BICO INC/PA
Form 10-Q
October 06, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For Quarter Ended September 30, 2003

Commission file number 0-10822

BICO, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	25-1229323
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification no.)

2275 Swallow Hill Road, Bldg. 2500, Pittsburgh, PA 15220
(Address of principal executive offices) (Zip Code)

(412) 279-1059
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 No X

As of September 30, 2003, 7,387,507,775 shares of BICO, Inc. common stock, par value $.10 were outstanding.

BICO, Inc. and Subsidiaries
(Debtor in Possession)
Consolidated Balance Sheets

	Sept. 30, 2003 (Unaudited)	Dec. 31, 2002
CURRENT ASSETS		
Cash and equivalents	$ 131,700	$ 81,682
Accounts receivable	-	50,096
Notes receivable	-	46,338

TOTAL CURRENT ASSETS	131,700	178,116
OTHER ASSETS		
Related Party Receivables		
Notes receivable	317,137	317,137
Interest receivable	16,047	16,047
	333,184	333,184
Other notes receivable	546,533	546,533
Other interest receivable	1,384	1,384
	881,101	881,101
Allowance for notes receivable	(881,101)	(881,101)
	-	-
TOTAL ASSETS	$ 131,700	$ 178,116

The accompanying notes are an integral part of these statements.

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BICO, Inc. and Subsidiaries
(Debtor in Possession)
Consolidated Balance Sheets
(Continued)

	Sept. 30, 2003 (Unaudited)	Dec. 31, 2002
CURRENT LIABILITIES		
Accounts payable	$ -	$ 4,105,303
Advance payment on asset sale	10,000	-
Notes payable	-	1,473,347
Current portion of long-term debt	-	286,457
Capital lease obligations	-	1,265,299
Accrued liabilities	-	2,270,635
Escrow payable	-	2,700
TOTAL CURRENT LIABILITIES	10,000	9,403,741
LONG-TERM LIABILITIES		
Liabilities subject to compromise	8,154,100	-
Liabilities in excess of assets held for sale	836,969	590,911
	9,001,069	9,994,652
COMMITMENTS AND CONTIGENCIES		
UNRELATED INVESTORS'INTEREST		

IN SUBSIDIARIES	-	1,440
STOCKHOLDERS' EQUITY (DEFICIENCY)		
Common stock, par value $.10 per share, authorized 8,000,000,000 shares at Sept. 30, 2003 and Dec. 31, 2002, outstanding 7,387,507,775 shares at Sept. 30, 2003 and 7,138,933,127 shares at Dec. 31, 2002	738,750,778	713,893,312
Convertible preferred stock, par value $10 per share, authorized 500,000 shares issuable in series, shares issued and outstanding 108,356 at December 31, 2003	-	108,357
Additional paid-in capital	(468,788,830)	(444,039,721)
Accumulated deficit	(278,831,317)	(279,779,924)
TOTAL STOCKHOLDERS' EQUITY (DEFICIENCY)	(8,869,369)	(9,817,976)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	$ 131,700	$ 178,116

The accompanying notes are an integral part of these statements.

BICO, INC. AND SUBSIDIARIES
(Debtor in Possessions)
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the nine months ended Sept 30, 2003	2002	For the three 2003
Revenues			
Net sales	$ 581,681	$ 3,999,621	$ 222,14
Other income	-	39,007	
		581,681	4,038,628
Costs and expenses			
Cost of products sold	248,093	2,656,396	72,13
Research and development	-	896,186	
General and administrative	634,622	12,123,787	174,92
Amortization	-	210,451	
	882,715	15,886,820	247,06
Loss from operations	(301,034)	(11,848,192)	(24,92
Other (income) and expense			
Forgiveness of debt	(1,292,335)	-	
Interest income	-	(308,484)	
Unusual item	-	(170,077)	
Impairment loss	-	5,515,168	
Interest expense	42,694	535,386	
(Gain) on sale of MicroIslet stock	-	(752,973)	
Loss on unconsolidated subsidiaries	-	161,340	
Loss on disposal of assets	-	783,888	

	(1,249,641)	5,764,248	
Income (Loss) before unrelated investors' interest	948,607	(17,612,440)	(24,92
Unrelated investors' interest in net loss of subsidiaries	-	93,976	
Net income (loss)	$ 948,607	$(17,518,464)	$ (24,92
Income (loss) per common share - Basic:			
Net Income (Loss)	$ (0.000)	$ (0.006)	$ (0.00
Less: Preferred stock dividends	(0.000)	(0.000)	(0.00
Net income (loss) attributable to common stockholders:	$ (0.000)	$ (0.006)	$ (0.00
Income (loss) per common share - Diluted:			
Net Income (loss)	$ (0.000)	$ (0.006)	$ (0.00
Less: Preferred stock dividends	(0.000)	(0.000)	(0.00
Net income (loss) attributable to common stockholders:	$ (0.000)	$ (0.006)	$ (0.00

The accompanying notes are an integral part of these statements.

