

SURMODICS INC
Form 10-Q
August 01, 2014
Table of Contents

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 June 30, 2014

or

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: 0-23837

SurModics, Inc.

(Exact name of registrant as specified in its charter)

MINNESOTA
(State of

incorporation)

41-1356149
(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

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 Web site, 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 and smaller reporting 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

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 July 31, 2014 was 13,596,744.

Table of Contents

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	3
Item 1. <u>Financial Statements</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	29
<u>PART II. OTHER INFORMATION</u>	30
Item 1. <u>Legal Proceedings</u>	30
Item 1A. <u>Risk Factors</u>	30
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
Item 3. <u>Defaults Upon Senior Securities</u>	30
Item 4. <u>Mine Safety Disclosures</u>	30
Item 5. <u>Other Information</u>	30
Item 6. <u>Exhibits</u>	31
<u>SIGNATURES</u>	
EX-12	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 DEFINITION LINKBASE DOCUMENT	
EX-101 LABEL LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	

Table of Contents**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements

SurModics, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	June 30, 2014	September 30, 2013
<i>(in thousands, except share and per share data)</i>		
<i>(Unaudited)</i>		
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 39,729	\$ 15,495
Available-for-sale securities	882	10,212
Accounts receivable, net of allowance for doubtful accounts of \$53 and \$26 as of June 30, 2014 and September 30, 2013, respectively	5,176	5,332
Inventories	2,900	3,328
Deferred tax assets	321	506
Prepays and other	1,718	860
Current assets of discontinued operations	85	46
Total Current Assets	50,811	35,779
Property and equipment, net	12,710	12,845
Available-for-sale securities	16,497	32,397
Deferred tax assets	6,392	6,038
Intangible assets, net	3,131	3,688
Goodwill	8,010	8,010
Other assets, net	3,166	3,166
Total Assets	\$ 100,717	\$ 101,923
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,400	\$ 954
Accrued liabilities:		
Compensation	1,756	2,271
Accrued other	844	1,149
Share repurchase accrual		1,004
Deferred revenue	41	43
Restructuring and other current liabilities	2	416
Current liabilities of discontinued operations	75	139
Total Current Liabilities	4,118	5,976
Deferred revenue, less current portion	149	160
Other long-term liabilities	1,779	1,970

Total Liabilities	6,046	8,106
Commitments and Contingencies (Note 17)		
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; 13,594,564 and 13,891,402 shares issued and outstanding, respectively	680	695
Additional paid-in capital	2,419	2,028
Accumulated other comprehensive income	36	58
Retained earnings	91,536	91,036
Total Stockholders' Equity	94,671	93,817
Total Liabilities and Stockholders' Equity	\$ 100,717	\$ 101,923

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

Table of Contents**SurModics, Inc. and Subsidiaries**

Condensed Consolidated Statements of Income

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
<i>(In thousands, except per share data)</i>				
Revenue:				
Royalties and license fees	\$ 7,385	\$ 7,827	\$ 22,179	\$ 22,294
Product sales	6,067	5,577	16,632	16,688
Research and development	1,164	885	3,292	2,853
Total revenue	14,616	14,289	42,103	41,835
Operating costs and expenses:				
Product costs	2,037	1,990	5,737	5,894
Research and development	3,655	4,009	11,488	11,145
Selling, general and administrative	3,591	4,052	11,736	11,552
Total operating costs and expenses	9,283	10,051	28,961	28,591
Operating income from continuing operations	5,333	4,238	13,142	13,244
Other income (loss):				
Investment income, net	42	60	194	187
Impairment loss on strategic investment				(129)
Gain on sales of strategic investments	28		709	119
Other income, net		2	125	1,341
Other income, net	70	62	1,028	1,518
Income from continuing operations before income taxes	5,403	4,300	14,170	14,762
Income tax provision	(1,729)	(1,122)	(4,407)	(3,916)
Income from continuing operations	3,674	3,178	9,763	10,846
(Loss) income from discontinued operations, net of income taxes	(76)	(47)	(76)	635
Net income	\$ 3,598	\$ 3,131	\$ 9,687	\$ 11,481
Basic income (loss) per share:				
Continuing operations	\$ 0.27	\$ 0.22	\$ 0.72	\$ 0.74
Discontinued operations	(0.01)	0.00	(0.01)	0.04
Net income	\$ 0.26	\$ 0.22	\$ 0.71	\$ 0.79
Diluted income (loss) per share:				

Edgar Filing: SURMODICS INC - Form 10-Q

Continuing operations	\$ 0.27	\$ 0.22	\$ 0.70	\$ 0.73
Discontinued operations	(0.01)	0.00	(0.01)	0.04
Net income	\$ 0.26	\$ 0.21	\$ 0.70	\$ 0.77
Weighted average number of shares outstanding:				
Basic	13,585	14,413	13,639	14,563
Diluted	13,813	14,739	13,891	14,823

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

Table of Contents**SurModics, Inc. and Subsidiaries**

Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
<i>(In thousands)</i>	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Net income	\$ 3,598	\$ 3,131	\$ 9,687	\$ 11,481
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses) on available-for-sale securities arising during the period	46	(158)	62	158
Reclassification adjustment for realized gains included in net income		(1)	(84)	(230)
Other comprehensive income (loss)	46	(159)	(22)	(72)
Comprehensive income	\$ 3,644	\$ 2,972	\$ 9,665	\$ 11,409

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

Table of Contents**SurModics, Inc. and Subsidiaries**

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended June 30,	
	2014	2013
	<i>(Unaudited)</i>	
<i>(in thousands)</i>		
Operating Activities:		
Net income	\$ 9,687	\$ 11,481
Adjustments to reconcile net income to net cash provided by operating activities from continuing operations:		
Loss (income) from discontinued operations	76	(635)
Depreciation and amortization	2,054	2,174
Stock-based compensation	3,043	1,983
Deferred taxes	(98)	34
Gain on sales of available-for-sale securities and strategic investments	(835)	(1,460)
Impairment loss on investments		129
Excess tax (benefit) deficiency from stock-based compensation plans	(452)	252
Change in operating assets and liabilities, excluding the impact from discontinued operations:		
Accounts receivable	156	333
Inventories	428	314
Prepays and other	(114)	(305)
Accounts payable and accrued liabilities	(919)	(876)
Income taxes	(560)	(1,520)
Net cash provided by operating activities from continuing operations	12,466	11,904
Investing Activities:		
Purchases of property and equipment	(1,165)	(1,448)
Purchases of available-for-sale securities	(132,648)	(34,599)
Sales and maturities of available-for-sale securities	157,970	34,487
Cash received from sales of strategic investments	708	2,286
Cash transferred to discontinued operations	(239)	(118)
Net cash provided by investing activities from continuing operations	24,626	608
Financing Activities:		
Excess tax benefit (deficiency) from stock-based compensation plans	452	(252)
Issuance of common stock	348	273
Repurchase of common stock	(12,544)	(10,323)
Purchase of common stock to pay employee taxes	(1,114)	(39)
Net cash used in financing activities from continuing operations	(12,858)	(10,341)

Net cash provided by continuing operations	24,234	2,171
Discontinued Operations:		
Net cash used in		