nutritional supplement. In addition, the Company has guaranteed $1,500,000 of revolving debt of this joint venture to its commercial lender. Mr. Reuben Seltzer, a director of the Company, has an interest in the joint venture. Mr Reuben Seltzer is the son of Mr. Bernard Seltzer, Chairman of the Board of the Company.

In May 1997, the Company announced a stock buy-back program under which the Board of Directors authorized the purchase of up to $500,000 of its common stock. In August 1999 the Company increased the stock buy-back program to an aggregate of $1,000,000. As of July 31, 1999 the Company had purchased 111,300 shares at a cost of $459,000. As of September 1, 1999, the Company had acquired 17,300 additional treasury shares at a cost of $65,000.

YEAR 2000 COMPLIANCE

The Company relies significantly on computer technology throughout its business to effectively carry out its day-to-day operations. As the millennium approaches, the Company has assessed all of its computer systems to ensure that they are "Year 2000" compliant. In this process the Company may replace or upgrade certain systems which are not Year 2000 compliant in order to meet its internal needs and those of its customers. The Company expects its Year 2000 project to be completed on a timely basis. However, there can be no assurance that the systems of other companies on which the Company may rely also will be timely converted or that such failure to convert by another company would not have an adverse effect on the Company's systems. The Company estimates that the cost of resolving the Year 2000 issues will be less than $250,000 not including internal staff. Costs associated with new hardware and software are expected to be capitalized and amortized consistent with the Company's accounting policies. Consulting and other costs will be expensed as incurred. All Year 2000 costs will be paid in cash generated from the Company's operations. With respect to its internal business systems, the Company is working with third-party vendors of such systems to ensure that Year 2000 compliance either exists or will be achieved via vendor supplied upgrades in a timely manner. Furthermore, that Company has addressed the potential impact to the Company of non-compliance by any of its key suppliers or clients. The Company's programs include communications with the Company's significant vendors to determine the extent to which the Company is vulnerable to any failures by them to address the Year 2000 issue. On a case by case basis, where the Company determines that it may be at a material adverse risk due to non-compliance by any of its key vendors, the Company has developed contingency plans for an alternate source of supply. Actual results could differ materially from the Company's expectations due to unanticipated technological difficulties, vendor delays, and vendor cost overruns.

The Company's management believes that its financial resources, operating revenue and credit line will be sufficient to meet its expected working capital requirements.

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
Exhibit 27 - Financial Data Schedule
(b) Reports on Form 8-K
None

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HI-TECH PHARMACAL CO.,INC.
(Registrant)

Date September 10, 1999

By: /s/ David Seltzer

David Seltzer
(President and Chief Executive Officer)

Date September 10, 1999

By: /s/ Arthur S. Goldberg

Arthur S. Goldberg
(Vice President - Finance and Chief Accounting Officer)

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