

VITAL SIGNS INC
Form 10-Q
August 09, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

F_{ORM} 10-Q

(Mark one)

S

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005

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: 0-18793

VITAL SIGNS, INC.

(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

11-2279807
(I.R.S. Employer
Identification No.)

20 Campus Road
Totowa, New Jersey 07512
(Address of principal executive office, including zip code)

973-790-1330
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 S No £

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes S No £

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

At August 4, 2005 there were 12,571,305 shares of Common Stock, no par value, outstanding.

VITAL SIGNS, INC.

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PART I.
FINANCIAL INFORMATION

Item 1. *Financial Statements*

Certain information and footnote disclosures required under generally accepted accounting principles have been condensed or omitted from the following consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Vital Signs, Inc. (the “registrant”, the “Company”, “Vital Signs”, “we”, “us”, or “our”) believes that the disclosures are adequate to assure that the information presented is not misleading in any material respect. It is suggested that the following consolidated financial statements be read in conjunction with the year-end consolidated financial statements and notes thereto included in the registrant's Annual Report on Form 10-K for the year ended September 30, 2004.

The results of operations for the interim periods presented herein are not necessarily indicative of the results to be expected for the entire fiscal year, or any other period.

In Management's Discussion and Analysis of Results of Operations and Financial Condition, we refer to the Broselow-Luten System; Broselow; ComplianceBuilder; Limb-O and Misty-OX, all of which are trademarks of Vital Signs, Inc.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
VITAL SIGNS, INC.

We have reviewed the accompanying consolidated balance sheet of Vital Signs, Inc. and Subsidiaries as of June 30, 2005 and the related consolidated statements of income for the three months and nine months ended June 30, 2005 and 2004, and the consolidated statements of cash flows for the nine months ended June 30, 2005 and 2004. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the consolidated interim financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with United States generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the consolidated balance sheet of Vital Signs, Inc. and Subsidiaries as of September 30, 2004 and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated November 12, 2004 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of September 30, 2004 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

GOLDSTEIN GOLUB KESSLER LLP

New York, New York
July 27, 2005

VITAL SIGNS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | June 30, 2005 | September 30, 2004 |
|--|--------------------------|-------------------------------|
| (In thousands of dollars) (Unaudited) | | |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 78,900 | \$ 76,468 |
| Accounts receivable, less allowances for rebates and doubtful accounts of \$6,888 and \$8,725, respectively | 30,640 | 31,876 |
| Inventory | 17,277 | 16,766 |
| Prepaid expenses | 3,774 | 2,816 |
| Other current assets | 1,524 | 1,596 |
| | 132,115 | 129,522 |
| Total Current Assets | | |
| Property, plant and equipment—net | 29,644 | 29,900 |
| Goodwill | 77,206 | 69,506 |
| Deferred income taxes | — | 796 |
| Other assets | 7,777 | 5,952 |
| | \$246,742 | \$ 235,676 |
| Total Assets | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 5,995 | \$ 5,114 |
| Accrued expenses | 7,348 | 7,780 |
| Accrued income taxes | 3,513 | 3,387 |
| | 16,856 | 16,281 |
| Total Current Liabilities | | |
| Minority interest in subsidiary | 3,591 | 3,172 |
| | 19,864 | 19,453 |
| Commitments and contingencies | | |
| Stockholders' Equity | | |
| Common stock—no par value; authorized 40,000,000 shares, issued and outstanding 12,616,405 and 12,715,243 shares, respectively | 19,864 | 24,279 |
| Accumulated other comprehensive income | 1,495 | 3,059 |
| Retained earnings | 204,936 | 188,885 |
| | 226,295 | 216,223 |
| Stockholders' equity | | |
| Total Liabilities and Stockholders' Equity | \$246,742 | \$ 235,676 |

(See Notes to Consolidated Financial Statements)

VITAL SIGNS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| | For the Three Months Ended June 30, | |
|---|---|-----------------|
| | 2005 | 2004 |
| | (In thousands, except per share amounts) | |
| Net Revenues: | | |
| Net sales | \$40,499 | \$37,355 |
| Service revenue | 8,193 | 8,316 |
| | <u>48,692</u> | <u>45,671</u> |
| Cost of goods sold and services performed: | | |
| Cost of goods sold | 18,990 | 17,141 |
| Cost of services performed | 4,430 | 4,666 |
| | <u>23,420</u> | <u>21,807</u> |
| Gross profit | <u>25,272</u> | <u>23,864</u> |
| Operating expenses: | | |
| Selling, general and administrative | 13,211 | 12,300 |
| Research and development | 1,923 | 1,868 |
| Restructuring expense | (136) | — |
| Other expense (income)—net | (53) | 260 |
| Total operating expenses | <u>14,945</u> | <u>14,428</u> |
| Operating Income | <u>10,327</u> | <u>9,436</u> |
| Other income (expense) | | |
| Interest income | 601 | 189 |
| Income from continuing operations before provision for income tax and minority interest in income of consolidated subsidiary | 10,928 | 9,625 |
| Provision for income taxes | 3,846 | 3,477 |
| Income from continuing operations before minority interest in income of consolidated subsidiary | 7,082 | 6,148 |
| Minority interest in income of consolidated subsidiary | 191 | 119 |
| Income from continuing operations | <u>6,891</u> | <u>6,029</u> |
| Discontinued Operations: | | |
| Income from operations of Vital Pharma, net of income tax provision of \$68 and \$38 | 127 | 69 |
| Net income | <u>\$ 7,018</u> | <u>\$ 6,098</u> |

