ERESEARCHTECHNOLOGY INC /DE/
Form 10-Q
August 05, 2004

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 June 30, 2004.

or

Transitional report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transitional period from __________________ to __________________

Commission file number 0-29100

eResearchTechnology, Inc.

(Exact name of registrant as specified in its charter)

Delaware	22-3264604
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
30 South 17th Street Philadelphia, PA	19103
(Address of principal executive offices)	(Zip Code)

215-972-0420

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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.

__X__ Yes ______ No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
___X___ Yes _______ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The number of shares of Common Stock, $.01 par value, outstanding as of July 30, 2004, was 52,100,988.

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eResearchTechnology, Inc. and Subsidiaries

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Part 1. Financial Information
Item 1. Consolidated Financial Statements

eResearchTechnology, Inc. and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	December 31, 2003	June 30, 2004
		(unaudited)
Assets		
Current Assets:		
Cash and cash equivalents	$ 38,364	$ 55,772
Short-term investments	13,558	21,387
Accounts receivable, net	13,947	17,632
Prepaid expenses and other	2,219	3,662
Deferred income taxes	277	277
Total current assets	68,365	98,730
Property and equipment, net	16,416	19,617
Goodwill	1,212	1,212
Investments in non-marketable securities	509	509
Other assets	168	302
Deferred income taxes	5,308	4,920
Total assets	$ 91,978	$ 125,290
Liabilities and Stockholders’ Equity		
Current Liabilities:		
Accounts payable	$ 3,513	$ 3,797
Accrued expenses	4,446	4,101
Income taxes payable	1,584	147
Current portion of capital lease obligations	644	452
Deferred revenues	12,401	19,431
Total current liabilities	22,588	27,928
Capital lease obligations, excluding current portion	131	—
Commitments and contingencies		

Stockholders’ Equity:				
Preferred stock — $10.00 par value, 500,000 shares authorized, none issued and outstanding		—		—
Common stock — $.01 par value, 175,000,000 shares authorized, 54,735,914 and 56,078,139 shares issued, respectively		547		561
Additional paid-in capital		54,238		66,856
Accumulated other comprehensive income		1,038		1,109
Retained earnings		16,826		32,226
Treasury stock, 4,062,519 shares at cost		(3,390)		(3,390)
Total stockholders’ equity		69,259		97,362
Total liabilities and stockholders' equity	$	91,978	$	125,290

The accompanying notes are an integral part of these statements.

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eResearchTechnology, Inc. and Subsidiaries
Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	**2004**	**2003**	**2004**
Net revenues:				
Licenses	$ 1,154	$ 2,670	$ 2,343	$ 5,123
Services	13,622	25,494	26,016	49,133
Total net revenues	14,776	28,164	28,359	54,256
Costs of revenues:				
Cost of licenses	188	231	332	353
Cost of services	5,630	8,663	10,817	17,011
Total costs of revenues	5,818	8,894	11,149	17,364
Gross margin	8,958	19,270	17,210	36,892
Operating expenses:				
Selling and marketing	1,924	2,364	3,747	4,817
General and administrative	1,569	2,350	3,078	4,500
Research and development	1,140	1,042	2,204	2,015
Total operating expenses	4,633	5,756	9,029	11,332
Operating income	4,325	13,514	8,181	25,560
Other income, net	88	84	144	192
Income before income taxes	4,413	13,598	8,325	25,752
Income tax provision	1,644	5,466	3,101	10,352
Net income	$ 2,769	$ 8,132	$ 5,224	$ 15,400

Basic net income per share	$ 0.06	$ 0.16	$ 0.11	$ 0.30
Diluted net income per share	$ 0.05	$ 0.15	$ 0.10	$ 0.28
Shares used to calculate basic net income per share	49,203	51,579	48,753	51,256
Shares used to calculate diluted net income per share	53,666	55,571	53,082	55,488

The accompanying notes are an integral part of these statements.

