

Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

GLOBAL MED TECHNOLOGIES INC  
Form 10-Q  
August 09, 2004

UNITED STATES  
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 the quarterly period ended June 30, 2004

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 000-22083  
-----

GLOBAL MED TECHNOLOGIES, INC.  
-----

(Exact name of registrant as specified in its charter)

COLORADO 84-1116894  
-----  
(State or other jurisdiction of (IRS Employer Identification No.)  
incorporation or organization)

12600 West Colfax, Suite C-420, Lakewood, Colorado 80215  
-----

(Address of principal executive offices)

(303) 238-2000  
-----

(Issuer's telephone number)

Not Applicable  
-----

(Former name, former address and former fiscal year, if changed since last report)

Indicate by a 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   
--

Indicate by check mark whether the registrant is an accelerated filer (as determined in Rule 12b-2 of the Exchange Act).

Yes  No   
--

# Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

As of August 5, 2004, 26,077,296 shares of the issuer's \$0.01 par value Common Stock were outstanding.

GLOBAL MED TECHNOLOGIES, INC.  
FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

## TABLE OF CONTENTS

### Part I - Financial Information

Item 1. Unaudited Condensed Consolidated Financial Statements

Unaudited Condensed Consolidated Balance Sheets as of June 30, 2004 and December 31, 2003

Unaudited Condensed Consolidated Statements of Operations for the three months ended June 30, 2004

Unaudited Condensed Consolidated Statements of Operations for the six months ended June 30, 2004

Unaudited Condensed Consolidated Statement of Stockholders' Deficit for the six months ended June 30, 2004

Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2004

Notes to Unaudited Condensed Consolidated Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

### Part II - Other Information

Item 1. Legal Proceedings.

Item 2. Changes in Securities

Item 3. Defaults on Securities

Item 4. Submission of matters to a vote of Security Holders

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

Signatures

## PART I - FINANCIAL INFORMATION

### ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

GLOBAL MED TECHNOLOGIES, INC. AND SUBSIDIARY

Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)

	June 30, 2004	December 31, 2003
	-----	-----
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents .....	\$ 880	\$ 983
Accounts receivable-trade, net .....	1,019	286
Accrued revenues, net .....	13	72
Prepaid expenses and other assets .....	145	97
	-----	-----
Total current assets .....	2,057	1,438
Equipment, furniture and fixtures, net .....	218	238
Capitalized software development costs, net .....	32	52
Notes receivable and accrued interest .....	505	481
	-----	-----
Total assets .....	\$2,812	\$2,209
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

GLOBAL MED TECHNOLOGIES, INC. AND SUBSIDIARY  
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)  
(In thousands)

	June 30, 2004	December 31, 2003
	-----	-----
	(Unaudited)	
LIABILITIES AND STOCKHOLDERS' DEFICIT		
-----		
CURRENT LIABILITIES:		
Accounts payable .....	\$ 240	\$ 304
Accrued expenses .....	759	623
Accrued payroll .....	120	174
Accrued compensated absences .....	276	501
Non-compete accrual .....	35	35
Deferred revenue .....	2,180	1,375
Accrued dividend .....	112	--

Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

Total current liabilities .....	3,722	3,012
Deferred revenue, less current portion .....	3	14
Financing agreements, related party .....	529	529
Indebtedness due in 2004, related party as preferred stock in 2004, related party .....	--	3,500
Total liabilities .....	4,254	7,055
COMMITMENTS AND CONTINGENCIES		
Convertible redeemable Preferred Stock Series AA, \$1 par value: .....	3,493	--
Authorized shares - 3,500; 3,500 issued and outstanding (liquidation preference of \$3,500)		
STOCKHOLDERS' DEFICIT:		
Convertible Preferred Stock Series BB, \$.42 par value: Authorized shares - 6,500; 675 issued and outstanding (liquidation preference of \$284) .....	284	--
Common stock, \$.01 par value: Authorized shares - 90,000; issued and outstanding shares - 26,077 and 24,545 at June 30, 2004 and December 31, 2003, respectively .....	261	245
Additional paid-in capital .....	35,251	34,631
Accumulated deficit .....	(40,731)	(39,722)
Total stockholders' deficit .....	(4,935)	(4,846)
Total liabilities and stockholders' deficit .....	\$ 2,812	\$ 2,209

See accompanying notes to unaudited condensed consolidated financial statements.

GLOBAL MED TECHNOLOGIES, INC. AND SUBSIDIARY  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share information)

	Three months ended June 30,	
	2004	2003
	-----	-----
	(Unaudited)	(Unaudited)
Revenues .....	\$ 1,460	\$ 2,291
Cost of revenues .....	621	570
Gross profit .....	839	1,721

Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

OPERATING EXPENSES:		
General and administrative .....	580	513
Sales and marketing .....	386	321
Research and development .....	182	156
Depreciation and software amortization .....	36	145
	-----	-----
Operating expenses .....	1,184	1,135
	-----	-----
Income (loss) from operations .....	(345)	586
	-----	-----
OTHER INCOME (EXPENSE):		
Interest income .....	13	2
Interest expense .....	--	(6)
Interest expense, related party .....	(40)	(106)
Amortization of financing costs .....	--	(63)
	-----	-----
Total other income (expense) .....	(27)	(173)
	-----	-----
Income (loss) before provision for income tax ....	(372)	413
Provision for income tax .....	--	--
	-----	-----
Net income (loss) .....	(372)	413
Preferred dividends, related party .....	(189)	--
	-----	-----
Net income (loss) available to common shareholders	\$ (561)	\$ 413
	=====	=====
Net income (loss) per common share		
Basic	\$ (0.02)	\$ 0.02
	=====	=====
Diluted	\$ (0.02)	\$ 0.02
	=====	=====
Weighted average number of common shares outstanding:		
Basic	25,626	24,545
	=====	=====
Diluted	25,626	25,326
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

GLOBAL MED TECHNOLOGIES, INC. AND SUBSIDIARY  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (In thousands, except per share information)

Six months ended  
 June 30,  
 -----  
 2004      2003  
 -----

Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

	(Unaudited)	(Unaudited)
Revenues .....	\$ 2,813	\$ 3,818
Cost of revenues .....	1,184	1,143
	-----	-----
Gross profit .....	1,629	2,675
	-----	-----
OPERATING EXPENSES:		
General and administrative .....	1,184	984
Sales and marketing .....	694	700
Research and development .....	333	279
Depreciation and software amortization .....	73	289
	-----	-----
Operating expenses .....	2,284	2,252
	-----	-----
Income (loss) from operations .....	(655)	423
	-----	-----
OTHER INCOME (EXPENSE):		
Interest income .....	25	4
Interest expense .....	--	(2)
Interest expense, related party .....	(190)	(231)
Amortization of financing costs .....	--	(127)
	-----	-----
Total other income (expense) .....	(165)	(356)
	-----	-----
Income (loss) before provision for income tax ....	(820)	67
Provision for income tax .....	--	--
	-----	-----
Net income (loss) .....	(820)	67
Preferred dividends, related party .....	(189)	--
	-----	-----
	-----	-----
Net income (loss) available to common shareholders	\$ (1,009)	\$ 67
	=====	=====
Net income (loss) per common share		
Basic	\$ (0.04)	\$ 0.00
	=====	=====
Diluted	\$ (0.04)	\$ 0.00
	=====	=====
Weighted average number of common shares outstanding:		
Basic	25,089	24,545
	=====	=====
Diluted	25,089	26,151
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT  
(In thousands)

	Convertible Preferred	Series BB Stock	Common Stock		Additional Paid-in Capital
	Shares	Amount	Shares	Amount	
Balances, December 31, 2003	---	---	24,545	\$245	\$34,631
Issuance of Convertible Series BB preferred stock, related party (unaudited)	675	\$284	---	---	---
Issuance of common shares for cash, net of issuance costs of \$61 thousand (see note 5) (unaudited)	---	---	1,525	16	533
Issuance of options (unaudited)	---	---	---	---	6
Issuance of common shares for services, related party (see note 5) (unaudited)	---	---	7	---	4
Dividends on Series AA Preferred Stock, related party (unaudited)	---	---	---	---	77
Net loss (unaudited)	---	---	---	---	---
Balances, June 30, 2004 (unaudited)	675	\$284	26,077	\$261	\$35,251

See accompanying notes to unaudited condensed consolidated financial statements.

