

MERIT MEDICAL SYSTEMS INC
Form 10-Q
August 01, 2008
[Table of Contents](#)

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR
THE QUARTERLY PERIOD ENDED JUNE 30, 2008.**

OR

o

**TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR
THE TRANSITION PERIOD FROM TO .**

Commission File Number 0-18592

MERIT MEDICAL SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

Utah
(State or other jurisdiction of incorporation or
organization)

87-0447695
(I.R.S. Identification No.)

1600 West Merit Parkway, South Jordan, UT, 84095

(Address of Principal Executive Offices)

Edgar Filing: MERIT MEDICAL SYSTEMS INC - Form 10-Q

(801) 253-1600

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

Common Stock
Title or class

27,873,893
Number of Shares
Outstanding at July 29, 2008

Table of Contents

MERIT MEDICAL SYSTEMS, INC.

INDEX TO FORM 10-Q

| | PAGE |
|--|--|
| <u>PART I.</u> | <u>FINANCIAL INFORMATION</u> |
| <u>Item 1.</u> | <u>Financial Statements</u> |
| | <u>Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007</u> 1 |
| | <u>Consolidated Statements of Operations for the three and six months ended June 30, 2008 and 2007</u> 3 |
| | <u>Consolidated Statements of Cash Flows for the six months ended June 30, 2008 and 2007</u> 4 |
| | <u>Notes to Consolidated Financial Statements</u> 7 |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 12 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> 15 |
| <u>Item 4.</u> | <u>Controls and Procedures</u> 16 |
| <u>PART II.</u> | <u>OTHER INFORMATION</u> |
| <u>Item 1. Legal Proceedings</u> | 16 |
| <u>Item 1A. Risk Factors</u> | 16 |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u> | 17 |
| <u>Item 6. Exhibits</u> | 17 |
| <u>SIGNATURES</u> | 18 |

Table of Contents**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2008 AND DECEMBER 31, 2007

(In thousands - unaudited)

| | June 30, 2008 | December 31, 2007 |
|--|------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 26,756 | \$ 17,574 |
| Trade receivables - net of allowances of \$515 and \$497, respectively | 25,212 | 26,619 |
| Employee receivables | 130 | 144 |
| Other receivables | 800 | 1,140 |
| Inventories | 36,274 | 34,106 |
| Prepaid expenses and other assets | 1,655 | 1,297 |
| Deferred income tax assets | 2,087 | 811 |
| Income tax refunds receivable | 350 | 297 |
| Total current assets | 93,264 | 81,988 |
| PROPERTY AND EQUIPMENT: | | |
| Land and land improvements | 7,977 | 7,977 |
| Building | 49,125 | 43,147 |
| Manufacturing equipment | 65,708 | 61,448 |
| Furniture and fixtures | 17,811 | 17,110 |
| Leasehold improvements | 9,941 | 9,870 |
| Construction-in-progress | 6,692 | 10,680 |
| Total | 157,254 | 150,232 |
| Less accumulated depreciation and amortization | (54,659) | (50,536) |
| Property and equipment net | 102,595 | 99,696 |
| OTHER ASSETS: | | |
| Other intangibles - net of accumulated amortization of \$2,671 and \$2,171, respectively | 6,429 | 6,163 |
| Goodwill | 11,680 | 9,527 |
| Deferred compensation assets | 3,053 | 2,964 |
| Deferred income tax assets | 336 | 4 |
| Deposits | 78 | 78 |

Edgar Filing: MERIT MEDICAL SYSTEMS INC - Form 10-Q

| | | |
|--------------------|------------|------------|
| Total other assets | 21,576 | 18,736 |
| TOTAL ASSETS | \$ 217,435 | \$ 200,420 |

See notes to consolidated financial statements.

Table of Contents**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2008 AND DECEMBER 31, 2007

(In thousands - unaudited)

| | June 30, 2008 | December 31, 2007 |
|--|-------------------|----------------------|
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Trade payables | \$ 11,709 | \$ 10,275 |
| Other payables | 1,500 | |
| Accrued expenses | 10,856 | 9,492 |
| Advances from employees | 341 | 267 |
| Liabilities related to unrecognized tax positions | | 1,023 |
| Income taxes payable | 846 | 737 |
| Total current liabilities | 25,252 | 21,794 |
| DEFERRED INCOME TAX LIABILITIES | 6,511 | 6,082 |
| LIABILITIES RELATED TO UNRECOGNIZED TAX POSITIONS | 2,588 | 2,588 |
| DEFERRED COMPENSATION PAYABLE | 3,207 | 3,063 |
| DEFERRED CREDITS | 2,052 | 2,105 |
| OTHER LONG-TERM OBLIGATIONS | 371 | 420 |
| Total liabilities | 39,981 | 36,052 |
| STOCKHOLDERS EQUITY: | | |
| Preferred stock 5,000 shares authorized as of June 30, 2008, no shares issued | | |
| Common stock no par value; 50,000 shares authorized; 27,635 and 27,413 shares issued at June 30, 2008 and December 31 2007, respectively | 55,272 | 52,477 |
| Retained earnings | 122,082 | 111,947 |
| Accumulated other comprehensive income (loss) | 100 | (56) |
| Total stockholders equity | 177,454 | 164,368 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 217,435 | \$ 200,420 |

See notes to consolidated financial statements.

