

Edgar Filing: VISX INC - Form 10-Q

VISX INC  
Form 10-Q  
May 15, 2001

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549  
-----

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

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 1-10694  
-----

VISX, INCORPORATED  
(Exact name of registrant as specified in its charter)  
-----

DELAWARE  
-----  
(State or other Jurisdiction of  
Incorporation or Organization)

06-1161793  
-----  
(IRS Employer  
Identification No.)

3400 CENTRAL EXPRESSWAY, SANTA CLARA, CALIFORNIA 95051-0703  
-----

(Address of principal executive offices) (Zip Code)

(Registrant's telephone number, including area code): (408) 733-2020

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

Total number of shares of common stock outstanding as of April 30, 2001:  
56,565,941

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### PART I. FINANCIAL INFORMATION

#### ITEM 1. CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

##### VISX, INCORPORATED AND SUBSIDIARIES

##### CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

##### ASSETS

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	March 31, 2001 ----- (unaudited)	Dec -----
CURRENT ASSETS:		
Cash and cash equivalents .....	\$ 33,456	\$
Short-term investments .....	146,617	
Accounts receivable, net of allowance for doubtful accounts of \$5,985 and \$5,771, respectively .....	40,488	
Inventories .....	14,837	
Deferred tax assets and prepaid expenses .....	19,441	
	-----	-----
Total current assets .....	254,839	
PROPERTY AND EQUIPMENT, NET .....	4,268	
LONG-TERM DEFERRED TAX AND OTHER ASSETS .....	18,553	
	-----	-----
	\$ 277,660	\$
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable .....	\$ 11,340	\$
Accrued liabilities .....	52,500	
	-----	-----
Total current liabilities .....	63,840	
	-----	-----
STOCKHOLDERS' EQUITY:		
Common stock:		
\$.01 par value, 180,000,000 shares authorized;		
64,990,089 shares issued .....	650	
Additional paid-in capital .....	213,979	
Treasury stock, at cost 8,322,158 and 4,233,989 shares, respectively .....	(148,114)	
Accumulated comprehensive income .....	2,269	
Retained earnings .....	145,036	
	-----	-----
Total stockholders' equity .....	213,820	
	-----	-----
	\$ 277,660	\$
	=====	=====

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

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	Three months ended March 31,	
	2001	2000
	(unaudited)	
REVENUES:		
System sales .....	\$17,096	\$19,877
License, service and other revenues .....	34,480	44,120
	-----	-----
Total revenues .....	51,576	63,997
	-----	-----
COSTS AND EXPENSES:		
Cost of revenues .....	17,828	16,969
Marketing, general and administrative ....	11,780	14,588
Research, development and regulatory .....	4,550	3,510
	-----	-----
Total costs and expenses .....	34,158	35,067
	-----	-----
INCOME FROM OPERATIONS .....	17,418	28,930
Interest and other income .....	3,442	3,667
	-----	-----
INCOME BEFORE PROVISION FOR INCOME TAXES ....	20,860	32,597
Provision for income taxes .....	8,240	13,039
	-----	-----
NET INCOME .....	\$12,620	\$19,558
	=====	=====
EARNINGS PER SHARE		
Basic .....	\$ 0.21	\$ 0.31
	=====	=====
Diluted .....	\$ 0.21	\$ 0.30
	=====	=====
SHARES USED FOR EARNINGS PER SHARE		
Basic .....	59,522	63,617
	=====	=====
Diluted .....	61,018	66,147
	=====	=====

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

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	Thru
	----- 2001 -----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net income .....	\$ 12,62
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization .....	1,00
Reserve for doubtful accounts receivable .....	21
Increase (decrease) in cash flows from changes in operating assets and liabilities:	
Accounts receivable .....	(6,16
Inventories .....	(7
Deferred tax assets and prepaid expenses .....	20
Long-term deferred tax and other assets .....	(43
Accounts payable .....	3,98
Accrued liabilities .....	7,11
Net cash provided by operating activities .....	18,46
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Capital expenditures .....	(27
Proceeds from maturities of short-term investments .....	64,30
Net cash provided by investing activities .....	64,03
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Exercise of stock options .....	46
Repurchase of common stock .....	(69,19
Net cash used in financing activities .....	(68,73
Net increase (decrease) in cash and cash equivalents .....	13,77
Cash and cash equivalents, beginning of period .....	19,68
Cash and cash equivalents, end of period .....	\$ 33,45

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

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1. BASIS OF PRESENTATION:

We prepared our Condensed Consolidated Interim Financial Statements in conformity with Securities and Exchange Commission rules and regulations. Accordingly, we condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles. Please read our 2000 Annual Report on Form 10-K to gain a more complete understanding of these interim financial statements.

