MERIDIAN MEDICAL TECHNOLOGIES INC
Form 10-Q
March 07, 2001

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended JANUARY 31, 2001

[ ] 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: 0-5958

MERIDIAN MEDICAL TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	52-0898764
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
10240 OLD COLUMBIA ROAD, COLUMBIA, MARYLAND	21046
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 410-309-6830

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 [ ]

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

CLASS	OUTSTANDING AS OF FEBRUARY 28, 2001
Common Stock, $.10 par value	3,040,642 Shares

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INTRODUCTION

Meridian Medical Technologies, Inc. (hereinafter referred to as the "Company" or

"MMT" or "Meridian") is a medical technology company operating in two segments: Pharmaceutical Systems and Cardiopulmonary Systems.

Pharmaceutical Systems - The Pharmaceutical Systems segment consists of the Commercial Systems and Government Systems businesses, both of which utilize the Company's auto-injector technology. The principal source of Commercial Systems revenue currently is the EpiPen(R) family of auto-injectors, which are prescribed for severe allergic reactions and other causes of anaphylaxis. The Company expects, over the coming years, to realize significant revenue growth from new commercial applications of its auto-injector products. Additionally, revenue growth is anticipated from alliances that introduce new products in auto-injectors and other drug delivery devices. Current new therapies under development or in negotiations for delivery in auto-injectors include an anti-seizure drug for management of breakthrough seizures and a drug for hypoglycemia. Government Systems revenues are principally generated from auto-injector products and services marketed to the U.S. Department of Defense (DoD), and other federal, state, local, and foreign governments. Marketing efforts from this unit will focus on maintaining the Industrial Base Maintenance Contract with the U.S. Department of Defense, as well as expanding international markets and domestic preparedness applications.

Cardiopulmonary Systems - The Cardiopulmonary Systems segment utilizes the Company's electrocardiology and telemedicine technologies. Telemedicine sales currently are the principal source of revenue. In fiscal 2000, the Company introduced its PRIME ECG(TM) electrocardiac mapping system in Europe after several years of development. Management believes that PRIME ECG has the potential to become the standard ECG system of the future and to generate significant revenues and profits for the Company.

FORWARD LOOKING STATEMENTS

This report and other written and oral statements made by the Company may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act with respect to financial performance and other financial and business matters. Forward-looking statements are typically identified by future or conditional verbs or similar expressions regarding events that have yet to occur. These forward-looking statements are based on the Company's current expectations and are subject to numerous assumptions, risks and uncertainties. The following factors, among others, could cause actual results to differ materially from forward-looking statements: economic and competitive conditions; capital availability or costs; fluctuations in demand for the Company's products; government procurement timing and policies; technological challenges associated with the development and manufacture of the Company's products; commercial acceptance of the Company's products; delays, costs and uncertainties associated with clinical testing and government approvals required to market new drugs and medical devices; availability and quality of raw materials; success and timing of cost reduction and quality enhancement programs; regulatory and contract compliance; relationships with significant customers; adequacy of product liability insurance; ability to obtain, timing and success of marketing representatives and strategic alliances; and adequacy of intellectual property protection. Meridian assumes no duty to update forward-looking statements.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

MERIDIAN MEDICAL TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

Assets	January 31 2001
	(unaudited)
Current assets:	
Cash and cash equivalents	$104
Restricted cash	288
Receivables, less allowances of $455 and $524, respectively	7,556
Inventories	8,707
Deferred income taxes	1,937
Other current assets	919
Total current assets	19,511
Property, plant and equipment	23,907
Less - Accumulated depreciation	(8,501)
Net property, plant and equipment	15,406
Deferred financing fees	605
Capitalized software costs, net	1,272
Excess of cost over net assets acquired, net	5,808
Other intangible assets, net	1,455
Total assets	$44,057
Liabilities and Shareholders' Equity	
Current liabilities:	
Accounts payable and other accrued liabilities	$5,148
Note payable to bank	3,394
Customer deposits	179
Current portion of long-term debt	1,000
Total current liabilities	9,721
Long-term debt - notes payable, net of discount	16,443
Deferred income taxes	1,765
Other non-current liabilities	837
Total liabilities	28,766
Shareholders' equity:	
Common stock (voting and non-voting)	
Par value $.10 per share; 18,000,000 shares authorized;	