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eResearchTechnology, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2003	2004
Operating activities:		
Net income	$ 5,224	$ 15,400
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,323	4,143
Provision for uncollectible accounts	—	84
Stock option income tax benefits	2,005	9,954
Changes in operating assets and liabilities:		
Accounts receivable	(4,168)	(3,716)
Prepaid expenses and other	(272)	(1,577)
Accounts payable	171	290
Accrued expenses	(522)	(348)
Income taxes	484	(1,089)
Deferred revenues	532	7,010
Net cash provided by operating activities	5,777	30,151
Investing activities:		
Purchases of property and equipment	(2,775)	(7,313)
Purchases of short-term investments	(3,825)	(17,552)
Proceeds from sales of short-term investments	3,539	9,723
Net cash used in investing activities	(3,061)	(15,142)
Financing activities:		
Repayment of capital lease obligations	(293)	(324)
Proceeds from exercise of stock options	2,193	2,681
Net cash provided by financing activities	1,900	2,357
Effect of exchange rate changes on cash	131	42
Net increase in cash and cash equivalents	4,747	17,408
Cash and cash equivalents, beginning of period	17,443	38,364
Cash and cash equivalents, end of period	$ 22,190	$ 55,772

The accompanying notes are an integral part of these statements.

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eResearchTechnology, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements, which include the accounts of eResearchTechnology, Inc. (the “Company”) and its wholly owned subsidiaries, 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 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 adjustments) considered necessary for a fair presentation have been included. Operating results for the six month period ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. Further information on potential factors that could affect the Company’s financial results can be found in the Company’s Reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission and in this Form 10-Q.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Management's Use of Estimates. The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment. Pursuant to Statement of Position 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,” the Company capitalizes costs associated with internally developed and/or purchased software systems for new products and enhancements to existing products that have reached the application development stage and meet recoverability tests. These costs are included in property and equipment. Capitalized costs include external direct costs of materials and services utilized in developing or obtaining internal-use software, and payroll and payroll-related expenses for employees who are directly associated with and devote time to the internal-use software project.

Amortization of capitalized software development costs is charged to cost of revenues. Amortization of capitalized software development costs was $318,000 and $597,000 for the three months ended June 30, 2003 and 2004, respectively, and $570,000 and $1,178,000 for the six months ended June 30, 2003 and 2004, respectively. For the six months ended June 30, 2003 and 2004, the Company capitalized $433,000 and $1,039,000, respectively, of software development costs related to labor and consulting, and $3,000 and $1,139,000, respectively, of software development costs related to direct costs of materials.

In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, “Accounting for the Impairment and Disposal of Long-Lived Assets,” when events or circumstances so indicate, the Company assesses the potential impairment of its long-lived assets based on anticipated undiscounted cash flows from the assets. Such events and circumstances include a sale of all or a significant part of the operations associated with the long-lived asset, or a significant decline in the operating performance of the asset. If an impairment is indicated, the amount of the impairment charge would be calculated by comparing the anticipated discounted future cash flows to the carrying value of the long-lived asset. At June 30, 2004, no impairment was indicated.

Research and Development Costs. All research and development costs have been expensed as incurred.

Stock-Based Compensation. In December 2002, SFAS No. 148, “Accounting for Stock-Based Compensation Transition and Disclosure,” was issued. SFAS No. 148 amended SFAS No. 123, “Accounting for Stock-Based Compensation,” to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amended the disclosure requirements of SFAS No. 123 related to the disclosures about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure provisions of SFAS No. 148 are applicable to interim or annual periods that end after December 15, 2002, and as such have been incorporated below.

