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SANGUI BIOTECH INTERNATIONAL INC  
Form 10QSB  
May 17, 2004

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

- [X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2004
- [ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-21271

SANGUI BIOTECH INTERNATIONAL, INC.  
(Exact Name of Registrant as Specified in its Charter)

COLORADO	84-1330732
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Alfred-Herrhausen-Str. 44  
58455 Witten  
Germany

(Address of Principal Executive Offices) (Zip Code)  
Registrant's Telephone Number, Including Area Code: 011-49-2302-915-204

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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 shares outstanding of each of the issuer's class of common stock, as of the latest practicable date:

Title of each class of Common Stock -----	Outstanding at May 14, 2004 -----
Common Stock, no par value	40,655,363

Transitional Small Business Disclosure Format  
(Check one);

Yes [ ] No [X]

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### SANGUI BIOTECH INTERNATIONAL, INC. CONSOLIDATED BALANCE SHEET

#### ASSETS

	March 31, 2004 (Unaudited)
	-----
Current assets	
Cash and cash equivalents	\$ 503,919
Available for sale securities	242,035
Taxes receivable	82,830
Prepaid expenses and other assets	52,266
	-----
Total current assets	881,050
Property and equipment-net	111,322
Patents and licenses-net	13,504
	-----
Total assets	\$ 1,005,876

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LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable and accrued expenses	\$ 64,944
Commitments and contingencies	
Stockholders' equity	
Preferred stock, no par value, 5,000,000 shares authorized, no shares issued and outstanding	--
Common stock, no par value, 50,000,000 shares authorized, 40,655,363 shares issued and outstanding	18,345,491
Treasury stock at cost, 100,000 shares	(26,997)
Additional paid-in capital	2,000,000
Accumulated other comprehensive income	577,470
Accumulated deficit	(19,955,032)
	-----
Total stockholders' equity	940,932
	-----
 Total liabilities and stockholders' equity	 \$ 1,005,876
	=====

The accompanying notes are an integral part of these unaudited consolidated financial statements

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SANGUI BIOTECH INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	For The Three Months Ended March 31, (Unaudited)	
	2004	2003
	-----	-----
Revenues	\$ --	\$ --
Operating expenses:		
Research and development	254,413	307,852
General and administrative	134,624	262,153
Depreciation and amortization	15,989	129,935
	-----	-----
Total operating expenses	405,026	699,940
Other income:		
Interest income	4,989	14,423
Other income	5,452	23,235
	-----	-----
Total other income	10,441	37,658
Loss from continuing operations	(394,585)	(662,282)
Loss from discontinued operations	--	--
	-----	-----
Net loss	(394,585)	(662,282)
Other comprehensive income (loss):		
Foreign currency translation adjustments	16,510	113,370
Unrealized (loss) gain on marketable securities	(62,874)	(2,264)
	-----	-----

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Comprehensive loss	\$ (440,949)	\$ (551,176)
	=====	=====
Net loss per common share - basic and diluted:		
Loss from continuing operations	\$ (0.01)	\$ (0.02)
	=====	=====
Loss from discontinued operations	\$ --	\$ --
	=====	=====
Net loss	\$ (0.01)	\$ (0.02)
	=====	=====
Basic and diluted weighted average number of common shares outstanding	40,555,363	40,655,363
	=====	=====

The accompanying notes are an integral part of these unaudited consolidated financial statements

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SANGUI BIOTECH INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For T Nine Month March (Unaudi -----
	2004 -----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	\$ (1,200,775)
Adjustments to reconcile net loss to net cash used in operating activities	
Depreciation and amortization	72,983
Realized loss (gains) on marketable securities	290
Realized gain on sale of assets of discontinued operations	--
Loss on impairment of assets	--
Changes in operating assets and liabilities:	
Accounts receivable	--
Inventories	--
Grant receivable	--
Taxes receivable	99,990
Prepaid expenses and other assets	19,150
Accounts payable and accrued expenses	(60,872)
	-----
Net cash used in operating activities	(1,069,234)
	-----
CASH FLOWS FROM INVESTING ACTIVITIES:	
Increase in marketable securities	--
Maturities of marketable securities	580,400
Repurchase of the Company's common stock	(26,997)
Collection of note receivable	20,000
Purchase of property and equipment	(9,730)
	-----
Net cash provided by investing activities	563,673

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	-----
Effect of exchange rate changes	52,949
	-----
Net decrease in cash and cash equivalents	(452,612)
	-----
Cash and cash equivalents, beginning of period	956,531
	-----
Cash and cash equivalents, ending of period	\$ 503,919
	=====
Supplemental disclosures:	
Cash paid during the period for:	
Interest	\$ --
	=====
Income taxes	\$ --
	=====

During August 2002, the Company received a note receivable for \$60,000 from the sale of inventory and equipment related to its discontinued operations.

The accompanying notes are an integral part of these unaudited consolidated financial statements

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SANGUI BIOTECH INTERNATIONAL, INC.  
Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared without audit in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Item 301 of Regulation S-B. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The unaudited consolidated financial statements and notes should, therefore, be read in conjunction with the consolidated financial statements and notes thereto in the Company's Form 10-KSB for the year ended June 30, 2003. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation, have been included. The results of operations for the three- and nine-month periods ended March 31, 2004 are not indicative of the results that may be expected for the full fiscal year ending June 30, 2004.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

-----

Sangui BioTech International, Inc., incorporated in Colorado in 1995, and its subsidiaries (collectively, the "Company") have been engaged in the research, development, manufacture, and sales of medical products.

SanguiBioTech GmbH ("Sangui GmbH"), the Company's German subsidiary, is engaged in the development of artificial oxygen carriers (external applications of hemoglobin, blood substitute and blood additives) as well as in the development

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of glucose implant sensors. Prior to June 30, 2003, the Company had two German subsidiaries, SanguiBioTech AG and GlukoMediTech AG. GlukoMediTech AG was merged into SanguiBioTech AG on June 30, 2003. Effective November 4, 2003, SanguiBioTech AG was converted into SanguiBioTech GmbH, a limited liability company under German law.

The operations of Sangui BioTech, Inc. ("Sangui USA"), a wholly owned subsidiary of the Company, were discontinued during 2002.

The operations of Sangui Singapore, incorporated in Singapore in 1999 as a regional office for the Company, were discontinued during 2002.

### Consolidation

-----

The consolidated financial statements include the accounts of Sangui BioTech International, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain amounts in the three and nine months ended March 31, 2003 have been reclassified to conform to the three and nine months ended March 31, 2004 presentation. These reclassifications have no effect on previously reported net loss.

### Use of Estimates

-----

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the respective reporting period. Actual results could differ from those estimates. Significant estimates made by management are, among others, the realization of taxes receivable, long-lived assets, and valuation allowance on deferred tax assets.

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### Risk and Uncertainties

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The Company's line of future pharmaceutical products (artificial oxygen carriers or blood substitute and additives) and in vivo biosensors (glucose implant sensor) being developed by Sangui GmbH, are deemed as medical devices or biologics, and as such are governed by the Federal Food and Drug and Cosmetics Act and by the regulations of state agencies and various foreign government agencies. The pharmaceutical and biosensor products, under development in Germany, will be subject to more stringent regulatory requirements, because they are in vivo products for humans. The Company and its subsidiaries have no experience in obtaining regulatory clearance on these types of products. Therefore, the Company will be subject to the risks of delays in obtaining or failing to obtain regulatory clearance.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business. The Company has an accumulated deficit of \$19,955,032 as of March 31, 2004 and has been significantly reducing its working capital since June 30, 2003. The Company's management believes, based on its current operating

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plan, that its current cash and highly liquid marketable securities totaling approximately \$746,000 at March 31, 2004, are sufficient to fund the Company's operations and working capital requirements at least through September 30, 2004. There are no assurances, however, that the Company will generate sufficient cash flows from operations or complete any sales or financing transactions or, even if such transactions are completed, have sufficient funds to execute its intended business plan over an extended period of time. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

### Foreign Currency Translation

-----

Assets and liabilities of the Company's foreign operations are translated into U.S. dollars at period-end exchange rates. Net exchange gains or losses resulting from such translation are excluded from net loss but are included in comprehensive income (loss) and accumulated in a separate component of stockholders' equity. Income and expenses are translated at weighted average exchange rates for the period.

