

another HA product known as VISCHY, which is used for the treatment of degenerative joint diseases in horses. The two products, VISCAM and VISCHY, are the only ones Chem-Med currently produces; however, the company has an active R&D program that is currently investigating other applications.

There are only two other manufacturers of FDA-approved HA products in the world: AB Fortia, a Swedish corporation, which manufactures a product called Healon in Sweden and distributes it in the United States through a subsidiary, Pharmacia, Inc.; and Cilco, Inc., of Huntington, West Virginia. Chem-Med has about a 25 percent share of the market (for HA products in eye surgery) against Cilco's 16 percent and Pharmacia's 59 percent. Pharmacia, with the power of giant AB Fortia behind it, waged a continuing marketing war with Chem-Med, undercutting Chem-Med's prices and wooing its costumers away at every opportunity. The matter came to a head in September, when Chem-Med filed a \$13 million suit against Pharmacia, charging unfair trade practices. Dr. Swan was reasonably confident that Chem-Med would prevail in the suit, and, in fact, Pharmacia had recently offered to settle out of court for \$500,000.

Dr. Swan's primary problem, he said, was that, although he was convinced the company was sound and would grow, he wasn't sure how to communicate that to potential investors in the financial community in a way that would convince them. Just handing out past income statements and balance sheets that he received from the accountants didn't seem to be enough. Further, he wasn't even sure the company needed outside financing, let alone how much. He just felt that they would need it, since they had always had to ask for money in the past.

Figure 1

CHEM-MED COMPANY
Income Statements

	2001—2003 (in 000s)			Pro Forma Income Statements		
	2001	2002	2003	2004	2005	2006
Net sales (all credit)	\$ 777	\$3,051	\$3,814	\$5,340	\$7,475	\$10,466
Cost of goods sold	<u>257</u>	<u>995</u>	<u>1,040</u>	<u>1,716</u>	<u>2,154</u>	<u>3,054</u>
Gross profit	520	2,056	2,774	3,624	5,321	7,412
Selling, etc., expenses	610	705	964	1,520	2,120	2,645
Other inc (exps)*	<u>0</u>	<u>0</u>	<u>0</u>	<u>500</u>	<u>0</u>	<u>0</u>
Operating profit	(90)	1,351	1,810	2,604	3,201	4,767
Interest expense	<u>11</u>	<u>75</u>	<u>94</u>	<u>202</u>	<u>302</u>	<u>434</u>
Income before tax	(101)	1,276	1,716	2,402	2,899	4,333
Income taxes (40% in 1986; 33% thereafter)	<u>0</u>	<u>510</u>	<u>566</u>	<u>793</u>	<u>957</u>	<u>1,430</u>
Net income	<u>(\$ 101)</u>	<u>\$ 766</u>	<u>\$1,150</u>	<u>\$1,609</u>	<u>\$1,943</u>	<u>\$2,903</u>
Dividends paid	0	0	0	0	0	0
Increase in retained earnings	(\$ 101)	\$ 766	\$1,150	\$1,609	\$1,943	\$2,903
Average number of shares**	2,326	2,326	2,347	2,347	2,347	2,347
Earnings per share	(\$ 0.04)	\$ 0.33	\$ 0.49	\$ 0.69	\$ 0.83	\$ 1.24

* Other Inc (Exps) refers to extraordinary gains and losses. In 2001, \$500,000 is expected from Pharmacia, Inc., in settlement of their suit.

** Shares are not publicly traded.