

SCHERER HEALTHCARE INC  
Form 10-Q  
November 14, 2001

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2001

Commission File No. 0-10552

**SCHERER HEALTHCARE, INC.**

(Exact name of registrant as specified in its Charter)

|  |   |
|--|---|
| <b>Delaware</b>  | <b>59-0688813</b>                       |
| (State or other jurisdiction of<br>incorporation or organization)            | (I.R.S. Employer<br>Identification No.) |
| <b>120 Interstate North Parkway, S.E., Suite 305, Atlanta, Georgia 30339</b> |   |
| (Address of principal executive offices, including Zip Code)                 |   |

**(770) 933-1800**

(Registrant's telephone number, including area code)

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 /x/ NO //

Indicate the number of outstanding shares of each of the issuer's classes of Common Stock, as of the latest practicable date:

| <u>Class</u>                   | <u>Outstanding as of November 5, 2001</u> |
|--------------------------------|---|
| Common Stock, \$0.01 par value | 4,339,056                                 |

SCHERER HEALTHCARE, INC.

**Quarterly Report on Form 10-Q**  
**For the Quarter Ended September 30, 2001**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**SCHERER HEALTHCARE, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

**ASSETS**

|  | September 30, 2001 | March 31, 2001 |
|--|--------------------|----------------|
| <b>CURRENT ASSETS</b>  |                    |                |
| Cash and cash equivalents  | \$ 4,411,000       | \$ 4,398,000   |
| Accounts receivable, less allowance for doubtful accounts of \$348,000 and \$257,000, respectively | 4,374,000          | 4,747,000      |
| Interest receivable  | 185,000            | 243,000        |
| Inventories  | 344,000            | 333,000        |
| Prepaid and other  | 182,000            | 232,000        |
|  | 9,496,000          | 9,953,000      |
| <b>PROPERTY AND EQUIPMENT</b>  | 9,794,000          | 9,287,000      |
| Less accumulated depreciation  | (5,328,000)        | (4,722,000)    |

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|                                       | September 30, 2001          | March 31, 2001              |
|---------------------------------------|-----------------------------|-----------------------------|
|                                       | <u>                    </u> | <u>                    </u> |
| Net property and equipment            | 4,466,000                   | 4,565,000                   |
| <b>OTHER ASSETS</b>                   |                             |                             |
| Intangibles, net                      | 3,431,000                   | 3,538,000                   |
| Investments                           | 9,638,000                   | 11,280,000                  |
| Deferred income taxes                 | 1,811,000                   | 761,000                     |
| Other                                 | 462,000                     | 451,000                     |
| Net assets of discontinued operations | 481,000                     | 481,000                     |
|                                       | <u>                    </u> | <u>                    </u> |
| Total other assets                    | 15,823,000                  | 16,511,000                  |
|                                       | <u>                    </u> | <u>                    </u> |
| <b>TOTAL ASSETS</b>                   | <b>\$ 29,785,000</b>        | <b>\$ 31,029,000</b>        |
|                                       | <u>                    </u> | <u>                    </u> |

See notes to condensed consolidated financial statements.

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**SCHERER HEALTHCARE, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|   | September 30, 2001          | March 31, 2001              |
|---|-----------------------------|-----------------------------|
|   | <u>                    </u> | <u>                    </u> |
| <b>CURRENT LIABILITIES</b>  |                             |                             |
| Accounts payable  | \$ 977,000                  | \$ 1,089,000                |
| Accrued expenses  | 807,000                     | 989,000                     |
| Unearned revenues   | 491,000                     | 478,000                     |
| Current maturities of debt obligations  | 256,000                     | 265,000                     |
| Income taxes payable  |                             | 36,000                      |
|   | <u>                    </u> | <u>                    </u> |
| Total current liabilities   | 2,531,000                   | 2,857,000                   |
|   | <u>                    </u> | <u>                    </u> |
| LONG-TERM DEBT, net of current maturities   | 492,000                     | 551,000                     |
|   | <u>                    </u> | <u>                    </u> |
| OTHER LIABILITIES   | 75,000                      | 100,000                     |
|   | <u>                    </u> | <u>                    </u> |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                             |                             |
| <b>STOCKHOLDERS' EQUITY</b>   |                             |                             |
| Convertible preferred stock \$.01 par value, 2,000,000 shares authorized; 21,535 shares issued and outstanding at September 30, 2001 (21,704 at March 31, 2001)   |                             |                             |
| Common stock \$.01 par value, 12,000,000 shares authorized; 4,714,159 shares issued at September 30, 2001 (4,713,411 at March 31, 2001); 4,323,130 shares outstanding at September 30, 2001 (4,323,382 at March 31, 2001) | 47,000                      | 47,000                      |
| Capital in excess of par value  | 22,312,000                  | 22,115,000                  |
| Retained earnings   | 7,419,000                   | 8,450,000                   |