3,038,641 and 3,001,962 shares issued	304
Additional capital	32,644
Accumulated other comprehensive loss - cumulative translation adjustment	(185)
Accumulated deficit	(17,242)
Unearned stock option compensation	(17)
Treasury stock, 30,176 shares at cost	(213)
Total shareholders' equity	15,291
Total liabilities and shareholders' equity	$44,057

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

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MERIDIAN MEDICAL TECHNOLOGIES, INC.
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MERIDIAN MEDICAL TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

(unaudited)

	Three Months Ended January 31,		Six Mon Janu
	2001	2000	2001
Net sales	$14,022	$12,066	$27,007
Cost of sales	8,085	7,296	15,932
Gross profit	5,937	4,770	11,075
Selling, general, and administrative expenses	2,601	1,969	4,568
Research and development expenses	719	716	1,502
Depreciation and amortization	877	924	1,748
	4,197	3,609	7,818
Operating income	1,740	1,161	3,257
Other (expense) income:			
Interest expense	(732)	(831)	(1,433)
Other income (expense)	(23)	9	(24)
	(755)	(822)	(1,457)
Income before income taxes	985	339	1,800

Provision for income taxes	500	132	890
Net income	$ 485	$ 207	$ 910
Net income per share:			
Basic	$ .16	$ .07	$ .30
Diluted	$ .14	$ .06	$ .26
Weighted average shares:			
Basic	3,037	2,995	3,023
Diluted	3,520	3,228	3,568

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

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MERIDIAN MEDICAL TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Six Months Ended January 31, 2001	2000
OPERATING ACTIVITIES:		
Net income	$ 910	$ 561
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Depreciation and amortization	1,748	1,730
Amortization of capitalized software costs	157	--
Amortization of notes payable discount and deferred financing fees	204	184
Changes in assets and liabilities		
Receivables	(327)	(783)
Inventories	(646)	(2,316)
Other current assets	299	96
Accounts payable and other liabilities	(3,141)	1,717
Other	42	92
Net cash (used for) provided by operating activities	(754)	1,281
INVESTING ACTIVITIES		
Purchase of fixed assets	(646)	(571)

Increase in restricted cash	(3)	(4)
Net cash used for investing activities	(649)	(575)
FINANCING ACTIVITIES		
Net proceeds from line of credit	1,651	215
Payment on long-term debt	(526)	(670)
Payment of deferred financing fees	--	(20)
Proceeds from issuance of common stock	303	--
Net cash provided by (used for) financing activities	1,428	(475)
Net increase in cash	25	231
Cash and cash equivalents at beginning of period	79	227
Cash and cash equivalents at end of period	$ 104	$ 458

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company's financial position as of January 31, 2001 and July 31, 2000, the results of its operations for the three-month and six-month periods ended January 31, 2001 and 2000, and its cash flows for the six-month periods ended January 31, 2001 and 2000. The results of operations for the three-month and six-month periods ended January 31, 2001 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2001. Certain prior period amounts have been reclassified to conform to current period presentation. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and financial statements and notes thereto included in the Meridian Medical Technologies, Inc. 2000 Form 10-K filed with the Securities and Exchange Commission.

2. The Company considers all investments with a maturity of three months or less on their acquisition date to be cash equivalents. Restricted cash consists of cash pledged as collateral on an outstanding letter of credit supporting the working capital line of credit at the Company's Belfast subsidiary.

3. Inventories consisted of the following:

	January 31, 2001	July 31, 2000

Components and subassemblies	$5,587	$4,673
Work in process	3,366	3,250
Finished goods	597	884
	9,550	8,807
Less: inventory valuation allowance	(843)	(746)
	$8,707	$8,061

4. A reconciliation of net income to comprehensive income is as follows:

	Three Months Ended January 31,		Six Months January
	2001	2000	2001
Net income	$485	$207	$910
Foreign exchange translation adjustment	7	27	(31)
Comprehensive income	$492	$234	$879

5. In accordance with Statement of Financial Accounting Standards No. 86, the Company began amortizing capitalized software costs relating to its PRIME ECG product during the third quarter of fiscal 2000, as it was available for sale. Amortization, which is being provided on a 5 year, straight-line basis, totaled $157,000 for the six months ended January 31, 2001, and is included in cost of sales.

