

SURMODICS INC
Form 10-Q
August 06, 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 June 30, 2018

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 every Interactive Data File required to be submitted 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 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 or an emerging growth 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)
	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 August 3, 2018 was 13,351,592.

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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Financial Statements

Surmodics, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	June 30, 2018	September 30, 2017
(in thousands, except share and per share data)		
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$27,273	\$ 16,534
Restricted cash	350	—
Available-for-sale securities	34,760	31,802
Accounts receivable, net of allowance for doubtful accounts of \$162 and \$230		
as of June 30, 2018 and September 30, 2017, respectively	8,312	7,211
Inventories, net	3,975	3,516
Income tax receivable	1,125	599
Prepays and other	3,051	1,221
Total Current Assets	78,846	60,883
Deferred tax assets	5,981	4,027
Property and equipment, net	27,976	22,942
Intangible assets, net	18,430	20,562
Goodwill	27,132	27,282
Other assets	1,622	897
Total Assets	\$159,987	\$ 136,593
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$1,674	\$ 2,396
Accrued liabilities:		
Compensation	3,622	3,822
Accrued other	4,262	1,773
Deferred revenue	10,319	62
Contingent consideration	11,708	1,750
Total Current Liabilities	31,585	9,803
Contingent consideration, less current portion	1,151	13,114
Deferred revenue, less current portion	12,825	181
Other long-term liabilities	5,681	1,938
Total Liabilities	51,242	25,036
Commitments and Contingencies (Note 16)		
Stockholders' Equity:		
Series A Preferred stock- \$.05 par value, 450,000 shares authorized; no shares issued		
and outstanding	—	—

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Common stock- \$.05 par value, 45,000,000 shares authorized; 13,348,124 and

13,094,988 shares issued and outstanding as of June 30, 2018 and

September 30, 2017, respectively	667	655
Additional paid-in capital	5,728	5,413
Accumulated other comprehensive income	2,982	3,417
Retained earnings	99,368	102,072
Total Stockholders' Equity	108,745	111,557
Total Liabilities and Stockholders' Equity	\$ 159,987	\$ 136,593

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

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Surmodics, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(In thousands, except per share data)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
Revenue:				
Product sales	\$10,475	\$8,327	\$27,249	\$23,964
Royalties and license fees	9,597	7,244	25,101	22,564
Research, development and other	2,155	2,219	5,948	6,526
Total revenue	22,227	17,790	58,298	53,054
Operating costs and expenses:				
Product costs	4,104	2,914	9,908	8,104
Research and development	9,778	7,927	28,383	22,105
Selling, general and administrative	5,977	5,232	17,606	15,170
Acquired in-process research and development	7,888	—	7,888	—
Acquired intangible asset amortization	624	603	1,878	1,790
Contingent consideration expense (gain)	106	(629)	(1,006)	(803)
Total operating costs and expenses	28,477	16,047	64,657	46,366
Operating (loss) income	(6,250)	1,743	(6,359)	6,688
Other income (loss):				
Investment income, net	303	104	566	274
Foreign exchange gain (loss)	652	(594)	113	(121)
Gain on strategic investment	—	—	177	—
Other income (loss), net	955	(490)	856	153
(Loss) income before income taxes	(5,295)	1,253	(5,503)	6,841
Income tax benefit (provision)	2,613	(533)	2,799	(3,315)
Net (loss) income	\$(2,682)	\$720	\$(2,704)	\$3,526
Basic net (loss) income per share				
	\$(0.20)	\$0.05	\$(0.21)	\$0.27
Diluted net (loss) income per share				
	\$(0.20)	\$0.05	\$(0.21)	\$0.26
Weighted average number of shares outstanding:				
Basic	13,203	13,155	13,117	13,190
Diluted	13,203	13,385	13,117	13,404

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 June 30, 2018	Nine Months Ended June 30, 2017
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