LEMAITRE VASCULAR INC
Form 10-Q
May 08, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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 001-33092

LEMAITRE VASCULAR, INC.

(Exact name of registrant as specified in its charter)

Delaware	**04-2825458**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
63 Second Avenue, Burlington, Massachusetts	**01803**
(Address of principal executive offices)	**(Zip Code)**

(781) 221-2266

(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 x 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 x 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 the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-2 of the Exchange Act). Yes ¨ No x

The registrant had 15,635,234 shares of common stock, $.01 par value per share, outstanding as of May 1, 2014.

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LEMAITRE VASCULAR

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Part I. Financial Information

Item 1. Financial Statements

LeMaitre Vascular, Inc.

Consolidated Balance Sheets

	(unaudited) **March 31, 2014**	**December 31, 2013**
	(in thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 12,504	$ 14,711
Accounts receivable, net of allowances of $225 at March 31, 2014 and $263 at December 31, 2013	10,494	10,590
Inventory	14,186	13,255
Prepaid expenses and other current assets	3,151	3,169
Total current assets	40,335	41,725
Property and equipment, net	5,807	5,810
Goodwill	15,031	15,031
Other intangibles, net	5,758	6,144
Deferred tax assets	1,619	1,615
Other assets	168	167
Total assets	$ 68,718	$ 70,492
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,040	$ 1,235
Accrued expenses	6,868	7,993
Acquisition-related obligations	801	992
Total current liabilities	8,709	10,220
Deferred tax liabilities	3,475	3,461
Other long-term liabilities	298	249
Total liabilities	12,482	13,930
Stockholders equity:		
Preferred stock, $0.01 par value; authorized 3,000,000 shares; none outstanding		
Common stock, $0.01 par value; authorized 37,000,000 shares; issued 16,982,730 shares at March 31, 2014, and 16,959,330 shares at December 31,	170	170

2013		
Additional paid-in capital	65,209	65,354
Accumulated deficit	(874)	(667)
Accumulated other comprehensive loss	(226)	(253)
Treasury stock, at cost; 1,380,272 shares at March 31, 2014, and 1,380,119 shares at December 31, 2013	(8,043)	(8,042)
Total stockholders equity	56,236	56,562
Total liabilities and stockholders equity	$ 68,718	$ 70,492

See accompanying notes to consolidated financial statements.

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LeMaitre Vascular, Inc.

Consolidated Statements of Operations

(unaudited)

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
	(in thousands, except per share data)	
Net sales	$ 16,754	$ 15,382
Cost of sales	5,530	4,176
Gross profit	11,224	11,206
Sales and marketing	6,229	5,768
General and administrative	3,315	2,882
Research and development	1,344	1,273
Restructuring charges	403	
Medical device excise tax	164	160
Total operating expenses	11,455	10,083
Income (loss) from operations	(231)	1,123
Other income (expense):		
Interest income		1
Interest expense		(4)
Foreign currency loss	(42)	(50)
Income (loss) before income taxes	(273)	1,070
Provision (benefit) for income taxes	(66)	224
Net income (loss)	$ (207)	$ 846
Earnings per share of common stock:		
Basic	$ (0.01)	$ 0.06
Diluted	$ (0.01)	$ 0.05
Weighted-average shares outstanding:		
Basic	15,586	15,219

Diluted		15,586		15,648
Cash dividends declared per common share	$	0.035	$	0.030

See accompanying notes to consolidated financial statements.

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LeMaitre Vascular, Inc.

Consolidated Statements of Comprehensive Income

(unaudited)

	Three months ended March 31, 2014	Three months ended March 31, 2013
	(in thousands)	
Net income (loss)	$ (207)	$ 846
Other comprehensive income:		
Foreign currency translation adjustment, net	27	(295)
Total other comprehensive income	27	(295)
Comprehensive income (loss)	$ (180)	$ 551

See accompanying notes to consolidated financial statements.

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LeMaitre Vascular, Inc.

Consolidated Statements of Cash Flows

(unaudited)

	For the three months ended March 31, 2014	2013
	(in thousands)	
Operating activities		
Net income (loss)	$ (207)	$ 846
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	831	610
Stock-based compensation	278	277
Provision for losses in accounts receivable	31	3
Provision for inventory write-downs	75	103
Excess tax benefits from stock-based compensation awards	(28)	
Loss on disposal of property and equipment	4	
Foreign currency transaction loss	5	53
Changes in operating assets and liabilities:		
Accounts receivable	68	(446)
Inventory	(997)	(619)
Prepaid expenses and other assets	63	(48)
Accounts payable and other liabilities	(1,812)	(1,125)
Net cash used in operating activities	(1,689)	(346)
Investing activities		
Purchases of property and equipment	(433)	(676)
Payments related to acquisitions	(193)	(111)
Purchase of intellectual property	(13)	(8)
Net cash used in investing activities	(639)	(795)
Financing activities		
Proceeds from issuance of common stock	96	170
Purchase of treasury stock	(1)	(90)
Excess tax benefits from stock-based compensation awards	28	
Net cash provided in financing activities	123	80
Effect of exchange rate changes on cash and cash equivalents	(2)	(85)
Net decrease in cash and cash equivalents	(2,207)	(1,146)
Cash and cash equivalents at beginning of period	14,711	16,448
Cash and cash equivalents at end of period	$ 12,504	$ 15,302

Supplemental disclosures of cash flow information (see Note 13)

See accompanying notes to consolidated financial statements.