6. Segment information is as follows:

	Three Months Ended January 31,		
	2001	2000	
Revenues:			
Pharmaceutical systems	$13,476	$11,811	$
Cardiopulmonary systems	546	255	
Total revenues	$14,022	$12,066	$

Operating income (loss):		
Pharmaceutical systems	$2,619	$1,906
Cardiopulmonary systems	(879)	(745)
Total operating income	$1,740	$1,161

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

THE QUARTER IN REVIEW

MMT's net income was $485,000 ($0.16 basic and $0.14 diluted earnings per share) on sales of $14.0 million for the quarter ended January 31, 2001, the second quarter of fiscal 2001. This compares with net income of $207,000 ($0.07 basic and $0.06 diluted earnings per share) on sales of $12.1 million in the same period of fiscal 2000. This represents a 16.2% increase in revenues, a 134.3% increase in net income, and a 133.3% increase in diluted earnings per share from the same quarter of the prior year. On a year-to-date basis, MMT had net income of $910,000 ($0.30 basic and $0.26 diluted earnings per share) on sales of $27.0 million for the six months ended January 31, 2001. This compares with net income of $561,000 ($0.19 basic and $0.17 diluted earnings per share) on sales of $23.8 million in the same period of fiscal 2000. Weighted average diluted shares outstanding for the quarter and year-to-date were higher than the same periods of the prior year primarily due to the increased market price of the Company's stock.

Revenues of MMT's two business segments and total gross profit for the three-month and six-month periods ended January 31, 2001 and 2000 are as follows:

	Three Months Ended January 31,		Six Months E January 31
($ in thousands)	2001	2000	2001
Pharmaceutical Systems:			
Commercial Systems	$ 6,168	$ 4,800	$ 14,018
Government Systems	7,308	7,011	11,983
Total Pharmaceutical Systems	13,476	11,811	26,001
Cardiopulmonary Systems	546	255	1,006
Total Revenues	14,022	12,066	27,007
Gross Profit	$ 5,937	$ 4,770	$ 11,075
Gross Profit %	42.3%	39.5%	41.0%
EBITDA (1)	$ 2,673	$ 2,094	$ 5,138

(1) EBITDA represents operating income plus or minus other income (expense) and plus depreciation and amortization. EBITDA is not a measure of performance or financial condition under generally accepted accounting principles, but is presented to provide additional information related to operating results. EBITDA should not be considered in isolation or as a substitute for other measures of financial performance or liquidity under generally accepted accounting principles. While EBITDA is frequently used as a measure of operations and the ability to meet debt service requirements, it is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the method of calculation.

Commercial Systems revenue for the quarter ended January 31, 2001 was $6.2 million, $1.4 million higher than in the comparable prior year period. The 28.5% increase in revenue primarily resulted from higher unit sales of EpiPens in the current quarter compared to the same quarter in the prior year. On a year-to-date basis, Commercial Systems revenue was $14.0 million for the six months ended January 31, 2001, 28.3% higher than the same period of fiscal 2000. R&D revenue also increased to $998,000 and $1,715,000 for the three and six months ended January 31, 2001, compared to the $541,000 and $875,000 of revenues in the same periods of the prior year. This increase was due to the timing and number of projects, reflecting the variable nature of R&D revenue from period to period.

Government Systems revenues were $7.3 million in the quarter ended January 31, 2001 compared to $7.0 million in the second quarter of fiscal 2000. Revenue for the six months ended January 31, 2001 was $12.0 million compared to $12.5 million for the same period of the prior year. Domestic Preparedness sales were $388,000 and $487,000 for the three and six months ended January 31, 2001, respectively, versus $84,000 and $108,000 for the three and six month periods ended January 31,2000. DoD and foreign government revenues decreased due to the timing of procurements by those customers.

Cardiopulmonary Systems revenues were $546,000 and $1.0 million for the three and six months ended January 31, 2001, respectively. This compares to $255,000 and $396,000 of revenue for the three and six-month periods ended January 31, 2000. This increase was due to stronger telemedicine sales during the quarter and first six months. The Company continued to invest in the development of its PRIME ECG sales and marketing network in Europe during the quarter. Additionally, the Company is continuing its ongoing multi-site clinical study of PRIME ECG, which is expected to be completed during the third quarter.