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

GLOBAL MED TECHNOLOGIES, INC. AND SUBSIDIARY  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)

	Six months ended June 30,	
	2004	2003
	(Unaudited) (Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss) .....	\$(820)	\$ 67
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and software amortization .....	73	289
Issuance of common stock for payment of interest, related party .....	--	221
Amortization of discount on note payable, related party .....	--	12
Bad debt expense, (credit) .....	(20)	--
Amortization of financing costs .....	--	127
Common stock, options and warrants issued for services and other, net .....	10	27
Non-cash settlements .....	--	(924)
Changes in operating assets and liabilities:		
Accounts receivable-trade, net .....	(741)	271
Accrued revenues, net .....	87	161
Prepaid expenses and other assets .....	(48)	(154)
Accrued interest, notes receivable .....	(24)	--
Accounts payable .....	(64)	115
Accrued expenses .....	136	(49)
Accrued payroll .....	6	(12)
Accrued compensated absences .....	(1)	13
Deferred revenue .....	794	10
	(612)	174
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of equipment, furniture and fixtures .....	(33)	(28)
Maturities of investments .....	--	60
Note receivable .....	--	(30)
Increase in capitalized software development .....	--	(19)
	(33)	(17)

See accompanying notes to the unaudited condensed consolidated financial statements.



# Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

(In thousands)

	Six months ended June 30,	
	2004	2003
	(Unaudited)	(Unaudited)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common shares for cash, net .....	\$ 549	\$ --
Costs associated with preferred stock issuance .....	(7)	--
	542	--
Net cash provided by financing activities .....	542	--
	(103)	157
Net (decrease) increase in cash and cash equivalents	(103)	157
Cash and cash equivalents at beginning of period ...	983	1,007
	880	1,164
Cash and cash equivalents at end of period .....	\$ 880	\$1,164
	880	1,164

## SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION AND NON-CASH TRANSACTIONS

The Company paid \$112 and \$202 thousand for interest for the six months ended June 30, 2004 and 2003, respectively. Of the \$202 thousand paid for interest in 2003, \$200 thousand represented the payment of prepaid interest for a portion of the interest payments due for the period from July 1, 2003 to January 1, 2004, related to the Company's \$3.829 million financing agreement with a related party. The Company recognized approximately \$0 and \$23 thousand for the six months ended June 30, 2004 and 2003, respectively, in expenses related to the issuance of options mainly for prepaid marketing and options issued to consultants.

The Company issued common shares to a related party for services valued at \$4 thousand at June 30, 2004 and 2003.

The Company accrued dividends on the Series AA Preferred Stock to a related party totaling \$112 thousand for the first six months of June 30, 2004.

In addition to the accrued dividends on the Series AA Preferred Stock, the Company recognized additional dividends of approximately \$77 thousand as a result of the intrinsic value of the beneficial conversion feature associated with conversion of the Series AA Preferred Stock into the Company's common stock as of April 14, 2004.

The Company converted \$3.5 million of "Indebtedness due in 2004, related party as preferred stock in 2004" into Series AA Preferred Stock on April 14, 2004. The Company incurred approximately \$7 thousand of cash issuance costs associated with this conversion. See Note 3 of the financial statements for further discussion.

The Company converted approximately \$60 thousand of accrued payroll and approximately \$224 thousand of accrued compensated absences into approximately \$284 thousand of Series BB Preferred Stock. See Note 5 of the financial statements for further discussion.

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

See accompanying notes to unaudited condensed consolidated financial statements.

GLOBAL MED TECHNOLOGIES, INC. AND SUBSIDIARY  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2004

### 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Global Med Technologies, Inc. and Subsidiary (the "Company" or "Global Med") have been prepared by management in accordance with generally accepted accounting principles for interim financial information and with the regulations of the Securities and Exchange Commission. Accordingly, they do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation of their financial position at June 30, 2004 and the results of their operations for the three and six months ended June 30, 2004 and 2003 have been included.

While management believes the disclosures presented are adequate to prevent misleading information, it is suggested that the accompanying unaudited consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the Securities and Exchange Commission. The interim results of operations for the three and six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for any other interim period of 2004 or for the year ending December 31, 2004.

On November 28, 2001, the shareholders of eVision International, Inc. ("eVision") approved a transaction, which transferred certain of the assets of eVision to Online Credit Limited ("Online Credit") as satisfaction of the certain obligations eVision had with Online Credit. As a result, all of Global Med's common shares held by eVision and all eBanker USA.com's ("eBanker") common shares and warrants held by eVision were transferred to Online Credit. Consequently, as of November 28, 2001, Global Med remained a consolidated entity of eBanker for accounting purposes; however, eBanker was then directly controlled by Online Credit instead of eVision.

The Company recognizes deferred tax liabilities and assets based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change of tax rates is recognized in income in the period that includes the enactment date.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Global Med provides information management software products and services to the health care industry and operates in two business segments. (See Note 7).

Non-Cash Settlements

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

In April 2003, the Company signed an agreement with its SafeTrace Tx(R) development partner, The Institute for Transfusion Medicine ("ITXM"), related to ITXM's purchase of certain software from the Company. In addition to certain cash consideration for the software purchase, ITXM agreed to relinquish any rights that ITXM had to existing and future royalties. As of April 2003, the Company owed ITXM approximately \$121 thousand for royalties on the sale of SafeTrace Tx(R). In addition, ITXM relinquished its right to receive future royalties on SafeTrace Tx(R) sales, which were assessed at 4% of the net software license fee. ITXM, as part of this agreement, also relinquished the right to receive future upgrades and maintenance and support that were part of a January 1998 settlement agreement associated with the development of SafeTrace Tx(R). The remaining value of these penalties as of the signing of the agreement was approximately \$267 thousand and was previously included in deferred revenue. As a result, the Company recognized approximately \$388 thousand in revenues as a result of the reduction in liabilities associated with the delivery of certain software to ITXM. Therefore, for the three and six months ended June 30, 2003, approximately \$388 thousand in revenues related to this non-cash consideration is included in the Company's statement of operations.

In June 2003, the Company signed a settlement agreement (the "Settlement Agreement") with Ortho Clinical Diagnostics, Inc. ("Ortho"), whereby by all of the Company's outstanding obligations to and from Ortho were released. As a result, the Company was released from its obligation to provide Ortho with \$500 thousand in software development work for which it had received payment from Ortho in 1997 as part of the exclusivity agreement the Company signed with Ortho in 1997. In addition, the Company was released from all other obligations to Ortho, which included liabilities amounting to approximately \$36 thousand for sales distribution commissions. For the three and six months ended June 30, 2003, the Company recognized \$500 thousand in revenues associated with this settlement agreement and Ortho's waiver of its right to software development services and a reduction in sales and marketing expenses of \$36 thousand associated with the release of the Company from its obligation to pay commissions to Ortho for prior sales.

The Company's Manufacturer's Representative and Software Development Agreement ("OCD Agreement") signed with OCD during June of 1999 expired during the three months ended June 30, 2003. The Company has no outstanding software development or marketing agreements with OCD at the present time.

