

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**
SEC Accession No. **0000892569-95-000189**

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FILER

CYTOCARE INC

CIK: **819939** | IRS No.: **660439440** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-16752** | Film No.: **95536103**
SIC: **3845** Electromedical & electrotherapeutic apparatus

Mailing Address
100 COLUMBIA STE 100
ALISO VIEJO CA 92656

Business Address
100 COLUMBIA STE 100
ALISO VIEJO CA 92718
7144487700

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 MARCH 31, 1995

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 0-16752

CYTOCARE, INC.

(Exact name of registrant as specified in its charter)

<TABLE>	
<S>	<C>
DELAWARE	66-0439440

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
</TABLE>	

100 COLUMBIA, SUITE 100, ALISO VIEJO, CALIFORNIA	92656

(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (714) 448-7700

NOT APPLICABLE

(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 X No

The number of shares of the Common Stock of the registrant outstanding as of
April 28, 1995 was 5,184,805.

CYTOCARE, INC.

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PART I. FINANCIAL INFORMATION

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<CAPTION>

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CYTOCARE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

<TABLE> <CAPTION>	MARCH 31, 1995 ----- (Unaudited)	DECEMBER 31, 1994 -----
<S>	<C>	<C>
Current assets:		
Cash and equivalents	\$ 166,556	\$ 1,261,596
Short term investments	16,063,761	13,148,586
Accounts receivable, less allowance for doubtful accounts of \$257,000 and \$257,000 at March 31, 1995 and December 31, 1994, respectively	1,613,149	1,825,150
Inventories	1,908,177	1,607,090
Deferred tax assets	1,005,000	1,005,000
Prepaid expenses and other current assets	486,930	394,595
Total current assets	21,243,573	19,242,017
Property and equipment, at cost	5,955,273	6,722,721
Less accumulated depreciation and amortization	(3,236,902)	(3,727,123)
Net property and equipment	2,718,371	2,995,598
Other assets, net	22,500	22,500
	----- \$23,984,444 =====	----- \$22,260,115 =====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 706,259	\$ 521,496
Accrued expenses	154,135	368,942
Accrued income taxes	1,135,931	601,776
Accrued payroll expenses	331,457	408,884
Deferred revenue	591,257	642,551
Customer deposits	45,800	40,000
	-----	-----
Total current liabilities	2,964,839	2,583,649
Deferred tax liabilities	225,000	225,000
Commitments and contingencies		
Stockholders' equity:		
Common stock - \$.004 par value, 20,000,000 shares authorized, 5,177,133 and 4,944,603 shares issued and outstanding at March 31, 1995 and December 31, 1994, respectively	20,709	19,778
Additional paid-in capital	17,879,525	17,675,642
Unrealized loss on short-term investments	(632)	(46,279)
Accumulated earnings	2,895,003	1,802,325
	-----	-----
Total stockholders' equity	20,794,605	19,451,466
	-----	-----
	\$23,984,444	\$22,260,115
	=====	=====

</TABLE>

See accompanying notes.

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CYTOCARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 1995 AND 1994
(UNAUDITED)

<TABLE>

<CAPTION>

	1995	1994
	-----	-----
<S>	<C>	<C>
Revenues:		
Net equipment sales	\$1,395,165	\$1,535,000
Procedures and maintenance fees and sale of laser catheters	3,188,446	2,837,289
Interest income	230,241	119,400
	-----	-----
Total revenues	4,813,852	4,491,689
Costs and expenses:		
Cost of equipment sales	586,817	677,366
Costs of procedures and maintenance fees and sale of laser catheters	1,343,392	1,002,940
Research and development	215,914	387,764
Selling	516,922	656,794
General and administrative	457,133	613,147
Other expense	996	17,834
	-----	-----
Total costs and expenses	3,121,174	3,355,845
	-----	-----
Income before provision for income taxes	1,692,678	1,135,844
Provision for income taxes	600,000	171,000
	-----	-----
Net income	\$1,092,678	\$ 964,844
	=====	=====
Earnings per share	\$.20	\$.18
	=====	=====
Number of shares used in the computation of earnings per share	5,437,539	5,350,582
	=====	=====

</TABLE>

See accompanying notes.