Gross profits were $5.9 million or 42.3% of revenues during the second quarter of 2001, compared to $4.8 million or 39.5% for the same period of the prior year. For the first six months of fiscal 2001, gross profits were $11.1 million or 41.0% of revenues, compared to $9.5 million or 39.7% for the same period last year. The comparable gross profit percentage is a result of product price, cost, and sales mix.

Operating costs were $4.2 million and $7.8 million for the three and six months ended January 31, 2001, respectively. This is compared to $3.6 million and $6.8 million incurred in the same periods of last year. Selling, general and administrative expenses (SG&A) were $632,000 and $716,000 higher than the same periods of the prior year primarily due to the Company's investment in the

marketing infrastructure for the PRIME ECG, costs associated with the ongoing multi-site clinical trial, and initial expenses relating to the building of a sales and marketing infrastructure for specialty pharmaceuticals.

Interest expense was $732,000 in the second quarter of fiscal 2001 and $1.4 million for the six months ended January 31, 2001. This represents a decrease from fiscal 2000 due to lower average debt balances, partially offset by higher interest rates.

The provision for income taxes was $890,000 for the six months ended January 31, 2001, reflecting an estimated effective tax rate of 49% for the year. The tax provision incorporates estimated benefits from utilization of operating loss carryforwards, offset by permanent book to tax differences and losses from foreign subsidiaries. The Company takes no consolidated tax benefit from the foreign losses. U.S. pre-tax income, taxed at the statutory rate after permanent and temporary differences, is higher than the consolidated pre-tax income, which inflates the effective rate.

LIQUIDITY AND CAPITAL RESOURCES

Total cash as of January 31, 2001 was $104,000, an increase of $25,000 from July 31, 2000. The Company used $753,000 in cash from operations in the first six months of fiscal 2001 attributable mostly to increased operating working capital requirements including higher accounts receivables and inventories, and lower accounts payable. Investing activities in the first half of fiscal 2001 used $649,000 of cash, mostly for capital additions. Financing activities generated $1.4 million, primarily from net borrowings on existing debt facilities and the sale of stock through stock option and warrant exercises. Availability under the working capital lines of credit was $3.3 million at January 31, 2001.

Working capital at January 31, 2001 was $9.8 million, up from $7.6 million at July 31, 2000. The increase was primarily attributable to higher inventories ($646,000) and lower accounts payable and accrued expenses ($3.1 million), offset by higher notes payable to bank ($1.7 million). At January 31, 2001, accounts receivable were $7.6 million, representing 42 days-sales-outstanding, and inventories were $8.7 million representing a turn-over rate of 3.8 times per year.

OUTLOOK

The Company continues to anticipate that the core Pharmaceutical Systems segment of the business will have a strong overall year, which would result in double digit growth in profits before tax for the Company. Demand for EpiPen remains strong as evidenced by the product's sales performance in the first half of the fiscal year. The first and second quarters are historically the unit's lowest sales quarters due to the seasonality associated with EpiPen, sales of which historically have been highest in the spring and summer months. Overall, sales of EpiPen are expected to increase by approximately twenty percent as compared to sales in fiscal 2000.

Government Systems' revenues for the remainder of fiscal 2001 are expected to be lower than for the first six months of the year. The Company's new

multi-chambered auto-injector is in the FDA approval process. The FDA has requested additional information that the Company is providing. While the Company fully expects the MA product will receive FDA approval, previously forecasted sales associated with this product are now planned for next fiscal year. Overall gross margins for the Pharmaceutical Systems group are expected to increase on a full-year basis due to forecasted revenue increases from higher margin Commercial Systems products.

The Company will continue the early phase of developing its specialty pharmaceutical group during the second half of fiscal 2001. Focused on central nervous system (CNS) drugs, utilizing the Company's strong position in auto-injector technology, the Company intends to build the required sales and marketing infrastructure to support the initial product launch currently anticipated during fiscal 2002.

The Cardiopulmonary Systems segment of the business is expected to continue to generate increased sales through its telemedicine products and through the sales of PRIME ECG. The Company currently anticipates filing for a 510(k) marketing approval with the FDA for PRIME ECG during the fourth quarter of fiscal 2001, subject to successful completion of ongoing clinical trials. The Company anticipates that initial sales of PRIME ECG in the United States could occur by the end of calendar 2001, subject to receipt of FDA approval. The Company anticipates sales of the product in Europe will increase during the course of the fiscal year.

