

MEDSTONE INTERNATIONAL INC/
Form 10-Q
November 12, 2002
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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 September 30, 2002

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

MEDSTONE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

66-0439440

(State or other jurisdiction of incorporation or
organization)

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

100 Columbia, Suite 100, Aliso Viejo, California

92656

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (949) 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 No

The number of shares of the Common Stock of the registrant outstanding as of November 11, 2002 was 3,758,220.

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	September 30, 2002	December 31, 2001
	(Unaudited)	
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 1,739,324	\$ 1,928,731
Short-term investments held to maturity	4,305,503	4,570,420
Accounts receivable, less allowance for doubtful accounts of \$840,220 and \$804,646 at September 30, 2002 and December 31, 2001, respectively	3,945,773	4,013,781
Inventories, less allowance for inventory obsolescence of \$440,712 and \$540,417 at September 30, 2002 and December 31, 2001, respectively	6,064,828	6,296,069
Deferred tax assets	2,160,695	2,160,695
Prepaid expenses and other current assets	474,025	541,194
	<u>18,690,148</u>	<u>19,510,890</u>
Buildings, property and equipment, at cost:		
Building	359,324	359,324
Lithotripters	13,569,744	13,163,285
Equipment	2,368,810	2,048,582
Furniture and fixtures	999,452	961,776
Leasehold improvements	175,032	171,177
	<u>17,472,362</u>	<u>16,704,144</u>
Less accumulated depreciation and amortization	(13,236,592)	(12,041,254)
	<u>4,235,770</u>	<u>4,662,890</u>
Goodwill, net	3,187,708	3,205,251
Investment in unconsolidated subsidiaries	879,133	909,492
Net investment in sale-type lease	217,488	224,731
Other assets, net	102,096	117,006
	<u>\$ 27,312,343</u>	<u>\$ 28,630,260</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 1,166,488	\$ 1,087,594
Accrued expenses	228,628	345,075
Accrued income taxes	211,102	
Accrued payroll expenses	435,596	313,472
Customer deposits	80,912	364,048
Deferred revenue	679,736	783,948
	<u>2,802,462</u>	<u>2,894,137</u>
Total current liabilities	2,802,462	2,894,137
Deferred tax liabilities	562,534	562,534
Minority interest	469,727	497,647
Deferred rent	86,091	86,425
Stockholders' equity:		

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Common stock - \$.004 par value, 20,000,000 shares authorized, 5,742,670 shares issued at both September 30, 2002 and December 31, 2001	22,971	22,971
Additional paid-in capital	19,646,388	19,646,388
Accumulated earnings	16,525,815	16,050,251
Accumulated other comprehensive income/(loss)	(37,936)	32,756
Treasury stock, at cost, 1,984,450 and 1,631,450 shares at September 30, 2002 and December 31, 2001, respectively	(12,765,709)	(11,162,849)
	<hr/>	<hr/>
Total stockholders equity	23,391,529	24,589,517
	<hr/>	<hr/>
	\$ 27,312,343	\$ 28,630,260
	<hr/>	<hr/>

See accompanying notes.

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(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Revenues:				
Procedures, maintenance fees and fee-for service	\$ 4,600,563	\$ 4,816,951	\$ 13,278,084	\$ 14,076,918
Net equipment sales	1,271,401	1,066,443	4,779,095	2,134,302
Interest income	84,862	104,139	246,506	362,096
Total revenues	5,956,826	5,987,533	18,303,685	16,573,316
Costs and expenses:				
Costs of procedures and maintenance fees	2,604,139	2,928,207	7,642,548	8,438,313
Cost of equipment sales	837,740	683,820	3,506,676	1,705,647
Research and development	360,304	319,631	935,214	879,735
Selling	702,431	681,465	2,308,676	1,925,116
General and administrative	708,839	591,478	2,360,060	1,903,783
Total costs and operating expenses	5,213,453	5,204,601	16,753,174	14,852,594
Operating income	743,373	782,932	1,550,511	1,720,722
Other expense (income):				
Gain on sale of investments		(200,169)		(627,774)
Other expense	22,942	47,255	25,208	99,631
Total other expense (income):	22,942	(152,914)	25,208	(528,143)
Minority interests:				
Minority interest in subsidiaries income	191,550	229,485	522,080	564,444
Equity in (income)/loss from unconsolidated subsidiaries		186,179	30,359	149,014
Total minority interest	191,550	415,664	552,439	713,458
Income before provision for income taxes	528,881	520,182	972,864	1,535,407
Provision for income taxes	301,800	205,129	497,300	639,780
Net income	\$ 227,081	\$ 315,053	\$ 475,564	\$ 895,627
Earnings per share:				