

HEARUSA INC
Form 10-Q
August 12, 2003

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 28, 2003

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 0-16453

HearUSA, Inc.

(Exact Name of Registrant as Specified in
Its Charter)

Delaware

22-2748248

(State of Other Jurisdiction of
Incorporation or Organization)

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

1250 Northpoint Parkway, West Palm Beach, Florida

33407

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code (561) 478-8770

Former Name, Former Address and
Former Fiscal Year,
if Changed Since Last Report

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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

On July 28, 2003, 30,423,636 shares of the Registrant's Common Stock were outstanding, including 2,518,343 exchangeable shares of HEARx Canada, Inc.

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Part I Financial Information

Item 1. Financial Statements

HearUSA, Inc.
Consolidated Balance Sheets
ASSETS

	June 28, 2003	December 28, 2002
Current assets:	(unaudited)	(audited)
Cash and cash equivalents	\$ 5,147,202	\$ 2,410,023
Investment securities	435,000	435,000
Accounts and notes receivable, less allowance for doubtful accounts of \$447,206 and \$587,322	6,457,078	5,963,677
Inventories	1,037,328	945,743
Prepaid expenses and other	738,394	889,197
Assets of discontinued operations (Note 7)	1,945,681	1,472,849
	<hr/>	<hr/>
Total current assets	15,760,683	12,116,489
Property and equipment net	5,930,689	6,910,966
Intangibles, net (Note 4)	43,964,204	44,211,588
Deposits and other	500,620	482,982
Other assets of discontinued operations (Note 7)	1,260,435	1,143,783
	<hr/>	<hr/>
	\$ 67,416,631	\$ 64,865,808
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 11,204,218	\$ 9,675,004
Accrued expenses	2,851,455	4,665,547
Accrued salaries and other compensation	1,395,247	1,868,772
Current maturities of long term debt	3,870,834	4,017,007
Dividends payable	1,243,080	1,215,167
Liabilities of discontinued operations (Note 7)	1,420,951	906,364
	<hr/>	<hr/>
Total current liabilities	21,985,785	22,347,861
	<hr/>	<hr/>
Long term debt, less current maturities	24,262,055	21,971,499
	<hr/>	<hr/>
Long term debt, less current maturities of discontinued operations	95,481	110,890
	<hr/>	<hr/>
Commitments and contingencies (Note 6)		
Stockholders equity:		
Preferred stock:		
(Aggregate liquidation preference \$8,136,080 and \$8,108,167)		
\$1 par, 5,000,000 shares authorized		
Series J (233 shares outstanding)	233	233
Series H Junior Participating (0 shares outstanding)		

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1998 Convertible (4,563 shares outstanding)	4,563	4,563
	<u> </u>	<u> </u>
Total preferred stock	4,796	4,796
Common stock: \$.10 par; 50,000,000 shares authorized 28,107,452 and 24,457,055 shares issued	2,810,745	2,445,705
Stock subscription	(412,500)	(412,500)
Additional paid-in capital	116,898,972	117,314,681
Accumulated deficit	(96,074,053)	(96,765,446)
Accumulated other comprehensive income currency translation adjustment (Note 1)	330,491	331,763
Treasury stock, at cost:523,662 & 518,660 common shares	(2,485,141)	(2,483,441)
	<u> </u>	<u> </u>
Total stockholders' equity	21,073,310	20,435,558
	<u> </u>	<u> </u>
	\$ 67,416,631	\$ 64,865,808
	<u> </u>	<u> </u>

See accompanying notes to the consolidated financial statements

HearUSA, Inc.
Consolidated Statements of Operations
Six Months Ended June 28, 2003 and June 29, 2002

	June 28, 2003	June 29, 2002
	(unaudited)	(unaudited)
Net Revenues	\$ 36,388,106	\$ 24,671,048
Operating costs and expenses:		
Cost of products sold	10,456,496	6,690,569
Center operating expenses	17,134,807	13,543,870
General and administrative expenses	4,872,128	4,864,854
Depreciation and amortization	1,634,574	1,040,735
Total operating costs and expenses	34,098,005	26,140,028
Income (loss) from operations	2,290,101	(1,468,980)
Non-operating income (expense):		
Interest income	11,961	92,752
Interest expense	(1,115,538)	(623,625)
Income (loss) before equity in loss of affiliated company	1,186,524	(1,999,853)
Equity in loss of affiliated company		(88,420)
Income (loss) from continuing operations	1,186,524	(2,088,273)
Discontinued operations		
Loss from discontinued operations (including loss on disposal of \$105,296)	(197,706)	
Net income (loss) before dividends on preferred stock	988,818	(2,088,273)
Dividends on preferred stock	(297,425)	(310,705)
Net income (loss) applicable to common stockholders	\$ 691,393	\$ (2,398,978)
Net income (loss) per common share basic	\$ 0.02	\$ (0.16)
Net income (loss) per common share diluted	\$ 0.02	\$ (0.16)
Weighted average number of shares of Common stock outstanding:		
Basic	30,424,872	14,799,001
Diluted	52,323,137	14,799,001

