

SURMODICS INC  
Form 10-Q  
February 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2017

or

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

Commission File Number: 0-23837

Surmodics, Inc.

(Exact name of registrant as specified in its charter)

MINNESOTA 41-1356149  
(State of incorporation) (I.R.S. Employer

Identification No.)

9924 West 74th Street

Eden Prairie, Minnesota 55344

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (952) 500-7000

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant’s Common Stock, \$.05 par value per share, outstanding as of February 5, 2018 was 13,196,616.

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## PART I. FINANCIAL INFORMATION

## Item 1. Unaudited Condensed Financial Statements

## Surmodics, Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

	December 31, 2017	September 30, 2017
(Unaudited)		
(in thousands, except share and per share data)		
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$21,596	\$16,534
Restricted cash	350	—
Available-for-sale securities	24,756	31,802
Accounts receivable, net of allowance for doubtful accounts of \$204 and \$230 as of December 31, 2017 and September 30, 2017, respectively	6,695	7,211
Inventories	3,871	3,516
Income tax receivable	240	599
Prepays and other	2,488	1,221
Total Current Assets	59,996	60,883
Property and equipment, net	23,624	22,942
Deferred tax assets	2,313	4,027
Intangible assets, net	20,076	20,562
Goodwill	27,505	27,282
Other assets	1,039	897
Total Assets	\$134,553	\$136,593
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$2,309	\$2,396
Accrued liabilities:		
Compensation	1,683	3,822
Accrued other	1,790	1,835
Contingent consideration, current portion	13,752	1,750
Total Current Liabilities	19,534	9,803
Contingent consideration, less current portion	2,410	13,114
Other long-term liabilities	2,062	2,119
Total Liabilities	24,006	25,036
Commitments and Contingencies (Note 14)		
Stockholders' Equity:		
Series A Preferred stock- \$.05 par value, 450,000 shares authorized; no shares issued and outstanding	—	—
Common stock- \$.05 par value, 45,000,000 shares authorized; 13,195,616 and 13,094,988 shares issued and outstanding as of December 31, 2017 and September 30, 2017, respectively	660	655

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Additional paid-in capital	5,337	5,413
Accumulated other comprehensive income	4,034	3,417
Retained earnings	100,516	102,072
Total Stockholders' Equity	110,547	111,557
Total Liabilities and Stockholders' Equity	\$ 134,553	\$ 136,593

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

## Surmodics, Inc. and Subsidiaries

## Condensed Consolidated Statements of Operations

(In thousands, except per share data)	Three Months Ended December 31,	
	2017	2016
	(Unaudited)	
Revenue:		
Product sales	\$8,088	\$7,701
Royalties and license fees	7,076	8,001
Research, development and other	1,849	2,059
Total revenue	17,013	17,761
Operating costs and expenses:		
Product costs	2,891	2,628
Research and development	7,831	5,970
Selling, general and administrative	5,188	4,862
Acquired intangible asset amortization	618	596
Contingent consideration expense	1,118	437
Total operating costs and expenses	17,646	14,493
Operating (loss) income	(633 )	3,268
Other income:		
Investment income, net	121	85
Foreign exchange (loss) gain	(186 )	674
Gain on strategic investment	177	—
Other income, net	112	759
(Loss) income before income taxes	(521 )	4,027
Income tax provision	(1,035 )	(1,727 )
Net (loss) income	\$(1,556 )	\$2,300
Basic net (loss) income per share	\$(0.12 )	\$0.17
Diluted net (loss) income per share	\$(0.12 )	\$0.17
Weighted average number of shares outstanding:		
Basic	13,064	13,200
Diluted	13,064	13,446

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

## Surmodics, Inc. and Subsidiaries

## Condensed Consolidated Statements of Comprehensive (Loss) Income

	Three Months Ended December 31, 2017    2016 (Unaudited)	
(In thousands)		
Net (loss) income	\$ (1,556)	\$ 2,300
Other comprehensive income (loss) :		
Unrealized holding (losses) gains on available-for-sale securities, net of tax	(14 )	46
Foreign currency translation adjustments	631	(2,254)
Other comprehensive income (loss)	617	(2,208)
Comprehensive (loss) income	\$ (939 )	\$ 92

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

## Surmodics, Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

	Three Months Ended December 31, 2017    2016 (Unaudited)	
(in thousands)		
<b>Operating Activities:</b>		
Net (loss) income	\$ (1,556)	\$ 2,300
<b>Adjustments to reconcile net (loss) income to net cash provided by operating activities:</b>		
Depreciation and amortization	1,520	1,282
Stock-based compensation	903	789
Contingent consideration expense	1,118	437
Unrealized foreign exchange loss (income)	180	(663 )
Deferred taxes	1,714	742
Gain on strategic investment	(177 )	—
Provision for bad debts	28	—
Other	(7 )	(5 )
<b>Change in operating assets and liabilities:</b>		
Accounts receivable	484	345
Inventories	(345 )	73
Prepays and other	(1,188)	(746 )
Accounts payable and accrued liabilities	(2,295)	(2,713)
Income taxes	190	82
Deferred revenue	45	28
<b>Net cash provided by operating activities</b>	<b>614</b>	<b>1,951</b>
<b>Investing Activities:</b>		
Purchases of property and equipment	(1,298)	