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CYTOCARE, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

THREE MONTHS ENDED MARCH 31, 1995
(UNAUDITED)

<TABLE>
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	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED (DEFICIT)	UNREALIZED LOSS ON SHORT-TERM INVESTMENTS	
	NUMBER OF SHARES	AMOUNT				TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1994	4,944,603	\$19,778	\$17,675,642	\$1,802,325	\$ (46,279)	\$19,451,466
Common Stock options exercised	232,530	931	203,883	---	---	204,814
Unrealized loss on short-term investments	---	---	---	---	45,647	45,647
Net income	---	---	---	1,092,678	---	1,092,678
Balance at March 31, 1995	5,177,133	\$20,709	\$17,879,525	\$2,895,003	\$ (632)	\$20,794,605

</TABLE>

See accompanying notes.

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CYTOCARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 1994 AND 1995
(UNAUDITED)

<TABLE>
<CAPTION>

	1995	1994
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 1,092,678	\$ 964,844
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	234,461	203,788
Provision for doubtful accounts	---	15,000
Provision for related party loan	635	18,412
Unrealized losses/(gains) on short-term investments	---	(9,513)
Changes in assets and liabilities:		
Accounts receivable	212,001	(33,446)
Inventories	(301,087)	(39,463)
Prepaid expenses and other current assets	(92,335)	306,586

Accounts payable and accrued expenses	(30,044)	(65,679)
Accrued payroll expenses	(77,427)	117,562
Accrued income taxes	534,155	162,800
Deferred revenue	(51,294)	(35,057)
Customer deposits	5,800	(130,750)
Other, net	---	99,561
	-----	-----
Net cash provided by (used in) operating activities	1,527,543	1,574,645
	-----	-----
Cash flows from investing activities:		
Purchase of investments available for sale	(8,009,036)	(9,231,448)
Sale of investments available for sale	5,139,508	9,161,192
Related party loan	(636)	(18,412)
Purchase of property and equipment	(169,481)	(474,872)
Disposals of property and equipment	212,248	8,396
	-----	-----
Net cash used in investing activities	(2,827,397)	(555,144)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock	204,814	41,374
	-----	-----
Net increase (decrease) in cash and equivalents	(1,095,040)	1,060,875
Cash and equivalents at beginning of period	1,261,596	2,410,363
	-----	-----
Cash and equivalents at end of period	\$ 166,556	\$3,471,238
	=====	=====
Supplemental cash flow disclosures:		
Cash paid during the period for:		
Income taxes	\$ 65,490	\$ 8,200
Interest	\$ ---	---

</TABLE>

See accompanying notes.

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CYTOCARE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1995

A. ORGANIZATION AND OPERATIONS OF THE COMPANY

Cytocare, Inc. (the "Company" or "Cytocare"), a Delaware corporation formed in October 1984, develops, manufactures and markets medical devices and therapeutics to treat urological diseases. Medstone, a wholly-owned subsidiary, manufactures, markets and maintains lithotripters, and is expanding its Fee-for-Service Program that supplies lithotripsy equipment to providers on per procedure basis. Endocare, the Company's endourology subsidiary, manufactures equipment and devices to treat urologic soft tissue diseases. A majority of the Company's consolidated revenues come from Medstone's lithotripsy business.

The Company, as a manufacturer of capital medical devices, has been vertically integrating by offering its medical devices directly to providers on a fee-per-procedure basis. Medstone currently offers mobile lithotripsy services using five mobile systems in the Western United States on a fee-per-procedure basis. Medstone intends to expand efforts to grow this medical service side of its business.

The Company's tentative business plan is to separate its operating business units and revenue streams into independent operations. Management hopes that such a restructuring will benefit shareholders by bringing about operational advantages as well as more discriminating and favorable valuations of Cytocare's units.

