

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended September 30, 1996.

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 0-28440

CARDIOVASCULAR DYNAMICS, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

68-0328265
(I.R.S. Employer
Identification Number)

13900 Alton Parkway, Suite 122, Irvine, California 92718
(Address of principal executive offices)

Registrant's telephone number, including area code (714) 457-9546

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

On October 31, 1996, the registrant had outstanding 8,786,000 shares of Common Stock of \$.001 par value, which is the registrant's only class of Common Stock.

CARDIOVASCULAR DYNAMICS, INC.

FORM 10-Q

SEPTEMBER 30, 1996

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CARDIOVASCULAR DYNAMICS, INC.

CONDENSED BALANCE SHEETS

(Unaudited)

(In thousands, except per share amounts)

	September 30, 1996 ----	December 31, 1995 ----
ASSETS		
Current assets:		
Cash and equivalents	\$ 47,377	\$ 1,568
Trade accounts receivable, net	2,083	1,117
Inventories	1,996	754
Other current assets	194	58
	-----	-----
Total current assets	51,650	3,497
Property and equipment, net	855	424
Other assets	486	81
	-----	-----
Total Assets	\$ 52,991	\$ 4,002
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,401	\$ 962
Accrued payroll and other accrued expenses	1,005	722
Customer deposits	754	0
Payable to affiliate	0	2,537
Deferred distributorship fee-current	50	50
	-----	-----
Total current liabilities	4,210	4,271
Deferred distributorship fee revenue	42	79
Convertible obligation	750	750
STOCKHOLDERS' EQUITY		
Convertible preferred stock, \$.001 par value; 7,560,000 shares authorized, no shares and 2,000,000 shares issued and outstanding as of September 30, 1996 and December 31, 1995, respectively	--	2
Common stock, \$.001 par value; 30,000,000 authorized, 8,786,000 shares and no shares outstanding as of September 30, 1996 and December 31, 1995, respectively	9	--
Additional paid-in capital	56,657	5,670
Deferred compensation	(407)	(345)
Accumulated deficit	(8,270)	(6,425)
	-----	-----
Total stockholders' equity	47,989	(1,098)
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 52,991	\$ 4,002
	=====	=====

See accompanying notes

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CARDIOVASCULAR DYNAMICS, INC.

CONDENSED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
	----	----	----	----
Revenue:				
Sales	\$ 2,252	\$ 1,240	\$ 5,836	\$ 2,156
License fee and other from related party	0	53	200	230
Contract	100	292	150	412
	-----	-----	-----	-----
Total revenue	2,352	1,585	6,186	2,798
Cost of sales	1,273	665	3,136	1,143
	-----	-----	-----	-----
Gross profit	1,079	920	3,050	1,655
Operating expenses:				
Charge for acquired in-process research and development	--	--	--	488
Research, development and clinical	1,181	434	2,610	1,420
Marketing and sales	807	455	2,094	1,120
General and administrative	419	465	922	981
	-----	-----	-----	-----
Total operating expenses	2,407	1,354	5,626	4,009
	-----	-----	-----	-----
Loss from operations	(1,328)	(434)	(2,576)	(2,354)
Other income:				
Interest income	621	6	694	29
Distributorship fees and other income	9	9	37	48
	-----	-----	-----	-----
Total other income	630	15	731	77
	-----	-----	-----	-----
Net loss	\$ (698)	\$ (419)	\$ (1,845)	\$ (2,277)
	=====	=====	=====	=====
Net loss per share	\$ (0.08)	\$ (0.09)	\$ (0.29)	\$ (0.51)
	=====	=====	=====	=====
Shares used in the calculation of net loss per share	9,153	4,468	6,462	4,433
	=====	=====	=====	=====

See accompanying notes

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CARDIOVASCULAR DYNAMICS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	Nine months ended September 30,	
	1996	1995
	----	----
Cash flows from operating activities:		
Net loss	\$ (1,845)	\$ (2,277)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	135	49
Amortization of deferred compensation	88	--
Charge for acquired in-process research and development	--	488
Net changes in:		
Trade accounts receivable, net	(966)	(350)
Inventories	(1,242)	(357)
Other assets	(136)	129
Accounts payable and accrued expenses	2,476	996
Deferred distributor fee revenue	(37)	(41)
	-----	-----
Net cash used in operating activities	(1,527)	(1,363)