### Recently Issued Accounting Principles

In March 2004, the Financial Accounting Standards Board ("FASB") approved Emerging Issue Task Force ("EITF") Issue 03-6, "Participating Securities and the Two-Class Method under Statement of Financial Accounting Standards ("SFAS") 128." EITF Issue 03-6 supersedes the guidance in Topic No. D-95, "Effect of Participating Convertible Securities on the Computation of Basic Earnings per Share," and requires the use of the two-class method of participating securities. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. In addition, EITF Issue 03-6 addresses other forms of participating securities, including options, warrants, forwards and other contracts to issue an entity's common stock, with the exception of stock-based compensation (unvested options and restricted stock) subject to the provisions of Opinion 25 and SFAS 123. EITF Issue 03-6 is effective for reporting periods beginning after March 31, 2004 and should be applied by restating previously reported earnings per share. The adoption of EITF Issue 03-6 did not have a significant effect on the Company's condensed consolidated financial statements as of and for the three and six months ended June 30, 2004.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), which was

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

subsequently amended in December 2003. FIN 46 requires that unconsolidated variable interest entities be consolidated by their primary beneficiaries. A primary beneficiary is the party that absorbs a majority of the entity's expected losses or residual benefits. FIN 46 applies to variable interest entities created after January 31, 2003 and to existing variable interest entities beginning after June 15, 2003. The Company fully adopted FIN 46 on March 31, 2004 and this adoption did not have a material impact on the Company's financial statements.

Certain prior period amounts have been reclassified to conform to the current period presentation.

### 2. RELATED PARTIES

Global Med is financed primarily through lending arrangements with Global Med International Limited ("GMIL"), which is a subsidiary of eBanker. These lending arrangements were originated by eBanker and transferred, along with eBanker's ownership in Global Med, to Global Med China Asia Limited ("GMCAL") in October 2002, and then the lending arrangements were transferred to GMIL in September 2003. Until November 28, 2001, eBanker was a consolidated subsidiary of eVision. eVision is 10.4% owned by Heng Fung Holdings Limited ("Heng Fung") and its subsidiary, Online Credit and Heng Fung Singapore Pte. Limited. Currently, GMCAL is a shareholder of Global Med. Until November, 2001 and November, 2002, eVision was also a shareholder of Global Med. Additionally, eVision and GMCAL each holds warrants to acquire 1 million and 11.186 million shares, respectively, of Global Med's common stock with exercise prices that range from \$0.25-\$0.50 per share. As discussed further below and in the accompanying financial statements, in November 2000, eBanker and Global Med entered into a series of equity transactions that resulted in Global Med becoming a consolidated subsidiary of eBanker and eVision effective November 2000.

On November 28, 2001, the shareholders of eVision approved a transaction, which transferred certain of the assets of eVision to Online Credit as satisfaction of the certain obligations eVision had with Online Credit. As a result, all of Global Med's common shares held by eVision and all eBanker's common shares and warrants held by eVision were transferred to Online Credit. Consequently, as of November 28, 2001, Global Med remained a consolidated entity of eBanker for accounting purposes; however, eBanker then became directly controlled by Online Credit instead of eVision.

During the six months ended June 30, 2004 and 2003, eVision provided the Company with various accounting services for which the Company incurred \$15 thousand and \$24 thousand in general and administrative expenses, respectively. During the six months ended June 30, 2004 and 2003, the Company incurred \$190 thousand and \$221 thousand, respectively, in interest charges from eBanker. For the six months ended June 30, 2004 and 2003, the Company incurred \$6 and \$12 thousand, respectively, in interest charges on a note from a foreign subsidiary of eBanker. As of June 30, 2004 and December 31, 2003, the Company had accrued liabilities consisting of accounting services expense in the amounts of \$107 thousand and \$92 thousand, respectively, from eVision. These amounts are included in accrued expenses in the accompanying balance sheets.

As of June 21, 2002, the disinterested directors of the Company's Board of Directors had approved borrowings to a related party totaling \$370 thousand. During the year ended December 31, 2002, the Company's Notes Receivable, related party balance, increased \$290 thousand to a total of \$370 thousand as a result of funds advanced in the form of promissory notes to this entity controlled by a, then, director of the Company, Jeff Busch. The notes bear interest at 12% per year and mature in 2006. During the year ended December 31, 2001, the Company had lent \$80 thousand to this entity. In addition, the CEO and Chairman of Global Med, Michael I. Ruxin, was also on the board of directors of this entity

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

controlled by Jeff Busch. Dr. Ruxin resigned as director of the related entity effective December 12, 2002. Jeff Busch resigned his position as a director of the Company and PeopleMed effective December 12, 2002. As a result, Jeff Busch and the entity controlled by Jeff Busch are no longer related parties of the Company. On March 10, 2003, the Company's Board of Directors approved and subsequently funded additional borrowings to the entity controlled by Jeff Busch in the amount of \$30 thousand. The outstanding note receivable balance as of June 30, 2004 was \$400 thousand. The Company had recognized \$105 thousand in accrued interest on this note receivable as of June 30, 2004.

### 3. FINANCING AGREEMENTS, RELATED PARTY

On April 7, 2003, GMCAL and Global Med entered into an agreement to extend the repayment date of the \$3.829 million loan from July 1, 2003 to January 1, 2004. As part of the November 19, 2000 Loan Agreement, there exists a personal guarantee of Dr. Michael I. Ruxin, up to \$650 thousand plus pro rata accrued interest. The personal guarantee is limited to certain of Dr. Ruxin's assets and remains in full force and effect. In consideration for the extension, Global Med agreed to pay GMCAL a fee of \$287 thousand, which includes the extension fee, and all interest due for the period from July 1, 2003 to January 1, 2004. As of the date of this agreement, Global Med had paid GMCAL \$200 thousand of the \$287 thousand extension fee and the remaining \$87 thousand for the extension fee and interest was paid during April of 2004.

As of September 2003, all of the Company's outstanding related party debt totaling \$4.029 million had been transferred to GMIL, a subsidiary of eBanker.

On October 29, 2003, eBanker and Global Med entered into an extension agreement for the \$200,000 loan and promissory note dated June 18, 2003. The principal loan amount of \$200,000 was extended until January 1, 2004 with interest accruing from July 1, 2003 to January 1, 2004 (Extension Period) at 12% per annum. Interest for the Extension Period is payable on July 1, 2004. All other terms and conditions remained in effect. As of December 31, 2003, principal of \$200 thousand and accrued interest of \$12 thousand were outstanding.

If Global Med defaults on the repayment of any amount borrowed under the financing agreements initiated with eBanker, all of the Board of Directors of Global Med will be required to resign and GMIL will have the right to appoint all new members.

On April 14, 2004, GMIL and Global Med amended their existing financing agreements and entered into an agreement to combine the outstanding \$3.829 million and \$200 thousand debt agreements. The combined loan of \$4.029 million was then separated into two parts: \$529 thousand was converted into debt ("Remaining Debt") and \$3.5 million was converted into 3.5 million shares of preferred stock ("Preferred Stock"). The due date of the Remaining Debt is March 1, 2006. The interest rate on the Remaining Debt is 15% per year and interest on this debt is due and payable quarterly on March 1, June 1, September 1, and December 1 of each year until the Remaining Debt is paid in full. The Remaining Debt is secured by all of Global Med's assets and is subject to the outstanding terms of November 19, 2000 financing agreement ("Loan Agreement"). The Remaining Debt may not be paid so long as any portion of the \$ 3.5 million in Preferred Stock remains outstanding and unsatisfied. The Remaining debt has been classified as a long-term liability as a result of this refinancing.

With the conversion of a portion of the outstanding debt into Series AA Preferred Stock, GMIL received certain beneficial conversion features. As a result, the Company recognized \$77 thousand in deemed preferred stock dividends associated with conversion of a portion of the debt into convertible Series AA Preferred Stock during the three and six months ended June 30, 2004.

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

At December 31, 2003 and June 30, 2004, accrued interest of \$99 and \$177 thousand, respectively, were outstanding under the terms of the debt agreements. These amounts are included in accrued expenses.

Further discussion of debt financing can be found in the Company's Form 10-K in Note 2 of the audited financial statements for the year ended December 31, 2003.

#### 4. PEOPLEMED.COM, INC.

During 1999, Global Med formed a subsidiary, PeopleMed.com, Inc., ("PeopleMed") a Colorado corporation, which is approximately 83% owned by the Company, to develop a software application designed to give HMO providers and other third party payers access to clinical information for chronic disease patients. This application allows doctors and other medical employees access to a patient's history. The remaining 17% of PeopleMed is owned by third parties, certain officers and directors of Global Med. There is no minority interest reflected in the June 30, 2004 or December 31, 2003 balance sheets because PeopleMed had a stockholders' deficit at those dates.