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|  | September 30, 2001          | March 31, 2001              |
|--|-----------------------------|-----------------------------|
|  | <u>                    </u> | <u>                    </u> |
| Less treasury stock, at cost               | (3,091,000)                 | (3,091,000)                 |
|  | <u>                    </u> | <u>                    </u> |
| Total stockholders' equity                 | 26,687,000                  | 27,521,000                  |
|  | <u>                    </u> | <u>                    </u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 29,785,000               | \$ 31,029,000               |
|  | <u>                    </u> | <u>                    </u> |

See notes to condensed consolidated financial statements.

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**SCHERER HEALTHCARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

|  | Three months ended<br>September 30, |                             | Six months ended<br>September 30, |                             |
|--|-------------------------------------|-----------------------------|-----------------------------------|-----------------------------|
|  | 2001                                | 2000                        | 2001                              | 2000                        |
|  | <u>                    </u>         | <u>                    </u> | <u>                    </u>       | <u>                    </u> |
| NET SALES  | \$ 5,132,000                        | \$ 4,611,000                | \$ 10,166,000                     | \$ 9,237,000                |
|  | <u>                    </u>         | <u>                    </u> | <u>                    </u>       | <u>                    </u> |
| COSTS AND EXPENSES                               |                                     |                             |                                   |                             |
| Cost of goods sold                               | 3,357,000                           | 2,928,000                   | 6,549,000                         | 5,687,000                   |
| Selling, general, and administrative             | 1,312,000                           | 1,218,000                   | 2,600,000                         | 2,498,000                   |
| Litigation expense                               |                                     |                             |                                   | 28,000                      |
|  | <u>                    </u>         | <u>                    </u> | <u>                    </u>       | <u>                    </u> |
| Total costs and expenses                         | 4,669,000                           | 4,146,000                   | 9,149,000                         | 8,213,000                   |
|  | <u>                    </u>         | <u>                    </u> | <u>                    </u>       | <u>                    </u> |
| OPERATING INCOME                                 | 463,000                             | 465,000                     | 1,017,000                         | 1,024,000                   |
|  | <u>                    </u>         | <u>                    </u> | <u>                    </u>       | <u>                    </u> |
| OTHER INCOME (EXPENSE)                           |                                     |                             |                                   |                             |
| Interest income                                  | 114,000                             | 210,000                     | 306,000                           | 352,000                     |
| Equity in net losses of unconsolidated companies | (40,000)                            | (197,000)                   | (1,000)                           | (197,000)                   |
| Impairment charges on investments                | (3,129,000)                         |                             | (3,129,000)                       |                             |
| Other, net                                       | (29,000)                            | 5,000                       | (32,000)                          | 50,000                      |
|  | <u>                    </u>         | <u>                    </u> | <u>                    </u>       | <u>                    </u> |
| Total other income (expense), net                | (3,084,000)                         | 18,000                      | (2,856,000)                       | 205,000                     |
|  | <u>                    </u>         | <u>                    </u> | <u>                    </u>       | <u>                    </u> |
| (LOSS) INCOME BEFORE INCOME TAXES                | (2,621,000)                         | 483,000                     | (1,839,000)                       | 1,229,000                   |
| (BENEFIT) PROVISION FOR INCOME TAXES             | (1,089,000)                         | 39,000                      | (808,000)                         | 68,000                      |
|  | <u>                    </u>         | <u>                    </u> | <u>                    </u>       | <u>                    </u> |
| NET (LOSS) INCOME                                | \$ (1,532,000)                      | \$ 444,000                  | \$ (1,031,000)                    | \$ 1,161,000                |
|  | <u>                    </u>         | <u>                    </u> | <u>                    </u>       | <u>                    </u> |
| Basic (loss) earnings per common share           | \$ (0.35)                           | \$ 0.10                     | \$ (0.24)                         | \$ 0.27                     |
|  | <u>                    </u>         | <u>                    </u> | <u>                    </u>       | <u>                    </u> |
| Diluted (loss) earnings per common share         | \$ (0.34)                           | \$ 0.10                     | \$ (0.23)                         | \$ 0.26                     |
|  | <u>                    </u>         | <u>                    </u> | <u>                    </u>       | <u>                    </u> |
| Weighted average common shares outstanding basic | 4,322,874                           | 4,321,105                   | 4,322,874                         | 4,321,096                   |

|  | Three months ended<br>September 30, |           | Six months ended<br>September 30, |           |
|--|-------------------------------------|-----------|-----------------------------------|-----------|
|  |                                     |           |                                   |           |
| Weighted average common shares outstanding diluted | 4,516,564                           | 4,552,452 | 4,516,564                         | 4,552,443 |

See notes to condensed consolidated financial statements.