We included in these interim financial statements all adjustments (consisting primarily only of normal recurring adjustments) necessary to present fairly our results for the interim period. Our interim financial statements have not been audited.

2. REVENUE RECOGNITION:

We record revenue and the cost of installation, training, and warranty services when we ship and, where applicable, install products. Software that is used in our systems is included at the time of shipment. We recognize service revenue when we provide service. We recognize license revenue when we ship VisionKey(R) cards in the United States and when we receive payments from licensees.

3. EARNINGS PER SHARE:

Basic earnings per share ("EPS") equals net income divided by the weighted average number of common shares outstanding. Diluted EPS equals net income divided by the weighted average number of common shares outstanding plus dilutive potential common shares calculated in accordance with the treasury stock method. All amounts in the following table are in thousands, except per share data, and are unaudited.

	Three Months Ended March 31,	
	2001	2000
NET INCOME .....	\$12,620	\$19,558
BASIC EARNINGS PER SHARE		
Income available to common shareholders .....	\$12,620	\$19,558
Weighted average common shares outstanding .....	59,522	63,617
Basic Earnings Per Share .....	\$ 0.21	\$ 0.31
DILUTED EARNINGS PER SHARE		
Income available to common shareholders .....	\$12,620	\$19,558
Weighted average common shares outstanding .....	59,522	63,617
Dilutive potential common shares from stock options .....	1,496	2,530

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Weighted average common shares and dilutive potential common shares .....	61,018 -----	66,147 -----
Diluted Earnings Per Share .....	\$ 0.21 =====	\$ 0.30 =====

Options to purchase 5,124,000 shares and 1,850,000 shares during the three month periods ended March 31, 2001 and 2000, respectively were excluded from the computation of diluted EPS because the options' exercise prices were greater than the average market price of the Company's common stock during these periods.

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4. INVENTORIES (in thousands):

	March 31, 2001 ----- (unaudited)	December 31, 2000 -----
Raw materials and subassemblies .....	\$ 9,998	\$ 9,278
Work in process .....	3,137	4,099
Finished goods .....	1,702	1,385
	-----	-----
Total .....	\$14,837 =====	\$14,762 =====

5. COMPREHENSIVE INCOME (unaudited, in thousands):

	Three Months Ended March 31, -----	
	2001 -----	2000 -----
NET INCOME .....	\$ 12,620	\$ 19,558
OTHER COMPREHENSIVE INCOME		
Change in unrealized holding gains (losses) on available-for-sale securities .....	1,159	(272)
Change in accumulated foreign currency translation adjustment .....	126	(20)
	-----	-----
COMPREHENSIVE INCOME .....	\$ 13,905 =====	\$ 19,266 =====

6. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement

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of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). It establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts, and for hedging activities. It requires that we recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. We adopted SFAS No. 133 in the first quarter of 2001. As we do not hold derivative instruments, it did not have a material effect on our financial position or results of operations.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In our Management's Discussion and Analysis of Financial Condition and Results of Operations we review our past performance and, where appropriate, state our expectations about future activity in forward-looking statements. Our future results may differ from our expectations. We have described our business and the challenges and risks we may face in the future in Items 1 and 3 of our 2000 Annual Report and Form 10-K and under "Business Risks and Fluctuations In Results" below. Please read these items carefully.

#### OVERVIEW

We develop products and procedures to improve people's eyesight using lasers. Our principal product, the VISX STAR Excimer Laser System ("VISX System"), is designed to correct the shape of a person's eyes to reduce or eliminate their need for eyeglasses or contact lenses. The Food and Drug Administration ("FDA") has approved the VISX System for use in the treatment of most types of refractive vision disorders including nearsightedness, farsightedness, and astigmatism. The FDA has also approved our WaveScan(TM) Wavefront System ("WaveScan System") which provides a complete refractive analysis of the eye's entire optical system. In the future, we anticipate that doctors will be able to use this analysis to enhance treatments with the VISX System. We sell VisionKey(R) cards to control the use of the VISX System and to collect license fees for the use of our patents.

The laser vision correction industry is evolving rapidly. New developments and changes in market conditions frequently affect VISX and could harm our business in the future. We may face increased competition from manufacturers and users of other laser vision correction systems or new competition from non-laser methods for correcting a person's vision. Patients' and doctors' desire for laser vision correction using VISX Systems may not grow or may decline in the future. Prices for our products and services may change as the result of new developments in our market. If adverse determinations were rendered in current or future patent and antitrust litigation, damages might be assessed against us and we may not be able to enforce our current patent rights or collect license fees. All of these factors could cause orders and revenues for VISX Systems and VisionKey(R) cards to fluctuate or even decline. Accordingly, our past results may not be useful in predicting our future results.

