

NOVOSTE CORP /FL/  
Form 10-Q  
November 09, 2004  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended September 30, 2004

**.. TRANSITION PERIOD PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

0-20727

(Commission File Number)

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**Novoste Corporation**

(Exact Name of Registrant as Specified in Its Charter)

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**Florida**  
(State or Other Jurisdiction of

**59-2787476**  
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

**4350 International Blvd. Norcross, GA**  
(Address of Principal Executive Offices)

**30093**  
(Zip Code)

**(770) 717-0904**

(Registrant's telephone, including area code)

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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 requirements for the past 90 days.

(Item 1) Yes  No

(Item 2) 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

As of October 27, 2004 there were 16,334,705 shares of the registrant's common stock outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

## NOVOSTE CORPORATION

## CONSOLIDATED BALANCE SHEETS

(in thousands, except number of shares data)

	September 30, 2004	December 31, 2003
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 21,278	\$ 33,177
Short-term investments	8,817	6,225
Accounts receivable, net of allowance of \$160 and \$442, respectively	3,806	5,206
Inventory, net	1,888	2,439
Prepaid expenses and other current assets	515	480
	-----	-----
Total current assets	36,304	47,527
Property and equipment, net	4,650	6,997
Radiation and transfer devices, net	4,517	6,304
Other assets	2,366	579
	-----	-----
Total assets	\$ 47,837	\$ 61,407
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<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 721	\$ 1,492
Accrued expenses	5,836	6,483
Unearned revenue	1,743	188
	-----	-----
Total current liabilities	8,300	8,163
Shareholders' equity:		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; no shares issued and outstanding		
Common stock, \$.01 par value, 25,000,000 shares authorized; 16,377,634 and 16,371,997 shares issued, respectively	164	164
Additional paid-in capital	187,894	187,880
Accumulated other comprehensive income	648	733
Accumulated deficit	(148,960)	(135,302)
Treasury stock, at cost, 42,929 shares	(172)	(172)
Unearned compensation	(37)	(59)
	-----	-----
Total shareholders' equity	39,537	53,244
	-----	-----
Total liabilities and shareholders' equity	\$ 47,837	\$ 61,407
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See accompanying notes.

**Table of Contents****NOVOSTE CORPORATION****UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per-share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net sales	\$ 5,952	\$ 13,531	\$ 18,730	\$ 51,845
Cost of sales	4,350	5,535	11,842	18,921
Impairment charge	938		938	
Gross margin	664	7,996	5,950	32,924
Operating expenses:				
Research and development	820	3,198	4,103	9,362
Sales and marketing	3,050	4,496	9,758	15,577
General and administrative	2,234	1,856	6,107	6,429
Total operating expenses	6,104	9,550	19,968	31,368
Income (loss) from operations	(5,440)	(1,554)	(14,018)	1,556
Interest income	104	40	265	223
Interest expense	(3)	(5)	(3)	(14)
Other income	66		98	5
Total other income	167	35	360	214
Net income (loss)	\$ (5,273)	\$ (1,519)	\$ (13,658)	\$ 1,770
Net income (loss) per share - Basic	\$ (0.32)	\$ (0.09)	\$ (0.84)	\$ 0.11
Weighted average shares outstanding - Basic	16,335	16,343	16,332	16,311
Net income (loss) per share - Diluted	\$ (0.32)	\$ (0.09)	\$ (0.84)	\$ 0.11
Weighted average shares outstanding - Diluted	16,335	16,343	16,332	16,743

See accompanying notes.

**Table of Contents****NOVOSTE CORPORATION****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2004</b>	<b>2003</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (13,658)	\$ 1,770
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>		
Depreciation and amortization of property, equipment and intangibles	2,489	2,629
Stock based compensation expense	20	86
Depreciation of radiation and transfer devices	3,041	6,984
Impairment charge	938	
Provision for doubtful accounts	(165)	(318)
<b>Changes in assets and liabilities:</b>		
Accounts receivable	1,556	1,054
Inventory	543	551
Prepaid expenses and other current assets	(36)	438
Other assets	161	835
Accounts payable	(765)	(1,209)
Accrued expenses	(643)	(3,469)
Unearned revenue	1,556	(2,271)
<b>Net cash provided by (used in) operating activities</b>	<b>(4,963)</b>	<b>7,080</b>
<b>Cash flows from investing activities:</b>		
Maturity/sale of short-term investments	7,622	14,556
Purchase of short-term investments	(10,214)	(9,271)
Purchase of property and equipment, net	(552)	(906)
Purchase of intangibles	(2,500)	
Purchase of radiation and transfer devices	(1,254)	(2,719)
<b>Net cash provided by (used in) investing activities</b>	<b>(6,898)</b>	<b>1,660</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	15	721
Purchase of treasury stock		(110)
Repayment of capital lease obligations		(169)
<b>Net cash provided by financing activities</b>	<b>15</b>	<b>442</b>
Effect of exchange rate changes on cash	(53)	192
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(11,899)</b>	<b>9,374</b>
Cash and cash equivalents at beginning of period	33,177	21,928
<b>Cash and cash equivalents at end of period</b>	<b>\$ 21,278</b>	<b>\$ 31,302</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 3	\$ 14



See accompanying notes.



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**NOVOSTE CORPORATION**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2004**

**NOTE 1. BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and in accordance with instructions to Article 10 of Regulation S-X. Accordingly, such consolidated financial statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements. All normal and recurring adjustments considered necessary for a fair presentation of Novoste's financial results and condition have been included.

The operating results of the interim periods presented are not necessarily indicative of the results to be achieved for the year ending December 31, 2004. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2003, included in Novoste's 2003 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

The consolidated financial statements include the accounts of Novoste Corporation and its wholly owned subsidiaries incorporated in August 1998 in the Netherlands, in December 1998 in Belgium, in February 1999 in Germany, in January 2000 in France and in March 2002 a dedicated sales corporation incorporated in the state of Florida. Significant inter-company transactions and accounts have been eliminated.

Novoste sells its products with no right of return except in cases of product malfunction or shipping errors. On August 19, 2002, Novoste initiated a voluntary recall of the Beta-Rail 3.5F Delivery Catheter (the 3.5F catheter) inventory from its customers. The recall related to the discovery by Novoste of a small number of catheter tip separations in the 3.5F catheter product. An extensive evaluation and improvement program was initiated. A pre-market approval supplement was submitted to the U.S. Food and Drug Administration (FDA) on October 15, 2002, describing the improvements to the product and manufacturing processes and requesting approval for re-launch of the product. The FDA approved the re-launch on January 6, 2003.

In connection with the re-launch, Novoste exchanged 5.0F catheters for 3.5F catheters with a number of its customers. The exchange of these catheters was completed by September 2003 and all related reserves have been eliminated since that time. However, as of June 30, 2003, Novoste had recorded a reserve of approximately \$400,000 to recognize the 5.0F catheters purchased prior to June 30, 2003, that were expected to be returned in the future for exchange to 3.5F catheters. The \$400,000 in revenue was recognized in the quarter ended September 30, 2003.

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**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2004**

**(continued)**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES