

NOVAMED INC
Form 10-Q
May 11, 2009
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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: 0-26625

NOVAMED, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-4116193
(I.R.S. Employer Identification No.)

980 North Michigan Avenue, Suite 1620, Chicago, Illinois 60611

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(Address of principal executive offices)

Registrant's telephone, including area code: **(312) 664-4100**

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 and 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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer 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

As of May 5, 2009, there were outstanding 23,035,463 shares of the registrant's common stock, par value \$.01 per share.

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NOVAMED, INC.

FORM 10-Q FOR QUARTERLY PERIOD ENDED MARCH 31, 2009

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Item 1. Interim Condensed Consolidated Financial Statements (unaudited)

NOVAMED, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	March 31, 2009 (unaudited)	December 31, 2008 (adjusted, Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents, including \$2,300 and \$3,100 of restricted cash, respectively	\$ 5,480	\$ 4,875
Accounts receivable, net of allowances of \$42,841 and \$43,784, respectively	22,680	20,329
Notes and amounts due from related parties	471	471
Inventory	2,411	2,355
Prepaid expenses and deposits	1,324	1,624
Current tax assets	2,361	2,154
Total current assets	34,727	31,808
Property and equipment, net	20,653	20,526
Intangible assets, net	197,917	198,414
Other assets, net	592	673
Total assets	\$ 253,889	\$ 251,421
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 10,469	\$ 9,684
Accrued expenses and income taxes payable	5,915	6,706
Current maturities of long-term debt	60,692	3,282
Total current liabilities	77,076	19,672
Long-term debt, net of current maturities	9,011	67,747
Convertible subordinated debt, net of debt issuance costs	57,958	56,819
Other long-term liabilities	430	549
Deferred income taxes	9,986	8,876
Commitments and contingencies		
Stockholders' equity:		
NovaMed, Inc. stockholders' equity:		
Series E Junior Participating Preferred Stock, \$0.01 par value, 1,912,000 shares authorized, none outstanding at March 31, 2009 and December 31, 2008, respectively		
Common stock, \$0.01 par value, 81,761,465 shares authorized, 30,090,987 and 29,746,349 shares issued at March 31, 2009 and December 31, 2008, respectively	296	296
Additional paid-in-capital	111,970	111,225
Accumulated deficit	(9,432)	(11,162)
Accumulated other comprehensive loss	(105)	(218)
Treasury stock, at cost, 7,153,834 and 6,785,880 shares at March 31, 2009 and December 31, 2008, respectively	(18,808)	(17,665)

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Total NovaMed, Inc. stockholders' equity	83,921	82,476
Noncontrolling Interests	15,507	15,282
Total equity	99,428	97,758
Total liabilities and equity	\$ 253,889	\$ 251,421

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

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NOVAMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data; unaudited)

	Three months ended March 31,	
	2009	2008 (adjusted, Note 1)
Net revenue:		
Surgical facilities	\$ 31,891	\$ 27,415
Product sales and other	6,403	6,398
Total net revenue	38,294	33,813
Operating expenses:		
Salaries, wages and benefits	12,018	10,231
Cost of sales and medical supplies	8,574	7,985
Selling, general and administrative	6,944	6,288
Depreciation and amortization	1,425	1,021
Total operating expenses	28,961	25,525
Operating income	9,333	8,288
Interest (income) expense, net	2,184	1,945
Other (income) expense, net	12	20
Income before income taxes	7,137	6,323
Income tax provision	1,106	1,006
Income from continuing operations	6,031	5,317
Loss from discontinued operations		(52)
Gain on disposal of discontinued operations		95
Net income	6,031	5,360
Net income attributable to noncontrolling interests	4,302	3,743
Net income attributable to NovaMed, Inc.	\$ 1,729	\$ 1,617
Amounts attributable to NovaMed, Inc.:		
Income from continuing operations	\$ 1,729	\$ 1,574
Income from discontinued operations		43
Net income attributable to NovaMed, Inc.	\$ 1,729	\$ 1,617
Basic earnings per common share attributable to NovaMed, Inc.:		
Income from continuing operations	\$ 0.08	\$ 0.06
Income from discontinued operations		
Net income	\$ 0.08	\$ 0.06
Diluted earnings per common share attributable to NovaMed, Inc.:		
Income from continuing operations	\$ 0.08	\$ 0.06
Income from discontinued operations		
Net income	\$ 0.08	\$ 0.06
Weighted average common shares outstanding	22,560	24,394
Dilutive effect of employee stock options and restricted stock	464	669

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Diluted weighted average common shares outstanding	23,024	25,063
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The notes to the interim condensed consolidated financial statements are an integral part of these statements

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NOVAMED, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Dollars in thousands, unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total NovaMed, Inc Stockholders Equity	Noncontrolling Interests
Balance, December 31, 2008 (adjusted, Note 1)	\$ 296	\$ 111,225	\$ (11,161)	\$ (218)	\$ (17,665)	\$ 82,477	\$ 15,282
Net income			1,729			1,729	4,302
Unrealized gain on interest rate swaps				113		113	
Total comprehensive income						1,842	4,302
Shares issued - employee stock purchase plan		49				49	
Stock options exercised		119				119	
Repurchases of common stock					(1,126)	(1,126)	
Restricted stock grants					(17)	(17)	
Stock compensation expense		534				534	
Distributions to noncontrolling interests							(4,693)
Other changes to noncontrolling interests							369
Sale of noncontrolling interest		43				43	247
Balance, March 31, 2009	\$ 296	\$ 111,970	\$ (9,432)	\$ (105)	\$ (18,808)	\$ 83,921	\$ 15,507

The notes to the interim condensed consolidated financial statements

are an integral part of these statements.