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SFAS No. 123, as amended by SFAS No. 148, permits companies to (i) recognize as expense the fair value of stock-based awards, or (ii) continue to apply the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations, and provide pro forma net income and earnings per share disclosures for employee stock option grants as if the fair value based method defined in SFAS No. 123 had been applied. The Company continues to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosures in accordance with the provisions of SFAS Nos. 123 and 148. Under APB Opinion No. 25, the Company has not recorded any stock-based employee compensation cost associated with the Company's stock option plans, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to its stock option plans (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2004	2003	2004
Net income, as reported	$ 2,769	$ 8,132	$ 5,224	$ 15,400
Deduct: Net stock-based employee compensation expense determined under fair value based method, net of related tax effects	(829)	(1,210)	(1,041)	(1,915)
Pro forma net income	$ 1,940	$ 6,922	$ 4,183	$ 13,485
Earnings per share:				
Basic as reported	$ 0.06	$ 0.16	$ 0.11	$ 0.30
Basic pro forma	$ 0.04	$ 0.13	$ 0.09	$ 0.26
Diluted as reported	$ 0.05	$ 0.15	$ 0.10	$ 0.28
Diluted pro forma	$ 0.04	$ 0.12	$ 0.08	$ 0.24

Pro forma net income reflects only options granted through June 30, 2004 and, therefore, may not be representative of the effect for future periods.

Stock Splits. On May 27, 2004, the Company effected a 3-for-2 split of its common stock. On May 29, 2003, the Company effected a 2-for-1 split of its common stock. On November 26, 2003, the Company effected a 3-for-2 split of its common stock. All share and per share data have been restated to reflect these splits of the Company's common stock as if the stock splits had occurred as of December 31, 2002.

Note 3. Investment Impairment Charge Non-Marketable Securities

At June 30, 2004, investments in non-marketable securities consist of an investment in Essential Group, Inc. (formerly AmericasDoctor, Inc.), which is accounted for under the cost method in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." During 2001, in accordance with APB Opinion No. 18, management determined that a decrease in value of the investment occurred which was deemed to be other than temporary, and as a result the cost basis of the investment was written down from $2,300,000 to $509,000. For the three and six months ended June 30, 2003 and 2004, no additional investment impairment charge was required.

The Company will continue to assess the fair value of this investment and whether or not any decline in fair value below the current cost basis is deemed to be other than temporary. If a decline in the fair value of this investment is judged to be other than temporary, the cost basis of this investment would be written down to fair value and the amount of the write-down would be included in the Company's results.

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Note 4. Net Income per Common Share

The Company follows SFAS No. 128, “Earnings per Share.” This statement requires the presentation of basic and diluted earnings per share. Basic net income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period, adjusted for the dilutive effect of common stock equivalents, which consist of stock options, using the treasury stock method.

The tables below set forth the reconciliation of the numerators and denominators of the basic and diluted net income per share computations (in thousands, except per share amounts):

Three Months Ended June 30,

2003	Net Income	Shares	Per Share Amount
Basic net income	$ 2,769	49,203	$ 0.06
Effect of dilutive shares	—	4,463	(0.01)
Diluted net income	$ 2,769	53,666	$ 0.05
2004			
Basic net income	$ 8,132	51,579	$ 0.16
Effect of dilutive shares	—	3,992	(0.01)
Diluted net income	$ 8,132	55,571	$ 0.15

Six Months Ended June 30,

2003	Net Income	Shares	Per Share Amount
Basic net income	$ 5,224	48,753	$ 0.11
Effect of dilutive shares	—	4,329	(0.01)
Diluted net income	$ 5,224	53,082	$ 0.10
2004			
Basic net income	$ 15,400	51,256	$ 0.30
Effect of dilutive shares	—	4,232	(0.02)
Diluted net income	$ 15,400	55,488	$ 0.28

Options to purchase 7,675,041 shares of common stock were outstanding at June 30, 2003 and were included in the computation of diluted net income per share for the three and six months ended June 30, 2003.

Options to purchase 5,742,297 shares of common stock were outstanding at June 30, 2004 and were included in the computation of diluted net income per share for the three and six months ended June 30, 2004.

