ANIKA THERAPEUTICS INC
Form 10-Q
August 06, 2013

UNITED STATES
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 June 30, 2013

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 000-21326

Anika Therapeutics, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Massachusetts (State or Other Jurisdiction of Incorporation or Organization)	04-3145961 (I.R.S. Employer Identification No.)
32 Wiggins Avenue, Bedford, Massachusetts (Address of Principal Executive Offices)	01730 (Zip Code)

Registrant's Telephone Number, Including Area Code: (781) 457-9000

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report: N/A

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 o

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 o

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 Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No x

As of August 1, 2013, there were 13,662,136 outstanding shares of Common Stock, par value $.01 per share.

PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Anika Therapeutics, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(unaudited)

	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$54,140,459	$44,067,477
Accounts receivable, net of reserves of $332,148 and $337,459 at June 30, 2013 and December 31, 2012, respectively	19,065,386	21,462,481
Inventories	10,357,798	8,283,472
Current portion deferred income taxes	1,989,422	2,031,583
Prepaid expenses and other	920,873	1,539,477
Total current assets	86,473,938	77,384,490
Property and equipment, at cost	51,618,726	52,376,013
Less: accumulated depreciation	(17,772,147)	(17,263,032)
	33,846,579	35,112,981
Long-term deposits and other	154,050	171,053
Intangible assets, net	18,996,886	20,334,636
Goodwill	8,923,197	9,065,891
Total Assets	$148,394,650	$142,069,051
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$2,699,678	$2,341,838
Accrued expenses	4,503,551	5,837,044
Deferred revenue	1,527,917	2,875,067
Current portion of long-term debt	1,600,000	1,600,000
Income taxes payable	1,370,172	1,798,669
Total current liabilities	11,701,318	14,452,618
Other long-term liabilities	1,264,427	1,541,124
Long-term deferred revenue	2,069,444	2,152,778
Deferred tax liability	6,725,622	6,997,397
Long-term debt	7,200,000	8,000,000
Commitments and contingencies (Note 10)	-	-
Stockholders' equity:		
Preferred stock, $.01 par value; 1,250,000 shares authorized, no shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	-	-
Common stock, $.01 par value; 30,000,000 shares authorized, 14,017,280 and 13,866,060 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	140,173	138,659
Additional paid-in-capital	67,385,076	65,431,424
Accumulated currency translation adjustment	(3,063,985)	(2,654,630)
Retained earnings	54,972,575	46,009,681
Total stockholders' equity	119,433,839	108,925,134
Total Liabilities and Stockholders' Equity	$148,394,650	$142,069,051

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

Anika Therapeutics, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Income
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Product revenue	$20,067,407	$18,882,277	$34,561,896	$32,495,605
Licensing, milestone and contract revenue	760,970	742,492	1,513,492	1,489,824
Total revenue	20,828,377	19,624,769	36,075,388	33,985,429
Operating expenses:				
Cost of product revenue	6,311,332	8,084,226	11,152,502	14,497,707
Research & development	1,829,052	1,298,170	3,411,962	2,831,273
Selling, general & administrative	3,400,679	4,108,503	7,347,793	7,459,519
Restructuring charges	(111,178)	-	(246,785)	-
Total operating expenses	11,429,885	13,490,899	21,665,472	24,788,499
Income from operations	9,398,492	6,133,870	14,409,916	9,196,930
Interest income (expense), net	(36,381)	(49,129)	(75,939)	(100,332)
Income before income taxes	9,362,111	6,084,741	14,333,977	9,096,598
Provision for income taxes	3,467,219	2,347,873	5,371,083	3,447,611
Net income	$5,894,892	$3,736,868	$8,962,894	$5,648,987
Basic net income per share:				
Net income	$0.44	$0.28	$0.67	$0.43
Basic weighted average common shares outstanding	13,510,573	13,262,023	13,459,049	13,212,424
Diluted net income per share:				
Net income	$0.40	$0.26	$0.62	$0.39
Diluted weighted average common shares outstanding	14,578,927	14,443,794	14,484,978	14,302,439
Net income	$5,894,892	$3,736,868	$8,962,894	$5,648,987
Other comprehensive income				
Foreign currency translation adjustment	340,095	(1,600,204)	(409,355)	(843,743)
Comprehensive income	$6,234,987	$2,136,664	$8,553,539	$4,805,244