BICO, Inc. and Subsidiaries
(Debtor in Possession)
Consolidated Statements of Cash Flows

	For the nine months ended Sept. 30, 2003	2002	For the nine 2003
Cash flow used by operating activities:			
Net income (loss)	$ 948,607	$(17,518,464)	$ (24,92
Adjustments to reconcile net loss ot net cash used by operating activities:			
Depreciation	-	766,921	
Amortization	-	210,451	
Loss on disposal of assets, net of cash included in sale	-	804,902	
Loss on unconsolidated subsidiaries	-	161,345	
Gain on sale of MicroIslet stock	-	(752,973)	
Unrelated investors' interest in subsidiaries	(1,440)	(93,976)	
Stock issued in exchange for services	-	3,334,947	
Stock issued in payment of interest	-	121,711	
Warrants granted	-	768,545	
Stock options, warrants and warrant ext. by sub.	-	(28,313)	

Impairment expense	-	2,207,755	
Increase (decrease) in allow. for notes rec. & int.	-	3,339,709	
(Increase) decrease in accounts receivables	50,096	212,547	
(Increase) decrease in inventories	-	916,079	
Increase (decrease) in inventory valuation allow.	-	(734,374)	
(Increase) decrease in prepaid expenses	-	283,385	
(Increase) decrease in other assets	-	63,864	
Increase (decrease) in accounts payable	-	376,966	
(Decrease) increase in other liabilities	42,694	917,718	
Increase in liabilities in excess of assets held for sale	116,058	-	16,30
Forgiveness of debt	(1,292,335)	-	
Net cash flow used by operating activities	(136,320)	(4,641,255)	(8,61
Cash flows from investing activities:			
Equipment sale	130,000	-	125,00
ViaCirq sale	10,000	-	10,00
Purchase of property,plant and equipment	-	(358,964)	
(Increase) in notes receivable	-	(2,001)	
Payments received on notes receivable	46,338	115,963	
(Increase) decrease in interest receivable	-	(269,180)	
Proceeds from sale of Microislet stock	-	1,379,386	
Net cash provided (used) by investing activities	186,338	865,204	135,00
Cash flows from financing activities:			
Proceeds from warrants exercised	-	770,000	
Proceeds from sale of Preferred stock	-	1,864,840	
Increase in notes payable	-	1,908,013	
Decrease in notes payable	-	(864,833)	
Increase in long term debt	-	26,499	
Payments on long term debt	-	(47,783)	
Increase (decrease) in capital lease oblig.	-		
Net cash provided by financing activities	-	3,707,392	
(Decrease) increase in cash and equivalents	50,018	(68,659)	126,38
Cash and equivalents, beginning of period	81,682	268,095	5,31
Cash and equivalents, end of period	$ 131,700	$ 199,436	$131,70

The accompanying notes are an integral part of these statements.

BICO, INC.
(Debtor in Possession)
NOTES TO FINANCIAL STATEMENTS

NOTE A - Proceedings under Chapter 11 of the Bankruptcy Code

On March 18, 2003 ("Petition Date"), BICO, Inc., filed a voluntary petition for reorganization under Chapter 11 of the Federal bankruptcy laws ("Bankruptcy Code") in the United States Bankruptcy Court for the Western District of Pennsylvania ("Bankruptcy Court"). The Company and its subsidiaries incurred substantial losses in 2002 and in prior years and funded their operations and product development through the sale of common and preferred stock and issuance of debt instruments. In late 2001 and continuing throughout 2002, BICO experienced difficulty raising monies to support its own operations and controlling costs. During 2002, BICO began selling its assets to provide capital to meet its obligations. BICO's financial situation continued to deteriorate throughout 2002. Without necessary funding, BICO was unable to continue operations and to retain sufficient counsel to defend itself from litigation matters. In 2002, BICO was sued by several alleged creditors who obtained default judgments against BICO and a subsidiary. The judgment holders thereafter levied on property of BICO, scheduling an execution sale of assets. The threat of losing substantial assets to a single creditor precipitated the need to seek protection under Chapter 11 and to reorganize the Company.

