

SRI SURGICAL EXPRESS INC
Form 10-Q
August 08, 2011
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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 June 30, 2011

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: 001-34953

SRI/Surgical Express, Inc.

(Exact name of registrant as specified in its charter)

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Florida
(State of Incorporation)

59-3252632
(I.R.S. Employer

Identification No.)

12425 Race Track Road

Tampa, Florida 33626

(Address of Principal Executive Offices)

(813) 891-9550

(Registrant's Telephone Number)

Indicate by check 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). 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 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

Number of outstanding shares of each class of registrant's common stock as of August 3, 2011:

Common Stock, par value \$.001 6,503,128

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****SRI/SURGICAL EXPRESS, INC.****BALANCE SHEETS**

(In thousands)

	June 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Cash and cash equivalents	\$ 981	\$ 1,327
Accounts receivable, net	13,602	12,117
Inventories, net	3,385	3,398
Prepaid expenses and other assets	1,463	2,092
Reusable surgical products, net	19,282	17,369
Property, plant and equipment, net	24,753	25,405
Total assets	\$ 63,466	\$ 61,708
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Notes payable	\$ 9,224	\$ 5,561
Accounts payable	8,983	8,768
Employee-related accrued expenses	1,362	1,642
Other accrued expenses	2,259	2,493
Mortgage payable	3,673	3,780
Bonds payable	0	520
Total liabilities	25,501	22,764
Shareholders' equity:		
Preferred stock-authorized 5,000,000 shares of \$0.001 par value; no shares issued and outstanding at June 30, 2011 and December 31, 2010.		
Common stock-authorized 30,000,000 shares of \$0.001 par value; issued and outstanding 6,503,128 and 6,485,678 at June 30, 2011 and December 31, 2010, respectively.		
Additional paid-in capital	7	6
Retained earnings	33,983	33,664
	3,975	5,274
Total shareholders' equity	37,965	38,944
Total liabilities and shareholders' equity	\$ 63,466	\$ 61,708

The accompanying notes are an integral part of these financial statements.

Table of Contents**SRI/SURGICAL EXPRESS, INC.****STATEMENTS OF OPERATIONS****(In thousands, except per share data)****(unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues	\$ 26,781	\$ 25,047	\$ 54,111	\$ 49,658
Cost of revenues	21,264	19,207	42,684	38,886
Gross profit	5,517	5,840	11,427	10,772
Distribution expenses	2,120	1,833	4,256	3,751
Selling and administrative expenses	4,117	4,191	8,287	8,673
Loss from operations	(720)	(184)	(1,116)	(1,652)
Interest expense	165	198	330	341
Other income	(90)	(90)	(181)	(180)
Loss before income taxes	(795)	(292)	(1,265)	(1,813)
Income tax expense	15	21	34	33
Net loss	\$ (810)	\$ (313)	\$ (1,299)	\$ (1,846)
Loss per share:				
Basic	\$ (0.13)	\$ (0.05)	\$ (0.20)	\$ (0.29)
Diluted	\$ (0.13)	\$ (0.05)	\$ (0.20)	\$ (0.29)
Weighted average common shares outstanding:				
Basic	6,478	6,460	6,465	6,460
Diluted	6,478	6,460	6,465	6,460

The accompanying notes are an integral part of these financial statements.

Table of Contents**SRI/SURGICAL EXPRESS, INC.****STATEMENTS OF CASH FLOWS****(In thousands)****(unaudited)**

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$ (1,299)	\$ (1,846)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,605	1,629
Amortization of reusable surgical products	2,959	3,084
Stock-based compensation expense	319	311
Provision for doubtful accounts	18	16
Reduction for slow moving inventory	(30)	(25)
Provision for slow moving reusable surgical products and Shrinkage	903	771
Change in operating assets and liabilities:		
Increase in accounts receivable	(1,503)	(1,682)
Decrease in inventories	43	302
Decrease (increase) in prepaid expenses and other assets	629	(35)
Increase in accounts payable	214	359
Decrease in employee-related and other accrued expenses	(513)	(445)
Net cash provided by operating activities	3,345	2,439
Cash flows from investing activities:		
Purchases of property, plant and equipment	(953)	(466)
Purchases of reusable surgical products	(5,775)	(3,486)
Net cash used in investing activities	(6,728)	(3,952)
Cash flows from financing activities:		
Borrowings on notes payable	66,464	52,891
Repayments on notes payable	(62,801)	(51,305)
Proceeds from reissuance of bonds	6,045	
Repayment of bonds	(6,565)	
Repayments on mortgage payable	(107)	(107)
Proceeds from exercise of stock options	1	
Net cash provided by financing activities	3,037	1,479
Decrease in cash and cash equivalents	(346)	(34)
Cash and cash equivalents at beginning of period	1,327	802
Cash and cash equivalents at end of period	\$ 981	\$ 768
Supplemental cash flow information:		
Cash paid for interest	\$ 255	\$ 234

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Cash paid for income taxes	\$	167	\$	93
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The accompanying notes are an integral part of these financial statements.

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SRI/SURGICAL EXPRESS, INC.

NOTES TO FINANCIAL STATEMENTS

(unaudited)

NOTE A BASIS OF PRESENTATION

The accompanying unaudited financial statements of SRI/Surgical Express, Inc. (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the Securities and Exchange Commission's (the SEC) instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they omit or condense footnotes and certain other information normally included in complete financial statements prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments of a normal recurring nature that are necessary to present fairly the financial information for the interim periods reported have been made. The accompanying unaudited financial statements should be read in conjunction with the financial statements and notes included in the Company's Form 10-K for the year ended December 31, 2010, filed with the SEC. The results of operations for the six months ended June 30, 2011 are not necessarily indicative of the results that can be expected for the entire year ending December 31, 2011.

The Company presents an unclassified balance sheet as a result of the extended amortization period (predominantly three to six years) of its reusable surgical products. The Company provides reusable surgical products to its customers on a per use basis similar to a rental arrangement.

The Company operates on a 52-53 week fiscal year ending the Sunday nearest December 31. The unaudited financial statements are reflected as of June 30, 2011 and 2010 for presentation purposes only. The actual end of each period was July 3, 2011 and July 4, 2010, respectively. There are 13 weeks and 26 weeks included for each of the three and six month periods ended June 30, 2011 and 2010, respectively.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

Management is required to make estimates and assumptions during the preparation of financial statements and accompanying notes in conformity with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates and assumptions.

Accounts Receivable, net

The Company has accounts receivable from hospitals and surgery centers. The Company does not believe that there is sufficient credit risk associated with those receivables to require a form of collateral from its customers. The allowance for doubtful accounts at June 30, 2011 and December 31, 2010, was \$120,000 and \$122,000, respectively. The allowance for doubtful accounts relates to accounts receivable not expected to be collected and is based on management's assessment of specific customer balances, the overall aging of the balances, and the financial stability of the customers.

Inventories, net

Inventories consist of raw materials, principally consumables, supplies, and disposable surgical products and finished goods consisting of assembled packs of various combinations of raw materials and disposable accessory packs purchased from third parties. Inventories are valued at the lower of cost or market, with cost being determined on the first-in, first-out method.

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As of June 30, 2011 and December 31, 2010, inventory consists of the following:

	June 30, 2011	December 31, 2010
	(in 000 s)	
Raw materials	\$ 889	\$ 1,053
Finished goods	2,577	2,457
	3,466	3,510
Less: Inventory reserve	(81)	(112)