

COMPEX TECHNOLOGIES INC

Form 10-Q

February 12, 2003

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**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the Quarterly period Ended December 31, 2002

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 No. 0-9407

**COMPEX TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

**Minnesota**

(State or other jurisdiction of  
incorporation or organization)

**41-0985318**

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

**1811 Old Highway 8**

**New Brighton, Minnesota 55112**

(Address of principal executive offices)

**(651) 631-0590**

(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 the number of shares outstanding of each of the issuer's classes of common stock as of January 29, 2003 was:

**Common Stock, \$.10 par value**

**10,965,635 Shares**

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**EX-99.2 Certification of Chief Financial Officer**

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**CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains a number of forward-looking statements where we indicate that we anticipate, believe, expect or estimate or use similar words to indicate what might happen in the future. These forward looking statements represent our expectations about future events, including anticipated product introductions; changes in markets, customers and customer order rates; changes in third party reimbursement rates; expenditures for research and development; growth in revenue; taxation levels; and the effects of pricing decisions. When used in this 10-Q, the words anticipate, believe, expect, estimate and similar expressions are generally intended to identify forward-looking statements. You should evaluate these forward-looking statements in the context of a number of factors that may affect our financial condition and results of operations, including the following:

Like many medical device companies that rely on third party reimbursement entities for payment, we have a large balance of uncollected accounts receivable. We also have a reserve for the portion of those receivables that we estimate will not be collected based on our historical experience. The uncollectible portion of receivables includes both sales allowances for contracted or negotiated selling prices and rental rates and bad debts. If we cannot collect an amount of receivables that is consistent with historical collection rates, we might be required to increase our reserve and charge off the portion of receivables we cannot collect. This additional provision for uncollectible accounts could significantly impact our operating results.

In the United States, our products are subject to reimbursement by private and public healthcare reimbursement entities that generally impose limits on reimbursement and strict rules on applications for reimbursement. Changes in the rates, eligibility or requirements for reimbursement, or failure to comply with reimbursement requirements, could cause a reduction in our income from operations.

We maintain significant amounts of finished goods inventory on consignment at clinics for distribution to patients. We may not be able to completely control losses of this inventory and, if inventory losses are not consistent with historical experience, we might be required to write off a portion of the carrying value of inventory.

The clinical effectiveness of our electrotherapy products has periodically been challenged and the effectiveness of electrotherapy products such as those offered by Compex SA for fitness and health applications has sometimes been questioned. Publicity about the effectiveness of electrotherapy for pain relief or other clinical applications and continued questions about the effectiveness of electrotherapy for conditioning could negatively impact revenue and income from operations.

We have periodically been the subject of litigation that has caused additional expense, including a Medicare whistleblower suit settled in 2000 for approximately \$1.6 million. The costs of these actions have negatively affected, and the resolution of other actions that may arise may continue to negatively affect, our operating results.

Approximately 33% of our revenue for the six months ended December 31, 2002 was generated by Compex SA, a subsidiary headquartered in Switzerland that does business primarily in Europe. There are risks in doing business in international markets which could adversely affect our business, including:

- regulatory requirements;
- export restrictions and controls, tariffs and other trade barriers;
- difficulties in staffing and managing international operations;
- fluctuations in currency exchange rates;
- reduced protection for intellectual property rights;
- seasonal reductions in business activity; and
- potentially adverse tax assessments.

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**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

Included herein is the following unaudited condensed financial information:

Consolidated Balance Sheets as of December 31, 2002 and June 30, 2002

Consolidated Statements of Operations for the three months and six months ended  
December 31, 2002 and 2001

Consolidated Statements of Cash Flows for the six months ended December 31, 2002 and 2001

Notes to Consolidated Financial Statements

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**COMPEX TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	June 30, 2002	December 31, 2002
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,086,650	\$ 3,608,560
Receivables, less reserve of \$12,891,864 and \$12,921,387	23,629,117	23,002,787
Inventories		
Raw materials	2,368,203	2,196,369
Work in process	80,265	76,837
Finished goods	6,522,790	6,173,597
Deferred tax assets	4,655,631	4,655,631
Prepaid expenses	1,641,378	964,173
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Total current assets	40,984,034	40,677,954
Property, plant and equipment, net	4,679,778	5,035,378
Goodwill, net	9,833,090	9,833,090
Other intangible assets, net	1,150,652	1,017,143
Deferred tax assets	702,567	740,004
Other assets	127,615	120,234
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	\$57,477,736	\$57,423,803
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<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Current maturities of long-term debt	\$ 2,520,775	\$ 2,521,892
Note payable		700,000
Accounts payable	3,312,767	2,680,798
Accrued liabilities		
Payroll	607,409	576,398
Commissions	437,530	430,186
Income taxes	2,670,766	2,158,850
Other	5,656,988	4,782,323
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Total current liabilities	15,206,235	13,850,447
Long-Term Liabilities:		
Long-term debt	6,455,209	5,179,183
Deferred tax liabilities	535,102	574,421
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Total liabilities	22,196,546	19,604,051
Stockholders' Equity:		
Common stock, \$.10 par value; 30,000,000 shares authorized; issued and outstanding 10,922,618 and 10,965,635 shares, respectively	1,092,262	1,096,563
Preferred stock, no par value; 5,000,000 shares authorized; none issued and outstanding		
Additional paid-in capital	21,564,096	21,695,679
Unearned compensation on restricted stock	(77,813)	(23,438)
Accumulated other non-owner changes in equity	735,564	1,154,608
Retained earnings	11,967,081	13,896,340
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Total stockholders' equity	35,281,190	37,819,752
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	\$57,477,736	\$57,423,803

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**COMPEX TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended December 31		Six Months Ended December 31	
	2001	2002	2001	2002
Net sales and rental revenue	\$ 17,831,717	\$ 18,735,080	\$ 34,330,221	\$ 36,472,820
Cost of sales and rentals	6,145,886	5,777,255	11,438,709	11,224,682
Gross profit	11,685,831	12,957,825	22,891,512	25,248,138
Operating expenses:				
Selling, general and administrative	8,650,676	10,749,933	16,929,388	20,710,537
Research and development	459,957	517,503	1,102,263	1,041,576
Total operating expenses	9,110,633	11,267,436	18,031,651	21,752,113
Income from operations	2,575,198	1,690,389	4,859,861	3,496,025
Other income (expense):				
Interest expense	(180,049)	(101,647)	(415,200)	(214,115)
Other	5,815	35,510	10,326	43,349
Income before income taxes	2,400,964	1,624,252	4,454,987	3,325,259
Income tax provision	1,009,000	682,000	1,872,000	1,396,000
Net income	\$ 1,391,964	\$ 942,252	\$ 2,582,987	\$ 1,929,259
Net income per common and common equivalent share				
Basic	\$ 0.13			