See accompanying notes to the consolidated financial statements

HearUSA, Inc.
Consolidated Statements of Operations
Three Months Ended June 28, 2003 and June 29, 2002

	June 28, 2003	June 29, 2002
	(unaudited)	(unaudited)
Net Revenues	\$ 18,976,378	\$ 12,661,032
Operating costs and expenses:		
Cost of products sold	5,640,257	3,285,471
Center operating expenses	8,719,105	6,783,935
General and administrative expenses	2,426,000	2,478,302
Depreciation and amortization	725,656	517,137
Total operating costs and expenses	17,511,018	13,064,845
Income (loss) from operations	1,465,360	(403,813)
Non-operating income (expense):		
Interest income	7,743	69,986
Interest expense	(592,653)	(342,696)
Income (loss) before equity in loss of affiliated company	880,450	(676,523)
Equity in loss of affiliated company		(27,015)
Income (loss) from continuing operations	880,450	(703,538)
Discontinued operations		
Loss from discontinued operations (including loss on disposal of \$105,296)	(241,184)	
Net income (loss) before dividends on preferred stock	639,266	(703,538)
Dividends on preferred stock	(149,101)	(142,636)
Net income (loss) applicable to common stockholders	\$ 490,165	\$ (846,174)
Net income (loss) per common share basic	\$ 0.02	\$ (0.05)
Net income (loss) per common share diluted	\$ 0.01	\$ (0.05)
Weighted average number of shares of Common stock outstanding:		
Basic	30,423,639	15,540,743
Diluted	48,619,906	15,540,743

See accompanying notes to the consolidated financial statements

HearUSA, Inc.
Consolidated Statements of Cash Flows
Six Months Ended June 28, 2003 and June 29, 2002

	<u>June 28, 2003</u>	<u>June 29, 2002</u>
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net income(loss)	\$ 988,818	\$ (2,088,273)
Loss from discontinued operations	197,706	
Net income (loss) from continuing operations	1,186,524	(2,088,273)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,634,574	1,040,735
Provision for doubtful accounts	171,291	79,500
Loss on disposition of equipment	146	44,154
Equity loss in affiliated company		88,420
Compensation expense from the issuance of capital stock		40,250
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts and notes receivable	(614,568)	1,174,271
Inventories	(78,734)	80,353
Prepaid expenses and other	132,662	195,844
Increase (decrease) in:		
Accounts payable and accrued expenses	1,513,139	15,633
Accrued salaries and other	(1,716,281)	(21,344)
Net cash provided by continuing operations	2,228,753	649,543
Net cash used by discontinued operations	(398,544)	
Net cash provided by operating activities	1,830,209	649,543
Cash flow from investing activities:		
Purchase of property and equipment	(119,758)	(348,772)
Capital expenditure from discontinued operations	(8,196)	
Purchase of investment securities		(1,750,248)
Issuance of note receivable in affiliated company		(9,418,838)
Purchase of pre-combination investment in Helix		(2,000,000)
Cost of business combination		(859,148)
Net cash used in investing activities	(127,954)	(14,377,006)
Cash flows from financing activities:		
Proceeds from issuance of:		
Long-term debt	3,500,000	13,069,006
Principal payments of debt of discontinued operations	(29,822)	
Principal payments: Long-term debt	(2,266,537)	(2,126,099)
Purchase of treasury stock	(1,700)	
Redemption of preferred stock, net of costs	(90,847)	(351,093)
Proceeds from issuance of employee stock options	13	
Proceeds from issuance of capital stock	40,250	1,500,000
Dividends on preferred stock	(269,512)	(379,997)
Net cash provided by financing activities	881,845	11,711,817

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Effects of exchange rate changes on cash	153,079	
Net increase (decrease) in cash and cash equivalents	2,737,179	(2,015,646)
Cash and cash equivalents at beginning of period	2,410,023	5,561,608
Cash and cash equivalents at end of period	\$ 5,147,202	\$ 3,545,962
Supplemental disclosure of non-cash investing and financing activities:		
Purchase of investment in affiliated company by exchanging notes receivable from affiliated company	\$	\$ 2,700,000

See accompanying notes to the consolidated financial statements

HearUSA, Inc.
Notes to Consolidated Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the six month period ended June 28, 2003 are not necessarily indicative of the results that may be expected for the year ending December 27, 2003. For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 28, 2002.

1. Summary of Significant Accounting Policies

Helix Transaction

On July 27, 2001, the Company and Helix Hearing Care of America Corp., a Canadian corporation (Helix), signed a definitive merger agreement, which was subsequently amended and restated as of November 6, 2001. Helix owned or managed, prior to the combination, 126 hearing healthcare clinics located in Massachusetts, New York, Ohio, Michigan, Wisconsin, Minnesota, Washington and M