

HEMOSENSE INC  
Form 10-Q  
May 11, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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**x     QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended March 31, 2007**

**..     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: 001-32541

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**HEMOSENSE, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

incorporation or organization)

**651 River Oaks Parkway, San Jose, California 95134**

(Address of principal executive offices) (Zip Code)

**(408) 719-1393**

**77-0452938**  
(I.R.S. Employer

Identification No.)

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(Registrant's telephone number, including area code)

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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. (Check one):

Large accelerated Filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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 May 1, 2007 13,198,915 shares of the registrant's common stock were outstanding.

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. CONDENSED FINANCIAL STATEMENTS****HEMOSENSE, INC.****UNAUDITED CONDENSED BALANCE SHEETS****(in thousands, except per share and share data)**

|  | March 31, | September 30, |
|--|-----------|---------------|
|  | 2007      | 2006          |
| <b>Assets</b>  |           |               |
| Current assets:  |           |               |
| Cash and cash equivalents  | \$ 4,328  | \$ 1,789      |
| Short term investments   | 13,022    | 7,939         |
| Accounts receivable, net   | 3,101     | 3,148         |
| Prepaid expenses and other current assets  | 1,040     | 371           |
| Inventories, net   | 3,970     | 2,731         |
| Total current assets   | 25,461    | 15,978        |
| Property and equipment, net  | 995       | 501           |
| Technology licenses, net   | 381       | 245           |
| Other assets   | 123       | 126           |
| Total assets   | \$ 26,960 | \$ 16,850     |
| <b>Liabilities and Stockholders Equity</b>   |           |               |
| Current liabilities:   |           |               |
| Accounts payable   | \$ 1,562  | \$ 1,142      |
| Accrued expenses and other liabilities   | 2,456     | 1,751         |
| Capital lease, current portion   | 34        | 37            |
| Borrowings, current portion  | 3,433     | 2,353         |
| Total current liabilities  | 7,485     | 5,283         |
| Capital lease, net of current portion  |           | 16            |
| Borrowings, net of current portion   | 5,381     | 2,476         |
| Other long term liabilities  | 373       | 398           |
| Total liabilities  | 13,239    | 8,173         |
| Stockholders equity:   |           |               |
| Common stock, \$0.001 par value; Authorized: 50,000,000 shares; Issued and outstanding: 13,137,978 and 11,206,107 at March 31, 2007 and September 30, 2006, respectively | 13        | 11            |
| Additional paid-in capital   | 74,908    | 66,739        |
| Accumulated other comprehensive loss   | (6)       | (2)           |
| Accumulated deficit  | (61,194)  | (58,071)      |
| Total stockholders equity  | 13,721    | 8,677         |
| Total liabilities and stockholders equity  | \$ 26,960 | \$ 16,850     |

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The accompanying notes are an integral part of these unaudited condensed financial statements.

**Table of Contents****HEMOSENSE, INC.****UNAUDITED CONDENSED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

|  | Three Months Ended |            | Six Months Ended |            |
|--|--------------------|------------|------------------|------------|
|  | March 31,          |            | March 31,        |            |
|  | 2007               | 2006       | 2007             | 2006       |
| Revenue                                    | \$ 7,993           | \$ 4,042   | \$ 14,731        | \$ 7,478   |
| Cost of goods sold                         | 4,801              | 3,036      | 8,939            | 5,367      |
| Gross profit                               | 3,192              | 1,006      | 5,792            | 2,111      |
| Operating expenses:                        |                    |            |                  |            |
| Research and development                   | 601                | 667        | 1,187            | 1,144      |
| Sales and marketing                        | 2,872              | 2,064      | 4,980            | 3,896      |
| General and administrative                 | 1,041              | 1,103      | 2,155            | 2,042      |
| Total operating expenses                   | 4,514              | 3,834      | 8,322            | 7,082      |
| Loss from operations                       | (1,322)            | (2,828)    | (2,530)          | (4,971)    |
| Interest income                            | 213                | 161        | 352              | 306        |
| Interest expense                           | (586)              | (318)      | (945)            | (646)      |
| Net loss                                   | \$ (1,695)         | \$ (2,985) | \$ (3,123)       | \$ (5,311) |
| Net loss per share:                        |                    |            |                  |            |
| Basic and diluted                          | \$ (0.13)          | \$ (0.27)  | \$ (0.25)        | \$ (0.49)  |
| Shares used to compute net loss per share: |                    |            |                  |            |
| Basic and diluted                          | 13,066             | 11,165     | 12,336           | 10,849     |

The accompanying notes are an integral part of these unaudited condensed financial statements.