Cash flows used in investing activities:		
Capital expenditures for property and equipment and other assets	(971)	(458)
	-----	-----
Net cash used in investing activities	(971)	(458)
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of convertible obligation	--	750
Proceeds from sale of common stock	42,844	--
Proceeds from sale of preferred stock to parent	8,000	--
Payable to affiliate, net	(2,537)	(235)
	-----	-----
Net cash provided by financing activities	48,307	515
	-----	-----
Net increase (decrease) in cash and equivalents	45,809	(1,306)
Cash and equivalents, beginning of period	1,568	3,379
	-----	-----
Cash and equivalents, end of period	\$ 47,377	\$ 2,073
	=====	=====

See accompanying notes

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NOTES TO CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 1996

1. Basis of Presentation

Cardiovascular Dynamics, Inc. ("CVD" or the "Company") designs, develops, manufactures and markets catheters used to treat certain vascular diseases. The accompanying condensed financial statements have been prepared in accordance with generally accepted accounting principals 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 of 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 accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 1996 are not necessarily indicative of results that may be expected for the year ending December 31, 1996. For further information, refer to the financial statements and footnotes thereto for the year ended December 31, 1995 included in the Company's Prospectus dated June 19, 1996.

2. Closing of Initial Public Offering

On June 19, 1996, the Company closed its initial public offering which consisted of 3,400,000 shares of common stock at \$12.00 per share. On July 17, 1996, the Company's underwriters exercised their overallotment option to purchase an additional 510,000 shares of common stock at \$12.00 per share. CVD received net offering proceeds from the sale of common stock of approximately \$42.7 million, after deducting underwriting discounts and commissions and other expenses of the offering.

3. Net Loss Per Share

Net loss per share is computed using the weighted average number of shares of common stock outstanding. Common stock equivalent shares from convertible debt, stock options and warrants are not included as the effect is anti-dilutive. In accordance with Securities and Exchange Commission Staff Accounting Bulletins, common stock and common stock equivalent shares issued by the Company at prices below the initial public offering price during the period beginning one year prior to the offering have been included in the calculation as if they were outstanding for all periods presented (using the treasury stock method and the initial public offering price of the Company's common stock).

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NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 1996

4. Stock Split

In May 1996, the Board of Directors approved a stock split of 2-for-1 of all the outstanding shares of common stock. All share and per share information has been adjusted to give effect to the stock split in the accompanying financial statements.

5. Inventories

Inventories are stated at the lower of cost, determined on an average cost basis, or market value. Inventories consist of the following:

	September 30, 1996 -----	December 31, 1995 -----
Raw materials	\$ 731,000	\$162,000
Work-in-process	578,000	330,000
Finished goods	687,000	262,000
	-----	-----
	\$1,996,000	\$754,000
	=====	=====

6. Subsequent Events

In October 1996, the Company acquired Intraluminal Devices, Inc. ("IDI") by the statutory merger (the "Merger") of IDI with and into IDI Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of the Company. In exchange for \$1.4 million in common stock of the Company, approximately 86,400 shares, the Company acquired all of the outstanding common stock of IDI. In addition, under the terms of the Merger Agreements, the Company may become obligated to issue additional shares of common stock to the former shareholders of IDI in the event the closing price of the Company's common stock, as reported on the Nasdaq National Market on the fourth day after the related registration statement is declared effective, is below \$12.97 per share.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward looking statements that involve risks and uncertainties that could cause actual results to differ materially from those in the forward looking statements. For a discussion of factors which might result in different outcomes, see the Company's Prospectus dated June 19, 1996, in particular "Risk Factors" beginning on page 6 thereof.

Overview

Since inception in 1992, Cardiovascular Dynamics, Inc. has engaged primarily in the research and development of products for the treatment of cardiovascular disease. The Company's financial results will be affected in the future by several factors, including the timing of any FDA approval to market the Company's products, FDA approval of IDE sites and the number of patients permitted to be treated, future changes in government regulations and third party reimbursement policies applicable to the Company's products, the progress of competing technologies and the ability of the Company to develop the manufacturing and marketing capabilities necessary to support commercial sales. As a result of these factors, revenue levels, gross margins and operating results may fluctuate from quarter to quarter.

On July 15, 1996, CVD and Medtronic, Inc. entered into an agreement providing for the co-distribution by Medtronic of the Company's balloon angioplasty

catheters. These catheters employ the Company's patented Focus Technology. Under the Agreement, Medtronic will purchase a minimum number of angioplasty catheters manufactured by the Company for distribution worldwide for a period of up to three years. If the Company is unable to meet its delivery obligations with respect to the purchased catheters, up to 60% of the Company's manufacturing capacity will be devoted to manufacturing such catheters for Medtronic. Specific products to be distributed by Medtronic will differ in individual country markets. The Company will continue to sell Focus Technology products through its own direct and indirect sales force network. These products are currently sold under the names FACTTM, CATTM and ARCTM.

