

FLEMINGTON PHARMACEUTICAL CORP
Form 10-Q
December 20, 2001

UNITED STATES
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 three month period ended October 31, 2001

TRANSITION REPORT UNDER SECTION 13 or 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-23399

FLEMINGTON PHARMACEUTICAL CORPORATION
(Exact name of small business issuer as specified in its charter)

| | |
|---|--|
| Delaware (State or other jurisdiction of incorporation or organization) | 22-2407152 (I.R.S. Employer Identificaton No.) |
|---|--|

| | |
|---|-------------------|
| 31 State Highway 12 Flemington, New Jersey (Address of Principal Executive Offices) | 08822 Zip Code |
|---|-------------------|

(908) 782-3431
(Issuer's telephone number)

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 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 Sections 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.

7,724,900 shares of common stock outstanding as of October 31, 2001.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (check one):
Yes No

FLEMINGTON PHARMACEUTICAL CORPORATION

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BALANCE SHEETS

| | October 31, 2001 ----- (Unaudited) | July 31, 2001 ----- (Note 1) |
|--|---|---------------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 363,000 | \$ 585,000 |
| Accounts receivable - trade, less allowance for doubtful accounts of \$9,000 | 235,000 | 92,000 |
| Prepaid expenses and other current assets | 50,000 | 57,000 |
| | ----- | ----- |
| Total Current Assets | 648,000 | 734,000 |
| | ----- | ----- |
| FURNITURE, FIXTURES, AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION | 170,000 | 167,000 |
| DEMAND NOTE RECEIVABLE, SHAREHOLDER | 60,000 | 60,000 |
| DUE FROM JOINT VENTURE PARTNER FOR REIMBURSABLE EXPENSES | 10,000 | 6,000 |
| OTHER ASSETS | 17,000 | 17,000 |
| | ----- | ----- |
| | \$ 905,000 | \$ 984,000 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY) | | |
| CURRENT LIABILITIES: | | |
| Accounts payable-trade | \$ 37,000 | \$ 11,000 |
| Accrued expenses and other current liabilities | 219,000 | 77,000 |
| | ----- | ----- |
| Total Current Liabilities | 256,000 | 88,000 |
| | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY (DEFICIENCY): | | |
| Preferred stock, \$.01 par value: | | |
| Authorized 1,000,000 shares, none issued | | |
| Common stock, \$.001 par value: | | |
| Authorized - 50,000,000 shares | | |
| Issued and outstanding 7,724,900 shares | 8,000 | 8,000 |
| Additional paid-in capital | 6,411,000 | 6,411,000 |
| Accumulated Deficit | (5,770,000) | (5,523,000) |
| | ----- | ----- |
| Total Stockholders' Equity (Deficiency) | 649,000 | 896,000 |
| | ----- | ----- |
| | \$ 905,000 | \$ 984,000 |
| | ===== | ===== |

See accompanying notes to financial statements.

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FLEMINGTON PHARMACEUTICAL CORPORATION
 STATEMENTS OF OPERATIONS
 (Unaudited)

| | Three Months Ended October 31 | |
|---|----------------------------------|--------------|
| | 2001 | 2000 |
| CONSULTING REVENUES | \$ 72,000 | \$ 65,000 |
| CONSULTING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 324,000 | 427,000 |
| LOSS FROM OPERATIONS | \$ (252,000) | \$ (362,000) |
| INTEREST INCOME | 5,000 | 10,000 |
| NET LOSS | \$ (247,000) | \$ (352,000) |
| BASIC AND DILUTED LOSS PER SHARE | \$ (.03) | \$ (.06) |
| SHARES ISSUED IN COMPUTATION OF BASIC AND DILUTED LOSS PER SHARE | 7,724,900 | 5,878,541 |

See accompanying notes to financial statements.

FLEMINGTON PHARMACEUTICAL CORPORATION
 STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
 (Unaudited)

| | Common Stock | | Paid-in Capital | Accumulated Deficit | Stockholders' Equity (Deficiency) |
|--|--------------|-----------|--------------------|------------------------|---|
| | Shares | Par Value | | | |
| BALANCE, JULY 31, 2001 | 7,724,000 | \$8,000 | \$6,411,000 | \$ (5,523,000) | \$ 896,000 |
| THREE MONTHS ENDED OCTOBER 31, 2001 | | | | | |
| Net Loss | - | - | - | (247,000) | (247,000) |
| BALANCE, October 31, 2001 | 7,724,900 | \$8,000 | \$6,411,000 | \$ (5,770,000) | \$ 649,000 |

See accompanying notes to financial statements.