#### RESULTS OF OPERATIONS

	Three Months Ended March 31,		
	-----		
REVENUES (000's)	2001	2000	Change



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System sales .....	\$17,096	\$19,877	(14)%
Percent of total revenues .....	33.1%	31.1%	
License, service & other revenues .....	34,480	44,120	(22)%
Percent of total revenues .....	66.9%	68.9%	
Total .....	\$51,576	\$63,997	(19)%

We sold fewer laser systems in the first quarter of 2001 than in the first quarter of 2000. Sales of laser upgrades, which commenced in the fourth quarter of 2000, partially offset the decline in sales of new lasers. The average selling price for laser systems was approximately the same in both years. We believe the decline in laser system sales was due to a number of factors including the economic slowdown in the United States and increased competition.

Customers in the U.S. purchased VisionKey(R) cards for more procedures in the first quarter of 2001 than in the comparable period of 2000. This volume increase was partially offset by the reduction of our license fee, effective February 22, 2000, from \$250 to \$100 per procedure in the U.S. We believe that our U.S. procedure volume increased due to a number of factors: consumer demand for laser vision

correction increased, VISX customers advertised the benefits of their new VISX STAR S3 ActiveTrak laser systems to consumers, and VISX's share of the U.S. market for laser vision correction grew in the first quarter of 2001.

COSTS & EXPENSES (000's)	Three Months Ended March 31,		
	2001	2000	Change
Cost of revenues .....	\$ 17,828	\$ 16,969	5%
Percent of total revenues .....	34.6%	26.5%	
Marketing, gen'l and admin .....	11,780	14,588	(19)%
Percent of total revenues .....	22.8%	22.8%	
R&D and regulatory .....	4,550	3,510	30%
Percent of total revenues .....	8.8%	5.5%	

In the first quarter of 2001, cost of revenues for upgrades (first shipped in the fourth quarter of 2000) more than offset the decline in cost of revenues for laser system. Our gross profit margin was lower in 2001 than in 2000 due to lower license fee revenue and the fact that gross profit margins were lower on laser upgrades than on laser systems. Marketing, general and administrative expenses were lower in the first quarter of 2001 than in the comparable period of the prior year. Marketing expenses were lower due to a reduction in costs associated with consumer programs. Legal expenses were also lower in 2001 than in 2000. In research and development we increased spending in our three main areas of focus: new capabilities for the VISX STAR Excimer Laser platform, development of new products such as our WaveScan System and wavefront-driven ablations, and research into new technologies. We anticipate that our R&D and regulatory expenses will total approximately \$19 million in 2001.

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Our average balance of cash invested in interest bearing securities declined in 2001 from 2000 because we repurchased a significant amount of our stock. Accordingly, interest income declined in 2001 from 2000. We accrued income taxes based on our expected effective income tax rate for all of 2000, net of credits anticipated.

### LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents and short-term investments ("cash") and working capital were as follows:

	(000's) March 31, 2001 -----	December 31, 2000 -----
Cash, cash equivalents and short-term investments .....	\$180,073	\$229,453
Working capital .....	190,999	245,662

Cash decreased by \$49 million in the first three months of 2001 principally because we spent \$69 million to repurchase 4.1 million shares of VISX stock on the open market. This was partially offset by \$18 million generated from operations.

On April 4, 2001 our Board of Directors authorized a new Stock Repurchase Program under which up to 10 million shares of VISX common stock may be repurchased. Before repurchasing shares we consider a number of factors including market conditions, the market price of the stock, and the number of shares needed for employee benefit plans. As a result, we cannot predict the number of shares that we may repurchase in the future.

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Purchases of short-term investments represent reinvestment into short-term investments of the proceeds from short-term investments that matured and investment of cash and cash equivalents. As of March 31, 2001 we did not have any borrowings outstanding nor any credit agreements.

Our normal payment terms are net 30 days. However, based on our evaluation of customers, market conditions and industry practices, we provide extended payment terms beyond one year on some of our system sales in certain markets. We believe that our current cash, cash equivalents and short-term investments, as well as anticipated cash flows from operations, will be sufficient to meet our working capital and capital equipment needs at least through the next twelve months.

### BUSINESS RISKS AND FLUCTUATIONS IN RESULTS

Our results of operations have varied widely in the past, and they could continue to vary significantly due to a number of factors, including:

- Patients' and doctors' acceptance of laser vision correction as a preferred means of vision correction;

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- Competition from manufacturers and users of other laser vision correction systems;
- Introduction of new methods for vision correction which render our products less competitive or obsolete;
- Changes in prices for our products and services as the result of new developments in our markets;
- Developments in antitrust litigation to which we are currently a party;
- Developments in patent litigation that we have initiated, particularly to the extent that adverse developments in these proceedings could limit our ability to collect license fees from sellers and users of laser vision correction equipment; and
- Developments in patent litigation in which we are a defendant, particularly to the extent that adverse developments in these proceedings result in damages being assessed against VISX, prevent us from manufacturing or selling our products, or render certain of our patents invalid or unenforceable, which would reduce the scope of proprietary protection available to us and could limit our ability to collect license fees from sellers and users of laser vision correction equipment.

