

NightHawk Radiology Holdings Inc
Form 10-Q
May 07, 2010
Table of Contents

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 MARCH 31, 2010

OR

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

Commission File Number 000-51786

NightHawk Radiology Holdings, Inc.

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	87-0722777 (IRS Employer Identification No.)
4900 N. Scottsdale Road, 6th Floor, Scottsdale, Arizona (Address of principal executive offices)	85251 (Zip code)
(480) 822-4000 (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 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 (§232.405 of this chapter) 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 30, 2010 23,616,401 shares of the Registrant's common stock were outstanding.

Table of Contents

TABLE OF CONTENTS

Part I

Item 1.	<u>Financial Statements</u>	3
	<u>Condensed Consolidated Statements of Operations</u>	3
	<u>Condensed Consolidated Balance Sheets</u>	4
	<u>Condensed Consolidated Statements of Cash Flows</u>	5
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
Item 4.	<u>Controls and Procedures</u>	26

Part II

Item 1.	<u>Legal Proceedings</u>	27
Item 1A.	<u>Risk Factors</u>	28
Item 6.	<u>Exhibits</u>	39
	<u>Signatures</u>	40

Table of Contents**PART 1 FINANCIAL INFORMATION****Item 1. Financial Statements****NIGHTHAWK RADIOLOGY HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

(In thousands, except share data)

	Three Months Ended March 31,	
	2010	2009
Service revenue	\$ 36,548	\$ 38,798
Operating costs and expenses:		
Professional services	17,464	16,656
Sales, general, and administrative	15,761	14,734
Depreciation and amortization	2,809	2,798
Intangible asset and goodwill impairment	27,326	68,718
Total operating costs and expenses	63,360	102,906
Operating income (loss)	(26,812)	(64,108)
Other income (expense):		
Interest expense	(3,324)	(2,302)
Interest income	52	55
Other, net	10	10
Total other income (expense)	(3,262)	(2,237)
Income (loss) before income taxes	(30,074)	(66,345)
Income tax expense (benefit)	(10,879)	(13,732)
Net income (loss)	\$ (19,195)	\$ (52,613)
Earnings (loss) per common share:		
Basic	\$ (0.81)	\$ (1.97)
Diluted	\$ (0.81)	\$ (1.97)
Weighted averages of common shares outstanding:		
Basic	23,576,537	26,649,147
Diluted	23,576,537	26,649,147

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**NIGHTHAWK RADIOLOGY HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

(In thousands, except share data)

	March 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 33,929	\$ 26,293
Marketable securities		6,000
Trade accounts receivable, net	20,808	21,359
Deferred income taxes	2,759	910
Prepaid expenses and other current assets	6,398	4,702
Total current assets	63,894	59,264
Property and equipment, net	13,080	13,507
Intangible assets, net	43,529	72,550
Deferred income taxes	23,419	15,707
Other assets, net	3,334	4,646
Total	\$ 147,256	\$ 165,674
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 5,910	\$ 6,130
Accrued expenses and other liabilities	3,736	3,473
Accrued payroll and related benefits	3,487	3,769
Long-term debt, due within one year	802	802
Total current liabilities	13,935	14,174
Insurance reserve	4,018	4,018
Long-term debt	77,203	77,404
Other liabilities	1,683	1,348
Total liabilities	96,839	96,944
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Common stock 150,000,000 shares authorized; \$.001 par value; 23,590,251 and 23,558,890 shares issued and outstanding, respectively	24	24
Additional paid-in capital	221,621	221,106
Retained earnings (deficit)	(170,854)	(151,660)
Accumulated other comprehensive income (deficit)	(374)	(740)
Total stockholders equity	50,417	68,730
Total	\$ 147,256	\$ 165,674

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**NIGHTHAWK RADIOLOGY HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

(In thousands)

	Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ (19,195)	\$ (52,613)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,809	2,798
Intangible asset and goodwill impairment	27,326	68,718
Amortization of debt issuance costs and effect of interest rate swaps	2,258	1,046
Deferred income taxes	(9,790)	(14,287)
Non-cash stock compensation expense	508	1,045
Other, net	224	416
Changes in operating assets and liabilities:		
Trade accounts receivable, net	340	1,347
Prepaid expenses and other assets	(1,699)	(1,097)
Accounts payable	5	(649)
Accrued expenses and other liabilities	258	203
Accrued payroll and related benefits	(287)	(733)
Net cash provided by operating activities	2,757	6,194
Cash flows from investing activities:		
Purchase of marketable securities		(4,991)
Proceeds from maturities of marketable securities	6,000	
Purchase of property and equipment	(929)	(1,110)
Net cash provided by (used in) investing activities	5,071	(6,101)
Cash flows from financing activities:		
Repayment of debt	(201)	(239)
Proceeds from exercise of stock options	7	30
Excess tax benefit from exercise of stock options	2	5
Purchase and retirement of common stock		(6,452)
Net cash used in financing activities	(192)	(6,656)
Net increase (decrease) in cash and cash equivalents	7,636	(6,563)
Cash and cash equivalents beginning of period	26,293	47,160
Cash and cash equivalents end of period	\$ 33,929	\$ 40,597
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,059	\$ 1,160
Cash paid for income taxes	54	139
Non-cash investing and financing activities:		
Purchases of equipment included in accounts payable	38	214