As a Debtor-in-Possession, BICO is authorized to continue to operate as an ongoing business but may not engage in transactions outside the ordinary course of business without the approval of the Court, after notice and an opportunity for a hearing. Under the Bankruptcy Code, actions to collect pre-petition indebtedness, as well as most other pending litigation, are stayed and other contractual obligations against the Company may not be enforced. In addition, under the Bankruptcy Code, the Company may assume or reject executor contracts, including lease obligations. Parties affected by these rejections may file claims with the Court, in accordance with the reorganization process. Absent an order of the Court, substantially all pre-petition liabilities are subject to settlement under a plan of reorganization to be voted upon by creditors and equity holders and approved by the Court.

Upon emergence from bankruptcy, the amounts reported in subsequent financial statements may materially change due to the restructuring of the Company's assets and liabilities as a result of the Plan of Reorganization and the application of the provisions of Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code," (SOP 90-7), with respect to reporting upon emergence from Chapter 11 ("Fresh-Start" accounting). Changes in accounting principles required under generally accepted accounting principles within 12 months of emerging from bankruptcy are required to be adopted at the date of emergence. Additionally, the Company may choose to make changes in accounting practices and policies at that time. For all of these reasons, financial statements for periods subsequent to emergence from Chapter 11 may not be comparable with those of prior periods.

The accompanying Consolidated Financial Statements have been prepared on a going concern basis, which assumes continuity of operations and realization of assets and satisfaction of liabilities in the ordinary course of business, and in accordance with SOP-7. Accordingly, all pre-petition liabilities subject to compromise have been segregated in the Consolidated Balance Sheets and classified as Liabilities Subject to Compromise, at the estimated amount of allowable claims. Liabilities not subject to compromise are separately classified as current and non-current.

NOTE B - Basis of Presentation

The accompanying consolidated financial statements of BICO, Inc. (the "Company") and its 52% owned subsidiary, Diasense, Inc., and its 75% owned subsidiary, Petrol Rem, Inc., and its 99% owned subsidiary, ViaCirQ, Inc., and its 99% owned subsidiary, ViaTherm, Inc., and its 75% owned subsidiary, Rapid HIV Detection Corp., and its 98% owned subsidiary Ceramic Coatings Technologies, Inc., and its 100% owned subsidiary, B-A-Champ, Inc., have been prepared in accordance with generally accepted accounting principles for interim financial information, and with the instructions to Form 10-Q and Rule 10-01 Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the consolidated financial statements and footnotes included in the Company's annual report on Form 10-K for the year ended December 31, 2002.

The Company and its subsidiary Petrol Rem, Inc. filed voluntary petitions for Chapter 11 bankruptcy with the United States Bankruptcy Court for the Western District of Pennsylvania.

As discussed in Note A, for financial reporting purposes, the consolidated financial statements have been prepared on a going concern basis. In addition, the debtor has applied the provisions of the American Institute of Certified Public Accountants Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7). Accordingly, all pre-petition liabilities subject to compromise have been segregated in the Balance Sheet and classified as Liabilities Subject to Compromise, at the estimate amount of allowable claims. Liabilities not subject to settlement are classified current and non-current.

NOTE C - Liabilities Subject to Compromise

Pursuant to Section 362 of the Bankruptcy Code, the commencement of the Chapter 11 Case imposed an automatic stay, applicable generally to creditors and other parties of interest, of: (1) the commencement or continuation of a judicial, administrative or other action or proceeding against the Debtor that was or could have been commenced prior to commencement of the Chapter 11 Case or to recover for a claim that arose prior to commencement of the Chapter 11 Case; (2) the enforcement against the Debtor or its property of any judgments obtained prior to commencement of the Chapter 11 Case; (3) the taking of any action to obtain possession of property of the Debtor or to exercise control over property of the Debtor; (4) the creation, perfection or enforcement of any lien against the property of the Debtor's bankruptcy estate;

(5) any act to create, perfect or enforce against property of the Debtor any lien that secures a claim that arose prior to the commencement of the Chapter 11 Case; (6) the taking of any action to collection, assess or recover claims against the Debtor that arose before commencement of the Chapter 11 Case; (7) the setoff of any debt owing the Debtor that arose prior to commencement of the Chapter 11 Case against any claim against the Debtor; (8) the commencement or continuation of a proceeding before the United States Tax Court concerning the Debtor. Any entity may apply to the Bankruptcy Court, upon an appropriate showing of cause, for relief from the automatic stay to exercise the foregoing remedies, however, enforcement of judgments entered on these claims, if any, is expressly prohibited without further Bankruptcy Court approval.

