

VITAL IMAGES INC
Form 10-Q
November 15, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2002

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 0-22229

VITAL IMAGES, INC.

(Exact name of registrant as specified in its charter)

Minnesota

42-1321776

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(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

3300 Fernbrook Lane N., Suite 200
Plymouth, Minnesota
(Address of principal
executive offices)

55447

(Zip Code)

(763) 852-4100

(Registrant's telephone number, including area code)

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

On November 8, 2002, there were 8,978,574 shares of the Registrant's common stock, par value \$.01 per share, outstanding.

VITAL IMAGES, INC.

Form 10-Q

September 30, 2002

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VITAL IMAGES, INC.
BALANCE SHEETS
AS OF SEPTEMBER 30, 2002 AND DECEMBER 31, 2001
(Unaudited)

	September 30, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,119,780	\$ 6,830,906
Marketable securities	3,909,465	
Accounts receivable, net of allowance for doubtful accounts of \$218,000 and \$185,000 as of September 30, 2002 and December 31, 2001, respectively	5,784,371	3,637,954
Prepaid expenses and other current assets	706,819	557,833
Total current assets	15,520,435	11,026,693
Property and equipment, net	1,943,030	1,552,116
Licensed technology, net	600,000	690,000
TOTAL ASSETS	\$ 18,063,465	\$ 13,268,809
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 938,156	\$ 864,385
Accrued payroll	1,282,680	1,326,214
Deferred revenue	3,736,654	2,199,465
Accrued royalties	461,482	362,637
Other current liabilities	239,898	179,610
Total current liabilities	6,658,870	4,932,311
Deferred revenue	184,156	285,709
Total liabilities	6,843,026	5,218,020
Shareholders equity:		
Preferred stock: \$.01 par value; 5,000,000 shares authorized; none issued or outstanding as of September 30, 2002 and December 31, 2001		
Common stock: \$.01 par value; 20,000,000 shares authorized; 8,963,459 and 8,186,092 shares issued and outstanding as of September 30, 2002 and December 31, 2001, respectively	89,635	81,861
Additional paid-in capital	31,635,594	28,846,906
Accumulated deficit	(20,504,790)	(20,877,978)
Total shareholders equity	11,220,439	8,050,789

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TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$	18,063,465	\$	13,268,809
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(The accompanying notes are an integral part of the interim financial statements.)

VITAL IMAGES, INC.
STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002 (Unaudited)	2001	2002 (Unaudited)	2001
Revenue:				
License fees	\$ 4,022,420	\$ 2,575,648	\$ 10,315,561	\$ 7,072,506
Maintenance and services	836,482	547,290	2,678,388	1,525,344
Hardware	733,987	510,458	1,916,664	2,048,176
Total revenue	5,592,889	3,633,396	14,910,613	10,646,026
Cost of revenue:				
License fees	307,388	194,262	791,210	407,746
Maintenance and services	208,379	148,339	900,636	409,163
Hardware	566,091	391,133	1,473,374	1,631,794
Total cost of revenue	1,081,858	733,734	3,165,220	2,448,703
Gross margin	4,511,031	2,899,662	11,745,393	8,197,323
Operating expenses:				
Sales and marketing	2,200,682	1,587,164	5,893,358	4,836,575
Research and development	1,184,030	853,522	3,091,622	2,505,895
General and administrative	736,622	597,354	2,472,216	2,043,498
Total operating expenses	4,121,334	3,038,040	11,457,196	9,385,968
Operating income (loss)	389,697	(138,378)	288,197	(1,188,645)
Interest income, net	32,452	9,786	93,991	41,619
Income (loss) before income taxes	422,149	(128,592)	382,188	(1,147,026)
Income taxes	3,000	3,000	9,000	9,000
Net income (loss)	\$ 419,149	\$ (131,592)	\$ 373,188	\$ (1,156,026)
Net income (loss) per share basic	\$ 0.05	\$ (0.02)	\$ 0.04	\$ (0.17)
Net income (loss) per share diluted	\$ 0.04	\$ (0.02)	\$ 0.04	\$ (0.17)
Shares used in per share calculations:				
Basic	8,956,337	7,119,028	8,822,722	6,933,037
Diluted	9,623,682	7,119,028	9,809,445	6,933,037

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(The accompanying notes are an integral part of the interim financial statements.)

VITAL IMAGES, INC.
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

	2002	For the Nine Months Ended September 30, (Unaudited)	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 373,188		\$ (1,156,026)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	643,871		564,337
Provision for uncollectible accounts receivable	33,000		105,000
Amortization of licensed technology	90,000		30,000
Stock-based compensation	7,300		
Changes in operating assets and liabilities:			
Accounts receivable	(2,179,417)		(406,186)
Prepaid expenses and other current assets	(148,986)		(382,251)
Accounts payable	73,771		(165,686)
Deferred revenue	1,435,636		765,605
Accrued expenses and other liabilities	115,599		417,837
Net cash provided by (used in) operating activities	443,962		(227,370)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment	(1,034,785)		(367,970)
Additions to licensed technology			(500,000)
Investments in marketable securities	(5,932,219)		
Maturities of marketable securities	2,022,754		
Net cash used in investing activities	(4,944,250)		(867,970)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sales of common stock under warrants	1,719,123		1,231,421
Proceeds from sales of common stock under stock plans	1,070,039		130,571
Net cash provided by financing activities	2,789,162		1,361,992
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,711,126)		266,652
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,830,906		2,291,107
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 5,119,780		\$ 2,557,759

(The accompanying notes are an integral part of the interim financial statements.)

VITAL IMAGES, INC.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

(1) BASIS OF PRESENTATION:

The accompanying unaudited financial statements of Vital Images, Inc. (Vital Images or the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America. In the opinion of management, these unaudited financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the periods presented. Operating results for the nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

(2) MAJOR CUSTOMERS AND GEOGRAPHIC DATA:

The following customers accounted for more than 10% of the Company's total revenue for the periods indicated:

	Significant Customer	Revenue	Percentage of Total Revenue
Nine months ended September 30, 2002	Toshiba Corporation, Medical Systems Group	\$ 5,486,000	37%
Nine months ended September 30, 2001	Toshiba Corporation, Medical Systems Group	\$ 2,892,000	27%

The Company's accounts receivable are generally concentrated with a small base of customers. As of September 30, 2002, there was one customer accounting for 37% of accounts receivable, while as of December 31, 2001, one customer accounted for 18% of accounts receivable.

Export revenue amounted to 8% and 5% of total revenue for the nine months ended September 30, 2002 and 2001, respectively. Substantially all of the Company's export revenue is negotiated, invoiced and paid in U.S. dollars. Gross export revenue by geographic area is summarized as follows:

	Nine Months Ended September 30,	
	2002	2001
Europe	\$ 652,000	\$ 311,000
Asia and Pacific Region	457,000	56,000

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Canada, Mexico and other foreign countries		92,000		152,000
Totals	\$	1,201,000	\$	