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FLEMINGTON PHARMACEUTICAL CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

| | Three Months Ended October 31 | |
|---|----------------------------------|--------------|
| | 2001 | 2000 |
| | ----- | ----- |
| CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (247,000) | \$ (352,000) |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities: | | |
| Shares issued for services | - | 6,000 |
| Depreciation and amortization | 12,000 | 3,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (143,000) | 13,000 |
| Due from D&O Insurance Carrier | - | (12,000) |
| Prepaid expenses and other current assets | 7,000 | 11,000 |
| Due from Joint Venture partner for reimbursable expenses | (4,000) | 13,000 |
| Other Assets | - | (17,000) |
| Accounts payable - trade | 26,000 | (34,000) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | - | (44,000) |
| Accrued expenses and other current liabilities | 142,000 | (45,000) |
| | ----- | ----- |
| Net cash flows from operating activities | (207,000) | (458,000) |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES - | | |
| Purchase of property and equipment | (15,000) | (27,000) |
| | ----- | ----- |
| Net cash flows from investing activities | (15,000) | (27,000) |
| | ----- | ----- |
| NET CHANGE IN CASH | (222,000) | (485,000) |
| CASH, BEGINNING OF PERIOD | 585,000 | 700,000 |
| | ----- | ----- |
| CASH, END OF PERIOD | \$ 363,000 | \$ 215,000 |
| | ===== | ===== |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Interest paid | \$ - | \$ - |
| | ===== | ===== |
| Income taxes paid | \$ - | \$ - |
| | ===== | ===== |

See accompanying notes to financial statements.

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Note 1 - Basis of Presentation:

The balance sheet at the end of the preceding fiscal year has been derived from the audited balance sheet contained in the Company's Form 10-KSB and is presented for comparative purposes. All other financial statements are unaudited. In the opinion of management, all adjustments, which include only normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows for all periods presented, have been made in the interim statements. Results of operations for interim periods are not necessarily indicative of the operating results for a full year.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has had a history of recurring losses from operations, giving rise to an accumulated deficit through October 31, 2001 and will require substantial financing to fund anticipated business development costs. Resulting operating losses and negative cash flows from operations are likely to occur until, if ever, profitability can be achieved through successful marketing of the Company's developed products. These factors raise substantial doubt about the Company's ability to continue as a going concern.

Footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with the published rules and regulations of the Securities and Exchange Commission. The financial statements in this report should be read in conjunction with the financial statements and notes thereto included in the Form 10-KSB of Flemington Pharmaceutical Corporation (the "Company"), for the year ended July 31, 2001.

Note 2 - Accrued expenses and other current liabilities:

Approximately \$154,000 of accrued clinical study costs for clients and \$49,000 of accrued salary and related payroll taxes due to the company's president and CEO are included in the \$219,000 total. The remainder is accrued expenses and other current liabilities.

Note 3 - Pursuant to an employment agreement dated September 4, 2001, the Company granted 700,000 non-plan options to a director and officer of the Company. The term of the options is ten (10) years and the exercise price is \$0.75 per share. 350,000 of these options vest and become exercisable quarterly commencing September 4, 2001 and ending on June 5, 2002. In addition, the remaining 350,000 options will be issued if certain milestones are achieved. The Company applies Accounting Principle Board Opinion No. 25, "Accounting for Stock Issued to Employees" and the related interpretations in accounting for its stock options to employees.

Note 4 - Subsequent Events:

During December 2001, the Company received net proceeds of approximately \$3,000,000 from a private placement of 4,000,000 Units of the Company's securities. Each Unit consisted of a common share, par value \$.001, and a warrant to purchase an additional share of the

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company's common stock at an exercise price of \$0.75 within seven (7) years. The sale price of each Unit was \$0.75.

During December 2001, the Company granted an aggregate of 100,000 stock options under the Company's 1998 option plan, exercisable at \$0.80 for a period of ten (10) years, to four (4) managerial employees.

During December 2001, the Company extended the term of 50,000 options previously granted to each of the Company's CEO and Chairman, respectively. These options, previously set to expire on March 25, 2003, now expire on December 10, 2006. All other terms of the options remain unchanged.

During December 2001, the Company's Board of Directors acted to increase the number of options provided by the Company's 1998 option plan from 500,000 to the lesser of 2,000,000 or the maximum number permitted by law. The Board's action in this respect will be submitted for ratification by the shareholders at the Company's 2001 Annual Meeting.

During December 2001, to resolve a disagreement with a consultant, the Company agreed to issue 50,000 warrants, having a term of seven (7) years, to purchase the Company's common stock at \$0.75 per share.

FLEMINGTON PHARMACEUTICAL CORPORATION

Part I, Item 2. Management's Discussion and Analysis

Flemington Pharmaceutical Corporation, a New Jersey corporation (the "Company"), is engaged in development of novel application drug delivery systems for presently marketed prescription and over-the-counter ("OTC") drugs. Since its inception in 1982, the Company has been a consultant to the pharmaceutical industry, focusing on product development activities of various European pharmaceutical companies, and since 1992 has used its consulting revenues to fund its own product development activities.

