LEMAITRE VASCULAR INC
Form 10-Q
November 03, 2017
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

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 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, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth 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
	Emerging growth company

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

The registrant had 19,264,940 shares of common stock, $.01 par value per share, outstanding as of October 31, 2017.

Table of Contents

LEMAITRE VASCULAR

FORM 10-Q

TABLE OF CONTENTS

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

LeMaitre Vascular, Inc.

Consolidated Balance Sheets

	(unaudited) September 30, 2017	December 31, 2016
	(in thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 37,514	$ 24,288
Accounts receivable, net of allowances of $315 at September 30, 2017, and $258 at December 31, 2016	13,553	13,191
Inventory and other deferred costs	21,095	19,578
Prepaid expenses and other current assets	3,480	1,970
Total current assets	75,642	59,027
Property and equipment, net	11,367	8,012
Goodwill	23,850	23,426
Other intangibles, net	8,669	9,897
Deferred tax assets	1,562	1,399
Other assets	179	163
Total assets	$ 121,269	$ 101,924
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,617	$ 1,217
Accrued expenses	8,803	8,804
Acquisition-related obligations	1,690	461
Total current liabilities	12,110	10,482
Deferred tax liabilities	1,948	1,941
Other long-term liabilities	1,098	2,001
Total liabilities	15,156	14,424
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 20,742,411 shares at September 30, 2017, and 20,040,348 shares at December 31, 2016	207	200

Additional paid-in capital	92,685	85,378
Retained earnings	25,109	15,335
Accumulated other comprehensive loss	(2,280)	(4,583)
Treasury stock, at cost; 1,480,101 shares at September 30, 2017 and 1,452,810 shares at December 31, 2016	(9,608)	(8,830)
Total stockholders equity	106,113	87,500
Total liabilities and stockholders equity	$ 121,269	$ 101,924

See accompanying notes to consolidated financial statements.

Table of Contents

LeMaitre Vascular, Inc.

Consolidated Statements of Operations

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(in thousands, except per share data)			
Net sales	$ 24,822	$ 23,216	$ 74,714	$ 65,863
Cost of sales	7,245	6,197	22,269	19,121
Gross profit	17,577	17,019	52,445	46,742
Sales and marketing	6,201	6,541	19,754	19,353
General and administrative	4,562	3,595	12,857	10,343
Research and development	1,761	1,539	5,053	4,619
Total operating expenses	12,524	11,675	37,664	34,315
Income from operations	5,053	5,344	14,781	12,427
Other income (expense):				
Interest income	48	24	100	55
Foreign currency gain (loss)	(28)	(61)	(103)	(74)
Income before income taxes	5,073	5,307	14,778	12,408
Provision for income taxes	31	2,078	1,885	4,415
Net income	$ 5,042	$ 3,229	$ 12,893	$ 7,993
Earnings per share of common stock:				
Basic	$ 0.26	$ 0.17	$ 0.68	$ 0.43
Diluted	$ 0.25	$ 0.17	$ 0.65	$ 0.42
Weighted-average shares outstanding:				
Basic	19,124	18,524	18,859	18,423
Diluted	20,147	19,248	19,970	19,103
Cash dividends declared per common share	$ 0.055	$ 0.045	$ 0.165	$ 0.135

See accompanying notes to consolidated financial statements.

Table of Contents

LeMaitre Vascular, Inc.

Consolidated Statements of Comprehensive Income

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Net income	$ 5,042	$ 3,229	$ 12,893	$ 7,993
Other comprehensive income (loss):				
Foreign currency translation adjustment, net	664	312	2,303	836
Total other comprehensive income (loss)	664	312	2,303	836
Comprehensive income	$ 5,706	$ 3,541	$ 15,196	$ 8,829

See accompanying notes to consolidated financial statements.

Table of Contents

LeMaitre Vascular, Inc.

