UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended March 31, 2003

¨ **TRANSITION PERIOD PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from_________ to__________.

Commission File Number: 0-20727

Novoste Corporation

(Exact Name of Registrant as Specified in Its Charter)

Florida	**59-2787476**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
3890 Steve Reynolds Blvd. Norcross, GA	**30093**
(Address of Principal Executive Offices)	**(Zip Code)**

(770) 717-0904

(Registrant s telephone, 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 requirements for the past 90 days.

(Item 1) YES x NO ¨

(Item 2) YES x NO ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES x NO ¨

As of April 29, 2003 there were 16,330,951 shares of the Registrant s Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

NOVOSTE CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share data)

	March 31, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,317	$ 21,928
Short-term investments	11,202	11,647
Accounts receivable, net of allowance of $1,070 and $1,135 respectively	8,648	6,758
Inventory, net	3,588	3,927
Prepaid expenses and other current assets	1,061	986
Total current assets	45,816	45,246
Property and equipment, net	9,053	9,542
Radiation and transfer devices, net	9,606	11,353
Receivable from officers	119	283
Other assets	1,073	1,096
	$ 65,667	$ 67,520
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,608	$ 2,176
Accrued expenses	7,210	9,967
Unearned revenue	1,301	2,429
Capital lease obligations	106	178
Total current liabilities	10,225	14,750
Long-term liabilities		
Capital lease obligations	5	5
Total liabilities	10,230	14,755
Shareholders equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized; no shares issued and outstanding		
Common stock, $.01 par value, 25,000,000 shares authorized; 16,351,953 shares issued	164	164

Additional paid-in capital	187,983	187,813
Accumulated other comprehensive income	232	190
Accumulated deficit	(132,298)	(134,434)
	56,081	53,733
Less: Treasury stock, 51,002 and 118,077 shares of common stock at cost	(186)	(445)
Unearned compensation	(458)	(523)
Total shareholders equity	55,437	52,765
	$ 65,667	$ 67,520

See accompanying notes.

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NOVOSTE CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per-share data)

	Three Months Ended March 31,	
	2003	**2002**
Net sales	$ 20,705	$ 22,932
Cost of sales	7,066	6,678
Gross margin	13,639	16,254
Operating expenses:		
Research and development	3,358	2,659
Sales and marketing	5,934	8,218
General and administrative	2,318	2,197
Total operating expenses	11,610	13,074
Income from operations	2,029	3,180
Interest income	113	371
Interest expense	(7)	(17)
Other income (expense)	2	(81)
Total other income	108	273
Income before taxes	2,137	3,453
Income taxes		50
Net income	$ 2,137	$ 3,403
Net income per share Basic	$ 0.13	$ 0.21
Weighted average shares outstanding Basic	16,269	16,280
Net income per share Diluted	$ 0.13	$ 0.21
Weighted average shares outstanding Diluted	16,836	16,544

See accompanying notes.

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NOVOSTE CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For The Three Months Ended March 31, 2003	For The Three Months Ended March 31, 2002
Cash flows from operating activities:		
Net income	$ 2,137	$ 3,403
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	878	425
Issuance of stock for services or compensation		197
Amortization of deferred compensation	65	51
Amortization of radiation and transfer devices	2,459	1,582
Provision for doubtful accounts	30	
Changes in assets and liabilities:		
Accounts receivable	(1,910)	(945)
Inventory	337	(578)
Prepaid expenses	(74)	13
Accounts payable	(582)	380
Accrued expenses	(2,767)	(4,413)
Unearned revenue	(1,133)	(948)
Other	178	(34)
Net cash used by operations	(382)	(867)
Cash flows from investing activities:		
Maturity of short-term investments	4,339	13,801
Purchase of short-term investments	(3,894)	(4,019)
Purchase of property and equipment, net	(381)	(283)
Purchase of radiation and transfer devices	(712)	(1,314)
Net cash (used) provided by investing activities	(648)	8,185
Cash flows from financing activities:		
Proceeds from issuance of common stock	429	359
Proceeds from revolving line of credit		4,000
Repayment of capital lease obligations	(72)	(64)
Net cash provided by financing activities	357	4,295
Effect of exchange rate changes on cash	62	53
Net (decrease) increase in cash and cash equivalents	(611)	11,666
Cash and equivalents at beginning of period	21,928	5,878
Cash and cash equivalents at end of period	$ 21,317	$ 17,544

Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 7	$ 12

See accompanying notes.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2003

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and in accordance with instructions to Article 10 of Regulation S-X. Accordingly, such consolidated financial statements do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation have been included.

