

Edgar Filing: CTD HOLDINGS INC - Form 10QSB

CTD HOLDINGS INC  
Form 10QSB  
November 14, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-QSB

Quarterly Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934 for the Quarterly Period Ended: September 30, 2002.

Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Transition Period From \_\_\_\_ to \_\_\_\_

Commission file number: 000-25466

CTD HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Florida  
(State or other jurisdiction)

59-3029743  
(IRS Employer)

of incorporation or organization)

Identification No.)

27317 N.W. 78th Avenue, High Springs, Florida, 32643  
(Address of principal executive offices)

(Zip Code)

Issuer's telephone number, including area code: 386-454-0887

Former name, former address and former fiscal year, if changed since last report: 3713 SW 42nd Avenue, Gainesville, Florida, 32608

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years

Check whether the registrant filed all documents and reports required to befiled by Section 12, 13 or 15 (d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. No.

Applicable only to corporate issuers

As of November 12, 2002, the Company had 4,791,220 outstanding shares of its common stock.

Transitional Small Business Disclosure Format  
(Check One):

No.

PART I: Financial Information

CTD HOLDINGS INC.  
CONSOLIDATED BALANCE SHEET  
(Unaudited)

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	September 30, 2002
	-----
CURRENT ASSETS	
Cash and cash equivalents	\$ 76,660
Accounts receivable	49,152
Inventory	74,176
Notes receivable	7,919
	-----
Total current assets	207,907
PROPERTY AND EQUIPMENT, net	341,123
OTHER ASSETS	
Intangibles, net	3,369
	-----
TOTAL ASSETS	\$ 552,399
	=====

(continued)

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CTD HOLDINGS, INC.  
CONSOLIDATED BALANCE SHEET

(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2002
	-----
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 63,848
Current portion of long-term debt	8,199
	-----
Total current liabilities	72,047
LONG-TERM LIABILITIES	
Long-term debt, less current portion	154,601
Stockholder loan	100,284
	-----
Total long-term liabilities	254,885
	-----
STOCKHOLDERS' EQUITY	
Class A common stock, par value \$ .0001 per share, 100,000,000 shares authorized, 4,791,220 shares issued and outstanding; Class B non-voting common stock, par value \$ .0001 per share, 10,000,000 shares authorized, 0 shares issued and outstanding	480

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Additional paid-in capital	1,954,498
Accumulated deficit	(1,729,511)
	-----
Total stockholders' equity	225,467
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 552,399
	=====

See Accompanying Notes to Financial Statements

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CTD HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	-----	-----	-----	-----
PRODUCT SALES	\$ 136,711	\$ 61,262	\$ 463,555	\$ 234,043
COST OF PRODUCTS SOLD	10,131	4,899	71,018	22,788
	-----	-----	-----	-----
GROSS PROFIT	126,580	56,363	392,537	211,255
SELLING, GENERAL AND ADMINISTRATIVE EXPENSE	48,151	74,892	168,325	213,575
	-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS	78,429	(18,529)	224,212	(2,320)
	-----	-----	-----	-----
OTHER INCOME (EXPENSE)				
Interest expense	(4,728)	(3,771)	(20,039)	(25,454)
Gain (loss) on disposal of equipment	1,578	-	(24,100)	-
Other	13,205	572	14,688	3,376
	-----	-----	-----	-----
Total other income (expense)	10,055	(3,199)	(29,451)	(22,078)
	-----	-----	-----	-----
Net income (loss) from continuing operations	-	(21,728)	194,761	(24,398)
Loss from discontinued operations	-	(11,072)	-	(35,974)
Impairment allowance on assets of discontinued operations	-	(20,113)	-	(20,113)
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ 88,484	\$ (52,913)	\$ 194,761	\$ (80,485)
	=====	=====	=====	=====
NET INCOME (LOSS) PER COMMON SHARE				

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From continuing operations	\$ .02	\$ (.01)	\$ .04	\$ (.01)
From discontinued operations	\$ -	\$ (.01)	\$ -	\$ (.01)
	-----	-----	-----	-----
Total income (loss) per share	\$ .02	\$ (.02)	\$ .04	\$ (.02)
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	4,791,220	4,753,720	4,791,220	4,272,239
	=====	=====	=====	=====

See Accompanying Notes to Financial Statements

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CTD HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Increase (Decrease) in Cash and Cash Equivalents  
(Unaudited)