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NOVAMED, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands; unaudited)

	Three months ended March 31,	
	2009	2008 (adjusted, Note 1)
Cash flows from operating activities:		
Net income	\$ 6,031	\$ 5,360
Adjustments to reconcile net income to net cash provided by operations, net of effects of purchase transactions		
Depreciation and amortization	1,425	1,028
Deferred income taxes	982	864
Stock-based compensation	534	595
Amortization of subordinated debt fees	160	162
Non-cash subordinated debt interest	1,008	922
Gain on sale of ASC		(61)
Distributions to noncontrolling interests	(4,693)	(4,615)
Asset impairment charge		(34)
Changes in operating assets and liabilities		
Accounts receivable	(1,525)	(2,236)
Inventory	(56)	25
Other current assets	300	255
Accounts payable and accrued expenses	(6)	1,486
Other noncurrent assets	66	269
Net cash provided by operating activities	4,226	4,020
Cash flows from investing activities:		
Payments for acquisitions, net	(12)	(7)
Proceeds from sale of noncontrolling interests	290	
Proceeds from sale of ASC		226
Purchases of property and equipment	(1,484)	(1,253)
Other	5	(904)
Net cash used in investing activities	(1,201)	(1,938)
Cash flows from financing activities:		
Borrowings under revolving line of credit	15,400	1,700
Payments under revolving line of credit	(15,900)	(1,700)
Other long-term borrowings		515
Repurchase of common stock	(1,126)	
Proceeds from the issuance of common stock	32	106
Payments of other debt, debt issuance fees and capital lease obligations	(826)	(305)
Net cash (used in) provided by financing activities	(2,420)	316
Net increase in cash and cash equivalents	605	2,398
Cash and cash equivalents, beginning of period	4,875	6,382
Cash and cash equivalents, end of period	\$ 5,480	\$ 8,780

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

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NOVAMED, INC. AND SUBSIDIARIES

**NOTES TO THE INTERIM
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2009

(Dollars in thousands, except per share data; unaudited)

1. GENERAL

Basis of Presentation:

The information contained in the interim consolidated financial statements and notes is condensed from that which would appear in the annual consolidated financial statements. Accordingly, the interim condensed consolidated financial statements included herein should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2008, filed by NovaMed, Inc. with the Securities and Exchange Commission on Form 10-K. The unaudited interim condensed consolidated financial statements as of March 31, 2009 and for the three months ended March 31, 2009 and 2008, include all normal recurring adjustments which management considers necessary for a fair presentation. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the entire fiscal year.

Recently Adopted Accounting Pronouncements:

Effective January 1, 2009, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Staff Position APB 14-1 (FSP APB 14-1), *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. FSP APB 14-1 applies to convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement, when the conversion option does not need to be bifurcated and accounted for separately as a derivative instrument in accordance with FAS 133.

FSP APB 14-1 requires that issuers of convertible debt instruments that, upon conversion, may be settled fully or partially in cash, must separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Additionally, debt issuance costs are required to be allocated in proportion to the allocation of the liability and equity components and accounted for as debt issuance costs and equity issuance costs, respectively. FSP APB 14-1 requires retrospective application and, accordingly, the prior periods' financial statements included herein have been adjusted.

In accordance with the provisions of FSP APB 14-1, the Company determined that the fair value of its Convertible Notes at issuance in 2007 was approximately \$52,131, and designated the residual value of approximately \$22,869 as the equity component. Additionally, the Company

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allocated approximately \$1,825 of the \$2,625 original Convertible Notes issuance cost as debt issuance cost and the remaining \$800 as equity issuance cost.

The balances of the liability and equity components as of each period presented are as follows:

		March 31, 2009		December 31, 2008
Liability component	debt balance	\$ 59,140	\$	\$ 58,093
	Unamortized debt issuance costs	(1,182)		(1,274)
Liability component	net carrying amount	\$ 57,958	\$	\$ 56,819
Equity component		\$ 22,069	\$	\$ 22,069

The components of interest expenses related to the Convertible Notes was recognized as follows:

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NOVAMED, INC. AND SUBSIDIARIES

NOTES TO THE INTERIM

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

(Dollars in thousands, except per share data; unaudited)

	March 31, 2009	March 31, 2008
Interest expense - coupon rate	\$ 188	\$ 188
Pre-FSP APB 14-1 debt issuance cost amortization	131	131
Imputed interest expense per FSP APB 14-1	1,047	961
Debt issuance cost allocated to equity per FSP APB 14-1	(39)	(39)
Total interest expense on Convertible Notes		