The operating results of the interim periods presented are not necessarily indicative of the results to be achieved for the year ending December 31, 2003. The accompanying consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2002 included in Novoste s 2002 Annual Report on Form 10-K/A filed with the Securities and Exchange Commission.

The consolidated financial statements include the accounts of Novoste Corporation and its wholly-owned subsidiaries incorporated in August 1998 in the Netherlands, in December 1998 in Belgium, in February 1999 in Germany, in January 2000 in France and a dedicated sales corporation incorporated in the state of Florida in March, 2002. Significant inter-company transactions and accounts have been eliminated.

On August 19, 2002, Novoste initiated a voluntary recall of the Beta-Rail 3.5F Delivery Catheter (the 3.5F catheter) inventory from its customers. The recall related to the discovery by Novoste of a small number of catheter-tip separations in the 3.5F catheter product. An extensive evaluation and improvement program was initiated. A pre-market approval supplement was submitted to the Food and Drug Administration (FDA) on October 15, 2002, describing the improvements to the product and manufacturing processes and requesting approval for re-launch of the product. The FDA approved the re-launch on January 6, 2003.

In connection with the re-launch, Novoste exchanged 5.0F catheters for 3.5F catheters for a number of its customers. A reserve has been recorded against revenue for known returns and an estimate of unknown returns. The exchange of these catheters is expected to continue in the future until the 3.5F system has been fully launched to a significant majority of customer sites. At March 31, 2003, Novoste had recorded a reserve of approximately $1.0 million to recognize the 5.0F catheters purchased prior to March 31, 2003 that were expected to be returned in the future in exchange for 3.5F catheters. Net sales for the three months ended March 31, 2003 were positively impacted by a net reduction of $1.1 million in the revenue reserve for 5.0F catheters that were replaced with the new 3.5F catheter during the first quarter. (See also Notes 6 and 12.)

Novoste sells its catheters with no right of return except in cases of product malfunction or shipping errors.

In the opinion of management, all adjustments (consisting of normal recurring accruals and estimated write-downs and accruals resulting from the recall) considered necessary for a fair presentation of Novoste s financial results and condition have been recorded.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Novoste s significant accounting policies are included in the audited financial statements and notes thereto for the year ended December 31, 2002 included in Novoste s 2002 Annual Report on Form 10-K/A filed with the Securities and Exchange Commission.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations*. This statement applies to legal obligations associated with the retirement of long-lived assets and requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be determined. The Company adopted SFAS No. 143 on January 1, 2003 and the pronouncement did not have a material effect on the consolidated financial statements.

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Novoste uses the intrinsic value method for valuing its awards of stock options and restricted stock and recording the related compensation expense, if any, in accordance with Accounting Principles Board (APB) No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, amends the disclosure provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, and APB Opinion No. 28, *Interim Financial Reporting*, to require disclosure in the summary of significant accounting policies of the effects of an entity s policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting period. Novoste s pro forma information follows (in thousands, except per-share data):

	3 Months Ended March 31	
	2003	**2002**
Net income, as reported	$ 2,137	$ 3,403
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	65	51
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,208)	(3,125)
Pro forma net income	$ 994	$ 329
Earnings per share:		
Basic-as reported	$ 0.13	$ 0.21
Basic-pro forma	$ 0.06	$ 0.02
Diluted-as reported	$ 0.13	$ 0.21
Diluted-pro forma	$ 0.06	$ 0.02

NOTE 3. CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash equivalents are comprised of certain highly liquid investments with maturities of less than three months at the time of their acquisition. In addition to cash equivalents, Novoste has investments in commercial paper and other securities that are classified as short-term. All securities are considered as available-for-sale and reported at fair value, with the unrealized gains and losses reported as a component of Other Comprehensive Income (Loss) on the consolidated statements of shareholders equity. The amortized cost of debt securities in this category, if significant, is adjusted for amortization included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities, of which there were none, would be included in interest income. Realized gains and losses are included in interest income and are determined on a specific identification basis. Interest and dividends on securities classified as available-for-sale are included in interest income.

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable at March 31, 2003 and December 31, 2002 include receivables due from product sales and amounts due under lease arrangements to hospitals relating to radiation and transfer devices (see Note 6. Radiation and Transfer Devices). The carrying amounts reported in the consolidated balance sheets for accounts receivable approximate their fair value.

There were no significant concentrations of credit risk in the first quarter of 2003 or fiscal year 2002. Novoste

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performs periodic credit evaluations of its customer s financial condition and generally does not require collateral. Management records estimates of expected credit losses and returns of product sold. Bad debt expense for the three-month periods ended March 31, 2003 and 2002 amounted to $30,000 and $0, respectively. Uncollectible accounts written off in those periods totaled $124,000 and $0, respectively.