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

Anika Therapeutics, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(unaudited)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash flows from operating activities:		
Net income	$8,962,894	$5,648,987
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,270,895	2,182,129
Stock-based compensation expense	788,326	633,073
Deferred income taxes	(269,149)	14,036
Provision for doubtful accounts	-	135,353
Provision for inventory	229,885	164,300
Tax benefit from exercise of stock options	(7,596)	(400,325)
Changes in operating assets and liabilities:		
Accounts receivable	1,796,522	(892,265)
Inventories	(2,324,269)	(3,713,817)
Prepaid expenses, other current and long-term assets	703,303	590,614
Long-term deposits and other	16,998	16,997
Accounts payable	878,228	(170,035)
Accrued expenses	(1,270,885)	(920,168)
Deferred revenue	(1,430,484)	(1,433,334)
Income taxes payable	(440,210)	1,679,579
Other long-term liabilities	(271,532)	(335)
Net cash provided by operating activities	9,632,926	3,534,789
Cash flows from investing activities:		
Proceeds from sales of assets	246,785	-
Purchase of property and equipment, net	(109,871)	(1,145,493)
Net cash provided by (used in) investing activities	136,914	(1,145,493)
Cash flows from financing activities:		
Principal payments on debt	(800,000)	(800,000)
Proceeds from exercise of stock options	1,127,875	147,033
Tax benefit from exercise of stock options	7,596	400,325
Net cash provided by (used in) financing activities	335,471	(252,642)
Exchange rate impact on cash	(32,329)	(4,268)
Increase in cash and cash equivalents	10,072,982	2,132,386
Cash and cash equivalents at beginning of period	44,067,477	35,777,222
Cash and cash equivalents at end of period	$54,140,459	$37,909,608

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

ANIKA THERAPEUTICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Nature of Business

Anika Therapeutics, Inc. (together with its subsidiaries, “Anika,” the “Company,” “we,” “us,” or “our”) develops, manufacture and commercializes therapeutic products for tissue protection, healing, and repair. These products are based on hyaluronic acid (“HA”), a naturally occurring, biocompatible polymer found throughout the body. Due to its unique biophysical and biochemical properties, HA plays an important role in a number of physiological functions such as the protection and lubrication of soft tissues and joints, the maintenance of the structural integrity of tissues, and the transport of molecules to and within cells.

The Company is subject to risks common to companies in the biotechnology and medical device industries including, but not limited to, development by the Company or its competitors of new technological innovations, dependence on key personnel, protection of proprietary technology, commercialization of existing and new products, and compliance with the U.S. Food and Drug Administration (“FDA”) and foreign regulations and approval requirements as well as the ability to grow the Company’s business.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) and in accordance with accounting principles generally accepted in the United States (“U.S.”). The financial statements include the accounts of Anika Therapeutics, Inc. and its subsidiaries. Inter-company transactions and balances have been eliminated. The year-end consolidated balance sheet is derived from our audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the U.S. In the opinion of management, these unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to fairly state the condensed consolidated financial position of the Company as of June 30, 2013 and the results of its operations for the three and six months ended June 30, 2013 and 2012 and cash flows for the six months ended June 30, 2013 and 2012.

Pursuant to the Health Care and Education Reconciliation Act of 2010 and in conjunction with the Patient Protection and Affordable Care Act, a medical device excise tax (“MDET”) became effective on January 1, 2013 for sales of certain medical devices. Some of our product sales are subject to the provisions of the MDET. The Company has elected to recognize any amounts related to the MDET under the gross method as allowed under Accounting Standards Codification (“ASC”) 605-45. For the periods ended June 30, 2013, amounts included in revenue and cost of goods sold for MDET were immaterial. There have been no other changes in our significant accounting policies for the three and six months ended June 30, 2013 as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

The accompanying unaudited condensed consolidated financial statements and related notes should be read in conjunction with the Company’s annual financial statements filed with its Annual Report on Form 10-K for the year ended December 31, 2012. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the year ending December 31, 2013. Certain prior period amounts have been reclassified to conform to the current period presentation. There was no impact on operating income.

