REPRO MED SYSTEMS INC
Form 10QSB
October 17, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES ACT OF 1934

For the quarterly period ended AUGUST 31, 2005

Commission File Number 0-12305

NEW YORK	13-3044880
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
24 CARPENTER ROAD, CHESTER, NY	10918
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (845) 469-2042

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 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 (X) No (   )

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 1, 2005
Common stock, $.01 par value	27,130,286 shares

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REPRO-MED SYSTEMS, INC.
BALANCE SHEET

ASSETS	AUGUST 31, 2005 (UNAUDITED)	FEBRUARY 28, 2005 (AUDITED)
CURRENT ASSETS		
Cash & Cash Equivalents	$ 27,111	$ 37,330
Accounts Receivable, net	120,991	125,078
Inventory	358,453	371,569
Prepaid Expenses	22,193	36,531
TOTAL CURRENT ASSETS	528,748	570,508
PROPERTY & EQUIPMENT, NET	302,619	337,708
OTHER ASSETS		
Deposits	27,652	27,652

Other Assets	45,673	44,408
TOTAL OTHER ASSETS	73,325	72,060
TOTAL ASSETS	$ 904,692	$ 980,276
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$ 395,894	$ 348,316
Notes Payable to Related Parties	7,000	7,000
Accrued Expenses	34,548	60,588
Note Payable to Bank	198,553	198,553
Accrued Payroll and Related Taxes	21,420	33,703
Accrued Interest	37,469	31,469
Accrued Preferred Stock Dividends	28,000	24,000
Current Portion Capital Lease Obligations	15,381	19,084
TOTAL CURRENT LIABILITIES	738,265	722,713
OTHER LIABILITIES		
Long-Term Portion of Leases Payable	1,768	10,381
Deferred Capital Gain Income	303,871	314,736
Long-Term Debt - Notes Payable	530,000	450,000
TOTAL LIABILITIES	1,573,904	1,497,830
STOCKHOLDERS' DEFICIENCY		
Preferred Stock, 8% Cumulative $.01 Par Value Authorized 2,000,000 Shares, Issued & Outstanding 10,000 Shares (liquidation value $100,000)	100	100
Common Stock, $.01 Par Value, Authorized 50,000,000 Shares, 26,877,000 Shares and 26,027,000 shares issued And outstanding at August 31, 2005 and February 28, 2005, respectively	268,770	260,270
Additional Paid-in Capital	2,336,551	2,302,551
Accumulated Deficit	(3,132,633)	(2,938,475)
Treasury Stock at Cost	(142,000)	(142,000)
TOTAL STOCKHOLDERS' DEFICIENCY	(669,212)	(517,554)
TOTAL LIABILITIES & STOCKHOLDERS' DEFICIENCY	$ 904,692	$ 980,276

See Accompanying Notes to Financial Statements

REPRO-MED SYSTEMS, INC.
STATEMENTS OF OPERATIONS
UNAUDITED

	FOR THE 3 MONTHS ENDED AUG 31, 2005	FOR THE 3 MONTHS ENDED AUG 31, 2004	FOR THE 6 MONTHS ENDED AUG 31, 2005	FOR THE 6 MONTHS ENDED AUG 31, 2004
SALES				
Net Sales of Products	$ 419,335	$ 366,475	$ 801,637	$ 873,950
COST AND EXPENSES				
Cost of Goods Sold	171,948	173,859	350,605	393,659
Selling, General & Administrative Expenses ...	243,737	245,029	504,834	469,236
Research and Development	7,675	11,229	18,636	21,672
Stock-Based Compensation	1,250	-	42,500	20,000
Depreciation and Amortization	20,377	20,711	40,481	41,255
TOTAL COST AND EXPENSES	444,987	450,828	957,056	945,822
(LOSS) FROM OPERATIONS	(25,652)	(84,353)	(155,419)	(71,872
Non-Operating Income (Expense)				
Interest (Expense)	(19,544)	(14,168)	(37,317)	(26,010
Interest & Other Income	1,963	7,260	3,578	7,662
	(17,581)	(6,908)	(33,739)	(18,348
(LOSS) BEFORE INCOME TAXES	(43,233)	(91,261)	(189,158)	(90,220
Provision for Income Taxes ..	(1,000)	(1,000)	(1,000)	(1,000
NET (LOSS) AFTER TAXES	$ (44,233)	$ (92,261)	$ (190,158)	$ (91,220
(LOSS) PER COMMON SHARE				
Primary	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01
Fully Diluted	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01
Average Common Shares Outstanding			26,427,000	24,849,696