Table of Contents**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(In thousands and unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------------|--------------------------------|-----------|------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| NET SALES | \$ 57,441 | \$ 51,811 | \$ 110,994 | \$ 102,841 |
| COST OF SALES | 32,939 | 32,275 | 64,900 | 64,447 |
| GROSS PROFIT | 24,502 | 19,536 | 46,094 | 38,394 |
| OPERATING EXPENSES: | | | | |
| Selling, general, and administrative | 12,839 | 11,858 | 25,911 | 23,873 |
| Research and development | 2,654 | 2,207 | 4,570 | 4,571 |
| Total operating expenses | 15,493 | 14,065 | 30,481 | 28,444 |
| INCOME FROM OPERATIONS | 9,009 | 5,471 | 15,613 | 9,950 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest income | 162 | 63 | 312 | 152 |
| Other (expense) | (16) | (1) | (21) | (2) |
| Other income - net | 146 | 62 | 291 | 150 |
| INCOME BEFORE INCOME TAXES | 9,155 | 5,533 | 15,904 | 10,100 |
| INCOME TAX EXPENSE | 3,337 | 1,937 | 5,769 | 3,535 |
| NET INCOME | \$ 5,818 | \$ 3,596 | \$ 10,135 | \$ 6,565 |
| EARNINGS PER COMMON SHARE: | | | | |
| Basic | \$.21 | \$.13 | \$.37 | \$.24 |
| Diluted | \$.21 | \$.13 | \$.36 | \$.23 |
| AVERAGE COMMON SHARES: | | | | |
| Basic | 27,603 | 27,727 | 27,547 | 27,690 |
| Diluted | 28,325 | 28,480 | 28,311 | 28,549 |

See notes to consolidated financial statements.

Table of Contents**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(In thousands and unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|----------|
| | 2008 | 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 10,135 | \$ 6,565 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,113 | 4,540 |
| Losses on sales and/or abandonment of equipment | 209 | 70 |
| Write-off of a certain patent and license agreement | 77 | 35 |
| Amortization of deferred credits | (53) | (73) |
| Deferred income taxes | (1,277) | 497 |
| Stock-based compensation | 337 | 396 |
| Tax benefit attributable to appreciation of common stock options exercised | (310) | (178) |
| Changes in operating assets and liabilities net of effects from acquisitions: | | |
| Trade receivables | 1,664 | 831 |
| Employee receivables | 18 | 58 |
| Other receivables | 377 | (563) |
| Inventories | (2,006) | 996 |
| Prepaid expenses and other assets | (347) | (666) |
| Income tax refund receivable | (38) | (103) |
| Deposits | | 6 |
| Trade payables | 1,301 | (1,703) |
| Accrued expenses | 1,254 | 1,288 |
| Advances from employees | 66 | 64 |
| Income taxes payable | 411 | 954 |
| Liabilities related to unrecognized tax positions | (1,023) | 329 |
| Other long-term obligations | (49) | 93 |
| Total adjustments | 5,724 | 6,871 |
| Net cash provided by operating activities | 15,859 | 13,436 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures for: | | |
| Property and equipment | (7,931) | (7,426) |
| Patents and trademarks | (139) | (58) |
| Increase in deferred compensation assets | (90) | (265) |
| Proceeds from the sale of equipment | 25 | 9 |
| Cash paid in acquisitions | (1,509) | (3,479) |
| Net cash used in investing activities | (9,644) | (11,219) |

See notes to consolidated financial statements.

Table of Contents

| | Six Months Ended June 30, | |
|---|------------------------------|----------|
| | 2008 | 2007 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from: | | |
| Issuance of common stock | \$ 2,148 | \$ 993 |
| Common stock repurchased and retired | | (4,206) |
| Increase in deferred compensation payable | 144 | 153 |
| Excess tax benefits from stock-based compensation | 310 | 178 |
| Net cash provided by (used by) financing activities | 2,602 | (2,882) |
| EFFECT OF EXCHANGE RATES ON CASH | 365 | 108 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 9,182 | (557) |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | 17,574 | 9,838 |
| End of period | \$ 26,756 | \$ 9,281 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION Cash | | |
| paid during the period for: | | |
| Interest | \$ 5 | \$ 4 |
| Income taxes | \$ 7,609 | \$ 1,852 |

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

During the six months ended June 30, 2008, we entered into an asset purchase and supply agreement with Micrus Endovascular Corporation (Micrus), to a Delaware corporation purchase three catheter platforms for \$3.0 million dollars. We paid Micrus \$1.5 million in January 2008 and have accrued an additional \$1.5 million in other payables, which is payable within one year from the closing date. We have paid \$9,300 in acquisitions costs and have accrued an additional \$3,000. The purchase price was preliminarily allocated to inventory for \$161,745, other intangibles (customer relationships) for \$320,000, developed technology for \$370,000, a covenant not to compete for \$30,000, and goodwill for \$2,130,555.

| | |
|---|-------|
| Fair value of assets acquired (including goodwill of \$2,130,555) | \$ 3, |
|---|-------|