B. BASIS OF PRESENTATION

In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements include all adjustments (which consist only of normal recurring adjustments) necessary for a fair presentation

of its consolidated financial position at March 31, 1995 and consolidated results of operations and cash flows for the periods presented. Certain prior period balances have been reclassified to conform with current period presentation. Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information and disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted and should be read in conjunction with the Company's audited financial statements included in the Company's 1994 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 1995. Results of operations for the three months ended March 31, 1995 are not necessarily indicative of results to be expected for the full year.

C. PER SHARE INFORMATION

Per share information is presented in the accompanying consolidated statements of operations based upon the weighted average number of common and common equivalent shares outstanding. Common equivalent shares result from the assumed exercise of outstanding dilutive securities when applying the treasury stock method. Fully diluted per share information is not presented for periods in which the effect is antidilutive.

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D. INVENTORIES

At March 31, 1995 and December 31, 1994, inventories consisted of the following:

<TABLE>
<CAPTION>

	March 31, 1995	December 31, 1994
<S>	<C>	<C>
Raw materials	\$1,321,814	\$1,194,369
Work in process	162,289	181,416
Finished goods	424,074	231,305
	-----	-----
	\$1,908,177	\$1,607,090
	=====	=====

</TABLE>

E. INCOME TAXES

The Company adopted Financial Accounting Standards Board Statement No. 109 in 1991. The effect of the adoption was to permit the Company to reduce its income tax expense by the utilization of the net operating loss carryforward rather than treating the realization of the net operating loss carryforward as an extraordinary credit.

F. SHORT-TERM INVESTMENTS

The Company adopted Financial Accounting Standards Board Statement No. 115 as of January 1, 1994. The effect of the adoption is that the Company classifies its entire investment portfolio as available-for-sale. Accordingly, unrealized holding gains and losses on short-term investments are carried as a separate component of stockholder's equity.

G. CONTINGENCIES

The Company is a defendant in two related class action lawsuits filed by two shareholders of the Company alleging that adverse material information was not disclosed at the time of the initial public offering and in subsequent periods. On May 4, 1992, the district court granted summary judgment in one of the actions in favor of the Company on all claims. On July 9, 1992, the district court granted the Company's motion to dismiss the second action. In October 1994, the Company received the opinion of the Ninth Circuit of Appeals affirming in part and reversing in part the United States District Court's decision granting summary judgment in favor of the Company and several officers. The complaints allege principally that adverse material information was not disclosed at the time of the initial public offering in June 1988. The Company intends to proceed to trial on any remaining matters. The ultimate

outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result, has been made in the financial statements.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in conjunction with the Company's audited financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 1993 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 1995.

RESULTS OF CONSOLIDATED OPERATIONS

GENERAL

As previously announced, the Company plans to spin out its business units into independent companies in hopes of achieving a fairer market valuation for our shareholders and providing operational focus. We are making progress on this unbundling plan. To date, the Company's consolidated revenues have come primarily from Medstone's lithotripsy business. The Company also realized revenue from sales of its disposable laser catheters that is included with procedures and maintenance fees.

The Company began the year with approximately \$14.4 million in cash and marketable securities, no debt, inventories of \$1.6 million, and total assets of \$22.3 million. The Company ended the quarter with approximately \$16.2 million in cash and marketable securities, no debt, inventories of \$1.9 million, and total assets of \$24.0 million.

RESULTS OF OPERATIONS

Three Months Ended March 31, 1995 Compared to Three Months Ended March 31, 1994

The Company recognized revenue of \$4.8 million for the first quarter of 1995, or a 7% increase, compared to \$4.5 million during the first quarter of 1994. Equipment revenues remained approximately equal on an equal number of units shipped for both periods. Equipment upgrade revenues decreased by 67% in the first quarter of 1995 compared to the first quarter of 1994 due to the decrease in the number of customer units for which the upgrades are available. The recurring revenue stream from procedure and maintenance revenues increased by 35% in the current period from the comparable period in the prior year as the number of patients treated on the Medstone lithotripters in the United States increased by 29%. Offsetting this increase is a 59% revenue decrease in the ProLase II, the Company's laser catheter product, as both number of units shipped and per unit revenue declined as lower cost competition has forced market changes.

Interest income increased by 93% in the three months ended March 31, 1995 compared to the same period in 1994 due to a marked increase in investment yield from upward market pressures and a \$3,240,000 higher invested balance.