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

NIGHTHAWK RADIOLOGY HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

(In thousands)

	Three Months Ended	
	March 31,	
	2010	2009
Net income (loss)	\$ (19,195)	\$ (52,613)
Other comprehensive income (loss):		
Change in fair value of interest rate swaps		495
Reclassification adjustments for net losses on interest rate swaps included in net income (loss)	612	884
Foreign currency translation adjustments	(17)	(45)
Less deferred income taxes	(229)	(502)
Net other comprehensive income (loss)	366	832
Comprehensive income (loss)	\$ (18,829)	\$ (51,781)

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

NIGHTHAWK RADIOLOGY HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The accompanying unaudited condensed consolidated financial statements include the results of operations, financial position and cash flows of NightHawk Radiology Holdings, Inc. and its subsidiaries (the Company). All material intercompany balances have been eliminated.

In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements include all adjustments necessary to present fairly, in all material respects, the Company's results for the periods presented. These condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in Item 8 of the Company's 2009 Annual Report on Form 10-K filed with the SEC on February 25, 2010. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of results to be expected for the entire fiscal year.

The Company's unaudited condensed consolidated balance sheet as of December 31, 2009 has been derived from the audited consolidated balance sheet as of that date. Certain information and footnote disclosure normally included in the Company's annual consolidated financial statements have been condensed or omitted.

Use of Estimates The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of these estimates require difficult, subjective or complex judgments about matters that are inherently uncertain. Actual results could differ from those estimates.

On an ongoing basis, the Company evaluates its estimates, including those related to the accounts receivable allowance, fair value of acquired intangible assets, useful lives of intangible assets and property and equipment, income taxes, the loss contingency for general and medical liability claims, reserves for incurred but not reported (IBNR) medical liability claims, for determining stock-based compensation, the fair value of interest rate swap contracts and the Company's business services customers' expected net collections.

Trade Accounts Receivable Trade accounts receivable represent receivables for services and are recorded at the invoiced amount and are non-interest bearing. Company management reviews past due accounts receivable to identify specific customers with known disputes or collectability issues. As of March 31, 2010 and December 31, 2009, the Company had reserved \$0.7 million and \$0.9 million, respectively, for doubtful accounts based on its estimate of the collectability of outstanding receivables as of those dates. When the Company determines that a receivable is not recoverable, the amount is removed from the financial records along with the corresponding reserve balance. During the first three months of 2010, the Company removed \$0.4 million of specifically identified uncollectible accounts receivable and the corresponding reserves from its financial records.

Marketable Securities The Company determines the appropriate classification of investments in marketable debt and equity securities at the time of purchase and reevaluates such designation at each balance sheet date. Marketable debt and equity securities have been classified and accounted for as available for sale. The Company may or may not hold securities with stated maturities greater than 12 months until maturity. In response to changes in the availability of and the yield on alternative investments as well as liquidity requirements, the Company occasionally sells these securities prior to their stated maturities. The Company primarily invests in high-credit-quality debt instruments with an active resale market and money market funds to ensure liquidity and the ability to readily convert these investments into cash to fund current operations, or satisfy other cash requirements as needed. Accordingly, all marketable securities have been classified as current assets in the accompanying balance sheets. These securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders' equity, except for unrealized losses determined to be other than temporary which would be recorded as other income or expense. Any realized gains or losses on the sale of marketable securities are determined on a specific identification method, and such gains and losses are reflected as a component of other income or expense.

Table of Contents

NIGHTHAWK RADIOLOGY HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Property and Equipment Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of each asset, which range as follows:

Computers, diagnostic workstations and telecommunications systems	3 5 years
Office furniture and equipment	7 10 years
Software	3 7 years
Leasehold improvements	Term of lease or asset life, whichever is shorter

Expenditures for maintenance and repairs are charged to operating expense as incurred and expenditures for renewals and betterments are capitalized. Upon sale or retirement of depreciable assets, the related cost and accumulated depreciation are removed from the records and any gain or loss is reflected in operating expenses.

The cost of computer software developed for internal use is capitalized and accounted for in accordance with the *Intangibles-Goodwill and Other* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC Topic 350), Subtopic 40 *Internal-Use Software*. Capitalized cost