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Note 5. Comprehensive Income

The Company follows SFAS No. 130, “Reporting Comprehensive Income.” The Company’s comprehensive income includes net income and unrealized gains and losses from foreign currency translation as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	**2004**	**2003**	**2004**
Net income	$ 2,769	$ 8,132	$ 5,224	$ 15,400
Other comprehensive income (loss):				
Currency translation adjustment	251	(58)	151	71
Comprehensive income	$ 3,020	$ 8,074	$ 5,375	$ 15,471

Note 6. Recent Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (FIN 46), “Consolidation of Variable Interest Entities.” The requirements of FIN 46 for variable interest entities after January 31, 2003 were adopted on February 1, 2003. The adoption of FIN 46 did not have any impact on the Company’s consolidated financial statements. In December 2003, a modification of FIN 46 was issued (FIN 46R) which delayed the effective date until no later than fiscal periods ending after March 15, 2004 and provided additional technical clarifications to implementation issues. The Company currently does not have any variable interest entities as defined in FIN 46R. The adoption of FIN 46R did not have any impact on the Company’s consolidated financial statements.

Note 7. Operating Segments / Geographic Information

Since 2003, the Company has considered its operations to consist of one segment. The development of the one segment approach corresponds to the implementation of the Company’s refinement in strategic focus in late 2002, and represents management’s view of the Company’s operations.

The Company operates on a worldwide basis with two locations in the United States and one location in the United Kingdom, which are categorized below as North America and Europe, respectively. Revenues are allocated where the work is performed and not based upon the location of the client or the study.

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Geographic information is as follows:

	Three Months Ended June 30, 2003		
	North America	Europe	Total
License revenues	$ 864	$ 290	$ 1,154
Service revenues	10,233	3,389	13,622
Net revenues from external customers	$ 11,097	$ 3,679	$ 14,776
Operating income	$ 2,676	$ 1,649	$ 4,325
Long-lived assets	$ 12,447	$ 1,842	$ 14,289
Identifiable assets	$ 54,926	$ 8,062	$ 62,988

	Three Months Ended June 30, 2004		
	North America	Europe	Total
License revenues	$ 2,527	$ 143	$ 2,670
Service revenues	22,085	3,409	25,494
Net revenues from external customers	$ 24,612	$ 3,552	$ 28,164
Operating income	$ 12,885	$ 629	$ 13,514
Long-lived assets	$ 15,873	$ 4,956	$ 20,829
Identifiable assets	$ 116,419	$ 8,871	$ 125,290

	Six Months Ended June 30, 2003		
	North America	Europe	Total
License revenues	$ 1,951	$ 392	$ 2,343
Service revenues	20,414	5,602	26,016
Net revenues from external customers	$ 22,365	$ 5,994	$ 28,359
Operating income	$ 5,880	$ 2,301	$ 8,181
Long-lived assets	$ 12,447	$ 1,842	$ 14,289
Identifiable assets	$ 54,926	$ 8,062	$ 62,988

	Six Months Ended June 30, 2004		
		Europe	Total

	North America		
License revenues	$ 4,822	$ 301	$ 5,123
Service revenues	42,177	6,956	49,133
Net revenues from external customers	$ 46,999	$ 7,257	$ 54,256
Operating income	$ 24,155	$ 1,405	$ 25,560
Long-lived assets	$ 15,873	$ 4,956	$ 20,829
Identifiable assets	$ 116,419	$ 8,871	$ 125,290

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement for Forward-Looking Information

The following discussion and analysis should be read in conjunction with our financial statements and the related notes to the consolidated financial statements appearing elsewhere in this report. The following includes a number of forward-looking statements made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995 that reflect our current views with respect to future events and financial performance. We use words such as anticipate, believe, expect, intend, and similar expressions to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this report. These forward-looking statements are subject to risks and uncertainties such as competitive factors, technology development, market demand and our ability to obtain new contracts and accurately estimate net revenues due to variability in size, scope and duration of projects, and internal issues of the sponsoring client. These and other risk factors have been further discussed in our Report on Form 10-K for the year ended December 31, 2003. Such risks and uncertainties could cause actual results to differ materially from historical results or future predictions. Further information on potential factors that could affect our financial results can be found throughout this Form 10-Q and our other reports filed with the Securities and Exchange Commission.