In October 1996, the Company acquired Intraluminal Devices, Inc. ("IDI") by the statutory merger (the "Merger") of IDI with and into IDI Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of the Company. In exchange for \$1.4 million in common stock of the Company, approximately 86,400 shares, the Company acquired all of the outstanding common stock of IDI (after conversion of IDI Preferred Stock into IDI Common Stock). In addition, under the terms of the Merger Agreements, the Company may become obligated to issue

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

additional shares of common stock to the former shareholders of IDI in the event the closing price of the Company's common stock, as reported on the Nasdaq National Market on the fourth day after the related registration statement is declared effective is below \$12.97 per share. The Company expects to significantly increase research and development expenditures to complete the development or to determine the saleability of IDI products.

Results of Operations

Third quarter of 1996 compared to the same period in 1995

Revenue for the third quarter of 1996 increased 48% to \$2.35 million compared to \$1.59 million for the third quarter of 1995 representing increased sales from the further development of the market for the Company's Focus catheters and the introduction of additional products.

The gross profit percentage for the third quarter of 1996 decreased to 46% compared to 58% for the same period of 1995. In the third quarter of 1995, total revenues included approximately \$0.35 million of contract revenues that had no associated cost of sales. This contract revenue represented 22% of total revenues for that quarter. In the third quarter of 1996, the Company had \$0.1 million of contract revenues, representing approximately 4% of total revenues.

Research, development and clinical expenses increased by 172% to \$1.2 million in the quarter ended September 30, 1996 from \$0.4 million in the quarter ended September 30, 1995. The primary reason for this increase was additional spending on development of the Company's line of peripheral vascular products and coronary stent products.

Marketing and sales expenses rose 77% to \$0.8 million, up \$0.3 million, in the quarter ended September 30, 1996, compared to \$0.5 million in the same period of 1995. This increase reflects the investment the Company is making to build its sales and marketing infrastructure by adding additional personnel and developing additional distributor relationships.

General and administrative expenses remained relatively constant comparing the three month periods ended September 30, 1996 and 1995.

Interest income rose to \$0.6 million in the third quarter of 1996 compared with \$0.0 million in the same period of 1995. The increase was due to the investment of funds received from the initial public offering in June 1996.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

First nine months of 1996 compared to the same period of 1995

Revenue for the first nine months of 1996 increased 121% to \$6.2 million compared to \$2.8 million for the same period during 1995 representing increased sales from the further development of the market for the Company's Focus catheters and the introduction of additional products.

The gross profit percentage for the first nine months of 1996 decreased to 49% compared to 59% for the same period of 1995. In the first half of 1995, CVD's products were manufactured by Endosonics Corporation at fixed per unit costs. Additionally, 23% of the total revenues in the first nine months of 1995 was comprised of license fees and other revenues which had no associated cost of sales. During the nine months ended September 30, 1996, the Company manufactured its own products at relatively low volumes, and the percentage of total revenues that represented license fees and other revenues which had no associated cost of sales was only 6% of total revenues.

Research, development and clinical expenses increased by 84% to \$2.6 million in the first nine months of 1996 from \$1.4 million for the same period in 1995. The primary reason for this increase was additional spending on development of the Company's line of peripheral vascular products and coronary stent products.

During the nine months ended September 30, 1996, marketing and sales expenses rose 87% to \$2.1 million, up from \$1.1 million for the same period during 1995. This increase reflects the investment the Company is making to build its sales and marketing infrastructure by adding personnel and distributor relationships.

General and administrative expenses remained relatively constant comparing the nine month periods ended September 30, 1996 and 1995.

Interest income rose to \$0.7 million during the nine months ended September 30, 1996 compared with \$0.0 million in the same period of 1995. The increase was due to the investment of funds received from the initial public offering in June 1996.