Petition Date liabilities that are expected to be settled as part of a plan of reorganization are separately classified in the consolidated balance sheet as Liabilities Subject to Compromise. Reductions in liabilities as a result of the bankruptcy proceedings are recognized as "Forgiveness of Debt" in the Consolidated Statements of Operations.

NOTE D - Liabilities in Excess of Assets Held for Sale

In March 2003, the Company and its subsidiary Petrol Rem, Inc. filed a voluntary petition for bankruptcy under Chapter 11 of the Bankruptcy Code. Following the filing, the Company's equity interests in Diasense, ViaCirq, and Viatherm were sold; Petrol Rem was liquidated in connection with its own bankruptcy plan; and the former operating assets at the Company's manufacturing facility were sold. Although these transactions all took place after the Chapter 11 filing and subsequent to the first quarter of 2003, efforts were underway at that time to sell these assets.

The balance recognized as Liabilities in Excess of Assets Held for Sale represents the excess of the liabilities related to the carrying value of the assets held for sale. Following is a summary of these net assets and (net liabilities):

	September 30, 2003	Dec. 31, 2002
Diasense, Inc.	$ (178,023)	$ (145,148)
ViaCirq, Inc.	(759,294)	(676,111)
Petrol Rem,Inc.	100,348	100,348
Other Assets	0	130,000
	$ (836,969)	$ (590,911)

In August 2003 the Company sold all inventory and equipment formerly held at its Indiana County manufacturing facility to an unrelated party for $130,000.

NOTE E - Commitments and Contingencies

Management of the Company believes that any liability arising from litigation through the effective date of the Company's reorganization will be either dismissed or settled through the plan of reorganization.

NOTE F - Shareholders' Equity

Under our Plan of Reoganization, confirmed by the Bankruptcy Court, all of our outstanding preferred stock as of the bankruptcy date, March 18, 2003 were cancelled. Prior to the bankruptcy date 248,574,648 shares of our common stock were issued in connection with preferred stock conversions.

NOTE G - Subsequent Events

On August 3, 2004 the Company, along with a joint plan proponent, PHD Capital, submitted a Plan of Reorganization. PHD Capital is an investment banking company and was used by the Company prior to the filing of the Chapter 11 as an investment banker to raise funds. None of the principals or insiders of the Company are principals or insiders of PHD Capital, nor have any members of PHD Capital ever held any positions with the Company. As of September 15, 2004, sufficient votes had been received from creditors to approve the Plan of Reorganization and at a hearing on September 23, 2004 the Court confirmed the plan subject to the Company becoming current with its SEC reporting.

Asset Sales

During the course of the bankruptcy, through September 30, 2004, the Company (Debtor) liquidated substantially all of its operating and investment assets.

In October 2003 the Company sold its equity and debt interest in subsidiaries ViaCirq, Inc. and Viatherm, Inc. to an unrelated party for $300,000. A gain of $1,061,254 was recognized in the fourth quarter of 2003 as a result of this sale.

In July 2004 the Company sold its equity and debt interest in subsidiary Diasense, Inc. to an unrelated party for $80,000 and recognized a net gain of $264,773 at that time.

Petrol Rem, Inc. Liquidating Plan of Reorganization

In December 2003 the United States Bankruptcy Court for the Western District off Pennsylvania confirmed a plan of liquidation for the Company's subsidiary, Petrol Rem, Inc. All of its assets were sold to an unrelated party for $100,000. The proceeds from the sale were utilized in the Liquidating Plan to pay administrative expenses and claims; priority creditor claims and unsecured claims of Petrol Rem creditors to the extent of available funds.

Management's Discussion and Analysis of Financial Condition and Cash Flows

Liquidity and Capital Resources

Our cash increased to $131,700 as of September 30, 2003 from $81,682 as of December 31, 2002 primarily due to the receipt of $130,000 from the sale of equipment previously used at our manufacturing facility, the collection of $50,096 in accounts receivable and the payment of $46,338 notes receivable. These increases in cash were partially offset by $122,511 net cash flow used by operating activities.

