

CRYOLIFE INC
Form 10-Q
October 27, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2016**

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: 1-13165

CRYOLIFE, INC.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of
incorporation or organization)

59-2417093
(I.R.S. Employer
Identification No.)

1655 Roberts Boulevard, NW, Kennesaw, Georgia
(Address of principal executive offices)
(770) 419-3355

30144
(Zip Code)

(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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) 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

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

Class

Outstanding at October 24, 2016

Common Stock

32,848,419 Shares

Part I FINANCIAL INFORMATION**Item 1. Financial Statements.****CRYOLIFE, INC. AND SUBSIDIARIES****SUMMARY CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****(IN THOUSANDS, EXCEPT PER SHARE DATA)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Revenues:				
Products	\$ 28,004	\$ 19,859	\$ 85,067	\$ 59,168
Preservation services	17,248	16,844	50,284	46,892
Total revenues	45,252	36,703	135,351	106,060
Cost of products and preservation services:				
Products	6,598	4,278	21,299	13,555
Preservation services	8,872	9,443	26,348	28,302
Total cost of products and preservation services	15,470	13,721	47,647	41,857
Gross margin	29,782	22,982	87,704	64,203
Operating expenses:				
General, administrative, and marketing	20,592	17,494	69,302	55,790
Research and development	3,714	2,960	9,602	7,896
Total operating expenses	24,306	20,454	78,904	63,686
Gain from sale of business components			(7,915)	
Operating income	5,476	2,528	16,715	517
Interest expense	742	(78)	2,256	(18)
Interest income	(18)	(14)	(48)	(29)
Gain on sale of Medafor investment				(891)
Other expense (income), net	21	(238)	(146)	204

Income before income taxes	4,731	2,858	14,653	1,251
Income tax expense (benefit)	1,738	713	6,772	(118)
Net income	\$ 2,993	\$ 2,145	\$ 7,881	\$ 1,369
Income per common share:				
Basic	\$ 0.09	\$ 0.08	\$ 0.24	\$ 0.05
Diluted	\$ 0.09	\$ 0.07	\$ 0.24	\$ 0.05
Dividends declared per common share	\$ 0.03	\$ 0.03	\$ 0.09	\$ 0.09
Weighted-average common shares outstanding:				
Basic	32,151	27,823	31,731	27,687
Diluted	33,165	28,596	32,568	28,487
Net income	\$ 2,993	\$ 2,145	\$ 7,881	\$ 1,369
Other comprehensive loss	(31)	(349)	(459)	(124)
Comprehensive income	\$ 2,962	\$ 1,796	\$ 7,422	\$ 1,245

See accompanying Notes to Summary Consolidated Financial Statements.

CRYOLIFE, INC. AND SUBSIDIARIES

SUMMARY CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

	September 30, 2016	December 31, 2015
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 54,131	\$ 37,588
Restricted securities	744	830
Receivables, net	30,054	26,672
Inventories	25,534	14,643
Deferred preservation costs	28,051	24,741
Prepaid expenses and other	3,581	5,189
Total current assets	142,095	109,663
Property and equipment, net	17,218	11,484
Restricted cash		5,000
Goodwill	76,474	11,365
Patents, net	1,021	1,417
Trademarks and other intangibles, net	66,784	18,480
Deferred income taxes		18,188
Other	5,265	5,582
Total assets	\$ 308,857	\$ 181,179
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,688	\$ 4,648
Accrued compensation	7,666	6,335
Accrued procurement fees	4,350	4,445
Accrued expenses and other	5,249	4,177
Current portion of long-term debt	1,805	
Total current liabilities	24,758	19,605
Long-term debt	69,633	
Deferred income taxes	2,033	
Deferred liabilities	5,120	3,753
Other	3,151	2,570

Total liabilities	104,695	25,928
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Commitments and contingencies

Shareholders' equity:

Preferred stock

Common stock (issued shares of 34,205 in 2016 and 29,766 in 2015)

	342	298
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Additional paid-in capital	185,243	142,888
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Retained earnings	31,246	23,365
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Accumulated other comprehensive loss	(535)	(76)
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Treasury stock at cost (shares of 1,356 in 2016 and 1,265 in 2015)	(12,134)	(11,224)
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Total shareholders' equity	204,162	155,251
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Total liabilities and shareholders' equity	\$ 308,857	\$ 181,179
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See accompanying Notes to Summary Consolidated Financial Statements.

CRYOLIFE, INC. AND SUBSIDIARIES**SUMMARY CONSOLIDATED STATEMENTS OF CASH FLOWS****(IN THOUSANDS)**

	Nine Months Ended	
	September 30,	
	2016	2015
	(Unaudited)	
Net cash flows from operating activities:		
Net income	\$ 7,881	\$ 1,369
Adjustments to reconcile net income to net cash from operating activities:		
Gain from sale of business components	(7,915)	
Depreciation and amortization	6,248	4,539
Non-cash compensation	4,617	3,727
Gain on sale of Medafor investment		(891)
Other non-cash adjustments to income	5,595	3,314
Changes in operating assets and liabilities:		
Receivables	3,729	(1,580)
Inventories and deferred preservation costs	(5,739)	(692)
Prepaid expenses and other assets	(46)	(1,267)
Accounts payable, accrued expenses, and other liabilities	304	1,508
Net cash flows provided by operating activities	14,674	10,027
Net cash flows from investing activities:		
Acquisition of On-X, net of cash acquired	(91,152)	
Acquisition of PhotoFix technology	(1,226)	
Proceeds from sale of business components	19,795	
Decrease in restricted cash	5,000	
Capital expenditures	(3,511)	(3,186)
Proceeds from sale of Medafor investment		891
Other	(12)	(508)
Net cash flows used in investing activities	(71,106)	(2,803)
Net cash flows from financing activities:		
Proceeds from issuance of term loan	75,000	
Repayment of term loan	(1,406)	

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Payment of debt issuance costs	(2,289)	
Cash dividends paid		(2,553)
Proceeds from exercise of stock options and issuance of common stock	2,116	1,408
Other	(28)	(809)
Net cash flows provided by (used in) financing activities	73,393	(1,954)
Effect of exchange rate changes on cash	(418)	(148)
Increase in cash and cash equivalents	16,543	5,122
Cash and cash equivalents, beginning of period	37,588	33,375
Cash and cash equivalents, end of period	\$ 54,131	\$ 38,497

See accompanying Notes to Summary Consolidated Financial Statements.

CRYOLIFE, INC. AND SUBSIDIARIES

NOTES TO SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Basis of Presentation

The accompanying summary consolidated financial statements include the accounts of CryoLife, Inc. and its subsidiaries (CryoLife, the Company, we, or us). All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying Summary Consolidated Balance Sheet as of December 31, 2015 has been derived from audited financial statements. The accompanying unaudited summary consolidated financial statements as of, and for the three and nine months ended, September 30, 2016 and 2015 have been prepared in accordance with (i) accounting principles generally accepted in the U.S. for interim financial information and (ii) the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the U.S. Securities and Exchange Commissi