The Company expects to generate increased EBITDA during fiscal year 2001. The Company expects to invest substantial amounts in developing the market for PRIME ECG and expects to increase its expenditures in research and development focused on further applications for its auto-injector technology. Additionally, the Company expects to reduce its debt during the fiscal year through cash generated by operations and/or a placement of equity securities.

ITEM 3. Quantitative and Qualitative Disclosure About Market Risk

The Company's earnings are affected by fluctuations in the value of the U.S. dollar, as compared to foreign currencies, as a result of transactions in foreign markets. At January 31, 2001, the result of a uniform 10% strengthening or weakening in the value of the dollar relative to the currencies in which the Company's transactions are denominated would have resulted in a $122,000 increase or decrease, respectively, in operating income for the six months ended January 31, 2001. This calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar. In addition to the direct effects of changes in exchange rates, which change the dollar value of the resulting sales, changes in exchange rates also affect the volume of sales or the foreign currency sales price as competitors' services become more or less attractive. The Company's sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices.

The Company is exposed to changes in interest rates as a result of its outstanding debt. Total short-term and long-term debt outstanding at January 31, 2001 was $20.8 million, consisting of $6.4 million in variable rate borrowing and $14.4 million in fixed rate borrowing. At this level of variable rate borrowing, a hypothetical 10% increase in interest rates would have decreased

pre-tax earnings by approximately $29,000 for the six months ended January 31, 2001. At January 31, 2001, the fair value of the Company's fixed rate debt outstanding was estimated at $15.0 million. A hypothetical 10% change in interest rates would not result in a material change in the fair value of the Company's fixed rate debt. The Company does not currently utilize any derivative financial instruments related to its interest rate exposure.

PART II - OTHER INFORMATION

ITEM 2. Changes in Securities and Use of Proceeds

During the quarter ended January 31, 2001, the Company issued an aggregate of 3,056 shares of its common stock upon the exercise of warrants at an exercise price of $11.00. The Company received aggregate proceeds of $33,616 from the warrant exercises. These shares were issued pursuant to an exemption by reason of Section 4(2) under the Securities Act of 1933.

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

The Company held its annual meeting of stockholders on January 11, 2001 (the "Annual Meeting"). A total of 2,954,585 shares of common stock were represented at the Annual Meeting in person or by proxy. The stockholders voted to reelect E. Andrews Grinstead, III as a director with 2,769,191 votes cast for the nominee and 185,394 votes withheld. James H. Miller, Robert G. Foster, Bruce M. Dresner and David L. Lougee remained in office as continuing directors following the meeting. The stockholders voted to approve the Company's Employee Stock Purchase Plan with 2,006,377 votes cast for approval of the Employee Stock Purchase Plan, 30,149 votes against, and 13,807 abstentions or broker-nonvotes. The stockholders voted to approve the Company's 2000 Stock Incentive Plan with 1,411,825 votes cast for approval of the 2000 Stock Incentive Plan, 624,091 votes against, and 14,417 abstentions or broker-nonvotes. Finally, the stockholders voted to ratify the selection by the Board of Directors of Ernst & Young LLP as independent auditors of the Company for the fiscal year with 2,941,064 votes cast for ratification, 3,000 votes against, and 10,520 abstentions or broker-nonvotes.

ITEM 6. Exhibits and Reports on Form 8-K:

(a) Exhibits

Exhibit 4.4	Offer letter to change the terms of certain warrants expiring March 14, 2001. Filed herewith.
Exhibit 10.41	Meridian Medical Technologies, Inc. 2000 Stock Incentive Plan. Incorporated by reference from Exhibit 4 to Registration Statement No. 333-54780 on Form S-8. *

* - Management contract, compensatory plan or arrangement.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended January 31, 2001.

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SIGNATURES

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

MERIDIAN MEDICAL TECHNOLOGIES, INC.

Registrant

March 7, 2001	By:	/S/James H. Miller
Date		James H. Miller President and Chief Executive Officer (Principal Executive Officer)
March 7, 2001	By:	/S/Dennis P. O'Brien
Date		Dennis P. O'Brien Vice President-Finance and Chief Financial Officer (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit No.	Description of Exhibit
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