#### 5. STOCKHOLDERS' DEFICIT

##### Stock Compensation

In 2000, the Company authorized the issuance of 35 thousand shares to an officer of the Company. Of the 35 thousand authorized shares, 28 thousand had been issued as of June 30, 2004. The remaining shares will be issued at a rate of 7 thousand per year as they are earned. During the six months ended June 30, 2004, the Company recognized approximately \$4 thousand in compensation expense in the statements of operations related to the vesting of these shares.

As permitted under the provisions of SFAS No. 123, the Company has elected to account for stock-based compensation using the intrinsic value method prescribed by APB 25. Under the intrinsic value method, compensation cost is the excess, if any, of the quoted market price or fair value of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement using a Black-Scholes option pricing model. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

Had compensation cost for the Company's stock-based compensation plans been determined consistent with SFAS No. 123, the Company's pro forma amounts would have been as indicated:

	Six Months Ended June 30, 2004	2003
	-----	-----
Net income (loss) as reported	\$ (820)	\$ 67,000
Pro forma net loss under SFAS 123	(1,454)	(565,000)
Net income (loss) per share as reported	(0.04)	0.00
Pro forma net loss per share under SFAS 123	(0.06)	(0.02)
Assumptions:		
Dividend Yield	---	---
Volatility factor	385%	351%

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

Risk free interest rate	2.97%	3.03%
Expected Life of Option (in years)	5.9	6.9

The estimated fair value of the total options granted during the six months ended June 30, 2004 and 2003 was \$45 and \$46 thousand, respectively.

### Issuance of Warrants

On July 1, 2001, eBanker received the right to receive 10.186 million warrants for the purchase of the Company's common stock at \$0.50 per share. The warrants were issued in accordance with the terms of the November 19, 2000 Financing Agreement between the Company and eBanker. The number of warrants issued was calculated based on the outstanding principal balance on the Company's loan with eBanker as of July 1, 2001. The warrants expire on July 1, 2011. In accordance with the terms of the November 2000 financing agreement between the Company and eBanker, the Company is obligated to register and maintain current registration on the shares, underlying the warrants, for resale under the Securities Act of 1933 ("1933 Act"). The Company has not yet registered the shares underlying these warrants. The Company used independent, third party consultants for estimating the fair value of the warrants to purchase 10.186 million shares of the Company's common stock. The warrants were valued at \$510 thousand. The Company recorded \$510 thousand in deferred financing costs associated with the issuance of these warrants as of July 1, 2001. The Company ratably amortized the costs associated with these warrants over 24 months, the remaining life of the note payable as of July 1, 2001. The Company recognized approximately \$0 and \$127 thousand, respectively, in financing costs related to the issuance of these warrants for the six months ended June 30, 2004 and 2003.

In June 2003, the Company's Board of Directors approved the 2003 Stock Option Plan ("2003 Plan"). The 2003 Plan provides for the issuance of stock options exercisable to purchase up to 5 million shares of the Company's common stock to employees, officers, directors and consultants. The Board of Directors also approved the inclusion of options to purchase approximately 4.707 million shares under the 2003 Plan that were issued to such persons prior to the adoption of the 2003 Plan and lacked registration rights. The Company filed an S-8 registration statement to register the 5 million shares issuable under the 2003 Plan on May 20, 2004. The range of the exercise prices of the 4.707 million options is \$0.45 to \$1.50 per share. The weighted- average exercise price of these options is \$0.68 per share.

In June 2003, the Board of Directors of the Company approved a change in the 2001 Stock Option Plan ("2001 Plan"). The Board of Directors of the Company authorized an amendment to the 2001 Plan reducing the number of common shares reserved and authorized for issuance by 5 million. Effective in June 2003, the total number of common shares approved for issuance under the 2001 Plan as authorized by the Board is reduced from 15 million to 10 million. The Company filed an amendment to the existing S-8 registration statement to effect this change on May 20, 2004.

### Preferred Stock

On April 14, 2004 GMIL and Global Med amended their existing financing agreements and entered into an agreement to convert a portion of the outstanding debt totaling \$3.5 million into 3.5 million shares of Series AA Preferred Stock, as discussed in Note 11 in the Form 10-K in the audited financial statements for the period ended December 31, 2003. For the period from March 1, 2004 through February 28, 2005, the Series AA Preferred Stock has a dividend yield of 15%. On March 1, 2005, the dividend rate on the Series AA Preferred Stock increases from 15% to 21%. During October 2004, the Company will be required to make one dividend payment in the amount of approximately \$131 thousand. The remainder of the accrued dividend for the period from March 1, 2004 through February 28, 2005 will be paid out in subsequent years. During 2005, the cash dividends are

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

mandatory and due and payable on March 1, June 1, September 1, and December 1 during each quarter the Series AA Preferred Stock is outstanding. The Series AA Preferred Stock can be converted by GMIL into common stock of the Company at any time at a conversion rate of (2.222) shares of common stock for each share of Series AA Preferred Stock. Therefore, the Series AA Preferred Stock is convertible into approximately 7.777 million common shares. At any time after March 1, 2006, the Series AA Preferred Stock is redeemable at GMIL's option at \$1 per share. The Series AA Preferred Stock is mandatorily redeemable on March 1, 2009. If the cash dividends on the Series AA Preferred Stock are not paid within thirty (30) days after the end of the quarter, at GMIL's option, GMIL will be paid in additional Series AA Preferred Stock equal to the value of the outstanding dividend, or common stock at the closing market price for ten (10) days preceding GMIL's election.

The Series AA Preferred Stock can be converted into common stock at GMIL's option, and GMIL is not able to force redemption of the Series AA Preferred Stock until March 1, 2006. The Company has classified the Series AA Preferred Stock as "Mezzanine Equity" in these financial statements. The Company will be required to review the classification of the Series AA Preferred Stock on a quarterly basis to determine if the classification as Mezzanine Equity remains appropriate. Such review could result in the Preferred Stock being reclassified as debt prior to March 1, 2006.

On April 14, 2004, the Company's Chairman and CEO, Michael I. Ruxin, M.D., agreed to convert his outstanding accrued vacation and accrued wages as of February 29, 2004, valued at approximately \$284 thousand into approximately 675 thousand shares of Series BB Preferred Stock ("Series BB"). The Series BB has the following terms:

- o The Series BB is convertible at a rate of one share per common per one share of Series BB at the option of the holder if Global Med's common stock closing price reaches \$0.75 per share. Upon written notice by Dr. Ruxin, the Series BB is convertible into common stock.
- o The Series BB is junior to the Series AA and senior to the common stock of the Company and has a liquidation preference of \$0.42 per share. o

### Private Placement

During the quarter ended June 30, 2004, the Company received net proceeds of \$549 thousand from the sale of 1.525 million shares of unregistered common stock. The price per share price was \$0.40. These shares have piggyback registration rights under certain conditions. As a result of the private placement, the Company incurred costs of approximately \$61 thousand. In addition, the Company issued 125 thousand warrants to purchase unregistered common shares of the Company's stock at \$0.40 per share as part of this transaction. The common shares underlying these warrants have piggyback registration rights under certain conditions. The Company plans on using the proceeds of the private placement for general working capital purposes.

### Anti-Dilution Provisions

Certain of the Company's outstanding warrant agreements contain anti-dilution provisions. As a result of the recent equity transactions with respect to the issuance of preferred stock and sale of common stock, these anti-dilution provisions have been activated and could result in the issuance of additional shares of common stock in the event these warrants are exercised. In the event all of the warrants with anti-dilution provisions are exercised, the Company would be required to issue approximately 430 thousand additional shares of common stock.



## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

### 6. LOSS PER SHARE

Basic net loss per common share excludes dilution and is computed by dividing net loss by the weighted-average number of common shares outstanding during the periods presented. Diluted net loss per common share reflects the potential dilution of securities that could participate in the earnings unless their effect is antidilutive. Stock options, warrants outstanding and their equivalents are included in diluted computations through the "treasury stock method" unless they are antidilutive. Convertible securities are included in diluted computations through the "if converted" method unless they are antidilutive. Common share equivalents are excluded from the computation, as their effect would be antidilutive. For the three months ended June 30, 2004 and 2003 approximately 34.0 million and 25.3 million equivalent dilutive securities (primarily common stock options, convertible preferred stock and warrants), respectively, have been excluded from the weighted-average number of common shares outstanding for the diluted net loss per share computation as they are antidilutive. For the six months ended June 30, 2004 and 2003, approximately 29.7 million and 26.2 million equivalent dilutive securities (primarily common stock options, warrants and convertible preferred stock), respectively, were outstanding.

The following table sets forth the computation of basic and diluted earnings per share for the six and three months ended June 30, 2004 and 2003:

	Six months ended June 30,		Three mon
	2004	2003	2004
	In 000s		
Weighted average number of shares used in the basic earnings per share computation	25,089	24,545	25,626
Effect of dilutive securities:			
Common stock options	---	29	---
Common stock warrants	---	1,577	---
Convertible series AA Preferred Stock, related party	---	---	---
Convertible Series BB Preferred Stock, related party	---	---	---
	---	1,606	---
Dilutive potential common shares	---	1,606	---
	---	1,606	---
Adjusted weighted average number shares used in diluted earnings per share computation	25,089	26,151	25,626
	25,089	26,151	25,626

The effects of potentially dilutive securities for the six and three months ended June 30, 2004 have not been included in the calculation of diluted earnings per share as the effects were antidilutive.

### 7. BUSINESS SEGMENT INFORMATION

The Company classifies its products into two core business segments: the Wyndgate division ("Wyndgate") and PeopleMed. Wyndgate develops, markets and supports blood tracking systems to assist community blood centers, hospitals, plasma centers and outpatient clinics in the U.S. in complying with the quality and safety standards of the FDA for the collection, transfusion, and management of blood and blood products. PeopleMed offers chronic disease management as an

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

Application Service Provider ("ASP"). PeopleMed's systems use the Internet to coordinate sources and users of a patient's clinical information, including laboratory, pharmacy, primary and specialty care providers, claims, and medical records. For the six months ended June 30, 2003, \$300 thousand of PeopleMed's revenues came from revenues associated with the termination of a contract with a significant customer. The segment information for the six months ended June 30, 2004 has not been presented as PeopleMed's financials were not deemed significant.

Six Months Ended June 30, 2003  
(In thousands)

	Wyndgate Division	PeopleMed
Revenues	\$3,439 =====	\$379 =====
Income from operations before other income (expenses)	\$311	\$112
Interest income	4	---
Interest expense	(233)	---
Amortization of financing costs	(127)	---
	-----	---
Net income (loss)	\$(45) =====	\$112 =====
Depreciation and amortization	\$262 =====	\$27 =====
Capital expenditures	28 ==	--- =====
Identifiable assets as of June 30, 2003	\$2,276 =====	\$381 =====

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

#### Overview

Global Med Technologies, Inc. provides information management software products and services to the health care industry. Wyndgate operates as a division of Global Med Technologies, Inc. and designs, develops, markets and supports information management software products for blood banks, hospitals, centralized transfusion centers and other healthcare related facilities. The Company's PeopleMed subsidiary offers chronic disease management as an Application Service Provider ("ASP"). PeopleMed's system uses the Internet to coordinate sources and users of a patient's clinical information, including laboratory, pharmacy, primary and specialty care providers, claims and medical records. PeopleMed earns revenues primarily by providing ongoing ASP services. PeopleMed's revenues were not significant during the three or six months ended June 30, 2004.

The Company has two main products in its Wyndgate division: SafeTrace(R) and SafeTrace Tx(R). SafeTrace is used by blood centers and hospitals to track blood donations. SafeTrace Tx is used primarily by hospitals and centralized transfusion centers to help insure the quality of blood transfused into patient-recipients. Both products are designed to help the users comply with quality and safety standards of the U.S. Food and Drug Administration ("FDA")

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

for the collection and management of blood and blood products. The Company's Wyndgate division earns revenues primarily through the sale of software licenses, implementation of the software systems sold, and by providing maintenance for the SafeTrace and SafeTrace Tx software systems. During the three months ended June 30, 2004 and 2003, Wyndgate's revenues represented 96.6% and 91.2%, respectively, of the Company's total revenues. During the six months ended June 30, 2004 and 2003, Wyndgate's revenues represented 96.6% and 90.1%, respectively, of the Company's total revenues. During these periods, PeopleMed's revenues represented the remainder.

The decision to purchase a new blood bank system is driven in large part by one or all of the following: replacing antiquated technology, upgrading the laboratory information system ("LIS") of the hospital which typically includes the purchase of a blood bank system, and replacing existing products that have been sunsetted. The Company believes that because the purchase of an LIS by a hospital is a significant driver in the decision to purchase a blood bank system, the Company is heavily reliant on its relationships with its channel partners that sell their LIS systems in combination with the Company's blood bank products.

Entities that plan to purchase blood bank products primarily have two choices:

- o Upgrade their current system with their existing vendor, or
- o Select a replacement system from an alternative vendor.

The Company's two primary locations are in Lakewood, Colorado, the corporate headquarters, and El Dorado Hills, California, the Company's primary operations, which include research and development, implementation staff, support services, and certain administrative staff. Approximately 20% of the Company's employees are not located in Lakewood, Colorado or El Dorado Hills, California. These employees provide support for the Company's sales and marketing, research and development, and implementation efforts.

Overall, the Company's revenues for the six months ended June 30, 2004 decreased \$1.005 million to \$2.813 million from \$3.818 million for the prior year's comparable quarter. Cost of revenues increased \$41 thousand or 3.6% for the six months ended June 30, 2004 to \$1.184 million from \$1.143 million for the six months ended June 30, 2004. For the six months ended June 30, 2004 and 2003, the Company's operating expenses were \$2.284 million and \$2.252 million, respectively. The Company's net loss was \$820 thousand for the six months ended June 30, 2004, and the Company recognized net income of \$67 thousand for the comparable period during 2003.

For the six months ended June 30, 2004, the Company's operations used \$612 thousand in cash. For the comparable period in 2003 the Company's operations generated \$174 thousand in cash. For 2004, the Company believes that its cash flows from the sale of SafeTrace and SafeTrace Tx to new customers, the current backlog of existing business, and any sales of equity will be sufficient to fund its operations through the remainder of fiscal year 2004. If the Company is unable to meet its sales projections and the resultant projected cash flows anticipated from those transactions or raise money through additional debt or equity offerings, the Company may be required to significantly reduce planned as well as existing levels of expenditures for all cost categories which includes, cost of sales, sales and marketing, research and development, and general and administrative. If the Company substantially reduces its planned or the existing levels of expenditures, this could significantly impact the Company's future viability in the blood bank software market.

Management of the Company is focused on increasing its revenues and cash flows through direct sales efforts, increasing its marketing footprint through adding additional channel partners and strategic alliances, and developing new products

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

and enhanced functionality to its existing product mix to attract potential customers.

### Balance Sheet Changes

As of June 30, 2004 compared with December 31, 2003, certain balance sheet account changes were significant. For example, net accounts receivable increased \$733 thousand primarily as a result of billings associated with record sales of software license and implementation services during the quarter ended June 30, 2004. The Company believes the approximate potential net cash value of the transactions entered into and shipped during the three months ended June 30, 2004 to be \$1.410 million for the software license fees and \$740 thousand for implementation. Revenue recognition issues prevented the Company from recognizing approximately \$1.3 million in software license fees associated with the sales that closed and were shipped in the quarter ended June 30, 2004. The Company's cash balance declined \$103 thousand from December 31, 2003 to June 30, 2004 mainly as a result of cash used from operations for this period in the amount of \$612 thousand, partially offset by proceeds from a private placement in the amount of approximately \$549 thousand. With the increased accounts receivable balance as of June 30, 2004 and the projected sales through the remainder of the year, the Company believes it will have positive cash flow from operations for the remainder of 2004.