Cost of sales on equipment sales and equipment upgrades decreased to 42% of sales in the first

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quarter of 1995 compared to 44% of sales in the comparable quarter in 1994 due to the mix of lithotripter units and less equipment upgrades. The cost of sales related to recurring revenue increased to 42% of revenues in the first quarter of 1995 from 35% of revenues in the first quarter of 1994 due to increased expenses to support the expanding mobile lithotripsy routes. As a percentage of sales revenue (excluding interest), the cost of equipment, procedures, maintenance and laser catheters increased to 42% for the first

quarter of 1995 compared to 38% for the first quarter of 1994.

Research and development expenses decreased by 44% during the three months ended March 31, 1995 compared to the corresponding period of 1994, primarily due to a reduction in headcount and supplies expenses as the Company redefines its efforts associated with prostate diseases.

Selling expenses decreased by 21% in the first quarter of 1994 when compared to 1994 primarily due to the decreased consulting expenses and lower bad debt expense.

General and administrative expenses decreased by 25% in the first quarter of 1995 compared to the same quarter in the prior year due to lower headcount in the Company's divisional structure, lower occupancy costs due to the Company's lower cost facility, and lower legal costs due to 1994's legal actions.

Other expense decreased during the first quarter of 1995 due to the decrease in legal costs incurred in connection with the class action lawsuit filed against the Company.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 1995, the Company had approximately \$16.2 million in cash and equivalents. These funds were generated from the initial public offering of the Company's common stock in June 1988 and from earnings, although funds generated from operations in the first quarter of 1995 are not necessarily indicative of results to be expected for the full year. Currently, the Company's short-term capital requirements are considered by management to be minor, with the funding of current operations and building of additional possible mobile vans being supported by the current revenue cash flow. With the Company's move into its new lower cost facility, operating overhead is significantly reduced, with a corresponding reduction in funds required for operations.

The Company's long-term capital expenditure requirements will depend upon numerous factors, including the progress of the Company's research and development programs, the time required to obtain regulatory approvals, the resources that the Company devotes to the development of self-funded products, proprietary manufacturing methods and advanced technologies, the ability of the Company to obtain additional licensing arrangements and to manufacture products under those arrangements, and the demand for its products if and when approved and possible acquisitions of products, technologies and companies.

The Company believes that its existing working capital and funds anticipated to be generated from operations will be sufficient to meet the cash needs for continuation of its present operations during 1995.

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CYTOCARE, INC.

PART II. OTHER INFORMATION

- Item 1. Legal Proceedings

Previously reported.
- Item 2. Changes in Securities

None
- Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are included herein:

(11.1) Statements re: Computation of Per Share Information

(27) Financial Data Schedule

(b) There were no reports on Form 8-K filed with the Commission during the quarter ended March 31, 1995.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CYTOCARE, INC.

Date: May 10, 1995

DAVID V. RADLINSKI

David V. Radlinski,
Chief Financial Officer,
(Principal financial and
accounting officer)

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CYTOCARE, INC.
COMPUTATION OF PER SHARE INFORMATION

<TABLE>
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	THREE MONTHS ENDED MARCH 31,	
	1995	1994
<S>	<C>	<C>
Earnings:		
Net income	\$1,092,678	\$ 964,844
	=====	=====
Computation of primary per share information:		
Shares:		
Weighted average number of shares outstanding	5,156,982	4,888,072
Add effect of outstanding options and warrants (a)	280,557	462,510
	-----	-----
Number of shares outstanding, as adjusted	5,437,539	5,350,582
	=====	=====
Primary earnings per share:		
Net income	\$.20	\$.18
	=====	=====
Computation of fully diluted per share information:		
Shares:		
Weighted average number of shares outstanding	5,156,982	4,888,072
Add effect of outstanding options and warrants (a)	283,201	472,223
	-----	-----
Number of shares outstanding as adjusted	5,440,183	5,360,295
	=====	=====

Fully diluted earnings per share:

Net income	\$.20	\$.18
	=====	=====

</TABLE>

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(a) As determined by the application of the treasury stock method.

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