Overview

We provide technology and services that enable the pharmaceutical, biotechnology and medical device industries to collect, interpret and distribute cardiac safety and clinical data more efficiently. We are a market leader in providing centralized electrocardiographic services (Cardiac Safety services or EXPeRT® eECG services) and a leading provider of technology and services that streamline the clinical trials process by enabling our clients to evolve from traditional, paper-based methods to electronic processing using our Clinical Data Management products and services.

We were founded in 1977 to provide Cardiac Safety services to evaluate the safety of new drugs. In February 1997, we completed an initial public offering of our common stock. In October 1997, we acquired the assets and business of a provider of clinical data management technology and consulting services to the pharmaceutical, biotechnology and medical device industries. Starting in 2000, we concentrated our products and services offerings on providing premier Cardiac Safety and Clinical Data Management services.

Our solutions improve the accuracy, timeliness and efficiency of trial set-up, data collection and interpretation and new drug, biologic and device application submission. We offer Cardiac Safety services, which are utilized by clinical trial sponsors and clinical research organizations during their conduct of clinical trials. Our services include comprehensive Thorough Phase I ECG studies and the Digital ECG Franchise program, which offers a unique approach designed to address the growing capacity demands for eRTs ECG services through partnerships with sponsors that desire dedicated resources within eRT to address specific levels of cardiac safety monitoring transactions. Additionally, we offer the licensing and/or hosting of our proprietary Clinical Data Management software products and the provision of maintenance and consulting services in support of our proprietary Clinical Data Management software products. We offer the following products and services on a global basis:

> *EXPeRT®*. EXPeRT® Cardiac Safety services provide intelligent, workflow enabled cardiac safety data collection, interpretation and distribution of electrocardiographic (ECG) data and images as well as analysis and physician electrocardiographer interpretation of ECGs performed on research subjects in connection with our clients' clinical trials.
>
> *eResNet.* The eResearch Network (eResNet) technology provides an integrated end-to-end clinical research solution that includes trials, data and safety management modules.
>
> *eDE.* eData Entry (eDE) technology provides a comprehensive electronic data capture (EDC) capability comprised of technology and consulting services formulated to deliver rapid time to benefit for electronic trial initiatives.

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eResCom. eResearch Community (eResCom) is a central command and control portal that provides real-time information related to monitoring clinical trial activities, data quality and safety.

Project Assurance/ Implementation Assurance. We provide a full spectrum of consulting services for all of our products that augment the study management and implementation efforts of clients in support of their clinical research requirements.

Our license revenues consist of license fees for perpetual licenses and monthly and annual licenses. Our service revenues consist of Cardiac Safety services, technology consulting and training services and software maintenance services.

We recognize software revenues in accordance with Statement of Position 97-2, “Software Revenue Recognition,” as amended by Statement of Position 98-9. Accordingly, we recognize up-front license fee revenues under the residual method when a formal agreement exists, delivery of the software and related documentation has occurred, collectability is probable and the license fee is fixed or determinable. We recognize monthly and annual license fee revenues over the term of the arrangement. Hosting service fees are recognized evenly over the term of service. Cardiac Safety services revenues consist of revenues that we provide on a fee for services basis as well as revenues from the rental of cardiac safety equipment. Such revenues are recognized as the services are performed or over the rental period. We recognize revenues from software maintenance contracts on a straight-line basis over the term of the maintenance contract, which is typically twelve months. We provide consulting and training services on a time and materials basis and recognize revenues as we perform the services.

For arrangements with multiple deliverables where the fair value of each element is known, the revenue is allocated to each component based on the relative fair values of each element. For arrangements with multiple deliverables where the fair value of the undelivered element(s) is known but the fair value of one or more of the delivered elements is not known, revenue is allocated to each component of the arrangement using the residual value method. Under the residual method, the fair value of the undelivered elements is deferred, and the remaining amount of the arrangement fee is attributed to the delivered element(s). Fair values for undelivered elements are based primarily upon stated renewal rates.