Deferred revenues increased \$794 thousand from December 31, 2003 to June 30, 2004. As of December 31, 2003 and June 30, 2004, the deferred revenue balances were \$1.389 million and \$2.183 million, respectively. This was primarily a result of the increased billings through June 30, 2004 for which the Company was unable to recognize revenues. Accrued compensation decreased \$225 thousand for the period from December 31, 2003 to June 30, 2004. As of December 31, 2003 and June 30, 2004, the accrued compensation balance was \$501 thousand and \$276 thousand, respectively. The decrease was primarily due to a reduction of \$224 thousand in accrued compensation associated with the issuance of Series BB Preferred Stock as more fully discussed in Note 5 of the Financial Statements. In addition, accrued wages decreased by \$54 thousand primarily as a result of a \$60 thousand reduction in accrued wages associated with the conversion of accrued payroll into Series BB Preferred Stock, as discussed in Note 5 to the Financial Statements.

### RESULTS OF OPERATIONS

#### THREE MONTHS ENDED JUNE 30, 2004 COMPARED TO THREE MONTHS ENDED JUNE 30, 2003

Revenues. Revenues are comprised primarily of license fees, maintenance and usage fees, and implementation and consulting services revenues.

The decrease for the three months ended June 30, 2004 was due primarily to a decrease in software license fees of \$212 thousand, a decrease in revenues for PeopleMed of approximately \$140 thousand, a decrease in other revenues of \$538 thousand, and a decrease in implementation revenues of \$25 thousand, partially offset by an increase in maintenance revenues of \$93 thousand when compared with the same period for 2003. The decrease in software license fees was primarily related to revenue recognition issues related to these transactions. The Company deferred revenue recognition on approximately \$1.3 million in software license fees for product that shipped during the quarter.

In addition, \$360 thousand of the software license fees related to the three months ended June 30, 2003, related to non-cash consideration in the form of a reduction of liabilities the Company owed to a customer. See Note 1 of the Financial Statements for further discussion. The Company recognized \$150 thousand in the three months ended June 30, 2003 related to revenues associated with termination of a customer's significant contract, none during the comparable period in 2004. The \$538 thousand decrease in other revenues was

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

primarily the result of \$500 thousand in revenues being recognized during the three months ended June 30, 2003 related to a settlement agreement between the Company and one of its marketing partners whereby the Company was released from its obligation to perform additional services in accordance with the terms of prior agreements. See Note 1 in the Financial Statements for further discussion.

Cost of revenue. Cost of revenues increased by \$51 thousand or 8.9% for the three months ended June 30, 2004 when compared with the same period in 2003. Cost of revenue as a percentage of total revenues were 42.5% and 24.9% for the three months ended June 30, 2004 and 2003, respectively. The primary reasons for the increase was a \$22 thousand increase in third party software costs sold with the Company's products and a \$19 thousand increase in consulting costs.

Gross profit. Gross profit as a percentage of total revenue was 57.5% and 75.1% for the three months ended June 30, 2004 and 2003, respectively. The decrease in gross profit is primarily related to the decrease in revenues from the prior comparable quarter for which there were few cost of sales. These transactions are more fully discussed in Note 1 of the Financial Statements.

General and administrative. General and administrative expenses increased \$67 thousand or 13.0%, for the three months ended June 30, 2004 compared to the same three months in 2003. General and administrative expenses for the three months ended June 30, 2004 compared with the same period in 2003, increased primarily as a result of a \$28 thousand increase in legal expenses, a \$21 thousand increase in travel costs, a \$20 thousand increase in labor-related costs, and a \$16 thousand increase in contract services.

Sales and marketing. Sales and marketing expenses increased \$65 thousand or 20.2% for the three months ended June 30, 2004 compared to the same three months in 2003. The increase in sales and marketing is primarily related to the increase in commissions-related expenses of \$115 thousand offset by a decrease in printing and advertising expenses of \$36 thousand, and a decrease in labor-related expenses of \$21 thousand. The increase in commissions expenses is due to increased sales of the Company's blood bank software and due in part to the \$36 thousand reduction in commissions expense for the three months ended June 30, 2004 associated with the settlement agreement discussed in Note 1 of the Financial Statements.

Research and development. Research and development expenses increased \$26 thousand or 16.7%, for the three months ended June 30, 2004 compared to the same three months in 2003. Research and development costs increased primarily as a result of increased labor-related costs.

Depreciation and software amortization. Depreciation and software amortization decreased by \$109 thousand for the three months ended June 30, 2004. The primary reason for the decrease was due to the fact that as of June 30, 2003, the Company had fully amortized all software development costs associated with SafeTrace Tx(R). For the three months ended June 30, 2003, the Company amortized \$105 in software development costs associated with SafeTrace Tx(R) and none in the comparable period in 2004.

Income (loss) from operations before other income (expense). The Company's loss from operations during the three months ended June 30, 2004 was \$345 thousand. The Company's income from operations was \$586 thousand for the same three months in 2003. The decrease for the three months ended June 30, 2004 was primarily attributable to the decrease in revenues as discussed above.

Interest expense. Interest expense decreased \$72 thousand for the three months ended June 30, 2004 compared to the same three months in 2003. The reduction in the interest expense is primarily related to the reduction in related party debt as discussed in Note 3 of the Financial Statements.

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

Financing costs. As of June 30, 2003 all financing costs associated with the Company's debt had been amortized.

Income taxes. For the three months ended June 30, 2003, the Company did not record a provision for income taxes. No income tax is due for these periods because the Company has net operating loss carryforwards from prior periods that fully offset the tax provision, and the deferred tax asset related to the net loss carryforwards is fully reserved by a valuation allowance.

Net income (loss). The Company's net loss for the three months ended June 30, 2004 was \$372 thousand. For the three months ended June 30, 2003 the net income was \$413 thousand. The difference relates primarily to reductions in revenues from the quarter ended June 30, 2004 when compared with the comparable period in 2003 due to one-time, non-recurring revenues that occurred during the quarter ended June 30, 2003 as discussed above.

### SIX MONTHS ENDED JUNE 30, 2004 COMPARED TO SIX MONTHS ENDED JUNE 30, 2003

Revenues. Revenues are comprised primarily of license fees, maintenance and usage fees, and implementation and consulting services revenues.

Revenues decreased \$1.005 million or 26.3% to \$2.813 million for the six months ended June 30, 2004, when compared with the comparable period in 2003. The decrease for the three months ended June 30, 2004 was due primarily to an decrease in software license fee of \$148 thousand, a decrease in revenues for PeopleMed of approximately \$283 thousand, a decrease in other revenues of \$634 thousand, and a decrease in implementation revenues of \$66 thousand, partially offset by an increase in maintenance revenues of \$145 thousand when compared with the same period for 2003. The decrease in software license fees for the three months ended June 30, 2004 was primarily related to revenue recognition issues related to these transactions.

In addition, \$388 thousand of the software license fees related to the six months ended June 30, 2003, related to non-cash consideration in the form of a reduction of liabilities the Company owed to a customer. See Note 1 of the Financial Statements for further discussion. The Company recognized \$300 thousand in the six months ended June 30, 2003 related to revenues associated with termination of a customer's significant contract, none during the comparable period in 2004. The \$634 thousand decrease in other revenues was primarily the result of \$500 thousand in revenues being recognized during the three months ended June 30, 2003 related to a settlement agreement between the Company and one of its marketing partners whereby the Company was released from its obligation to perform additional services in accordance with the terms of prior agreements. See Note 1 in the Financial Statements for further discussion.

Cost of revenue. Cost of revenues increased by \$41 thousand or 3.6% for the six months ended June 30, 2004 when compared with the same period in 2003. The increase in costs as a percentage of revenues was primarily due to the decrease in revenues for the six months ended June 30, 2004 and the relatively minor costs associated with much of the incremental revenue recognized during the six months ended June 30, 2003 as discussed in Note 1 of the Financial Statements.