	Nine Months Ended September 30,	
	2002	2001
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 194,761	\$ (80,485)
	-----	-----
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	17,943	38,036
Loss on disposal of equipment	24,100	-
Stock issued for services	-	56,077
Increase in accounts receivable	(23,392)	(11,281)
Decrease (increase) in inventory	(42,211)	9,137
Decrease in other current assets	1,305	4,286
Decrease in accounts payable and accrued expenses	(88,542)	(44,951)
	-----	-----
Total adjustments	(110,797)	51,304
	-----	-----
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	83,964	(29,181)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(17,878)	(3,595)
Repayment of employee loan	2,537	7,358
	-----	-----
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(15,341)	3,763
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(6,788)	(15,718)
Net payments on line-of-credit	(19,631)	(4,772)

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Net proceeds from stockholder loan	4,389	34,162
Proceeds from sale of equipment	21,877	-
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(153)	13,672
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	68,470	(11,746)
CASH AND CASH EQUIVALENTS, beginning of period	8,190	16,690
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 76,660	\$ 4,944
	=====	=====

(Continued)

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CTD HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Increase (Decrease) in Cash and Cash Equivalents  
(Unaudited)

	Nine Months Ended September 30,	
	2002	2001
	-----	-----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 20,039	25,454
	=====	=====
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Stock issued to officer for compensation	\$ -	\$ 56,077
	=====	=====

See Accompanying Notes to Financial Statements

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CTD HOLDINGS, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2002  
(Unaudited)

The information presented herein as of September 30, 2002, and for the three and nine months ended September 30, 2002, and 2001, is unaudited.

(1) BASIS OF PRESENTATION:

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The accompanying financial statements include CTD Holdings, Inc., and its subsidiaries.

The accompanying 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 Rule 10-01 of Regulations 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 adjustments) considered necessary for a fair presentation have been included.

Operating results for the three and nine month periods ended September 30, 2002, are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report of Form 10-KSB for the year ended December 31, 2001.

### (2) NET INCOME (LOSS) PER COMMON SHARE:

Net income (loss) per common share is computed in accordance with the requirements of Statement of Financial Accounting Standards No. 128 "Earnings Per Share" (SFAS 128). SFAS 128 requires net income (loss) per share information to be computed using a simple weighted average of common shares outstanding during the periods presented. SFAS 128 eliminated the previous requirement that earnings per share include the effect of any dilutive common stock equivalents in the calculation.

### (3) DISCONTINUATION OF MUSHROOM FARMING OPERATIONS:

During the first quarter of 2001, the Company discontinued its mushroom growing operation. In accordance with Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company reviewed the long-lived assets related to the mushroom farming operation to determine if the carrying value of the assets may not be recoverable. When an impairment is identified, the Company recognizes a loss for the difference between the carrying amount and the estimated value of the asset. The fair values of the assets evaluated were based on an estimate of discounted cash flow analysis or recent sales information of similar assets. During 2001, the Company determined there was an impairment in the carrying value of goodwill and other intangible assets related to the mushroom farming operations. Therefore, the Company recorded a write-down of \$20,113, which reduced the carrying value to zero at September 30, 2001.

### (4) INCOME TAXES:

The Company recorded no income tax expense for the three or nine months ended September 30, 2002 due to the availability of a net operating loss carry forward.

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## Item 2. Management's Discussion and Analysis or Plan of Operation

### Liquidity and Capital Resources

As of September 30, 2002, the Company's working capital was \$135,860 compared to \$54,074 in the previous quarter and (\$102,544) at December 31, 2001. Working capital continued to improve, and increased again this quarter because of increasing profitability. By maintaining stringent expense reduction policies and concentrating on sales of cyclodextrins (CD), management expects to maintain liquidity at this level though the end of 2002 as a result of continued

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profitability. However, the sustained increase in sales levels have required the Company to significantly increase inventory levels and may result in increased operating expenses needed to maintain the higher level of sales. Management believes it can maintain profitability even with these increases.

In keeping with its commitment to use the Internet as its major advertising and public relations outlet, the Company continues to improve and upgrade its website. By increasing its catalog of CD products from 64 items to 154 items and improving access to its databases, the Company has indeed strengthened its leadership position in the expanding CD Industry.