### Cash and Cash Equivalents

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The Company maintains its cash in bank accounts in Germany. Cash and cash equivalents include time deposits for which the Company has no requirements for compensating balances. The Company has not experienced any losses in its uninsured bank accounts.

### Marketable Securities

-----

Marketable securities are classified as available-for-sale. Unrealized gains and losses are excluded from net income (loss) and are reported as a separate component of other comprehensive income (loss) in stockholders' equity. Realized gains and losses are included in other income and are determined based on the specific identification of the securities bought and sold (see Note 3).

### Revenue Recognition

-----

Revenues from product sales are recognized at the time of shipment.

### Research and Development

-----

Research and development costs are charged to operations as they are incurred. Legal fees and other direct costs incurred in obtaining and protecting patents are expensed as incurred.

### Basic and Diluted Earnings (Loss) Per Common Share

-----

Basic earnings (loss) per common share is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period of computation. Diluted earnings (loss) per share gives effect to all potential dilutive common shares outstanding during the period of compensation. The computation of diluted earnings (loss) per share

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does not assume conversion, exercise or contingent exercise of securities that would have an antidilutive effect on earnings. As of March 31, 2004 and 2003, the Company had no potentially dilutive securities that would effect the loss per share if they were to be dilutive.

### Comprehensive Income (Loss)

-----

Total comprehensive income (loss) represents the net change in stockholders' equity during a period from sources other than transactions with stockholders and as such, includes net earnings (loss). For the Company, the components of other comprehensive income (loss) are the changes in the cumulative foreign currency translation adjustments and unrealized gains (losses) on marketable securities and are recorded as components of stockholders' equity.

### Segments of an Enterprise and Related Information

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The Company applies Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information". SFAS No. 131 establishes standards for the way public companies report information about segments of their business in their annual financial statements and requires them to report selected segment information in their quarterly reports issued to shareholders. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenues and its major customers (see Note 7).

### New Accounting Pronouncements

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In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of SFAS No. 150 did not have a material effect on the Company's consolidated financial statements.

### NOTE 3 - AVAILABLE FOR SALE SECURITIES

Available for sale securities consist of the following at March 31, 2004:

	Cost	Fair market value	Unrealized Gain
Corporate bonds due within one year	\$ 190,359	\$ 243,469	\$ 53,110

### NOTE 4 - STOCKHOLDERS' EQUITY

During the three months ended March 31, 2004, the Company repurchased 100,000 shares of its common stock from a third party for cash of \$26,997, which is reflected in stockholders' equity as treasury stock in the accompanying consolidated balance sheet. The Company's management intends to sell these



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shares in the near future.

### NOTE 5 - DISCONTINUED OPERATIONS

Sangui USA manufactured in vitro immunodiagnostic blood test kits that were primarily sold in the United States and Europe. The Company decided to discontinue the in vitro immunodiagnostics business in August 2002, sold Sangui USA's inventory and property and equipment to an unrelated party for \$60,000, and closed the facility. The sale resulted in a gain of \$16,980 which is included as part of loss from discontinued operations in the accompanying statement of operations for the nine months ended March 31, 2003. In July 2002, the Company received \$100,000 as part of an agreement to cease manufacturing and selling certain blood test kits which is included in loss from discontinued operations in the

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accompanying statement of operations for the nine months ended March 31, 2003. The Company decided to discontinue the operations of Sangui Singapore in August 2002, recorded an impairment loss on property and equipment of \$106,927, and closed the facility effective December 31, 2002.