Cost of licenses consists primarily of application service provider (ASP) fees for those clients that choose hosting, the cost of producing compact disks and related documentation and royalties paid to third parties in connection with their contributions to our product development. Cost of services includes the cost of Cardiac Safety services and the cost of technology consulting, training and maintenance services. Cost of Cardiac Safety services consists primarily of direct costs related to our centralized Cardiac Safety services and includes wages, cardiac safety equipment rent and related supplies, depreciation, shipping expenses and other direct operating costs. Cost of technology consulting, training and maintenance services consists primarily of wages, fees paid to outside consultants and other direct operating costs related to our consulting and client support functions. Selling and marketing expenses consist primarily of wages and commissions paid to sales personnel, travel expenses and advertising and promotional expenditures. General and administrative expenses consist primarily of wages and direct costs for our finance, administrative, corporate information technology and executive management functions, in addition to professional service fees and corporate insurance. Research and development expenses consist primarily of wages paid to our product development staff, costs paid to outside consultants and direct costs associated with the development of our technology products.

We conduct our operations through offices in the United States and the United Kingdom (UK). Our international net revenues represented approximately 21% and 13% of total net revenues for the six months ended June 30, 2003 and 2004, respectively.

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Results of Operations

The following table presents certain financial data as a percentage of total net revenues:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2004	2003	2004
Net revenues:				
Licenses	7.8%	9.5%	8.3%	9.4%
Services	92.2%	90.5%	91.7%	90.6%
Total net revenues	100.0%	100.0%	100.0%	100.0%
Costs of revenues:				
Cost of licenses	1.3%	0.8%	1.2%	0.7%
Cost of services	38.1%	30.8%	38.1%	31.3%
Total costs of revenues	39.4%	31.6%	39.3%	32.0%
Gross margin	60.6%	68.4%	60.7%	68.0%
Operating expenses:				
Selling and marketing	13.0%	8.4%	13.2%	8.9%
General and administrative	10.6%	8.3%	10.9%	8.3%
Research and development	7.7%	3.7%	7.8%	3.7%
Total operating expenses	31.3%	20.4%	31.9%	20.9%
Operating income	29.3%	48.0%	28.8%	47.1%
Other income, net	0.6%	0.3%	0.6%	0.4%
Income before income taxes	29.9%	48.3%	29.4%	47.5%
Income tax provision	11.2%	19.4%	11.0%	19.1%
Net income	18.7%	28.9%	18.4%	28.4%

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Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003.

The following table presents statements of operations with product line detail (in thousands):

	Three Months Ended June 30,		Increase (Decrease)	
	2003	2004		
Licenses:				
Net revenues	$ 1,154	$ 2,670	$ 1,516	131.4%
Costs of revenues	188	231	43	22.9%
Gross margin	$ 966	$ 2,439	$ 1,473	152.5%
Services:				
Cardiac Safety				
Net revenues	$ 11,735	$ 23,538	$ 11,803	100.6%
Costs of revenues	4,657	7,630	2,973	63.8%
Gross margin	$ 7,078	$ 15,908	$ 8,830	124.8%
Technology consulting and training				
Net revenues	$ 911	$ 908	$ (3)	(0.3%)
Costs of revenues	708	747	39	5.5%
Gross margin	$ 203	$ 161	$ (42)	(20.7%)
Software maintenance				
Net revenues	$ 976	$ 1,048	$ 72	7.4%
Costs of revenues	265	286	21	7.9%
Gross margin	$ 711	$ 762	$ 51	7.2%
Total services				
Net revenues	$ 13,622	$ 25,494	$ 11,872	87.2%
Costs of revenues	5,630	8,663	3,033	53.9%
Gross margin	$ 7,992	$ 16,831	$ 8,839	110.6%
Total:				
Net revenues	$ 14,776	$ 28,164	$ 13,388	90.6%
Costs of revenues	5,818	8,894	3,076	52.9%
Gross margin	8,958	19,270	10,312	115.1%
Operating expenses:				
Selling and marketing	1,924	2,364	440	22.9%

General and administrative	1,569	2,350	781	49.8%
Research and development	1,140	1,042	(98)	(8.6%)
Total operating expenses	4,633	5,756	1,123	24.2%
Operating income	4,325	13,514	9,189	212.5%
Other income, net	88	84	(4)	(4.5%)