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**SCHERER HEALTHCARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

|  | Six months ended<br>September 30, |              |
|--|-----------------------------------|--------------|
|  | 2001                              | 2000         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                   |              |
| Net (loss) income  | \$ (1,031,000)                    | \$ 1,161,000 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: |                                   |              |
| Depreciation and amortization  | 689,000                           | 665,000      |
| Equity in net losses of unconsolidated companies   | 1,000                             | 197,000      |
| Impairment charges on investments  | 3,129,000                         |              |
| Deferred taxes   | (1,050,000)                       |              |
| Other non cash charges and credits, net  |                                   | (29,000)     |
| Changes in operating assets and liabilities:   |                                   |              |
| Accounts receivable  | 373,000                           | 63,000       |
| Interest receivable  | 58,000                            | 5,000        |
| Inventories  | (11,000)                          | 111,000      |
| Other  | (39,000)                          | 51,000       |
| Income taxes payable   | (36,000)                          | 38,000       |
| Accounts payable and accrued expenses  | (294,000)                         | (449,000)    |
| Unearned revenues  | 13,000                            |              |
| Other liabilities  | (25,000)                          | (25,000)     |
| Net cash provided by operating activities of continuing operations                       | 1,777,000                         | 1,788,000    |
| Net operating activities of discontinued operations                                      |                                   | (54,000)     |
| Net cash provided by operating activities  | 1,777,000                         | 1,734,000    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                   |              |
| Additions to property and equipment, net   | (507,000)                         | (724,000)    |
| (Purchase) sale of investments, at market value, net                                     | (1,001,000)                       | 1,374,000    |
| Investments in unconsolidated companies, at equity                                       | (112,000)                         | (875,000)    |
| Other investments, at cost   |                                   | (100,000)    |
| Change in permit acquisition costs   | (76,000)                          |              |

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|   | <b>Six months ended<br/>September 30,</b> |                             |
|---|---|-----------------------------|
|   | <u>                    </u>               | <u>                    </u> |
| Net cash used for investing activities                | (1,696,000)                               | (325,000)                   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>           |   |                             |
| Net (repayment of) proceeds from borrowings           | (68,000)                                  | 202,000                     |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>            | 13,000                                    | 1,611,000                   |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b> | 4,398,000                                 | 1,689,000                   |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>       | <b>\$ 4,411,000</b>                       | <b>\$ 3,300,000</b>         |

See notes to condensed consolidated financial statements.

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**SCHERER HEALTHCARE, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1.**

The accompanying unaudited condensed consolidated financial statements of Scherer Healthcare, Inc. and its subsidiaries (the "Company") include all adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the period indicated. Quarterly results of operations are not necessarily indicative of annual results.

These statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2001.

**NOTE 2.**

The components of inventory at September 30, 2001 and March 31, 2001 consisted of the following:

|  | <b>September 30, 2001</b>   | <b>March 31, 2001</b>       |
|--|-----------------------------|-----------------------------|
|  | <u>                    </u> | <u>                    </u> |
| Finished products                        | \$ 65,000                   | \$ 65,000                   |
| Containers, packaging, and raw materials | 279,000                     | 268,000                     |
| <b>Total</b>                             | <b>\$ 344,000</b>           | <b>\$ 333,000</b>           |

Inventories are stated at the lower of net realizable value or cost using the first-in, first-out ("FIFO") method.