Components of amounts reflected in the accompanying consolidated statement of operations and comprehensive loss for the nine months ended March 31, 2003 are presented below:

	Sangui USA	Sangui Singapore	Total
	-----	-----	-----
Sales	\$ 138,542	\$ --	\$ 138,542
Cost of sales	94,747	--	94,747
Operating expenses	88,564	107,644	196,208
	-----	-----	-----
Loss from operations	(44,769)	(107,644)	(152,413)
Other income	116,980	3,363	120,343
Impairment of assets	--	(106,927)	(106,927)
	-----	-----	-----
Income (loss) from discontinued operations	\$ 72,211	\$ (211,208)	\$ (138,997)
	=====	=====	=====

### NOTE 6 - COMMITMENTS AND CONTINGENCIES

#### Litigation

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The Company may, from time to time, be involved in various litigation resulting from the ordinary course of operating its business. Management is currently not able to predict the outcome of any such cases. However, management believes that the amount of ultimate liability, if any, with respect to such actions will not have a material effect on the Company's financial position or results of operations.

#### Indemnities and Guarantees

-----

During the normal course of business, the Company has made certain indemnities and guarantees under which it may be required to make payments in relation to

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certain transactions. These indemnities include certain agreements with the Company's officers, under which the Company may be required to indemnify such person for liabilities arising out of their employment relationship. The duration of these indemnities and guarantees varies and, in certain cases, is indefinite. The majority of these indemnities and guarantees do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated to make significant payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying consolidated balance sheet.

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### NOTE 7 - BUSINESS SEGMENTS

The Company reports its business segments based on geographic regions, which are as follows:

	Three months ended March 31,	
	2004	2003
Net sales:		
Sangui GmbH	\$ --	\$ --
Sangui Biotech International, Inc.	--	--
Sangui USA (included in discontinued operations)	--	--
Sangui Singapore	--	--
	\$ --	\$ --
	=====	=====
Net income (loss):		
Sangui GmbH	\$ (374,616)	\$ (654,245)
Sangui Biotech International, Inc.	(19,969)	(8,037)
Sangui USA	--	--
Sangui Singapore	--	--
	\$ (394,585)	\$ (662,282)
	=====	=====
Depreciation and amortization		
Sangui GmbH	\$ 15,989	\$ 129,935
Sangui Biotech International, Inc.	--	--
Sangui USA	--	--
Sangui Singapore	--	--
	\$ 15,989	\$ 129,935
	=====	=====
Sangui GmbH	\$ 932,878	
Sangui Biotech International, Inc.	74,432	
Sangui USA	--	
Sangui Singapore	--	
	\$ 1,007,310	
	=====	

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### ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Forward-looking Statements

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The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes thereto included elsewhere in this quarterly report. Some of the information in this quarterly report contains forward-looking statements, including statements related to anticipated operating results, margins, growth, financial resources, capital requirements, adequacy of the Company's financial resources, trends in spending on research and development, the development of new markets, the development, regulatory approval, manufacture, distribution, and commercial acceptance of new products, and future product development efforts. Investors are cautioned that forward-looking statements involve risks and uncertainties, which may affect our business and prospects, including but not limited to, the Company's expected need for additional funding and the uncertainty of receiving the additional funding, changes in economic and market conditions, acceptance of our products by the health care and reimbursement communities, new development of competitive products and treatments, administrative and regulatory approval and related considerations, health care legislation and regulation, and other factors discussed in our filings with the Securities and Exchange Commission.

#### GENERAL

The Company is primarily involved in the development of artificial oxygen carriers and glucose sensors.

The Company's clinical development projects are primarily in the preliminary stages. The Company is diligently developing several applications for its clinical development projects, but does not anticipate beginning any government protocols or clinical trials in the near term. In the course of the ongoing cost containment efforts, these projects were halted during the last fiscal year, after having achieved the planned milestones. The Company decided to reduce further expenditures in the blood substitute, blood additive and glucose sensor projects to the amount necessary to find financing, industrial or distribution partners for further development and marketing of the resulting products. The Company has adopted a program aimed at cost reductions and at refocusing the Company's funds to accelerate time to market its most promising and mature products.

The Company's development projects related to cosmetic and other external applications of its oxygen carrier are nearing completion. In addition, the Company holds licensing agreements with Russian manufacturers granting the Company exclusive marketing rights for certain medical products developed or produced in Russia. The Company has established contact with German cosmetics vendors and other industrial partners and is planning and preparing to jointly introduce related products in the German and other European markets in the course of the current fiscal year.