**Table of Contents****HEMOSENSE, INC.****UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS****(in thousands)**

|   | <b>Six Months Ended<br/>March 31,</b> |             |
|---|---------------------------------------|-------------|
|   | <b>2007</b>                           | <b>2006</b> |
| Cash flows from operating activities:                                       |                                       |             |
| Net loss  | \$ (3,123)                            | \$ (5,311)  |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                       |             |
| Depreciation and amortization   | 393                                   | 389         |
| Amortization of debt issuance costs   | 337                                   | 82          |
| Provision for inventories   | 84                                    | (8)         |
| Provision for doubtful accounts   | 172                                   |             |
| Amortization of prepaid royalties   |                                       | 426         |
| Accrued interest on note payable  | 114                                   | 55          |
| Stock compensation cost   | 232                                   | 118         |
| Changes in operating assets and liabilities:                                |                                       |             |
| Accounts receivable   | (125)                                 | (952)       |
| Prepaid expenses and other assets   | (103)                                 | 3           |
| Inventories   | (1,485)                               | (137)       |
| Accounts payable  | 420                                   | (145)       |
| Accrued expenses and other liabilities                                      | 680                                   | 122         |
| Net cash used in operating activities                                       | (2,404)                               | (5,358)     |
| Cash flows from investing activities:                                       |                                       |             |
| Proceeds from sale of short term investments                                | 9,919                                 | 10,070      |
| Purchase of short term investments  | (15,006)                              | (14,492)    |
| Acquisition of technology license   | (350)                                 |             |
| Acquisition of property and equipment                                       | (501)                                 | (104)       |
| Net cash used in investing activities                                       | (5,938)                               | (4,526)     |
| Cash flows from financing activities:                                       |                                       |             |
| Proceeds from issuance of common stock                                      | 6,938                                 | 9,221       |
| Proceeds from exercise of warrants and options                              | 91                                    |             |
| Principal payments on capital lease obligation                              | (19)                                  | (17)        |
| Proceeds from borrowing   | 5,000                                 |             |
| Repayment of borrowings   | (1,129)                               | (961)       |
| Net cash provided by financing activities                                   | 10,881                                | 8,243       |
| Net increase (decrease) in cash and cash equivalents                        | 2,539                                 | (1,641)     |
| Cash and cash equivalents at beginning of period                            | 1,789                                 | 3,598       |
| Cash and cash equivalents at end of period                                  | \$ 4,328                              | \$ 1,957    |

The accompanying notes are an integral part of these unaudited condensed financial statements.





**Table of Contents****HEMOSENSE, INC.****NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS****1) Organization and Basis of Presentation***Description of the Company*

HemoSense, Inc., (the Company) was incorporated in the state of Delaware on March 4, 1997. The Company is a point-of-care diagnostic healthcare company that develops, manufactures and markets easy-to-use, handheld blood coagulation monitoring systems for monitoring patients taking warfarin. The HemoSense InRatio® system, is used by healthcare professionals and patients. The Company began selling its first product, the INRatio meter and related test strips, in March 2003. Prior to that date, the Company was in the development stage and had been primarily engaged in developing its product technology.

*Basis of Presentation*

The accompanying unaudited condensed financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Statement of Financial Accounting Standards, No. 123(R), was adopted October 1, 2005, and has been consistently applied in both fiscal year 2006 and the first two quarters of fiscal 2007. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair statement of the financial statements, have been included. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year or any other interim period. Further, the preparation of unaudited condensed financial statements requires management to make estimates and assumptions that affect the recorded amounts reported therein. Actual results could differ from those estimates. A change in facts or circumstances surrounding the estimate could result in a change to estimates and impact future operating results.

The financial statements and related disclosures have been prepared with the presumption that users of the interim financial statements have read or have access to the audited financial statements for the preceding fiscal year. Accordingly, these financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended September 30, 2006 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission. The results of operations for the three and six month periods ended March 31, 2007 are not necessarily indicative of the results for the year ending September 30, 2007 or any future interim period.

**2) Summary of Significant Accounting Policies**

The Company's significant accounting policies are disclosed in its Annual Report on Form 10-K for the year ended September 30, 2006, which was filed with the Securities and Exchange Commission. The Company's significant accounting policies have not materially changed since September 30, 2006.

**3) Inventories**

The components of inventories are as follows (in thousands):

|                 | March 31,<br>2007 | September 30,<br>2006 |
|-----------------|-------------------|-----------------------|
| Raw materials   | \$ 2,113          | \$ 1,013              |
| Work-in-process | 1,314             | 1,156                 |
| Finished goods  | 543               | 562                   |
|                 | \$ 3,970          | \$ 2,731              |



**Table of Contents****4) Warranty Reserve**

The Company records an accrual for estimated warranty costs when revenue is recognized. The warranty covers replacement costs of defective meters and test strips. The warranty period is generally one year. The Company has processes in place to estimate accruals for warranty exposure. The processes include estimated failure rates and replacement costs, and known design changes. Although the Company believes it has the ability to reasonably estimate warranty expenses, unforeseen changes in factors impacting the estimate for warranty could occur and such changes could cause a material change in the Company's warranty accrual estimate. Such a change would be recorded in the period in which the change was identified. Changes in the Company's product warranty liability during the three and six month periods ended March 31, 2007 and March 31, 2006, were as follows (in thousands):

|  | Three Months Ended |       | Six Months Ended |       |
|--|--------------------|-------|------------------|-------|
|  | March 31,          |       | March 31,        |       |
|  | 2007               | 2006  | 2007             | 2006  |
| Balance, at the beginning of the period          | \$ 78              | \$ 63 | \$ 49            | \$ 59 |
| Accruals and charges for warranty for the period | 62                 | 24    | 151              | 42    |
| Cost of repairs and replacements                 | (63)               | (17)  | (123)            | (31)  |
| Balance, at the end of the period                | \$ 77              | \$ 70 | \$ 77            | \$ 70 |

**5) Stockholders' Equity**

Changes in the Company's stockholders' equity during the six month period ended March 31, 2007 were as follows (in thousands):

| Common<br>Stock | Additional<br>Paid in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss |
|-----------------|----------------------------------|---|
|-----------------|----------------------------------|---|