Gross profit. Gross profit as a percentage of total revenues was 57.9% and 70.1% for the six months ended June 30, 2004 and 2003, respectively. Gross profit was \$1.629 million for the six months ended June 30, 2004, and \$2.675 million for the six months ended June 30, 2003. The decrease is primarily the result of a decrease in revenues with low corresponding cost of revenues as described above.

General and administrative. General and administrative expenses increased \$200 thousand or 20.3%, for the six months ended June 30, 2004 compared to the same six months in 2003. The primary reasons for the increase in general and

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

administrative costs for the six months ended June 30, 2004 when compared with the similar period during 2003 relates primarily to the \$120 thousand increase in legal expenses associated primarily with the Company's pending legal proceedings as discussed in this document, a \$32 thousand increase in consulting services fees mainly related to international projects, and an \$18 thousand increase in accounting fees.

Sales and marketing. Sales and marketing expenses decreased \$6 thousand for the six months ended June 30, 2004 compared to the same six months in 2003.

Research and development. Research and development expenses increased \$54 thousand to \$333 thousand, for the six months ended June 30, 2004 compared to \$279 thousand for the same six months in 2003. The increase in research and development expenses was primarily due to reduced levels of capitalization of software development costs for the six months ended June 30, 2004 when compared with the comparable period in 2003.

Depreciation and software amortization. Depreciation and software amortization decreased by \$216 thousand for the three months ended June 30, 2004. The primary reason for the decrease was due to the fact that as of June 30, 2003, the Company had fully amortized all software development costs associated with SafeTrace Tx(R). For the six months ended June 30, 2003, the Company amortized \$210 thousand in software development costs.

Income (loss) from operations before other income (expense). The Company's loss from operations during the six months ended June 30, 2004 was \$655 thousand. The income from operations was \$423 thousand for the six months ended June 30, 2003. The change was due primarily to the reduction in revenue as discussed above.

Interest expense. Interest expense decreased \$43 thousand for the six months ended June 30, 2004 to \$190 thousand compared to \$233 thousand for the same six months in 2003. The primary reason for the decrease was due to the restructuring of the Company's debt more fully discussed in Note 3 of the Financial Statements.

Financing costs. As of June 30, 2003 all financing costs associated with the Company's debt had been amortized.

Income taxes. For the six months ended June 30, 2004 and 2003, the Company did not record a provision for income taxes. No income tax is due for this period because the Company has net operating loss carryforwards from prior periods that fully offset the tax provision, and the deferred tax asset related to the net loss carryforwards is fully reserved by a valuation allowance.

Net income (loss). The Company's posted a net loss of \$820 thousand, net income for the six months ended June 30, 2004, and net income of \$67 thousand for the same period in 2003. The change from net income to a net loss was primarily the result of the decrease in revenues.

### LIQUIDITY AND CAPITAL RESOURCES

The Company had cash and cash equivalents of \$880 thousand as of June 30, 2004 compared to \$983 thousand at December 31, 2003, none of which was restricted.

The Company had a net working capital deficit of \$1.665 million as of June 30, 2004 and \$1.574 million at December 31, 2003.

As of December 31, 2003, the Company's \$4.029 million in related party financing was considered long-term debt. On April 14, 2004, GMIL and Global Med entered into an agreement to convert \$3.5 million of the related party financing into 3.5 million shares of preferred stock. This preferred stock is convertible at

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

the holder's option into 7.777 million shares of common stock. The remaining \$529 thousand in related party financing (the "Remaining Debt") is due and payable on March 1, 2006. As part of the November 19, 2000 Loan Agreement, there exists a personal guarantee of Dr. Michael I. Ruxin, up to \$650 thousand plus pro rata accrued interest. The personal guarantee is limited to certain of Dr. Ruxin's assets and remains in full force and effect. The guarantee is limited to the Remaining Debt.

The terms of the debt and preferred stock require cash interest and dividend payments to be made on the following dates: March 1, June 1, September 1, and December 1. For each of the periods previously mentioned, with the exception of March 1, 2004, the Company will be required to pay interest in the amount of \$20 thousand during 2004. The Company also paid approximately \$92 thousand in interest expense that was accrued mainly as of December 31, 2003 and an additional \$95 thousand in interest that accrued from January 1, 2004 through February 29, 2004 on the outstanding related party financing obligations. The \$92 thousand was paid in April 2004 and the \$95 thousand was paid in July 2004. The Company will also be required to make dividend payments in the amount of approximately \$131 thousand in October of 2004. During 2005, the Company will be required to make interest payments of approximately \$20 thousand March 1, June 1, September 1, and December 1, on each of the dates noted above. In addition, the Company will be required to make base dividend payments of approximately \$184 thousand March 1, June 1, September 1, and December 1 as well as certain additional dividends payments related to 2004. In the event that the Company is unable to make the mandatory dividend payments in a timely manner, the Company, at GMIL's option, can pay for the dividends in common stock or preferred stock of the Company. Based on the Company's projected cash flows for 2004, the payment of mandatory dividends represent a material use of available operating cash. If sufficient cash flows do not materialize, the Company may be required to reduce planned expenditures for sales and marketing and research and development.

During the quarter ended June 30, 2004, the Company completed a private placement of the sale of 1.525 million shares of common stock at \$0.40 per share resulting in net proceeds of \$549 thousand. The Company plans on using the proceeds from the private placement for general working capital purposes.

The Company may require additional external financing through additional debt or equity in order to pay off the debt due in March of 2006 or the preferred stock if it is called by the holder in 2006.

The Company had an accumulated deficit of \$40.731 million as of June 30, 2004. It is expected that cash flows from the Company's existing customer base, new sales, sales of common stock and the Company's current assets, including cash and accounts receivable, will be sufficient to fund the Company's liquidity and capital requirements for the next twelve months excluding acquisitions or major new product development initiatives. Management anticipates that the cash, accounts receivable balances, recurring revenues, proceeds from the sale of common stock, and any future financing activities will be used to fund the Company's anticipated research and development costs, sales and marketing efforts during the remainder of 2004 and for general working capital purposes. The Company continues to pursue financing alternatives through the issuance of additional equity or debt.

Cash flows from operations used \$612 thousand in cash for the six months ended June 30, 2004. The cash used during the six months ended June 30, 2004 consisted primarily of the net loss of \$820 thousand, net of non-cash changes, which provided \$63 thousand, and changes in operating assets and liabilities, which provided \$145 thousand.

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS



## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the 1933 Act and Section 21E of the Securities Exchange Act of 1934, as amended ("1934 Act"), and the Company intends that such forward-looking statements be subject to the safe harbors for such statements under such sections. The Company's forward-looking statements include the plans and objectives of management for future operations, including plans and objectives relating to the Company's planned marketing efforts and future economic performance of the Company. The forward-looking statements and associated risks set forth in this Quarterly Report on Form 10-Q include or relate to among other things: (i) the ability of the Company to obtain a meaningful degree of consumer acceptance for its software products and proposed software products, (ii) the ability of the Company to market its software products and proposed software products on a national and international basis at competitive prices, (iii) the ability of the Company's software products and proposed software products to meet government regulations and standards, (iv) the ability of the Company to develop and maintain an effective national and international sales network, (v) success of the Company in forecasting demand for its software products and proposed software products, (vi) the ability of the Company to maintain pricing and thereby maintain adequate profit margins, (vii) the ability of the Company to achieve adequate intellectual property protection for the Company's software products and proposed software products, and (viii) the ability of the Company and its customers to successfully and timely implement the Company's software products.