3. Recent Accounting Pronouncements Issued or Adopted

In February 2013, the FASB issued Accounting Standards Update (“ASU”) No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The provisions of ASU 2013-02 are effective for annual and interim periods beginning after December 15, 2012. The objective of this update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this update seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles to be reclassified in its entirety to net income. The adoption of this amendment did not have a material impact on our consolidated financial position, results of operations, or cash flows.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830): Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. The provisions of ASU 2013-05 are effective for annual and interim periods beginning after December 15, 2013. The objective of the amendments in this update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation—Overall, or Subtopic 830-30, Foreign Currency Matters—Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. The adoption of this amendment will not have a material impact on our consolidated financial position, results of operations, or cash flows.

4. Fair Value Measurements

We measure certain assets and liabilities, such as fixed income investments, at fair value based upon exit price, representing the amount that would be received on the sale of an asset or paid to transfer a liability, as the case may be, in an orderly transaction between market participants. As such, fair value may be based on assumptions that market participants would use in pricing an asset or liability. To increase the comparability of fair value measurements, the following hierarchical levels of inputs to valuation methodologies are used:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 instruments include securities traded on active exchange markets, such as the New York Stock Exchange.

- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions market participants would use in pricing the asset or liability.

Cash equivalents in money market accounts measured and recorded at fair value on a recurring basis was $34,264,268 at June 30, 2013 and December 31, 2012, and were classified as Level 1 instruments.

5. Equity Incentive Plan

The Company estimates the fair value of stock options and stock appreciation rights using the Black-Scholes valuation model. Fair value of restricted stock is measured by the grant-date price of the Company's shares. The fair value of each stock option award during the three and six months ended June 30, 2013 and the six months ended June 30, 2012 was estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended June 30,	
	2013	2012
Risk free interest rate	0.65%	-
Expected volatility	57.60%	-
Expected lives (years)	4	-
Expected dividend yield	0.00%	-

	Six Months Ended June 30,	
	2013	2012
Risk free interest rate	0.61% - 0.70%	0.64%
Expected volatility	57.60%	57.60%
Expected lives (years)	4	4
Expected dividend yield	0.00%	0.00%

The Company recorded $365,367 and $788,326 of share-based compensation expense for the three and six months ended June 30, 2013, respectively, for equity compensation awards. The Company recorded $312,563 and $633,073 of share-based compensation expense for the three and six months ended June 30, 2012. The Company presents the expenses related to stock-based compensation awards in the same expense line items as cash compensation paid to the respective employees.

At the 2013 Annual Meeting of Stockholders on June 18, 2013, the shareholders of the Company approved the amendment to the Anika Therapeutics, Inc. Second Amended and Restated 2003 Stock Option and Incentive Plan (the "2003 Plan"), which among other things, increased the number of shares reserved for issuance under the Company's stock option and incentive plan by 650,000 to 3,800,000 shares.

There were 20,000 stock options granted under the 2003 Plan during the three months ended June 30, 2013. There were 374,500 stock options granted under the Plan during the six months ended June 30, 2013. There were no restricted stock units ("RSUs") granted to members of the Company's Board of Directors during the three months ended June 30, 2013. There were 13,800 RSUs granted to members of the Company's Board of Directors under the Plan during the three months ended March 31, 2013. The stock options and RSUs granted to employees and directors become exercisable or vest ratably over four years from the date of grant.

As of June 30, 2013, there was approximately $3.0 million of total unrecognized compensation cost related to non-vested stock options, stock appreciation rights ("SARs"), and restricted stock awards ("RSAs") granted under the Company's incentive plans. This cost is expected to be recognized over a weighted-average period of 2.9 years.

The total in