See Accompanying Notes to Financial Statements

REPRO-MED SYSTEMS, INC.
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED
UNAUDITED

	AUGUST 31, 2005	AUGUST 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss)	$(190,158)	$ (91,220)
Adjustments to reconcile net (loss) to cash (used) in operating activities:		
Stock-Based Compensation	42,500	20,000
Legal Expenses Charged to Additional Paid-In Capital	-	(10,000)
Depreciation and Amortization	40,481	41,255
Capital Gain - Building Lease	(10,865)	(11,239)
Decrease (Increase) in Accounts Receivable	4,087	(26,072)
Decrease (Increase) in Inventory	13,116	(1,950)
Decrease (Increase) in Prepaid Expenses	14,338	(24,722)
(Decrease) Increase in Accounts Payable	47,578	(55,721)
(Decrease) Increase in Accrued Expenses	(28,323)	3,080
NET CASH (USED IN) OPERATIONS	(67,246)	(156,589)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Security Deposit	-	-
Capital Expenditures	(6,657)	(15,085)
NET CASH (USED IN) INVESTING ACTIVITIES	(6,657)	(15,085)
CASH FLOWS FROM FINANCING ACTIVITIES		
Notes Payable - President and Others	80,000	100,000
Increase in Notes Payable to Related Parties	-	-
Preferred Stock Dividend	(4,000)	(4,000)
Payments, Increased Obligations on Capitalized Leases	(12,316)	(10,684)
NET CASH PROVIDED BY FINANCING ACTIVITIES	63,684	85,316
NET DECREASE IN CASH	(10,219)	(86,358)
Cash and Cash Equivalents, beginning of period	37,330	219,682
Cash and Cash Equivalents, end of period	$ 27,111	$ 133,324
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest	26,010	26,016
Income Taxes	1,000	1,000

See Accompanying Notes to Financial Statements

REPRO-MED SYSTEMS, INC.
NOTES TO THE FINANCIAL STATEMENTS

BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with instructions to Form 10-QSB. Accordingly, they do not include all of the information and disclosures required for annual financial statements. These financial statements should be read in conjunction with the financial statements and related footnotes for the year ended February 28, 2005 included in the Form 10-KSB for the year then ended.

In the opinion of the Company's management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company's financial position as of August 31, 2005, and the results of operations and cash flows for the three-month and six-month periods ended August 31, 2005 and 2004.

The results of operations for the six-month period ended August 31, 2005, are not necessarily indicative of the results to be expected for the full year. For further information, refer to the financial statements and footnotes thereto included in the Company's Form 10-KSB as filed with the Securities and Exchange Commission for the year ended February 28, 2005.

STOCKHOLDERS' EQUITY/NOTES PAYABLE

During the quarter ended May 31, 2005, the company executed note agreements for $80,000. In connection with the execution of those agreements, the Company is obligated to issue four shares of its common stock each year for each dollar of principal borrowed. The Company is obligated to issue 425,000 shares of its common stock under the agreements. As of August 31, 2005, 185,000 of these shares have been issued and the remaining 240,000 shares have been reflected as issued for financial statement purposes.

GOING CONCERNS

As shown in the accompanying final statements, the Company has incurred cumulative losses of $3,132,633 and has negative working capital of $(209,517.00) at August 31, 2005. The Company is seeking to raise additional working capital through debt or equity channels and is working with outside distributors to increase its market share in the European and U.S. markets. However, even if the Company does raise capital through the debt or equity channels or increase its sales through new strategies, there can be no assurances that the net proceeds of the capital raised or the revenue generated from new marketing strategies will be sufficient to enable it to develop business to a level when it will generate profits and cash flow from operations.

These matters raise substantial doubt about the Company's ability to continue as a going concern. However, the accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. These financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

SUBSEQUENT EVENTS

In September 2005, the Company sold 714,286 shares of its Common Stock at $0.07 per share. Total proceeds realized from this sale were $50,000.

PART I ITEM 2.