**NOTE 3.**

Obligations under capital leases at September 30, 2001 and March 31, 2001 consisted of the following:

|   | <b>September 30, 2001</b>   | <b>March 31, 2001</b>       |
|---|-----------------------------|-----------------------------|
|   | <u>                    </u> | <u>                    </u> |
| Obligations under capital leases, due in varying installments through fiscal 2006 | \$ 748,000                  | \$ 816,000                  |
| Less current maturities   | (256,000)                   | (265,000)                   |

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|                | <u>September 30, 2001</u> | <u>March 31, 2001</u> |
|----------------|---------------------------|-----------------------|
| Long-term debt | \$ 492,000                | \$ 551,000            |

**NOTE 4.**

The Company has the following investments as of September 30, 2001 and March 31, 2001:

|  | <u>September 30, 2001</u> | <u>March 31, 2001</u> |
|--|---------------------------|-----------------------|
| Investments in marketable securities, at market value      | \$ 9,043,000              | \$ 7,843,000          |
| Equity method investments in unconsolidated companies, net | 325,000                   | 3,167,000             |
| Other investments, at cost                                 | 270,000                   | 270,000               |
| <b>Total</b>   | <b>\$ 9,638,000</b>       | <b>\$ 11,280,000</b>  |

The Company's investments in marketable securities, at market value, consist of investments in long-term high-grade marketable securities composed primarily of government and corporate fixed

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income bonds. These marketable securities are classified as available-for-sale and are being carried at market value based on quoted market prices. The net unrealized holding gains (losses) on these investments is reported under capital in excess of par value as other comprehensive income (loss) and was \$197,000 for the six months ended September 30, 2001, and the accumulated balance was (\$80,000) as of September 30, 2001.

The amortized cost and fair market value of the Company's marketable securities are as follows:

|                                  | <u>Amortized Cost</u> | <u>Net Unrealized Gains (losses)</u> | <u>Fair Market Value</u> |
|----------------------------------|-----------------------|--------------------------------------|--------------------------|
| <b><u>September 30, 2001</u></b> |                       |                                      |                          |
| Municipal bonds                  | \$ 6,409,000          | \$ (90,000)                          | \$ 6,319,000             |
| Corporate bonds                  | 2,714,000             | 10,000                               | 2,724,000                |
| Preferred stocks                 |                       |                                      |                          |
| <b>Total</b>                     | <b>\$ 9,123,000</b>   | <b>\$ (80,000)</b>                   | <b>\$ 9,043,000</b>      |
| <b><u>March 31, 2001</u></b>     |                       |                                      |                          |
| Municipal bonds                  | \$ 6,608,000          | \$ (148,000)                         | \$ 6,460,000             |
| Corporate bonds                  | 1,215,000             | (107,000)                            | 1,108,000                |
| Preferred stocks                 | 299,000               | (24,000)                             | 275,000                  |
| <b>Total</b>                     | <b>\$ 8,122,000</b>   | <b>\$ (279,000)</b>                  | <b>\$ 7,843,000</b>      |

The net unrealized losses of the Company's marketable securities at September 30, 2001, and March 30, 2001, are detailed as follows:

|                                  | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> | <u>Net Unrealized Gains (Losses)</u> |
|----------------------------------|-------------------------------|--------------------------------|--------------------------------------|
| <b><u>September 30, 2001</u></b> |                               |                                |                                      |
| Municipal bonds                  | \$ 35,000                     | \$ (125,000)                   | \$ (90,000)                          |

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| <u>September 30, 2001</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Net Unrealized<br/>Gains (Losses)</u> |
|---------------------------|---------------------------------------|--|--|
| Corporate bonds           | 63,000                                | (53,000)                               | 10,000                                   |
| <b>Total</b>              | <b>\$ 98,000</b>                      | <b>\$ (178,000)</b>                    | <b>\$ (80,000)</b>                       |
|                           | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross Unrealized<br/>Losses</u>     | <u>Net Unrealized<br/>Losses</u>         |
| <u>March 31, 2001</u>     |                                       |  |  |
| Municipal bonds           | \$ 21,000                             | \$ (169,000)                           | \$ (148,000)                             |
| Corporate bonds           | 1,000                                 | (108,000)                              | (107,000)                                |
| Preferred stocks          |                                       | (24,000)                               | (24,000)                                 |
| <b>Total</b>              | <b>\$ 22,000</b>                      | <b>\$ (301,000)</b>                    | <b>\$ (279,000)</b>                      |

The amortized cost and estimated fair value of the securities (excluding the preferred stocks) at September 30, 2001, by contractual maturity, are shown below:

|  | <u>Amortized<br/>Cost</u> | <u>Fair Market<br/>Value</u> |
|--|---------------------------|------------------------------|
| Due in one year or less                | \$                        | \$                           |
| Due after one year through five years  | 1,955,000                 | 2,028,000                    |
| Due after five years through ten years | 211,000                   | 217,000                      |
| Due after ten years                    | 6,957,000                 | 6,798,000                    |
| <b>Total</b>                           | <b>\$ 9,123,000</b>       | <b>\$ 9,043,000</b>          |