In the future, our revenue may fluctuate significantly. Any shortfall in revenues below expectations would likely have an immediate impact on our earnings per share, which could adversely affect the market price of our common stock. Our operating expenses, which include sales and marketing, research and development and general and administrative expenses, are based on our expectations of future revenues and are relatively fixed in the short term. Accordingly, if revenues fall below expectations, we will not be able to reduce our spending rapidly in response to such a shortfall. This will adversely affect our operating results. We devote significant resources to research and development. We anticipate that the resulting new products and capabilities will be well received by customers and generate future revenue, however the actual results may vary from expectations. Due to the foregoing factors, we believe that our results of operations in any given period may not be a good indicator of our future performance.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes during the three months ended March 31, 2001 to our exposure to market risk for changes in interest rates and foreign currency exchange rates.

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## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

#### OVERVIEW

VISX is engaged in numerous legal proceedings. Generally, the litigation and other proceedings center on the validity or enforceability of the patents,

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and on whether infringement of the patents has occurred. In addition, VISX's use of patents and its business practices are being contested in several proceedings as violations of antitrust and securities laws. The results of these complex legal proceedings are very difficult to predict with certainty. Because a number of the proceedings have issues in common, an adverse determination in one proceeding could lead to adverse determinations in one or more of the other pending proceedings. Adverse determinations in any of these proceedings could limit our ability to collect equipment and use fees in certain markets, could give rise to significant monetary damages, could prevent VISX from manufacturing and selling the VISX System, and therefore could have a material adverse effect on VISX's business, financial position and results of operations.

For a complete description of legal proceedings, see VISX's annual report on Form 10-K for the year ended December 31, 2000. During the quarter ended March 31, 2001, there were no material developments with respect to such previously existing proceedings and no new material proceedings not previously disclosed, except as follows.

### PATENT LITIGATION: LASERSIGHT

In February 2000, LaserSight filed a lawsuit against VISX in the United States District Court in Delaware alleging that VISX infringes United States Patent No. 5,630,810 (the " `810 Patent") which is licensed to LaserSight (USDC Del. 00-059). On May 10, 2001, LaserSight agreed to dismiss its claim against VISX with prejudice and granted VISX and its customers a covenant not to sue for infringement of the `810 Patent and any present and future continuations, continuations in part, divisionals, reissues or reexaminations thereof, as well as any foreign counterparts thereto. VISX did not pay any money for this dismissal and covenant.

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### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

- a) We held our Annual Meeting of Stockholders on May 4, 2001.
- b) The stockholders voted as follows on the election of all five members of the Board of Directors. There were no abstentions or non-votes for any nominee and all five were elected as directors.

Name ----	For ---	Withheld -----
Elizabeth H. Davila	31,399,089	1,930,103
Glendon E. French	31,430,330	1,898,862
John W. Galiardo	31,432,288	1,896,904
Jay T. Holmes	30,575,147	2,754,045
Richard B. Sayford	31,424,210	1,904,982

- c) The stockholders voted as follows on a proposal to ratify the appointment of Arthur Andersen LLP as auditors of the Company for 2001.

For ---	Against -----	Abstain -----
32,760,865	504,825	63,502

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

a) Exhibits.

None

b) Reports on Form 8-K.

VISX filed two reports on Form 8-K during or after the period covered by this report, as follows:

- (1) Report on Form 8-K filed on April 6, 2001 under Item 5 (Other Events) covering amendments and restatements of VISX Bylaws, as revised through April 3, 2001. Attached as exhibits to the Form 8-K were VISX's amended and restated Bylaws, as revised through April 3, 2001.
- (2) Report on Form 8-K filed on May 1, 2001 under Item 5 (Other Events) covering VISX Board of Directors authorization of an amendment to the Rights Agreement, dated as of August 3, 2000 (the "Rights Agreement"), between VISX and Fleet National Bank, as rights agent. Attached as exhibits to the Form 8-K were the Rights Agreement, dated as of August 3, 2000, and the Amendment to the Rights Agreement, dated as of April 25, 2001.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VISX, Incorporated

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(Registrant)

May 11 , 2001

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(Date)

/s/ Elizabeth H. Davila

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Elizabeth H. Davila  
Chairman of the Board and  
Chief Executive Officer

May 11 , 2001

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(Date)

/s/ Timothy R. Maier

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Timothy R. Maier  
Executive Vice President and  
Chief Financial Officer (principal  
financial officer)

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May 11 , 2001

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(Date)

/s/ Derek A. Bertocci

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Derek A. Bertocci  
Vice President, Controller (principal  
accounting officer)

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