The forward-looking statements herein are based on current expectations that involve a number of risk and uncertainties. Such forward-looking statements are based on assumptions that, among other things, the Company will market and provide software products on a timely basis, that there will be no material adverse competitive or technological change in condition of the Company's business, that demand for the Company's software products will significantly increase, that the Company's Chief Executive Officer will remain employed as such by the Company, that the Company's forecasts accurately anticipate market demand and that there will be no material adverse change in the Company's operations, business or governmental regulation affecting the Company or its suppliers. The foregoing assumptions are based on judgments with respect to, among other things, future economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the Company's control. Accordingly, although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any such assumption could prove to be inaccurate and therefore there can be no assurance that the results contemplated in forward-looking statements will be realized. In addition, as disclosed elsewhere in this Quarterly Report on Form 10-Q, there are a number of other risks inherent in the Company's business and operations which could cause the Company's operating results to vary markedly and adversely from prior results or the results contemplated by the forward-looking statements. Growth in absolute and relative amounts of cost of sales, research and development, sales and marketing and other operating expenses or the occurrence of other events could cause actual results to vary materially from the results contemplated by the forward-looking statements. Management decisions, including budgeting, are subjective in many respects and periodic revisions must be made to reflect actual conditions and business developments, the impact of which may cause the Company to alter its marketing, capital investment and other expenditures, may also materially and adversely affect the Company's liquidity, financial position and results of operations. In light of significant uncertainties inherent in the forward-looking information included in this Quarterly Report on Form 10-Q, the inclusion of such information should not be regarded as a representation by the Company or any other person that the Company's objectives or plans will be achieved.

RECENT ACCOUNTING PRONOUNCEMENTS

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

In March 2004, the Financial Accounting Standards Board ("FASB") approved Emerging Issue Task Force ("EITF") Issue 03-6, "Participating Securities and the Two-Class Method under Statement of Financial Accounting Standards ("SFAS") 128." EITF Issue 03-6 supersedes the guidance in Topic No. D-95, "Effect of Participating Convertible Securities on the Computation of Basic Earnings per Share," and requires the use of the two-class method of participating securities. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. In addition, EITF Issue 03-6 addresses other forms of participating securities, including options, warrants, forwards and other contracts to issue an entity's common stock, with the exception of stock-based compensation (unvested options and restricted stock) subject to the provisions of Opinion 25 and SFAS 123. EITF Issue 03-6 is effective for reporting periods beginning after March 31, 2004 and should be applied by restating previously reported earnings per share. The adoption of EITF Issue 03-6 did not have a significant effect on the Company's condensed consolidated financial statements as of and for the three and six months ended June 30, 2004.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), which was subsequently amended in December 2003. FIN 46 requires that unconsolidated variable interest entities be consolidated by their primary beneficiaries. A primary beneficiary is the party that absorbs a majority of the entity's expected losses or residual benefits. FIN 46 applies to variable interest entities created after January 31, 2003 and to existing variable interest entities beginning after June 15, 2003. The Company fully adopted FIN 46 on March 31, 2004 and this adoption did not have a material impact on the Company's financial statements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk as it relates to Global Med generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest rates. Global Med is exposed to interest rate risk in its notes payable. Interest rate risk results when the market rate of the debt instruments decreases for notes payable. All of the Company's outstanding debt is with GMIL. The Company attempts to reduce interest rate risk by negotiating terms on its debt with GMIL that are consistent with current market rates. As a result of Global Med's relationship with its parent companies and subsidiaries, the terms of the financing agreement may not be indicative of those that would have resulted if Global Med were unaffiliated with these entities.

Sensitivity analyses were performed to determine how market rate changes would affect the fair value of our debt. Such an analysis is inherently limited in that it represents a singular, hypothetical set of assumptions. Actual market movements may vary significantly from our assumptions. A one-percentage point change in interest rates on our debt as of June 30, 2004 would change our annual pre-tax income annual results by approximately \$5 thousand. The stated interest rate on our debt, is 15%. Hypothetically, if the interest rate on this debt were subject to fluctuations with the market and the market interest rate was 16%, Global Med's pre-tax income would decrease approximately \$5 thousand per year. Conversely, if Global Med's debt were subject to market fluctuations and the market interest rate was 14%, the Company's pre-tax income would increase approximately \$5 thousand. In addition, each subsequent increase or decrease in the interest rate of 1% would change pre-tax income by an additional \$5 thousand.

### ITEM 4. CONTROLS AND PROCEDURES.

The management evaluated, with the participation of the Chief Executive Officer

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

and Acting Principal Financial and Accounting Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, the Chief Executive Officer and Acting Chief Financial Officer have concluded that the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that are filed or submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner. No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15 (f) under the Securities Exchange Act of 1934) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings

In September 2002, Global Med filed a lawsuit against Donnie L. Jackson, Jr., the Company's former Vice President of Sales and Marketing. The Company alleges, among other things, that prior to his resignation in July 2002 Mr. Jackson misappropriated certain trade secrets of the Company. Mr. Jackson is currently a management employee of one of the Company's competitors.

During 2003, the Company filed two lawsuits for breach of contract against a former customer ("the Former Customer") alleging it was improperly using the Company's software without paying the appropriate fees. The lawsuits are pending in the United States District Court for the District of Colorado and the United States District Court for the Eastern District of California. The Former Customer has filed counterclaims alleging that the Company breached certain terms of the contract agreement. The Company and the Former Customer are both seeking damages. The Company plans to vigorously defend the counterclaims and does not believe this lawsuit will have a material impact on the Company's business.

#### Item 2. Changes in Securities

The Company sold the following unregistered securities in the quarter ended June 30, 2004.

The Company sold 1.525 million shares of unregistered common stock for an aggregate of \$549,000 in a private placement accredited investors only.

The sales were not underwritten and no commissions were paid in connection with the sales. The securities were issued under the exemption(s) provided by Section 4(2) of the Securities Act and under Rule 506 of Regulation D.

The Company authorized the issuance of 3.5 million shares of Series AA Preferred Stock to GMIL, the Company's majority shareholder, in connection with GMIL's conversion of \$3.5 million of debt. These shares are considered outstanding as of April 14, 2004. The Series AA Preferred Stock can be converted by GMIL into common stock of the Company at any time at a conversion rate of (2.222) shares of common stock for each share of Series AA Preferred Stock. Therefore, the Series AA Preferred Stock is convertible into approximately 7.777 million common shares. The sales were not underwritten and no commissions were paid in connection with the sales. The securities were issued under the exemption(s) provided by Sections 4(2) and 4(6) of the Securities Act.

The Company authorized the issuance of 675 thousand shares of Series BB Preferred Stock to Michael I. Ruxin, M.D., the Company's Chairman of the Board

## Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

and Chief Executive Officer, in connection with his conversion of outstanding accrued vacation and accrued wages as of February 29, 2004, valued at approximately \$284,000. These shares are considered outstanding as of April 14, 2004. The Series BB Preferred Stock is convertible at a rate of one share per common per one share of Series BB at the option of the holder if the Company's common stock closing price reaches \$0.75 per share. Upon written notice by Dr. Ruxin, the Series BB is convertible into common stock. The sales were not underwritten and no commissions were paid in connection with the sales. The securities were issued under the exemption(s) provided by Sections 4(2) and 4(6) of the Securities Act.

Item 3. Defaults on 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.

(a) Exhibits

31 Certification by the Chief Executive Officer and Acting Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 7241

32 Certification by the Chief Executive Officer and Acting Principal Financial and Accounting Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

10.69 Articles of Amendment to the Articles of Incorporation of Global Med Technologies, Inc.

(b) Reports on Form 8-K

(a) A Form 8-K was filed by the Company on April 16, 2004 announcing its financial results for the year ended December 31, 2003 and the restructuring of its debt.

(b) A Form 8-K was filed by the Company on April 29, 2004 announcing a private placement for the sale of the Company's common stock.

(c) A Form 8-K was filed by the Company on May 18, 2004 announcing financial results for the first quarter of 2004.

(d) A Form 8-K was filed by the Company on May 20, 2004 announcing the filing of a Form S-8 for the 2003 Stock Option Plan and an amendment to the Form S-8 for the 2001 Stock Option Plan.

(e) A Form 8-K was filed by the Company on June 16, 2004 announcing a the backlog of business generated by the Company during the past six months.

SIGNATURES

Edgar Filing: GLOBAL MED TECHNOLOGIES INC - Form 10-Q

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GLOBAL MED TECHNOLOGIES, INC.  
A Colorado Corporation

Date: August 6, 2004

By /s/ Michael I. Ruxin

-----  
Michael I. Ruxin, Chairman of the Board  
and Chief Executive Officer and Acting  
Principal Financial and Accounting Officer