The Company had investments in three unconsolidated companies, recorded on the equity method of accounting, of \$3,167,000 as of March 31, 2001. Due to recent difficult economic conditions affecting these companies resulting in the inability to generate sufficient cash flow and the amount of liabilities ranking ahead of the Company's investment in these entities, the Company has concluded that its total investment in two of these companies, Compliance1, Inc. and Econometrics, Inc., is currently without value. Accordingly, the Company has recorded an impairment charge of \$3,129,000 in the second quarter of fiscal year 2002 which includes the balance of the investment in these companies and are all related accounts.

The Company continues to carry its investment in MedicareFacts, LLC recorded on the equity method. The Company's equity in the net loss of this unconsolidated company was \$40,000 for the second quarter of fiscal year 2002. MedicareFacts, LLC designs and develops reimbursement guides which provide a single source for all coding and coverage information needed to file accurate Medicare claims, thus ensuring optimal reimbursement and compliance with government regulations. These products are used principally by hospitals and clinical laboratories. The Company's investment is in the form of a two-year 10% series B unsecured convertible note in the aggregate principal amount of \$400,000 that matures in October 2002, and which converts, at the Company's option, into 20% of the outstanding common stock of MedicareFacts, LLC as of September 30, 2001.

The Company has an investment in Renaissance Pharmaceuticals, Inc. which is recorded at historical cost under the cost method. Renaissance Pharmaceuticals, Inc. is a development stage drug delivery company. The Company has a direct investment of \$650,000 in Renaissance Pharmaceuticals, Inc. for 2.5% of the outstanding common stock as of September 30, 2001. During the quarter ending December 31, 2000, the Company recorded an impairment charge of \$380,000 against its investment in Renaissance Pharmaceuticals, Inc. due to a revised valuation by the management of Renaissance Pharmaceuticals, Inc. in connection with Renaissance Pharmaceuticals, Inc.'s \$5.2 million convertible preferred stock offering. Management of Renaissance Pharmaceuticals, Inc. has informed the Company that it is actively pursuing investors for their preferred stock offering.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains, in addition to historical information, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, which represent the Company's expectations or beliefs. When used in this report, the words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, certain of which are beyond the Company's control. The Company cautions that various factors, including the factors described in the Company's filings with the Securities and Exchange Commission, as well as general economic conditions, changes in applicable laws and regulations, industry trends, a dependence upon and/or loss of key employees, vendors or customers, the loss of strategic product shipping relationships, customer demand, product availability, competition (including pricing and availability), concentrations of credit risks, distribution efficiencies, capacity constraints and technological difficulties could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements of the Company. Reference is made to this report as well as the Company's most recent Annual Report on Form 10-K and other reports filed with the Securities and Exchange Commission for other factors that could affect the forward-looking statements. Any forward-looking statement speaks only as of the date of this report and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statements is made or to reflect the occurrence of an unanticipated event. New factors emerge from time to time, and it is not possible for the Company to predict all of such factors. Further, the Company cannot assess the impact of each such factor on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

### Results of Operations

#### Net Sales and Operating Income.

The following table sets forth, for the periods indicated, the net sales and operating income for each segment of the business of the Company and its subsidiaries:

|                                      | Three months ended<br>September 30, |              | Six months ended<br>September 30, |              |
|--------------------------------------|-------------------------------------|--------------|-----------------------------------|--------------|
|                                      | 2001                                | 2000         | 2001                              | 2000         |
| <b>NET SALES:</b>                    |                                     |              |                                   |              |
| Waste Management Services Segment    | \$ 4,694,000                        | \$ 4,265,000 | \$ 9,265,000                      | \$ 8,469,000 |
| Consumer Healthcare Products Segment | 438,000                             | 346,000      | 901,000                           | 768,000      |
| Company Totals                       | \$ 5,132,000                        | \$ 4,611,000 | \$ 10,166,000                     | \$ 9,327,000 |
| <b>OPERATING INCOME:</b>             |                                     |              |                                   |              |
| Waste Management Services Segment    | \$ 524,000                          | \$ 483,000   | \$ 1,122,000                      | \$ 1,069,000 |
| Consumer Healthcare Products Segment | 176,000                             | 119,000      | 359,000                           | 285,000      |
| Corporate                            | (237,000)                           | (137,000)    | (464,000)                         | (330,000)    |
| Company Totals                       | \$ 463,000                          | \$ 465,000   | \$ 1,017,000                      | \$ 1,024,000 |