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LeMaitre Vascular, Inc.

Notes to Consolidated Financial Statements

March 31, 2014

(unaudited)

1. Organization and Basis for Presentation

Description of Business

Unless the context requires otherwise, references to LeMaitre Vascular, we, our, and us refer to LeMaitre Vascular, Inc. and our subsidiaries. We develop, manufacture, and market medical devices and implants used primarily in the field of vascular surgery. We operate in a single segment in which our principal product lines include the following: valvulotomes, balloon catheters, carotid shunts, biologic patches, radiopaque marking tape, anastomotic clips, remote endarterectomy devices, laparoscopic cholecystectomy devices, vascular grafts, and powered phlebectomy. Our offices are located in Burlington, Massachusetts; Mississauga, Canada; Sulzbach, Germany; Milan, Italy; Madrid, Spain; Tullamarine, Australia and Tokyo, Japan.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal, recurring adjustments considered necessary for a fair presentation of the results of these interim periods have been included. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Our estimates and assumptions, including those related to bad debts, inventories, intangible assets, sales returns and discounts, share-based compensation, and income taxes are updated as appropriate. The results for the three months ended March 31, 2014 are not necessarily indicative of results to be expected for the entire year. The information contained in these interim financial statements should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2013, including the notes thereto, included in our Form 10-K filed with the Securities and Exchange Commission (SEC).

Consolidation

Our consolidated financial statements include the accounts of LeMaitre Vascular and the accounts of our wholly-owned subsidiaries, LeMaitre Vascular GmbH, LeMaitre Vascular GK, Vascutech Acquisition LLC, LeMaitre Acquisition LLC, LeMaitre Vascular SAS, LeMaitre Vascular S.r.l., LeMaitre Vascular Spain SL, LeMaitre Vascular Switzerland GmbH, LeMaitre Vascular ULC, LeMaitre Vascular AS, and LeMaitre Vascular Pty Ltd. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Income Tax Expense

As part of the process of preparing our consolidated financial statements we are required to determine our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax expense together with assessing temporary differences resulting from recognition of items for income tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from taxable income during the carryback period or in the future; and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must reflect this increase as an expense within the tax provision in the statement of operations. We do not provide for income taxes on undistributed earnings of foreign subsidiaries, as our current intention is to permanently reinvest these earnings.

We recognize, measure, present and disclose in our financial statements uncertain tax positions that we have taken or expect to take on a tax return. We operate in multiple taxing jurisdictions, both within the United States

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and outside of the United States, and may be subject to audits from various tax authorities regarding transfer pricing, the deductibility of certain expenses, intercompany transactions, and other matters. Within specific countries, we may be subject to audit by various tax authorities operating within the country and may be subject to different statutes of limitation expiration dates. Management s judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, liabilities for uncertain tax positions, and any valuation allowance recorded against our net deferred tax assets. We will continue to monitor the realizability of our deferred tax assets and adjust the valuation allowance accordingly.

Our policy is to classify interest and penalties related to unrecognized tax benefits as income tax expense.

Our 2014 income tax expense varies from the statutory rate mainly due to certain permanent items, a discrete item related to certain foreign branch losses previously not deductible and lower statutory rates from a mix of our foreign entities. Our 2013 income tax expense varies from the statutory rate mainly due to discrete items related to a research and development tax credit earned in 2012, but enacted into law in January 2013, lower statutory rates from our foreign entities and certain permanent items.

We have reviewed the tax positions taken, or to be taken, in our tax returns for all tax years currently open to examination by a taxing authority. As of March 31, 2014 the gross amount of unrecognized tax benefits exclusive of interest and penalties was $162,000. We remain subject to examination until the statute of limitations expires for each respective tax jurisdiction. The statute of limitations will be open with respect to these tax positions until 2017. A reconciliation of beginning and ending amount of our unrecognized tax benefits is as follows:

	2014 (in thousands)	
Unrecognized tax benefits at the beginning of year	$	111
Additions for tax positions of current year		51
Additions for tax positions of prior years		
Reductions for tax positions of prior years		
Reductions for lapses of the applicable statutes of limitations		
Unrecognized tax benefits at the end of the period	$	162

In March 2014, the German tax authority notified our German subsidiary that the tax years 2009 through 2012 would be audited. We expect the audit to commence during the third quarter of 2014. In May 2014, the French tax authority notified our French subsidiary that the tax years 2011 through 2013 would be audited. We expect the audit to commence during the second quarter of 2014. We believe there will be no material changes to our income tax liability as a result of these audits. We are not currently under audit in any other tax jurisdictions. As of March 31, 2014, a summary of the tax years that remain subject to examination in our taxing jurisdictions is as follows:

United States	2010 and forward
Foreign	2007 and forward

3. Inventories

Inventories consist of the following:

	March 31, 2014	December 31, 2013
	(in thousands)	
Raw materials	$ 3,730	$ 3,647
Work-in-process	2,492	2,949
Finished products	7,964	6,659
Total inventory	$ 14,186	$ 13,255

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We held inventory on consignment of $0.7 million as of March 31, 2014 and December 31, 2013, respectively.