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

This Quarterly Report on Form 10-QSB contains certain "forward-looking" statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) and information relating to us that are based on the beliefs of the management, as well as assumptions made by and information currently available. Our actual results may vary materially from the forward-looking statements made in this report due to important factors such as, recent operating losses, uncertainties associated with future operating results, unpredictability related to Food and Drug Administration regulations, introduction of competitive products, limited liquidity, reimbursement related risks, government regulation of the home health care industry, success of the research and development effort, market acceptance of FREEDOM60, availability of sufficient capital to continue operations and dependence on key personnel. When used in this report, the words "estimate," "project," "believe," "anticipate," "intend," "expect" and similar expressions are intended to identify forward-looking statements. Such statements reflect current views with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. These statements involve risks and uncertainties with respect to the ability to raise capital to develop and market new products, acceptance in the market place of new and existing products, ability to penetrate new markets, our success in enforcing and obtaining patents, obtaining required Government approvals and attracting and maintaining key personnel that could cause the actual results to differ materially. Repro-Med does not undertake any obligation to release publicly any revision to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

THREE MONTHS ENDED AUGUST 31, 2005 VS. 2004

Net sales for the quarter ending August 31, 2005 increased by 14.42% to $419,335 from $366,475 in 2004. Sales in the core RES-Q-VAC and FREEDOM60 lines increased 20.1% quarter over quarter ended August 31, 2004. Sales of RES-Q-VAC increased 16% quarter over quarter led by a strong increase in international RES-Q-VAC sales, while sales in the Freedom60 line increased 35% quarter over quarter. These increases in core product sales were slightly offset by a 33.3% ($12,787) decline in sales in the non-core Gyneco, Restore and OEM lines.

Gross profit margins improved to 59% of net sales in 2005 from 52.6% in 2004. Selling, general and administrative expense decreased by $1,292 in 2005 from $245,029 in 2004 despite the higher sales volume primarily as the result of the implementation of additional cost savings measures.

Research and development expenses declined $3,554 from 2004 to 2005.

Depreciation and amortization expenses declined $334 during this period. This reflected some older assets reaching the end of their depreciable lives and not being fully replaced by equivalent capital investment.

Interest expense increased by $5,376 quarter over quarter, primarily as a result of an increase in loans obtained through the company's promissory note program and an increase in the prime interest rate, to which the promissory note program is tied.

Other income decreased $5,297, quarter over quarter. Other income in 2004 reflected a refund of insurance premiums paid in a prior fiscal year which did not recur this year.

Net revenue increased at a higher rate than expenses. As a result, the net income loss for the current quarter improved $101,692 from the first quarter loss of $145,925 to $44,233. Year over year improved $48,028 from a loss of $92,261 for the quarter ending August 31, 2004.

SIX MONTHS ENDED AUGUST 31, 2005 VS. 2004

Despite a 23% increase in FREEDOM60 sales, net sales for the six-months ended August 31, 2005, caused by lower sales during the first quarter, declined 8.27%, to $801,637 from $873,950 for the six-months ended August 31, 2004. Sales of the other core product line, RES-Q-VAC decreased 16.4% for the six-months ended August 31, 2005 vs. the six-months ended August 31, 2004. Sales in the non-core Gyneco, Restore and OEM product lines declined by $5,472 (6.8%) for the six-months ended August 31, 2005 vs. the six-months ended August 31, 2004.

Gross profit increased to 56% of net sales in 2005 from 55% in 2004.

Selling, general and administrative expense increased 7.5% ($35,598) to $504,834 in 2005 from $469,236 in 2004.

Research and development expenses decreased $3,036 from 2004 to 2005.

Depreciation and amortization expense decreased by $774 period over period as the result of equipment reaching the end of its depreciable life and not being fully replaced by equivalent capital investment.

Interest expense increased 43.5% ($11,307) as a result of an increase in loans obtained through the company's promissory note program and an increase in the prime interest rate, to which the promissory note program is tied.

Other income decreased $4,084, for the past six months as compared to the same period last year. Other income in 2004 reflected, in part, a refund of insurance premiums paid in a prior fiscal year which did not recur this year.

Although the losses decreased in the second quarter over the results of the first quarter, net loss for the six months ended August 31, 2005, increased $98,938 to a loss of $190,158 from a loss of $91,220 in 2004.

LIQUIDITY AND CAPITAL RESOURCES

During June 2000, we negotiated a $200,000 line of credit with M&T Bank that is guaranteed by the President and one of the directors. As of August 31, 2005, $198,553 has been advanced on the line of credit. Although the line expired on June 30, 2002, the bank verbally extended the line through June 30, 2003. We are requesting the bank to extend the line for another six months. We have not received a demand for repayment of the loan and continue to make interest payments.