The Company's net sales increased 11% to \$5,132,000 for the second quarter of fiscal 2002 from \$4,611,000 for the second quarter of fiscal 2001. The Company's operating income decreased 0.4% to \$463,000 for the second quarter of fiscal 2002 from \$465,000 for the second quarter of fiscal 2001. The Company's cost of goods sold of the Waste Management Services Segment is made up of direct labor and related costs and benefits to collect and process waste, vehicle and equipment maintenance, repair and depreciation, waste disposal costs and interest on capital leases used to finance vehicle acquisitions. The cost of goods sold for the Consumer Healthcare Products Segment is made up of the cost of

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materials for products distributed and the related shipping expenses. The Company's cost of goods sold on a consolidated basis for the quarter ended September 30, 2001, and September 30, 2000, was 65% and 64%, respectively, of net sales. Selling, general and administrative expenses were 26% of net sales for the second quarter of fiscal 2002 and did not change from the 26% for the second quarter of fiscal 2001 on a consolidated basis. Selling, general and administrative expenses in both of the Company's business segments is made up of:

management, administrative and office compensation, related costs and benefits;

utilities, insurance, property depreciation, bad debt, professional fees, rent, amortization, advertising promotion, travel and miscellaneous other expenses.

The Company's net sales increased 9% to \$10,166,000 for the six months ended September 30, 2001, from \$9,327,000 for the six months ended September 30, 2000. The Company's operating income decreased 0.7% to \$1,017,000 for the first six months of fiscal 2002 from \$1,024,000 for the first six months of fiscal 2001. Cost of goods sold increased to 64% of net sales for the six months ended September 30, 2001, from 62% of net sales for the six months ended September 30, 2000. Selling, general and administrative expenses decreased to 26% of net sales for the six months ended September 30, 2001, from 27% of net sales for the six months ended September 30, 2000. The primary reasons for these changes are discussed below.

The results of operations of the Company are dependent upon the results of operations of each of its subsidiaries operating in the Company's individual business segments. Set forth below is a discussion of the results of operations of each of these segments.

### *Waste Management Services Segment*

Net sales in the Company's Waste Management Services Segment, which operates through Bio Waste Systems, Inc. and Medical Waste Systems, Inc. (collectively, "Bio Systems"), increased 10% to \$4,694,000 for the second quarter of fiscal 2002 from \$4,265,000 for the second quarter of fiscal 2001. Bio Systems' net sales increased 9% to \$9,265,000 for the six months ended September 30, 2001 from \$8,469,000 during the same period in fiscal 2001. The sales growth is primarily due to securing new hospital contracts for Bio Systems' core business of providing "sharps" (including sharp-edged medical waste such as scalpels, syringes, and needles) disposal services which utilize cost effective reusable containers. Bio Systems added six new hospital contracts in the second quarter of fiscal 2002, and added a total of 12 new hospital contracts in the first six months of fiscal 2002. It is expected that these 12 new hospital contracts, which have a term of at least one year, will contribute more than \$460,000 in revenue during fiscal 2002. Market forces and competitive pricing pressures have affected Bio Systems' ability to increase prices for its sharps disposal services with existing hospital and physician customers. These factors also impact the prices Bio Systems is able to charge new and potential customers. In fiscal 2002, Bio Systems expanded its disposal services to include certain laboratory waste and surgical fluid waste. Net sales for laboratory and surgical fluid waste increased \$25,000 to \$220,000 in the second quarter of fiscal 2002, as compared to \$10,000 in the second quarter of fiscal 2001. For the six months ended September 30, 2001, net sales for laboratory and surgical fluid waste increased 30% to \$453,000 from \$348,000 for the six months ended September 30, 2000. Bio Systems intends to continue to actively pursue the laboratory and surgical fluid waste disposal market although the market is relatively small compared to Bio Systems' core business of sharps disposal.