Results of Operations

Prior to the Chapter 11 filing in the first quarter of 2003, we decided to voluntarily vacate our manufacturing facility in Indiana, PA. All manufacturing operations were ceased and no additional work was performed on any remaining contracts at the Indiana, PA facility. With the exception of ViaCirq substantially all operations of the Company were discontinued throughout 2003.

We have proposed a Joint Plan of Reorganization (the Plan) and have received the required acceptance by our creditors. Under the Plan we will not continue business operations as an independent entity. Instead, the Joint Plan Proponent, PHD Capital, anticipates combining a new entity, cXc Services, Inc. ("cXc"), into BICO. BICO will obtain 100% of the assets of cXc, including the exclusive licensing rights to a product known as a "web phone" and management expertise. In return, the shareholders of cXc will receive full voting, convertible, and preferred stock in BICO. The preferred stock shall be convertible at any time into an amount of common stock equal to 49.6% of the total stock issuable by BICO, but will not provide cXc with any priority over the common shareholders upon liquidation, nor any dividend or disbursement priority. The former shareholders of cXc will hold two of the three positions on the Board of Directors of BICO. BICO shall continue business operations as a publicly traded company with continuing infusions of capital and resources from selling additional shares or any other available source. Neither cXc nor its principals shall receive any funds currently held by BICO.

Our sales and corresponding costs of products sold during the nine months were $581,681 and $248,093 respectively in 2003 compared to $2,597,434 and $1,787,530 in 2002. The decrease in sales resulted primarily from the cessation of all operations except for ViaCirq. ViaCirq's sales of its hyperthermia totaled $581,681 in the first nine months of 2003 compared to $454,497 in the first nine months of 2002.

Interest income decreased during the first nine months to zero in 2003 from $308,484 in 2002. The decrease occurred because we had no funds to invest.

Research and Development expenses during the first nine months decreased to zero in 2003 from $896,186 in 2002. The decrease was due to the fact that we stopped all of our research activities.

General and Administrative expenses during the first nine months decreased from $12,123,787 in 2002 to $634,622 in 2003. The decrease is primarily due to the fact that we curtailed our operations.

In prior years, we wrote off bioremediation inventory because we did not know if we would eventually be able to establish a market to sell this inventory. During the nine months ended September 30, 2002, Petrol Rem sold inventory that was previously written off. Therefore, we recorded an unusual item for the recovery of inventory valuation allowance of $170,077.

Interest expense decreased from $535,386 in the first nine months of 2002 to $42,694 during the first nine months of 2003 due to lower debt balances and our bankruptcy filing on March 18, 2003.

Our loss on unconsolidated subsidiaries decreased from $161,340 for the nine months ended September 30, 2002 compared to zero for the same period in 2003. This reduction is due to the fact that we abandoned our financial investment in unconsolidated subsidiaries near the end of 2002.

We recognized an impairment loss of $2,207,755 in the first nine months of 2002 due to an evaluation of our goodwill and intangible assets that was required under new accounting regulations that became effective at the beginning of 2002. Due to our decision to shut down our subsidiary, BA Champ/TruePoints, all goodwill associated with this investment was written off as an impairment charge. In addition, evaluations were made of our investments in consolidated and unconsolidated subsidiaries. Based on the uncertainty of future success, the goodwill associated with our investments in Tireless, American Intermetallics and Insight Data Link were also written off as impairment charges. The carrying value of the marketing agreement for rapid HIV tests was written down to the balance of obligations due under that agreement. Also, during the first nine months of 2002 we recorded an impairment expense of $3,307,413 for the writedown of a note receivable and accrued interest.

We recognized income of $1,249,641 due to forgiveness of debt due to our bankruptcy filing in the first nine months of 2003. There was no comparable item in the first six months of 2002.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings
None.

Item 2. Changes in Securities
None.

Item 3. Defaults Upon Senior Securities
None.

Item 4. Submission of Matters to a Vote of Security Holders
None.

Item 5. Other Information
None

Item 6. Exhibits and Reports on Form 8-K
None

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 on this 5th day of October 2004.
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BICO, INC.

By /s/ Anthony Paterra
Anthony Paterra
CEO and Director