NOTE 5. INVENTORIES

Inventories are stated at the lower of cost or market value on a first-in, first-out (FIFO) basis and are comprised of the following (in thousands):

	March 31, 2003	December 31, 2002
Raw Materials	$ 2,554	$ 2,878
Work in Process	98	202
Finished Goods	936	847
Total	$ 3,588	$ 3,927

Inventory reserves increased from $844,000 at December 31, 2002 to $868,000 at March 31, 2003.

NOTE 6. RADIATION AND TRANSFER DEVICES

Novoste retains ownership of the radiation source trains (RSTs) and transfer devices (TDs). Depreciation of the costs of these assets is taken over the estimated useful life using the straight-line method and is recorded in Cost of Sales. Depreciation begins at the time the Beta-Cath™ System is placed into service. The annual agreements with Novoste s customers to license the use of radiation and transfer devices are classified by Novoste as operating leases. Income is recognized ratably over the length of the lease. At March 31, 2003, deferred revenue under these leases approximated $200,000.

Radiation and transfer devices subject to operating leases, stated at cost, less impairment charge, are comprised of the following (in thousands):

	March 31, 2003	December 31, 2002
Radiation and Transfer Devices	$ 31,546	$ 31,005
Less: Impairment	(5,065)	(5,065)
Net Radiation and Transfer Devices	26,481	25,940
Less: Accumulated Depreciation	(16,875)	(14,587)
	$ 9,606	$ 11,353

Approximately $2.5 million of radiation and transfer devices were available for lease at March 31, 2003.

During 2001, Novoste estimated the useful lives of these assets to be eighteen months based upon the information available at that time. During January 2002, Novoste determined that, based upon new testing and experience, the estimated useful lives of RSTs are twelve months and the TDs are three years. Accordingly, depreciation was recorded over the updated estimated lives starting at the beginning of the first quarter 2002. Given the pace of change of this medical technology, these estimates have changed from time to time as new information about the markets and applications is received.

In June 2002, Novoste decided to phase out the 5.0F diameter catheter systems, resulting in an impairment charge of $5.1 million and other related charges of $1.8 million (see Note 12) to adjust the carrying value of these assets to

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their fair value. The remaining fair value was being amortized on a straight-line basis over the remaining useful life, then estimated to end March 31, 2003.

In August 2002, Novoste initiated a voluntary recall of 3.5F diameter catheters. To meet patient needs, the 5.0F catheter system was reinstalled in sites where the 3.5F catheter system had previously supplanted the 5.0F catheter system. Notwithstanding its return to widespread active use, the 5.0F catheter system was still expected to be replaced by a redesigned 3.5F catheter system early in 2003. The new design for the 3.5F catheter system was submitted to the FDA on October 15, 2002 and was approved by the FDA for re-launch on January 6, 2003.

At December 31, 2002, approximately $1.7 million of unamortized costs for the 5.0F catheter assets remained. During the first quarter of 2003, despite the re-launch of the newly designed 3.5F catheter system in January, it became apparent that the 5.0F assets would be utilized beyond the previously estimated termination date. Factors leading to an extended life include: (a) the time required to convert customers to 3.5F catheter systems following the recall, (b) completion of training on the new 3.5F catheter replacement systems, and (c) allocations of 3.5F catheter systems to customer sites based on availability, customer preference and volume potential. Taking these factors into account in our quarterly review of the accuracy of our estimates, and after extensive market review and technology assessment, Novoste concluded that the 5.0F catheter assets will most likely remain in active use through December 31, 2003. Accordingly, the remaining value of the 5.0F catheter assets will be amortized through December 31, 2003, rather than through March 31, 2003, as previously estimated. The result of this change in the estimated useful life is to reduce amortization expense to $413,000 from the expected $1,650,000 for the quarter ended March 31, 2003.

The impact of this change in estimate of useful lives in the three months ended March 31, 2003 is as follows (in thousands, except per-share data):

Impact	Three Months Ended March 31, 2003
Decrease in Cost of Sales	$ (1,237)
Increase in income per share basic	$ 0.08
Increase in income per share diluted	$ 0.07

NOTE 7. RECEIVABLE FROM OFFICERS

In October 2001, Novoste adopted a split-dollar life insurance plan for all officers. Pursuant to the plan, Novoste matched officer contributions to the plan and also provided an advance for related payroll taxes. The payroll tax advance was reflected as a receivable from officers on the balance sheet. The advances were unsecured and subject to the life insurance company s ability to repay Novoste in the future from the available funds. In accordance with the plan agreement, if an officer left Novoste for any reason, retired or in any way terminated or withdrew from the plan, the life insurance company would be obligated to repay Novoste for the tax advances prior to settlement of the account with the officer. At March 31, 2003, and December 31, 2002, the receivable from officers balance was $119,000 and $283,000, respectively.