As of May 4, 2004, Sangui GmbH and Mercatura Cosmetics Biotech AG ("Mercatura"), a third party entity, have signed a letter of intent aiming at marketing "Pure Moisture", an anti-aging nano-formulation developed by Sangui GmbH. Under the proposed agreement, Sangui GmbH will license to Mercatura the exclusive right to sell the nano-emulsion in German and international markets.

#### Cost Savings

-----

In total, management has been able to reduce the Company's operating expenses by 29% to approximately \$1.2 million in the first nine months of fiscal 2004, compared to approximately \$1.7 million in the respective period of last fiscal year. General and administrative expenses have been reduced by 35% in the first nine months of fiscal 2004 as compared to the respective period of last fiscal year. This effort is also reflected in the net cash used in operating activities which decreased 27% to approximately \$1.1 million compared to approximately \$1.5 million net cash used in operating activities in the respective period of last fiscal year. Management assumes that the current planning is realistic and that the Company's funds and liquidity are sufficient to finance its activities at least through the period ending September 30, 2004.

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#### FINANCIAL POSITION

The Company's current assets decreased approximately \$1.1 million, or 57%, from June 30, 2003 to approximately \$881,000 at March 31, 2004. The decrease is primarily attributable to a decrease in cash and cash equivalents of approximately \$453,000 and a decrease in available for sale securities of approximately \$557,000. The decrease in cash and cash equivalents and available for sale securities results primarily from funding the current year's operations of the Company with no revenues in the three- and nine-month periods ended March 31, 2004.

The Company's net property and equipment decreased approximately \$49,000, or 31% from June 30, 2003 to approximately \$111,000 at March 31, 2004. The decrease is primarily attributable to current year depreciation of approximately \$73,000, partially offset by purchases of property and equipment of approximately \$10,000.

The Company funded its operations primarily through its existing cash reserves. The Company's stockholders' equity decreased approximately \$1.1 million. The primary decrease is caused by the Company's current period net loss of approximately \$1.2 million, and an increase in accumulated other comprehensive income of approximately \$84,000 due to foreign currency translation adjustments and unrealized gains on marketable securities.

#### RESULTS OF OPERATIONS

Three months ended March 31, 2004 and 2003:

Sangui GmbH  
-----

**RESEARCH AND DEVELOPMENT.** Research and development expenses decreased 18% to approximately \$254,000 in 2004 from approximately \$308,000 in 2003. The decrease is mainly attributed to the ongoing refocusing program.

**GENERAL AND ADMINISTRATIVE.** General and administrative expenses decreased 55% to approximately \$115,000 in 2004 from approximately \$253,000 in 2003. This decrease is mainly attributed to the ongoing refocusing program.

**DEPRECIATION.** Depreciation decreased 88% to approximately \$16,000 in 2004 from approximately \$130,000 in 2003. This decrease is mainly attributed to the ongoing restructuring of Sangui GmbH.

Sangui Biotech International, Inc.

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GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 122% to approximately \$20,000 in 2004 from approximately \$9,000 in 2003. The increase is due to increased consulting and legal fees.

Consolidated  
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NET LOSS. As a result of the above factors, the Company's consolidated net loss was approximately \$395,000, or \$0.01 per common share, in 2004, compared to approximately \$662,000, or \$0.02 per common share, in 2003.

Nine months ended March 31, 2004 and 2003:

Sangui GmbH  
-----

RESEARCH AND DEVELOPMENT. Research and development expenses decreased 6% to approximately \$671,000 in 2004 from approximately \$712,000 in 2003. The decrease is mainly attributed to the ongoing refocusing program.

GENERAL AND ADMINISTRATIVE. General and administrative expenses decreased 45% to approximately \$363,000 in 2004 from approximately \$655,000 in 2003. This decrease is mainly attributed to the ongoing refocusing program.

DEPRECIATION. Depreciation decreased 67% to approximately \$73,000 in 2004 from approximately \$221,000 in 2003. This decrease is mainly attributed to the ongoing restructuring of Sangui GmbH.