Commencing in mid-February, 2004, we started raising capital from a promissory note and stock offering which raised $225,000 by the end of the fiscal year ended February 29, 2004. This five year promissory note pays 2% over prime plus four share of common stock per year for every year the loan is in place. We received $100,000 under the same program in the first quarter of Fiscal Year 2005. An additional $80,000 was received on the same terms in the first quarter of Fiscal Year 2006. Another $25,000 was raised in the first and second quarters of 2003 under similar terms.

Our efforts to enter new markets and expand existing sales channels are capital-intensive. Access to capital markets for these efforts has been important in the past, and will continue to be vital as we seek to fully implement our marketing plans and work toward achieving a positive cash-flow position.

We continue to pursue capital investment through debt or equity to increase our marketing and sales efforts, and to enhance our existing products and add to product lines.

We continue to work towards improving cash flow and have several opportunities to improve sales of our key products, RES-Q-VAC and FREEDOM60. We have expanded our sales efforts in several areas.

Marketing and sales expenditures were constrained due to limited cash flow from operations and thus we concentrated on our sales efforts on two man products, FREEDOM60 and RES-Q-VAC. Even with limited resources we managed to add 24 new Freedom60 customers during the period March 1, 2005 to August 31, 2005 as compared to six added during the previous half-year ending August 31, 2004. Moreover, the revenue produced by these new customers increased 490% to $42,665 during the past six months as compared to $7,227 during the same period last year. New FREEDOM60 customers not only represent the initial sales, but also through the continuing need to reorder our proprietary tubing sets, these customers represent a source of anticipated future sales.

FREEDOM60 sales are achieved by a direct selling effort, using leads from trade shows, mail marketing and telemarketing. Several major centers around the country have begun using the FREEDOM60 and continue to expand its use. Subsequent to this quarter, several new accounts have been added, which include a major infusion company in California, and a large national provider has completed a trial of the FREEDOM60 and has begun purchasing the product for immediate use. On October 1st, 2005 we signed a contract with Innovatix, a national Group Purchasing Organization based in New York City whose primary market is infusion. Innovatix has over 6,000 members and will assist us in bringing the FREEDOM60 benefits of safety, cost and reliability to all their members. While we have signed with other GPO's in the past, Innovatix has the largest presence in the infusion market as well as including among their members nursing homes, closed door pharmacies, oncology clinics--all which represent our target markets.

For RES-Q-VAC, the emergency markets world-wide have softened which we believe is attributable to weakening economic conditions and potential competition from imported low cost imitation products. Our marketing has begun penetration into new markets for the product, which include nursing homes, hospitals, hospice, dental, and veterinary. Using a direct sales effort into nursing homes, we have increased the number of new customers this half year from March 1 to August 31st 2005 to 55 from 38 during the same period last year. Revenues from new customers increased this half year 72% to $67,217 from $39,075 for the first half of last year. Several national and large regional nursing homes have begun purchasing the RES-Q-VAC.

Subsequent to the quarter ending August 31st, 2005, we received an order for 2,500 RES-Q-VAC kits for use for the victims of Hurricane Katrina which struck

New Orleans and other parts of the South East. The RES-Q-VAC was essential to treat respiratory patients needing medical suction, especially during long periods of power outage.

The need for the RES-Q-VAC in hospitals, nursing homes, and home care was highlighted by the recent hurricanes. RES-Q-VAC is needed by hospitals to meet new standards of care(EMTALA requirements), prevent the spread of disease such as HIV, SARS, hepatitis, tuberculosis and other infectious diseases, transport patients through the facilities, and be able to operate for extended periods without electric power. Hospitals and nursing homes which had power out during Katrina lost respiratory patients who were unable to be sustained. RES-Q-VAC is the only hand held suction system available sterile and with protection from the spread of disease with our patented FSP filter.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is neither a party to any material litigation, nor to the knowledge of the officers and directors of the Company, is there any material litigation threatened against the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders of the Company during the quarter ended August 31, 2005.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1 Certification of Chief Executive Officer and Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(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.

REPRO-MED SYSTEMS, INC.

/s/ Andrew I. Sealfon October 17, 2005

Andrew I. Sealfon, President, Treasurer,
Chairman of the Board, Director, and
Chief Executive Officer