### Results of Operations

Sales of CD and related manufactured complexes are historically highly volatile. In efforts to offset this volatility, the Company continues to expand its revenue producing activities in CD related research and development services for new customers and expand its line of manufactured products. Product sales of the Company are primarily to large pharmaceutical and food companies for research and development purposes. Because of its leadership role over the past 10 years in CD technology, the Company is beginning to enjoy substantial sales to companies doing clinical trials with CD's.

The Company will continue to carefully manage its expenses, but does not expect to see further large reductions in expenses; and may see increases in future periods necessary to support the increases sales levels.

The Company continues to reduce its dependency on a few major customers by expanding its product line and capitalizing on the exposure from its website and general growth in the CD market. For the nine months ended September 30, 2002, the Company had 4 customers that accounted for 75% of the year-to-date sales compared to 3 customers that accounted for 63% of the Company's sales for the same period in 2001. This increase in the number of major customers (= 10% of sales) customers will continue to stabilize the Company's revenue.

Total product sales for the third quarter of 2002 were \$136,711, about the same as sales for the second quarter of 2002, but more than doubling sales of the third quarter 2001 (\$61,262). These increased sales levels for 2002 are due in large part to market reaction to new FDA approvals of food and pharmaceutical products containing CD's; with new approvals expected to continue for many years.

The Company's gross profit margin for the third quarter of 2002 was 92.5% compared to 92.0% reported for the same period in 2001. The Company expects its gross profit margin for 2002 to be approximately 85%, which is within its historical range.

The Company's SG&A expenses decreased to \$48,151 in the third quarter of 2002 compared to \$56,758 from the second quarter of 2002. This is a 36% decrease from SG&A expense of \$74,892 for the third quarter of 2001, which shows the effects of management's continued emphasis on expense reduction. With expenses in check, management has positioned itself to maintain profitability even if a year-end slow-down in CD sales occurs. However, the Company does not anticipate a reduction of sales in the near term.

As part of its expense reduction efforts, the Company sold certain laboratory equipment during 2002. The sale of this equipment will further reduce maintenance and depreciation expense associated with the sold equipment.

The Company will continue to introduce new products that will enhance profitability and continue to implement its strategy of creating or acquiring operational affiliates and/or additional subsidiaries that will use CD's in herbal medicines, waste-water remediation, pharmaceuticals, and foods. The

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Company also intends to pursue exclusive relationships with major CD manufacturer(s) and specialty CD labs to distribute their products. In September, the Company became the exclusive North American distributor for a major European CD products manufacturer.

In keeping with its commitment to utilize the full power of the Internet as a major advertising and public relations outlet, the Company anticipates spending an additional \$2000-\$5000 to improve its Web Site further in 2002. The Web Site continues to reinforce CTD's role as the best-known CD technology provider in the world.

### Forward-looking Statements

All statements other than statements of historical fact in this report are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995, and are based on management's current expectations of the Company's near term results, based on current information available and pertaining to the Company. The Company assumes no obligation to update publicly any forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties, including, but not limited to, the following: demand for Cyclodextrin and mushrooms; changes in governmental laws and regulations surrounding various matters, such as labeling disclosures; delays in the development, production, testing and marketing of products; product margins and customer product acceptance

### Item 6. Exhibits and Reports on Form 8-K

None.

#### (a) Exhibits

Exhibit	Description	Page
(2)	Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession	None
(4)	Instruments defining the Rights of Security Holders	None
(10)	Material Contracts	None
(11)	Statement re: Computation of Per Share Earnings	Note 2, Financial Statements
(15)	Letter re: Unaudited Interim Financial Information	None
(18)	Letter re: Change in Accounting Principles	None
(19)	Report Furnished to Security Holders	None
(22)	Published Report re: Matters Submitted to Vote of Security Holders	None
(23)	Consents of Experts and Counsel	None
(24)	Power of Attorney	None



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(27)	Financial Data Schedule	
(99)	Additional Exhibits	None
99.1	Certification of CEO and CFO	*

\* Filed herewith

(b) Reports on Form 8-K:  
None

SIGNATURES

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

CTD HOLDINGS, INC.

DATE

/s/ C.E. "Rick" Strattan  
-----  
C.E. Rick Strattan, President  
Chief Executive Officer,  
Chief Operating Officer and  
Chief Financial Officer

November 14, 2002