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Sangui Biotech International, Inc.  
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GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 14% to approximately \$141,000 in 2004 from approximately \$124,000 in 2003. The increase is due to increased consulting and legal fees.

Consolidated  
-----

NET LOSS. As a result of the above factors and the loss from discontinued operations (see Note 5), the Company's consolidated net loss was approximately \$1.2 million, or \$0.03 per common share, in 2004, compared to approximately \$1.7 million, or \$0.04 per common share, in 2003.

### LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended March 31, 2004, net cash used in operating activities decreased to approximately \$1.1 million from approximately \$1.5 million in the corresponding period in 2003, primarily related to a decrease in the Company's consolidated net loss as a result of the ongoing refocusing program.

For the nine months ended March 31, 2004, net cash provided by investing activities decreased to approximately \$564,000 from approximately \$801,000 net cash provided by investing activities in the corresponding period in 2003. The principal decrease is due to the maturity of marketable securities and purchases of marketable securities in 2003. Additionally, the Company decreased purchases of property and equipment during the nine months ended March 31, 2004, compared to the corresponding period in 2003.

Working capital was approximately \$816,000 at March 31, 2004, a decrease of approximately \$1.1 million from June 30, 2003 due primarily to the Company's net

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loss for the nine-month period. A substantial portion of the Company's total assets consists of cash and highly liquid marketable securities classified as available for sale securities. The highly liquid nature of these assets provides the Company with flexibility in financing and managing its business. For the three and nine months ended March 31, 2004, the realized loss on the Company's marketable securities were approximately \$290 and \$290, respectively, and unrealized (losses) gains were approximately \$(63,000) and \$17,000, respectively.

At March 31, 2004, the Company had cash and liquid marketable securities of approximately \$746,000. The Company believes that its available cash will be sufficient to satisfy its requirements at least through the period ending September 30, 2004. However, the Company will need substantial additional funding to fulfil its business plan and the Company intends to explore financing sources for its future development activities. No assurance can be given that these efforts will be successful.

### ITEM 3 - CONTROLS AND PROCEDURES

As of March 31, 2004, an evaluation was performed under the supervision and with the participation of the Company's management, including the CEO/CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including CEO/CFO, concluded that the Company's disclosure controls and procedures were effective as of March 31, 2004. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to March 31, 2004.

### ITEM 4 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has no derivative financial instruments. Exposure to foreign currency exchange rates is limited, as the Company has no operating business or staff outside Germany since March 31, 2002.

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## PART II - OTHER INFORMATION

### ITEM 1 - LEGAL PROCEEDINGS

On November 27, 2003, the Company was served with a lawsuit (Langericht Bochum Court, Case No. 6 O 435/03). The lawsuit names among others SanguiBioTech AG as defendant. The plaintiff alleges that SanguiBioTech AG which was converted into Sangui GmbH in the meantime had neglected its duty in dealing with some of the plaintiff's Sangui BioTech International, Inc. shares. The court has called for a hearing on July 28, 2004. The plaintiff is seeking \$134,000 compensation. The claim is believed to be of no merit.

On August 4, 2003, SanguiBioTech AG filed a lawsuit against a former director of the Company, claiming that some payments incurred by the defendant were unjustified under German law (Landgericht Munich I Court, Case No. 34 O 14027/03). The defendant denies that the claim is justified and has brought forward the opinion that he can claim additional fees. The plaintiff has rejected the defendant's opinion. A hearing of the court has not been scheduled yet. The financial risk related to this lawsuit does not exceed \$1,000.

### ITEM 2 - CHANGE IN SECURITIES AND USE OF PROCEEDS

None.

### ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

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Not applicable.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

Not applicable.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

31.1 Certification Pursuant to Rule 13a-14(a) and 15d-14(a), filed herewith.

32. Certification Pursuant to Section 1350 of Title 18 of the United States Code, filed herewith.

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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.

SANGUI BIOTECH INTERNATIONAL, INC.

By: /s/ Wolfgang Barnikol  
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Wolfgang Barnikol  
President, Chief Executive Officer and  
Chief Financial Officer

Date: May 14, 2004

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