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| | | |
|---|---------|---------|
| <hr/> | | |
| Earnings per Common Share: | | |
| Basic | | |
| Income per share from continuing operations | \$ 0.55 | \$ 0.47 |
| Income per share from discontinued operations | \$ 0.01 | \$ 0.01 |
| | <hr/> | <hr/> |
| Net earnings per share | \$ 0.56 | \$ 0.48 |
| | <hr/> | <hr/> |
| Diluted | | |
| Income per share from continuing operations | \$ 0.54 | \$ 0.47 |
| | <hr/> | <hr/> |
| Income per share from discontinued operations | \$ 0.01 | \$ 0.01 |
| | <hr/> | <hr/> |
| Net earnings per share | \$ 0.55 | \$ 0.48 |
| | <hr/> | <hr/> |
| Basic weighted average number of shares outstanding | 12,627 | 12,739 |
| Diluted weighted average number of shares outstanding | 12,806 | 12,830 |
| Dividends paid per share | \$ 0.07 | \$ 0.06 |

(See Notes to Consolidated Financial Statements)

VITAL SIGNS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| | For the Nine Months Ended June 30, | |
|--|---|----------------|
| | 2005 | 2004 |
| | (In thousands, except per share amounts) | |
| Net Revenues: | | |
| Net sales | \$ 116,916 | \$ 111,833 |
| Service revenue | 24,502 | 24,323 |
| | <u>141,418</u> | <u>136,156</u> |
| Cost of goods sold and services performed: | | |
| Cost of goods sold | 56,530 | 53,579 |
| Cost of services performed | 13,493 | 13,461 |
| | <u>70,023</u> | <u>67,040</u> |
| Gross profit | <u>71,395</u> | <u>69,116</u> |
| Operating expenses: | | |
| Selling, general and administrative | 37,815 | 37,370 |
| Research and development | 5,589 | 5,407 |
| Restructuring expense | 224 | — |
| Other expense (income)—net | (159) | 481 |
| Total operating expenses | <u>43,469</u> | <u>43,258</u> |
| Operating Income | <u>27,926</u> | <u>25,858</u> |
| Other income (expense) | | |
| Interest income | 1,234 | 574 |
| Interest (expense) | (18) | (25) |
| Total other income | <u>1,216</u> | <u>549</u> |
| Income from continuing operations before provision for income tax and minority interest in income of consolidated subsidiary | 29,142 | 26,407 |
| Provision for income taxes | 10,242 | 9,367 |
| Income from continuing operations before minority interest in income of consolidated subsidiary | 18,900 | 17,040 |
| Minority interest in income of consolidated subsidiary | 419 | 373 |
| Income from continuing operations | <u>18,481</u> | <u>16,667</u> |
| Discontinued Operations: | | |

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| | | |
|---|-------------------|-------------------|
| Income (loss) from operations of Vital Pharma, net of income tax provision (benefit) of \$51 and (\$54) | 95 | (102) |
| | <u> </u> | <u> </u> |
| Net income | \$ 18,576 | \$ 16,565 |
| | <u> </u> | <u> </u> |
| Earnings (loss) per Common Share: | | |
| Basic | | |
| Income per share from continuing operations | \$ 1.46 | \$ 1.30 |
| Income (loss) per share from discontinued operations | \$ 0.01 | \$ (0.01) |
| | <u> </u> | <u> </u> |
| Net earnings per share | \$ 1.47 | \$ 1.29 |
| | <u> </u> | <u> </u> |
| Diluted | | |
| Income per share from continuing operations | \$ 1.45 | \$ 1.29 |
| Loss per share from discontinued operations | \$ 0.00 | \$ (0.01) |
| | <u> </u> | <u> </u> |
| Net earnings per share | \$ 1.45 | \$ 1.28 |
| | <u> </u> | <u> </u> |
| Basic weighted average number of shares outstanding | 12,619 | 12,822 |
| Diluted weighted average number of shares outstanding | 12,783 | 12,946 |
| Dividends paid per share | \$ 0.20 | \$ 0.18 |

(See Notes to Consolidated Financial Statements)

VITAL SIGNS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | For the Nine Months Ended June 30, | |
|--|---------------------------------------|-----------|
| | 2005 | 2004 |
| | (In thousands of dollars) | |
| Cash Flows from Operating Activities: | | |
| Net income | \$ 18,576 | \$ 16,565 |
| (Income) loss from discontinued operations | (95) | 102 |
| | 18,481 | 16,667 |
| Income from continuing operations | 18,481 | 16,667 |
| Adjustments to reconcile income from continuing operations to net cash provided by continuing operations | | |
| Depreciation and amortization | 4,406 | 3,368 |
| Deferred income taxes | 796 | 1,076 |
| Stock option tax benefit | 506 | — |
| Minority interest in income of consolidated subsidiary | 419 | 373 |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | 911 | 2,688 |
| Decrease in inventory | 277 | 2,866 |
| (Increase) decrease in prepaid expenses and other current assets | (951) | 2,984 |
| (Increase) decrease in other assets | (1,322) | 686 |
| Increase (decrease) in accounts payable | 1,706 | (1,698) |
| Decrease in accrued expenses | (433) | (4) |
| Increase in accrued income taxes | 126 | 605 |
| Increase in other liabilities | 177 | 99 |
| | 25,099 | 29,710 |
| Net cash provided by continuing operations | 25,099 | 29,710 |
| Net cash provided by (used in) discontinued operations | 95 | (140) |
| | 25,194 | 29,570 |
| Net cash provided by operating activities | | |