

NightHawk Radiology Holdings Inc

Form 10-Q

October 31, 2008

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**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 SEPTEMBER 30, 2008**

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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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>87-0722777</b> (IRS Employer Identification No.)
<b>601 Front Street, #502, C ur d Alene, Idaho</b> (Address of principal executive offices)	<b>83814</b> (Zip code)
<b>(208) 676-8321</b> (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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Small reporting company

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 October 17, 2008, 28,605,767 shares of the Registrant s common stock were outstanding.

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**Table of Contents****PART 1 FINANCIAL INFORMATION****ITEM 1. Financial Statements****NIGHTHAWK RADIOLOGY HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)***(In thousands, except share data)*

	September 30, 2008	December 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 55,239	\$ 31,956
Marketable securities		30,625
Trade accounts receivable, net	26,399	25,665
Deferred income taxes	615	655
Prepaid expenses and other current assets	2,826	2,812
Total current assets	85,079	91,713
Property and equipment, net	11,018	10,555
Goodwill	68,839	68,601
Intangible assets, net	81,485	87,133
Deferred income taxes	2,022	1,251
Other assets, net	3,724	4,213
Total	\$ 252,167	\$ 263,466
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 6,063	\$ 6,071
Accrued expenses and other liabilities	4,245	12,881
Accrued payroll and related benefits	2,830	4,570
Long-term debt, due within one year	1,000	1,000
Total current liabilities	14,138	24,522
Insurance reserve	4,037	3,038
Long-term debt	97,750	98,500
Other liabilities	3,007	2,717
Total liabilities	118,932	128,777
Commitments and contingencies (Note 6)		
<b>STOCKHOLDERS EQUITY</b>		
Common stock 150,000,000 shares authorized; \$.001 par value; 28,605,767 and 30,312,322 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	29	30
Additional paid-in capital	241,007	249,274
Retained earnings (deficit)	(106,173)	(112,957)
Accumulated other comprehensive income (deficit)	(1,628)	(1,658)
Total stockholders equity	133,235	134,689

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Total	\$ 252,167	\$ 263,466
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See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****NIGHTHAWK RADIOLOGY HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)***(In thousands, except share data)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>Service revenue</b>	\$ 43,441	\$ 45,151	\$ 127,887	\$ 108,956
<b>Operating costs and expenses:</b>				
Professional services (includes non-cash stock-based compensation expense of \$537, \$1,536, \$1,513 and \$3,567, respectively)	18,340	19,069	53,243	46,844
Sales, general, and administrative (includes non-cash stock-based compensation expense of \$1,361, \$3,160, \$5,549 and \$5,843, respectively)	15,367	15,754	50,002	36,861
Depreciation and amortization	2,829	2,608	8,585	5,251
Total operating costs and expenses	36,536	37,431	111,830	88,956
<b>Operating income</b>	6,905	7,720	16,057	20,000
<b>Other income (expense):</b>				
Interest expense	(2,090)	(2,389)	(6,466)	(3,665)
Interest income	307	746	1,210	2,468
Other, net	114	(27)	102	(59)
Total other income (expense)	(1,669)	(1,670)	(5,154)	(1,256)
<b>Income before income taxes</b>	5,236	6,050	10,903	18,744
Income tax expense	1,953	2,262	4,119	7,111
<b>Net income</b>	\$ 3,283	\$ 3,788	\$ 6,784	\$ 11,633
<b>Earnings per common share:</b>				
Basic	\$ 0.11	\$ 0.13	\$ 0.23	\$ 0.39
Diluted	\$ 0.11	\$ 0.12	\$ 0.22	\$ 0.38
<b>Weighted averages of common shares outstanding:</b>				
Basic	28,573,349	30,111,156	29,810,161	30,023,122
Diluted	29,733,210	31,170,449	30,852,398	31,012,036

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)*

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 6,784	\$ 11,633
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,585	5,251
Accretion of discounts on marketable securities	(21)	(285)
Amortization of debt issuance costs	486	234
Loss (gain) on disposal of fixed assets and other, net	582	(23)
Deferred income taxes	(574)	(4,795)
Non-cash stock compensation expense	7,062	9,410
Excess tax benefit from exercise of stock options	(234)	(1,325)
Provision for doubtful accounts	469	347
Changes in operating assets and liabilities (excluding effects of acquisitions):		
Trade accounts receivable, net	(1,272)	(7,573)
Prepaid expenses and other assets	(11)	(95)
Accounts payable	99	2,983
Accrued expenses and other liabilities	756	352
Accrued payroll and related benefits	219	1,343
Net cash provided by operating activities	22,930	17,457
<b>Cash flows from investing activities:</b>		
Purchase of marketable securities	(26,390)	(26,491)
Proceeds from maturities of marketable securities	33,755	36,128
Proceeds from the sale of marketable securities	23,302	
Purchase of property and equipment	(4,112)	(3,499)
Cash and cash equivalents from acquisitions, net		339
Cash paid for acquisitions	(7,650)	(125,736)
Net cash provided by (used in) investing activities	18,905	(119,259)
<b>Cash flows from financing activities:</b>		
Repayment of debt	(750)	(11,116)
Proceeds from exercise of stock options	556	962
Excess tax benefit from exercise of stock options	234	1,325
Purchase and retirement of common stock shares	(18,592)	
Proceeds from debt		100,000
Payment on line of credit		(1,679)
Debt issuance costs paid		(4,479)
Net cash (used in) provided by financing activities	(18,552)	85,013
Net increase (decrease) in cash and cash equivalents	23,283	(16,789)
Cash and cash equivalents beginning of period	31,956	46,501
Cash and cash equivalents end of period	\$ 55,239	\$ 29,712

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See Notes to Condensed Consolidated Financial Statements.



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**NIGHTHAWK RADIOLOGY HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 5,416	\$ 3,356
Cash paid for income taxes	3,991	9,065
<b>Non-cash investing and financing activities:</b>		
Purchases of equipment included in accounts payable	284	(6)
Earnout liability included in accrued expenses settled in stock	2,078	
Debt issuance costs included in accounts payable and accrued expenses		41
Acquisition costs included in accounts payable and accrued expenses		700

See Notes to Condensed Consolidated Financial Statements.

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**NIGHTHAWK RADIOLOGY HOLDINGS, INC. AND SUBSIDIARIES**

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

*(In thousands)*

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net income	\$ 3,283	\$ 3,788	\$ 6,784	\$ 11,633
Other comprehensive income:				
Change in fair value of interest rate swaps	101		35	
Less: deferred income taxes	(37)			