Novoste has ceased accepting further contributions to the plan from executive officers. All officers who participated in the plan have withdrawn from the plan and $164,000 of the outstanding balance was refunded to Novoste in the first quarter of 2003, and the remainder of the balance was refunded to Novoste in April, 2003.

NOTE 8. LINE OF CREDIT

In August 2001, Novoste obtained a $10 million revolving line of credit. During the three months ended March 31, 2003 and at December 31, 2002, Novoste had no outstanding borrowings. Novoste may borrow an amount not to

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exceed the borrowing base as defined in the loan agreement, which is principally based on domestic accounts receivable. Interest on outstanding balances is payable on the first of each month, calculated on the outstanding balance, and accrues at a rate of the bank s prime rate plus 1%. Novoste granted a first priority security interest in substantially all assets of Novoste to the lender. At December 31, 2002, Novoste was in violation of the tangible net worth covenant of its revolving loan agreement and the lender issued a waiver for that violation through February 28, 2003. By agreement between Novoste and the lender, the maturity date of the original loan agreement between the parties has been extended to February 28, 2003, and by further agreement, the maturity date has been extended to February 27, 2004. Also as part of that modification, the tangible net worth covenant was changed, bringing Novoste into compliance, and the interest rate was changed to a base of the greater of the bank s prime rate or 4.25%, plus 1%.

Novoste also has letters of credit available under the revolving line of credit. The lender will issue or has issued letters of credit for Novoste s account subject to certain limitations; however, all such issued letters of credit may not exceed $500,000 in the aggregate.

NOTE 9. SEGMENT INFORMATION

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* requires the reporting of segment information based on the information provided to Novoste s chief operating decision maker for purposes of making decisions about allocating resources and assessing performance. Novoste s business activities are represented by a single industry segment, the manufacture and distribution of medical devices. For management purposes, Novoste is segmented into two geographic areas: United States and the Rest of the World (Europe, Canada, Asia and South America)

Novoste s net sales, net income (loss), long-lived assets and total assets by geographic area at and for the three months ended March 31, 2003 and 2002 are as follows (in thousands):

		United States	Rest of World	Consolidated
Net sales				
	2003	$ 19,299	$ 1,406	$ 20,705
	2002	21,447	1,485	22,932
Net income (loss)		United States	Rest of World	Consolidated
	2003	$ 2,100	$ 37	$ 2,137
	2002	3,722	(319)	3,403
Long-lived assets		United States	Rest of World	Consolidated
	2003	$ 17,346	$ 2,505	$ 19,851

	2002	20,511	3,641	24,152
Total assets				
		United States	Rest of World	Consolidated
	2003	$ 60,368	$ 5,299	$ 65,667
	2002	77,673	8,266	85,939

Novoste s net assets outside of the United States consist principally of cash and cash equivalents, accounts receivable and office equipment.

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NOVOSTE CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2003

NOTE 10. EARNINGS PER SHARE

The basic and diluted income or loss per share is computed based on the weighted average number of common shares outstanding. Weighted average shares outstanding, assuming dilution, includes the incremental shares that would be issued upon the assumed exercise of stock options. However, for the first quarter of 2003, stock options representing approximately 1.2 million shares of Novoste common stock were antidilutive and were excluded from the calculation of diluted earnings per share as their exercise price was higher than the average price of Novoste s common stock during the quarter (2.3 million shares were excluded in the first quarter of 2002). These options could be dilutive in the future if there is an increase in the price of Novoste common stock.

The following table sets forth the computation of basic and diluted earnings per share for the three-month periods ended March 31 (in thousands, except per-share data):

	Three Months Ended March 31	
	2003	**2002**
Numerator:		
Net income	$ 2,137	$ 3,403
Denominator:		
Weighted-average shares outstanding	$ 16,269	$ 16,280
Dilutive effect of stock options and unvested restricted stock	567	264
Weighted-average shares outstanding, assuming dilution	$ 16,836	$ 16,544
Net income per share:		
Basic	$ 0.13	$ 0.21
Diluted	$ 0.13	$ 0.21

NOTE 11. SHAREHOLDERS EQUITY

For the three-month period ended March 31, 2003 changes in shareholders equity consisted of the following (in thousands, except per-share data):

Shareholders equity at beginning of period	$ 52,765

Proceeds from exercise of 67,075 stock options ranging from $3.20 to $6.65 per share	429
Amortization of unearned compensation	65
Comprehensive income:	
Unrealized loss on held-for-sale securities	