Bio Systems' operating income increased to \$524,000 for the quarter ended September 30, 2001, from \$483,000 for the quarter ended September 30, 2000. Bio Systems' cost of goods sold for the second quarter of fiscal 2002 was 68% of net sales compared to 65% for the second quarter of fiscal 2001. Starting in early fiscal 1998 and continuing through the current period, Bio Systems has had substantial new hospital activity adding 22 new hospitals in fiscal year 1998, 24 new hospitals in fiscal year 1999, 25 new hospitals in fiscal year 2000, 24 new hospitals in fiscal year 2001, and 12 new hospitals during the first six months of fiscal year 2002. Preparing new accounts for service requires,

among other things, installation of Bio Systems' reusable containers and sometimes considerable operational follow-up which causes increases in certain costs and expenses such as operating payroll and expense for the hardware related to the installation of the reusable containers. Although Bio Systems continues to increase revenue through new hospital contracts, the pricing pressures discussed above combined with certain contract restrictions have hampered Bio Systems' ability to effectively absorb these costs and expenses as compared to prior periods. Additionally, Bio Systems' costs and expenses for waste disposal have increased slightly due to the outsourcing of the disposal of the laboratory and surgical fluid waste discussed above. The reusable containers that Bio Systems uses to collect the laboratory and surgical fluid waste are larger than the sharps collection containers and the waste disposal machinery at Bio Systems' processing facility is not currently equipped to process these larger containers. In the near future, Bio Systems intends to process these larger containers at its processing facility by retrofitting its waste disposal system at a cost that is not expected to be material to Bio Systems' results of operations. Selling, general and administrative expenses decreased to 21% of Bio System's net sales for the quarter ended September 30, 2001 compared to 23% for the quarter ended September 30, 2000.

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Bio Systems' operating income increased 1% to \$1,122,000 for the six months ended September 30, 2001, from \$1,069,000 for the six months ended September 30, 2000. Primarily due to the reasons discussed above, Bio System's cost of goods sold for the six months ended September 30, 2001, as a percentage of its net sales was 67% compared to 64% for the six months ended September 30, 2000. Bio System's selling, general and administrative expenses decreased to 21% of net sales for the first six months of fiscal 2002 compared to 24% for the first six months of fiscal 2001.

### ***Consumer Healthcare Products Segment***

Net sales for the Consumer Healthcare Products Segment, which operates through Scherer Laboratories, Inc. ("Scherer Labs"), increased 27% to \$438,000 for the second quarter of fiscal 2002 from \$346,000 during the same period in fiscal 2001. Scherer Labs' net sales increased 17% to \$901,000 for the six months ended September 30, 2001 from \$768,000 for the six months ended September 30, 2000. Increased sales are mostly the result of increased volume with existing customers plus some new customers added in the first six months of fiscal 2002.

As a result of the increase in net sales, Scherer Labs' operating income increased 48% to \$176,000 for the second quarter of fiscal 2002 from \$119,000 for the second quarter of fiscal 2001 and increased 26% to \$359,000 for the six months ended September 30, 2001 from \$285,000 for the six months ended September 30, 2000.

### ***Corporate***

The Company's operating expenses in the Corporate Segment increased to \$303,000 for the quarter ended September 30, 2001, from \$233,000 for the quarter ended September 30, 2000. For the six months ended September 30, 2001, operating expenses in the Corporate Segment increased to \$589,000 from \$490,000 for the same period in fiscal 2001. Certain administrative, accounting, management oversight and payroll services are performed by the Company's corporate office. The Corporate operating expenses primarily include the salaries and wages of the personnel who perform these functions (including the Company's executive officers), rent expense, and professional accounting and legal fees. The salaries and wages increased to \$115,000 for the second quarter of fiscal 2002 from \$94,000 for the second quarter of fiscal 2001 and to \$264,000 for the first six months of fiscal 2002 from \$168,000 for the first six months of fiscal 2001 primarily due to severance compensation resulting from the closure of Scherer Labs' Texas office. Professional, legal, accounting and financial consulting fees increased to \$31,000 for the second quarter of fiscal 2002 from \$12,000 for the second quarter of fiscal 2001 and to \$144,000 for the first six months of fiscal 2002 from \$44,000 for the first six months of fiscal 2001 primarily due to the costs incurred to respond to a Securities and Exchange Commission

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(SEC) comment letter issued in connection with a routine periodic review of the Company's reports filed with the SEC and the contractual relationship for financial consulting.

### **Other Income.**

Primarily as a result of writing off and not recording interest income associated with investments in Econometrics, Inc., and Compliance1, Inc., the Company's interest income decreased to \$114,000 for the second quarter of fiscal 2002 from \$210,000 for the second quarter of fiscal 2001 and decreased to \$306,000 for the six months ended September 30, 2001, from \$352,000 for the six months ended September 30, 2000. The Company recognized equity in net losses of unconsolidated companies of \$40,000 and \$1,000 for the second quarter of fiscal 2002 and for the six months ended September 30, 2001, respectively, relating to its equity method investments. The Company also recognized \$3,129,000 of impairment charges in the quarter ended September 30, 2001, relating to a write off of its investments and the related accounts for Econometrics, Inc. and Compliance1, Inc. (See Note 4 of Notes to Condensed Consolidated Financial Statements included elsewhere herein).