Since its inception, substantially all of the Company's revenues have been derived from consulting activities, primarily in connection with product development for various pharmaceutical companies. The Company has had a history of recurring losses from operation through July 31, 1995, and also for the years ended July 31, 1997 ["Fiscal 1997"], 1998 ["Fiscal 1998"], 1999 ["Fiscal 1999"], 2000 ["Fiscal 2000"], and 2001 ["Fiscal 2001"], giving rise to an accumulated deficit at October 31, 2001 of approximately \$5,770,000. Although substantially all of the Company's revenues to date have been derived from its consulting business, the future growth and profitability of the Company will be principally dependent upon its ability to successfully develop its products and to enter into license agreements with drug companies who will market and distribute the final products. The Company's revenues from consulting declined during Fiscal 1997, Fiscal 1998, Fiscal 1999 and Fiscal 2000. Revenues from consulting increased slightly during Fiscal 2001. Revenues from consulting may decline in the future as the Company shifts its emphasis away from product development consulting for its clients and towards development of its own products.

For the reasons stated above, the Company anticipates that it will incur substantial operating expenses in connection with the joint development, testing and approval of its proposed delivery systems, and expects these expenses will result in continuing and significant operating losses until

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such time, if ever, that the Company is able to achieve adequate sales levels. In view of the Company's very limited resources, its anticipated expenses and the competitive environment in which the Company operates, there can be no assurance that its operations will be sustained for the duration of its current fiscal year.

Results of Operations

The three months ended October 2001 [the "2001 Period"] and October 2000 [the "2000 Period"]

Operating revenues for the 2001 Period increased approximately \$7,000 or 11% to \$72,000 from \$65,000 for the 2000 Period. Interest income for the 2001 Period decreased approximately \$5,000 or 50% to \$5,000 from \$10,000 for the 2000 Period due to the lower average cash balance during the 2001 Period.

Total costs and expenses for the 2001 Period decreased approximately \$103,000 or 24% to \$324,000 from \$427,000 for the 2000 Period. This decrease includes an approximate \$72,000 decrease in payroll expenses due to April, May and June 2001 employee resignations, an approximate \$49,000 increase in legal and professional fees, an approximate \$47,000 decrease in outside laboratory costs due to the Company having established an internal laboratory, an approximate \$41,000 decrease in outside consulting fees due to employees performing these functions and an approximate \$9,000 increase in depreciation and amortization expenses due to previously purchased equipment being entered into service during the current period.

The resulting net loss for the 2001 Period was \$247,000 compared to a net loss of \$352,000 for the 2000 Period.

Liquidity and Capital Resources

Net cash used in operating activities approximated \$207,000 for the 2001 Period compared to net cash used in operating activities of approximately \$458,000 for the 2000 Period. Net cash used in operating activities for both the 2001 and 2000 periods was primarily attributable to the net loss of \$247,000 and \$352,000, respectively. For the 2001 Period, \$15,000 was used for investing activities compared to \$27,000 for the 2000 Period. Total cash flow for the 2001 period decreased approximately \$222,000 as compared to a \$485,000 decrease for the 2000 period.

During December 2001, the Company received net proceeds of approximately \$3,000,000 from a private placement of the Company's common stock (see Note 3). The Company believes that it currently has sufficient cash to satisfy its cash requirements for at least the next twenty four (24) months.

Inflation

The Company does not believe that inflation has had a material effect on its results of operations during the past three fiscal years. There can be no assurance that the Company's business will not be affected by inflation in the future.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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N/A

Item 2. Changes in Securities

N/A

Item 3. Defaults Upon Senior Securities

N/A

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

N/A

Item 5. Other Information

N/A

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

Exhibit 11. Statement re: computation of earnings per share for the three months ended October 31, 2001

b) Reports on Form 8-K

SIGNATURES

Pursuant to the requirements 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.

FLEMINGTON PHARMACEUTICAL CORPORATION

By: /s/ Harry A. Dugger, III

Harry A. Dugger, III, President
(Principal Executive Officer)

By: /s/ Donald J. Deitman

Donald J. Deitman, Chief Financial Officer

EXHIBIT 11

FLEMINGTON PHARMACEUTICAL CORPORATION

EARNINGS PER SHARE COMPUTATION

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(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

| | THREE MONTHS ENDED |
|--|--------------------|
| | October 31, 2001 |
| | BASIC |
| Weighted average shares outstanding | 7,724,900 |
| Dilutive effect of stock performance plans (1) | - |
| Total | 7,724,900 |
| Net Income (loss) | (247) |
| Earnings per share | (.03) |

| | THREE MONTHS ENDED |
|--|--------------------|
| | October 31, 2000 |
| | BASIC |
| Weighted average shares outstanding | 5,878,541 |
| Dilutive effect of stock performance plans (1) | - |
| Total | 5,878,541 |
| Net Income (loss) | (352) |
| Earnings per share | (.06) |

(1) No potential shares from stock performance plans have been presented, as their effect would be anti-dilutive