4. Acquisition and Divestitures

XenoSure Manufacturing and Distribution Rights

In October 2012, we entered into an Asset Purchase Agreement (the Neovasc Agreement) with Neovasc, Inc. and its subsidiary, Neovasc Medical Inc. (collectively Neovasc) to acquire the manufacturing and distribution rights of the XenoSure biologic vascular patch. Previously, we were the exclusive distributor of the XenoSure biologic vascular patch through January 26, 2016 and held an option to purchase the manufacturing and distribution rights. Assets acquired in October 2012 include intellectual property, manufacturing know-how, and a five year non-compete agreement. Other provisions of the Neovasc Agreement include transitional assistance from Neovasc and mutual indemnification for losses arising out of or relating to certain breaches of, and misrepresentations under, the Neovasc Agreement. Additionally, we have entered into a supply agreement with Neovasc while we transition manufacturing to our Burlington facility.

The purchase price for this acquisition was $4.6 million. We paid Neovasc $4.3 million at the closing of the acquisition. The remaining $0.3 million was paid in October 2013. We accounted for the acquisition as a business combination. We recorded $2.8 million of intangible assets and $1.8 million of goodwill. The weighted-average amortization period for the acquired intangible assets as of November 1, 2012 was 12.0 years. The goodwill will be deductible for tax purposes over 15 years.

Clinical Instruments International, Inc.

In July 2013, we entered into an Asset Purchase Agreement with Clinical Instruments International, Inc. (Clinical Instruments) to acquire substantially all the assets of Clinical Instruments for $1.1 million. We paid $0.9 million at the closing and the remaining $0.2 million is payable in October 2014. We accounted for the acquisition as a business combination. Assets acquired include inventory and intellectual property. We recorded $0.2 million of inventory, $0.3 million of intangible assets and $0.6 million of goodwill. The weighted-average amortization period for the acquired intangible assets as of July 31, 2013 was 5.7 years. The goodwill will be deductible for tax purposes over 15 years.

InaVein LLC

In August 2013, we entered into an Asset Purchase Agreement with InaVein LLC (InaVein) to acquire substantially all the assets of InaVein for $2.5 million and potential acquisition-related contingent consideration totaling $1.4 million in 2014 and 2015 dependent on the sales performance of the acquired business and the timing of regulatory approval in China. We paid $2.1 million at the closing and the remaining $0.4 million is payable in August 2014. We accounted for the acquisition as a business combination. Assets acquired include receivables, inventory, equipment, and intellectual property. Liabilities assumed include payables and service contracts. We recorded $0.8 million of tangible assets, $1.1 million of intangible assets, $0.7 million of goodwill, and $0.1 million of assumed liabilities. The weighted-average amortization period for the acquired intangible assets as of August 31, 2013 was 6.7 years. The goodwill will be deductible for tax purposes over 15 years. We recorded $0.1 million as the fair value of contingent consideration as of March 31, 2014.

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Medistim Norge AS Distribution Agreement

In October 2013, we entered into a definitive agreement with Medistim Norge AS (Medistim) to terminate its distribution of our products in Norway and to acquire certain assets and rights from Medistim effective as of January 1, 2014 for $0.2 million. The purchase price is due in three installments with payments made in October 2013 and January 2014 with the final payment due in December 2014. We allocated the payment to the tangible and intangible assets acquired based on the estimated fair value of each of these elements to the transaction. The weighted-average amortization period for these intangibles as of December 31, 2013 was 3.5 years.

Tag Medical Pty Ltd Distribution Agreement

In October 2013, we entered into a definitive agreement with Tag Medical Pty Ltd (Tag) to terminate its distribution of our products in Australia and to acquire certain assets and rights from Tag effective as of January 1, 2014 for $0.2 million. The purchase price is due in three installments with payments made in November 2013 and January 2014 and the final payment due in December 2014. We allocated the payment to the tangible and intangible assets acquired based on the estimated fair value of each of these elements to the transaction. The weighted-average amortization period for these intangibles as of December 31, 2013 was 4.8 years.

Our acquisitions have historically been made at prices above the fair value of the acquired identifiable assets, resulting in goodwill, due to expectations of synergies that will be realized by combining businesses. These synergies include the use of our existing sales channel to expand sales of the acquired businesses   products, consolidation of manufacturing facilities, and the leveraging of our existing administrative infrastructure. The net assets acquired have been recorded based on estimates of fair value and, for acquisitions completed within the past year, are subject to adjustment upon finalization of the valuation process.