### **Liquidity and Capital Resources**

The Company's cash and cash equivalents totaled \$4,411,000 at September 30, 2001, an increase of \$13,000 from March 31, 2001. Since March 31, 2001, the Company has made additional investments of \$112,000 in Econometrics, Inc. in an attempt to keep that company viable. (See Note 4 of Notes to Condensed Consolidated Financial Statements included elsewhere herein). Also, since March 31, 2001, the Company invested \$1,001,000 in additional marketable securities. The Company's working capital decreased \$131,000 at September 30, 2001, from \$7,096,000 at March 31, 2001. This decrease was primarily for the reasons described below and the result of investment transactions described above.

### **Cash Flow from Operating Activities.**

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The Company's cash provided by operating activities totaled \$1,777,000 for the first six months of fiscal 2002, as compared to \$1,788,000 for the first six months of fiscal 2001.

### **Cash Flows from Investing and Financing Activities.**

The Company's investing activities used cash of \$1,696,000 for the six months ended September 30, 2001, as compared to a use of cash of \$325,000 for the six months ended September 30, 2000. During the six months ended September 30, 2001, the Company increased its investment in marketable securities by \$1,001,000 and the Company made an additional cash investment of \$112,000 in Econometrics, Inc. (see comments above). For the six months ended September 30, 2001, the Company acquired in its Waste Management Services Segment new vehicles, factory machinery and equipment, office equipment and containers amounting to \$507,000, versus \$724,000 for the six months ended September 30, 2000.

Cash used for financing activities was \$68,000 for the six months ended September 30, 2001, resulting from the Company paying off certain capital leases. For the six months ended September 30, 2000, cash flow from financing activities was \$202,000 caused by capital lease financing of new vehicles.

Management of the Company believes that its current cash on hand and its current and future cash flow is sufficient to maintain its operations on a short term and long term basis. The Company continues to evaluate its long-term options with regard to the use of its remaining cash on hand including possible acquisition opportunities and internal expansion.

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### **Effects of Accounting Standards**

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 141, "Business Combinations," which established new accounting and reporting standards for business combinations and supersedes Accounting Principles Board (APB) Opinion No. 16. All business combinations initiated after June 30, 2001, must now be accounted for using the purchase method of accounting.

Also in June 2001, the FASB issued Statement No. 142, "Goodwill and Other Intangible Assets," which establishes new accounting and reporting standards for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17. It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for upon acquisition and on an ongoing basis. Goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, which are no longer limited to 40 years. The provisions of Statement No. 142 must be adopted on April 1, 2002, by the Company. The Company recorded amortization expense related to goodwill of \$56,000 for the six months ended September 30, 2001, and is expected to record \$107,000 of goodwill amortization expense for the year ending March 31, 2002. The Company has not yet quantified the impact of adopting Statement No. 142 on its consolidated financial statements; however, the impact is not expected to be material upon adoption on April 1, 2002.

## **PART II. OTHER INFORMATION**

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

The Company held its Annual Meeting of Stockholders on September 12, 2001 for the purpose of electing

Directors. The following persons were elected to the Company's Board of Directors. The vote totals are set forth opposite the name of each nominee for director.

|                        | <b>For</b>       | <b>Withheld</b> |
|------------------------|------------------|-----------------|
| Stephen Lukas, Sr.     | 3,837,137 shares | 17,042 shares   |
| Kenneth H. Robertson   | 3,837,141 shares | 17,038 shares   |
| Robert P. Scherer, Jr. | 3,836,937 shares | 17,242 shares   |
| Joel M. Segal          | 3,836,607 shares | 17,572 shares   |
| William J. Thompson    | 3,837,141 shares | 17,038 shares   |

There were no broker non-votes with respect to the election of directors.

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**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.

SCHERER HEALTHCARE, INC.  
(Registrant)

Date: November 14, 2001

/s/ Robert P. Scherer, Jr.  

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Robert P. Scherer, Jr.  
*Chairman, Chief Executive Officer and  
President*

Date: November 14, 2001

/s/ Donald P. Zima  

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Donald P. Zima  
*Vice President and Chief Financial  
Officer*

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