

VITAL IMAGES INC
Form 10-Q/A
March 02, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended September 30, 2003

OR

**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 0-22229

VITAL IMAGES, INC.

(Exact name of registrant as specified in its charter)

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Minnesota

(State or other jurisdiction of
incorporation or organization)

42-1321776

(I.R.S. Employer Identification No.)

**3300 Fernbrook Lane N., Suite 200
Plymouth, Minnesota**

(Address of principal
executive offices)

55447

(Zip Code)

(763) 852-4100

(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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

On November 10, 2003, there were 11,116,357 shares of the Registrant's common stock, par value \$.01 per share, outstanding.

EXPLANATORY NOTE

Vital Images, Inc. (the Company) is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2003, which was originally filed on November 14, 2003 (the Form 10-Q), principally to amend specific items of the Form 10-Q to reflect: (1) the change in classification of certain customer support costs, which had previously been reported as a sales and marketing expense rather than as a cost of revenue maintenance and services, and (2) the change in classification of amortization expense related to technology licensed from a third party, which had, prior to the third quarter of 2003, been reported as research and development expense rather than cost of revenue-license fees. In addition, the Company has enhanced certain previously included disclosures regarding the accounting policies related to revenue recognition. The changes in classifications had no effect on the Company's previously reported revenue, operating income, net income or net income per share, nor did the changes in classifications impact the Company's balance sheets or statements of cash flows. This Amendment No. 1 amends only portions of the Form 10-Q; the remainder of the Form 10-Q is unchanged and is not reproduced in this Amendment No. 1. This Amendment No. 1 does not reflect events occurring after the original filing of the Form 10-Q.

This Amendment No. 1 contains changes to the following disclosures:

Part I - Item 1. Financial Statements (Unaudited)

Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

VITAL IMAGES, INC.

Form 10-Q/A

(Amendment No. 1)

September 30, 2003

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VITAL IMAGES, INC.

BALANCE SHEETS

AS OF SEPTEMBER 30, 2003 AND DECEMBER 31, 2002

	September 30, 2003 (Unaudited)	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 28,827,329	\$ 8,122,547
Marketable securities	5,283,113	2,508,113
Accounts receivable, net of allowance for doubtful accounts of \$273,000 and \$240,000 as of September 30, 2003 and December 31, 2002, respectively	6,342,151	4,971,079
Deferred income taxes	290,000	
Prepaid expenses and other current assets	929,728	498,692
Total current assets	41,672,321	16,100,431
Property and equipment, net	2,729,272	2,156,835
Deferred income taxes	8,585,000	
Licensed technology, net	480,000	570,000
TOTAL ASSETS	\$ 53,466,593	\$ 18,827,266
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,050,062	\$ 757,715
Accrued payroll	1,816,785	1,486,654
Deferred revenue	5,536,114	3,870,958
Accrued royalties	733,017	546,593
Other current liabilities	242,816	219,036
Total current liabilities	9,378,794	6,880,956
Deferred revenue	276,283	225,539
Total liabilities	9,655,077	7,106,495
Shareholders' equity:		
Preferred stock: \$.01 par value; 5,000,000 shares authorized; none issued or outstanding as of September 30, 2003 and December 31, 2002		
Common stock: \$.01 par value; 20,000,000 shares authorized; 11,088,831 and 8,987,009 shares issued and outstanding as of September 30, 2003 and December 31, 2002, respectively	110,888	89,870

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Additional paid-in capital	55,664,086	31,719,371
Accumulated other comprehensive income	373	
Accumulated deficit	(11,963,831)	(20,088,470)
Total shareholders' equity	43,811,516	11,720,771
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 53,466,593	\$ 18,827,266

(The accompanying notes are an integral part of the interim financial statements.)

VITAL IMAGES, INC.

STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003 Restated (Note 9) (Unaudited)	2002 Restated (Note 9) (Unaudited)	2003 Restated (Note 9) (Unaudited)	2002 Restated (Note 9) (Unaudited)
Revenue:				
License fees	\$ 5,258,320	\$ 4,022,420	\$ 15,236,591	\$ 10,315,561
Maintenance and services	1,638,147	836,482	4,688,809	2,678,388
Hardware	346,263	733,987	1,638,021	1,916,664
Total revenue	7,242,730	5,592,889	21,563,421	14,910,613
Cost of revenue:				
License fees	604,634	337,388	1,506,585	881,210
Maintenance and services	912,506	654,901	2,821,546	2,097,086
Hardware	259,326	566,091	1,097,316	1,473,374
Total cost of revenue	1,776,466	1,558,380	5,425,447	4,451,670
	5,466,264	4,034,509	16,137,974	10,458,943
Operating expenses:				
Sales and marketing	2,294,224	1,754,160	6,867,767	4,696,908
Research and development	1,310,417	1,154,030	4,004,795	3,001,622
General and administrative	967,084	736,622	3,066,854	2,472,216
Total operating expenses	4,571,725	3,644,812	13,939,416	10,170,746
Operating income	894,539	389,697	2,198,558	288,197
Interest income, net	70,468	32,452	146,081	93,991
Income before income taxes	965,007	422,149	2,344,639	382,188
Provision (benefit) for income taxes	(5,840,000)	3,000	(5,780,000)	9,000
Net income	\$ 6,805,007	\$ 419,149	\$ 8,124,639	\$ 373,188
Net income per share basic	\$ 0.62	\$ 0.05	\$ 0.82	\$ 0.04
Net income per share diluted	\$ 0.53	\$ 0.04	\$ 0.70	\$ 0.04
Shares used in per share calculations:				
Basic	10,954,998	8,956,337	9,875,771	8,822,722
Diluted	12,767,022	9,623,682	11,572,949	9,809,445

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(The accompanying notes are an integral part of the interim financial statements.)

VITAL IMAGES, INC.

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

	2003	For the Nine Months Ended September 30, (Unaudited)	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 8,124,639		\$ 373,188
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	882,227		643,871
Stock-based compensation	123,911		7,300
Provision for uncollectible accounts receivable	33,000		33,000
Deferred income tax benefit	(5,885,000)		
Amortization of licensed technology	90,000		90,000
Changes in operating assets and liabilities:			
Accounts receivable	(1,404,072)		(2,179,417)
Prepaid expenses and other current assets	(431,036)		(148,986)
Accounts payable	292,347		73,771
Deferred revenue	1,715,900		1,435,636
Accrued expenses and other liabilities	540,335		115,599
Net cash provided by operating activities	4,082,251		443,962
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment	(1,454,664)		(1,034,785)
Additions to licensed technology			
Investments in marketable securities	(6,203,277)		(5,932,219)
Maturities of marketable securities	3,428,650		2,022,754
Net cash used in investing activities	(4,229,291)		(4,944,250)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sales of common stock under warrants	210,759		1,719,123
Proceeds from sales of common stock under stock plans	1,650,548		1,070,039
Net proceeds from private placement	18,990,515		
Net cash provided by financing activities	20,851,822		2,789,162
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20,704,782		(1,711,126)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,122,547		6,830,906
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 28,827,329		\$ 5,119,780

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SUPPLEMENTAL CASH FLOW INFORMATION:

Income taxes paid	\$	68,157	\$	9,593
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(The accompanying notes are an integral part of the interim financial statements.)

VITAL IMAGES, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

(1) BASIS OF PRESENTATION:

The accompanying unaudited financial statements of Vital Images, Inc. (Vital Images or the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America. In the opinion of management, these unaudited financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the periods presented. Operating results for the nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K/A (Amendment No. 2) for the year ended December 31, 2002.

(2) MAJOR CUSTOMERS AND GEOGRAPHIC DATA:

The following customers accounted for more than 10% of the Company's total revenue for the periods indicated:

	Significant Customer	Revenue	Percentage of Total Revenue
Nine months ended September 30, 2003	Toshiba Medical Systems Corporation	\$ 9,777,000	45%
Nine months ended September 30, 2002	Toshiba Medical Systems Corporation	\$ 5,486,000	37%

The Company's accounts receivable are generally concentrated with a small base of customers. As of September 30, 2003 and December 31, 2002, Toshiba Medical Systems Corporation accounted for 53% and 21% of accounts receivable, respectively.

Export revenue amounted to 12% and 8% of total revenue for the nine months ended September 30, 2003 and 2002, respectively. Substantially all of the Company's export revenue is negotiated, invoiced and paid in U.S. dollars. Gross export revenue by geographic area is summarized as follows:

	Nine Months Ended September 30,	
	2003	2002
Europe	\$ 1,825,000	\$ 652,000
Asia and Pacific Region		