

LIFELINE SYSTEMS INC  
Form 10-Q  
May 07, 2004

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

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

For the quarter ended March 31, 2004

Commission File Number 0-13617

## LIFELINE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

MASSACHUSETTS  
(State or other jurisdiction of

incorporation or organization)

111 Lawrence Street

Framingham, Massachusetts  
(Address of principal executive offices)

04-2537528  
(I.R.S. Employer

Identification No.)

01702-8156  
(Zip Code)

(508) 988-1000

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act: NONE**

**Securities registered pursuant to Section 12(g) of the Act:**

**Common stock \$0.02 par value**

**(Title of Class)**

Indicate by check mark whether the registrant (i) 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 (ii) 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 Yes  No

Number of shares outstanding of the issuer's class of common stock as of April 30, 2004: 13,606,186

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## LIFELINE SYSTEMS, INC.

## CONSOLIDATED BALANCE SHEETS

*(Dollars in thousands)*

	March 31, 2004	December 31, 2003
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 23,878	\$ 21,356
Accounts receivable, net	9,570	10,586
Inventories	5,788	5,945
Net investment in sales-type leases	2,091	2,234
Prepaid expenses and other current assets	2,742	3,238
Prepaid income taxes	1,708	1,708
Deferred income taxes	1,824	1,805
Total current assets	47,601	46,872
Property and equipment, net	32,780	33,905
Goodwill, net	8,086	7,996
Other intangible assets, net	9,651	7,964
Net investment in sales-type leases	4,439	4,488
Other assets	134	242
Total assets	\$ 102,691	\$ 101,467
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 874	\$ 1,870
Accrued expenses	4,977	4,269
Accrued payroll and payroll taxes	3,257	5,511
Accrued income taxes	1,379	
Deferred revenues	1,005	1,001
Other current liabilities	699	725
Total current liabilities	12,191	13,376
Deferred income taxes	7,599	7,635
Other non-current liabilities	1,024	1,230
Total liabilities	20,814	22,241
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.02 par value, 50,000,000 shares authorized, 13,477,670 shares issued and outstanding at March 31, 2004 and 13,408,094 shares issued and outstanding at December 31, 2003	270	268
Additional paid-in capital	25,766	25,291
Retained earnings	56,021	53,835
Less: Unearned compensation	(585)	(622)
Accumulated other comprehensive income/cumulative translation adjustment	405	454
Total stockholders' equity	81,877	79,226
Total liabilities and stockholders' equity	\$ 102,691	\$ 101,467



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

## LIFELINE SYSTEMS, INC.

## CONSOLIDATED STATEMENTS OF INCOME

## AND COMPREHENSIVE INCOME

*(In thousands except for per share data)**(Unaudited)*

	Three months ended March 31,	
	2004	2003
Revenues		
Services	\$ 24,676	\$ 21,427
Net product sales	6,020	5,074
Finance income	254	301
Total revenues	<u>30,950</u>	<u>26,802</u>
Costs and expenses		
Cost of services	12,840	11,882
Cost of product sales	2,169	1,593
Selling, general, and administrative	11,790	9,850
Research and development	510	505
Total costs and expenses	<u>27,309</u>	<u>23,830</u>
Income from operations	<u>3,641</u>	<u>2,972</u>
Other income (expense)		
Interest income	76	44
Interest expense	(7)	(12)
Other income (expense)	(6)	25
Total other income, net	<u>63</u>	<u>57</u>
Income before income taxes	3,704	3,029
Provision for income taxes	1,518	1,211
Net income	<u>2,186</u>	<u>1,818</u>
Other comprehensive income, net of tax		
Foreign currency translation adjustments	(29)	124
Comprehensive income	<u>\$ 2,157</u>	<u>\$ 1,942</u>
Net income per weighted average share:		
Basic	<u>\$ 0.16</u>	<u>\$ 0.14</u>
Diluted	<u>\$ 0.16</u>	<u>\$ 0.14</u>

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Weighted average shares:		
Basic	13,433	12,988
	<u>          </u>	<u>          </u>
Diluted	14,008	13,406
	<u>          </u>	<u>          </u>

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

## LIFELINE SYSTEMS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

*(Dollars in thousands)**(Unaudited)*

	Three months ended March 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 2,186	\$ 1,818
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,300	2,761
Deferred income taxes	(55)	(178)
Amortization of unearned compensation	37	
Changes in operating assets and liabilities:		
Accounts receivable	1,008	405
Inventories	157	(673)
Net investment in sales-type leases	192	149
Prepaid expenses, other current assets and other assets	597	217
Accrued payroll and payroll taxes	(2,245)	(2,500)
Accounts payable, accrued expenses and other liabilities	(501)	1,175
Income taxes payable	1,379	723
Accrued other non-recurring item		(136)
Net cash provided by operating activities	<u>6,055</u>	<u>3,761</u>
Cash flows from investing activities:		
Additions to property and equipment	(1,515)	(3,179)
Business purchases and other	(2,482)	(167)
Net cash used in investing activities	<u>(3,997)</u>	<u>(3,346)</u>
Cash flows from financing activities:		
Principal payments under long term obligations	(2)	(29)
Proceeds from stock options exercised	477	377
Net cash provided by financing activities	<u>475</u>	<u>348</u>
Effect of foreign exchange on cash	(11)	46
Net increase in cash and cash equivalents	2,522	809
Cash and cash equivalents at beginning of period	21,356	11,065
Cash and cash equivalents at end of period	<u>\$ 23,878</u>	<u>\$ 11,874</u>
Non-cash activity:		
Issuance of restricted stock		\$ 19



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

## LIFELINE SYSTEMS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Unaudited)*

1. The information furnished has been prepared from the accounts without audit. In the opinion of the Company, the accompanying consolidated financial statements contain all adjustments necessary, consisting only of those of a normal recurring nature, to present fairly its consolidated financial position as of March 31, 2004 and the consolidated statements of income and comprehensive income and cash flows for the three months ended March 31, 2004 and 2003.

While the Company believes that the disclosures presented are adequate to make the information not misleading, these statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, commonly referred to as the SEC, on March 12, 2004, for the year ended December 31, 2003.

The results of operations for the three-month period ended March 31, 2004 are not necessarily indicative of the results expected for the full year.

*Reclassification*

All share and per share amounts for the quarter ended March 31, 2003 have been adjusted to reflect a two-for-one stock split, in the form of a stock dividend of one additional share for each share held, effected by the Company on December 17, 2003.

2. Details of certain balance sheet captions are as follows (in thousands):

	<b>March 31, 2004</b>	<b>December 31, 2003</b>
<b>Inventories:</b>		
Purchased parts and assemblies	\$ 1,131	\$ 1,948
Work-in-process	127	104
Finished goods	4,530	3,893
<b>Total inventory</b>	<b>\$ 5,788</b>	<b>\$ 5,945</b>
<b>Property and equipment:</b>		
Equipment	\$ 33,002	\$ 32,383
Furniture and fixtures	4,132	3,858
Equipment provided to customers	20,669	19,836
Equipment under capital leases	221	221
Leasehold improvements	8,410	