Consolidated Statements of Cash Flows

(unaudited)

	For the nine months ended September 30, 2017	2016
	(in thousands)	
Operating activities		
Net income	$ 12,893	$ 7,993
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,966	2,658
Stock-based compensation	1,845	1,195
Provision for (recovery of) doubtful accounts	152	52
Provision for inventory write-downs	272	280
Foreign currency transaction loss	(34)	(1)
Changes in operating assets and liabilities:		
Accounts receivable	(50)	(68)
Inventory and other deferred costs	(1,330)	(216)
Prepaid expenses and other assets	(1,403)	(390)
Accounts payable and other liabilities	787	1,199
Net cash provided by operating activities	16,098	12,702
Investing activities		
Purchases of property and equipment and other assets	(4,780)	(1,830)
Payments related to acquisitions		(2,368)
Net cash used in investing activities	(4,780)	(4,198)
Financing activities		
Payments of deferred acquisition consideration	(427)	(249)
Proceeds from issuance of common stock	5,470	1,384
Purchase of treasury stock	(778)	(183)
Common stock cash dividend paid	(3,119)	(2,487)
Net cashprovidede by (used in) financing activities	1,146	(1,535)
Effect of exchange rate changes on cash and cash equivalents	762	230
Net increase in cash and cash equivalents	13,226	7,199
Cash and cash equivalents at beginning of period	24,288	27,451
Cash and cash equivalents at end of period	$ 37,514	$ 34,650
Supplemental disclosures of cash flow information (see Note 11)		

See accompanying notes to consolidated financial statements.

Table of Contents

LeMaitre Vascular, Inc.

Notes to Consolidated Financial Statements

September 30, 2017

(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 also derive revenues from the processing and cryopreservation of human tissues for implantation in patients. We operate in a single segment in which our principal product lines include the following: valvulotomes, biologic vascular patches, balloon catheters, carotid shunts, biologic vascular grafts, anastomotic clips, radiopaque marking tape, vascular grafts, remote endarterectomy devices, laparoscopic cholecystectomy devices, angioscopes, and powered phlebectomy devices. Our offices are located in Burlington, Massachusetts; Fox River Grove, Illinois; Mississauga, Canada; Sulzbach, Germany; Milan, Italy; Madrid, Spain; North Melbourne, Australia; Tokyo, Japan; and Shanghai, China.

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 nine months ended September 30, 2017 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, 2016, including the notes thereto, included in our Form 10-K filed with the Securities and Exchange Commission (SEC) on March 9, 2017.

Consolidation

Our consolidated financial statements include the accounts of LeMaitre Vascular and the accounts of our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Recent Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-09 which provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under ASC 718, Compensation Stock Compensation. The new standard is effective for us beginning January 1, 2018, with early adoption permitted. The adoption of this standard is not expected to have a material impact on our financial statements.

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-04, which, among other provisions, eliminates step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test will be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The new standard is effective for us beginning January 1, 2020, with early adoption permitted. The adoption of this standard is not expected to have a material impact on our financial statements.

In January 2017, the FASB issued ASU 2017-01 which changes the definition of a business for purposes of determining whether a business has been acquired or sold. The amendment is intended to help companies evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new standard is effective for us beginning January 1, 2018, with early adoption permitted. The adoption of this standard is not expected to have a material impact on our financial statements.

In August 2016, the FASB issued ASU 2016-15, which changes the classification of certain cash receipts and cash payments within the statement of cash flows. The new standard is effective for us beginning January 1, 2018, with early adoption permitted. The adoption of this standard is not expected to have a material impact on our financial statements.

In May 2014, the FASB and the International Accounting Standards Board issued substantially converged final standards on revenue recognition. The FASB s ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as amended from time to time, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The new revenue recognition guidance becomes effective for us on January 1, 2018, with early adoption permitted on January 1, 2017. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in the ASU. Our assessment of the impact to our financial statements of adopting this standard is underway. We engaged external consultants to assist us with our analysis, which included evaluating our standard arrangements with customers, as well as arrangements specific to certain customer bases or product offerings, and reviewing a sample of actual contracts to determine whether there are additional attributes to consider beyond our standard arrangements. Although our assessment is not complete, we do not currently expect that adoption of Topic 606 will have a material impact on our consolidated financial statements. However, there will likely be changes to our revenue recognition accounting policy as well as other disclosures. Additionally, we have preliminarily determined that we will use the modified retrospective method of adoption.

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 more likely than not, 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 intention is to permanently reinvest these earnings.

We recognize, measure, present and disclose in our financial statements any uncertain tax positions that we have taken, or expect to take on a tax return. We operate in multiple taxing jurisdictions, both within and without the United States, and may be subject to audits from various tax authorities. 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 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 2017 income tax expense varies from the statutory rate mainly due to the generation of federal and state tax credits, permanent items and lower statutory rates from our foreign subsidiaries. Additionally, in the second and third quarters of 2017, we recognized certain discrete items primarily related to the exercise of stock options. Our 2016 income tax expense varied from the statutory rate mainly due to certain permanent items, offset by lower statutory rates from our foreign entities and a discrete item for stock option exercises.

&nbs