The Company has experienced an operating loss for each of the last three years. The Company expects to continue to incur operating losses through at least 1997 and there can be no assurance that the Company will ever be able to achieve or sustain profitability in the future. CVD's results of operations have varied

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

significantly from quarter to quarter. Quarterly operating results will depend upon several factors, including the timing and amount of expenses associated with expanding the Company's operations, the conduct of clinical trials and the timing of regulatory approvals, new product introductions both in the United States and internationally, the mix between pilot production of new products and full-scale manufacturing of existing products, the mix between domestic and export sales, variations in foreign exchange rates, changes in third-party payors' reimbursement policies and healthcare reform. The Company does not operate with a significant backlog of customer orders, and therefore revenues in any quarter are significantly dependent on orders received within that quarter. In addition, the Company cannot predict ordering rates by distributors, some of whom place infrequent stocking orders. The Company's expenses are relatively fixed and difficult to adjust in response to fluctuating revenues. As a result of these and other factors, the Company expects to continue to experience significant fluctuations in quarterly operating results, and there can be no assurance that the Company will be able to achieve or maintain profitability in the future.

Liquidity and Capital Resources

On June 19, 1996, the Company closed its initial public offering which consisted of 3,400,000 shares of common stock at \$12.00 per share. On July 17, 1996, the Company's underwriters exercised their overallocation option to purchase an additional 510,000 shares of common stock at \$12.00 per share. CVD received net offering proceeds from the sale of common stock of approximately \$42.7 million after deducting underwriting discounts and commissions and other expenses of the offering.

The Company had working capital of \$47.4 million at September 30, 1996 as compared to negative working capital of \$0.8 million as of December 31, 1995. From inception through September 30, 1996, the Company raised approximately \$11.4 million from the private sales of preferred and common stock and \$2.7 million in working capital from Endosonics Corporation (CVD's former parent company). The Company repaid Endosonics Corporation during the third quarter of 1996.

Cash flows used in operations were \$1.5 million for the nine months of 1996 as compared to \$1.4 million for the same period of 1995.

On September 30, 1996, CVD had cash and cash equivalents of \$47.2 million. The Company expects to incur substantial costs related to, among other things, clinical testing, product development, marketing and sales expenses, and increased working

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

capital, prior to achieving positive cash flow from operations. The Company anticipates that its existing capital resources will be sufficient to fund its operations through 1997. CVD's future capital requirements will depend on many factors, including its research and development programs, the scope and results of clinical trials, the regulatory approval process, the costs involved in intellectual property rights enforcement or litigation, competitive products, the establishment of manufacturing capacity, the establishment of sales and marketing capabilities, and the establishment of collaborative relationships with other parties. The Company may need to raise funds through additional financings, including private or public equity offerings and collaborative arrangements with existing or new corporate partners. There can be no assurance that funds will be raised on favorable terms, or at all. If adequate funds are not available, the Company may be required to delay, scale back or eliminate one or more of its development programs or obtain funds through arrangements with collaborative partners or others that may require the Company to grant rights to certain technologies or products that the Company would not otherwise grant.

Trade accounts receivable, net, increased 86% to \$2.1 million as of September 30, 1996 compared with \$1.1 million at December 31, 1996. The increase stemmed from an increase in the sales level compared to the prior year. Specifically, sales for the third quarter of 1996 were \$2.3 million, while sales for the fourth quarter of 1995 were \$1.3 million or 77% higher.

Inventories rose 65% to \$2.0 million as of September 30, 1996, compared with \$0.8 million at December 31, 1996, to meet current sales demand. Accounts payable increased 150% to \$2.4 million at September 30, 1996, compared with \$1.0 million at the end of the same period of 1995, due to an increase in expenditures to support higher sales.

Property and equipment, net, increased 102% from \$0.4 million at December 31, 1996 to \$0.9 million at September 30, 1996. The Company increased its investment in capital assets during the first nine months of 1996 to support rising production and research and development efforts.

Accrued payroll and other accrued expenses increased 39% from \$0.7 million at December 31, 1996 to \$1.0 million at September 30, 1996 primarily due to higher personnel costs to support operations. The customer deposits at the end of September 30, 1996 stemmed from upfront deposits by Medtronic, Inc. as part of a co-distribution agreement. See further discussion in the "Overview" section of

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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

At December 31, 1995, the Company had an obligation of \$2.5 ("payable to

affiliate") payable to its former parent company, Endosonics Corporation ("Endosonics"). In the third quarter of 1996, the Company paid the obligation which then totalled \$2.7 million. The obligation primarily stemmed from expenses paid by Endosonics on behalf of the Company and from inventory purchased from Endosonics.

Part II.

OTHER INFORMATION

Items 1 through 5. Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 2.3(1) Agreement and Plan of Reorganization by and among CardioVascular Dynamics, Inc., IDI Acquisition Corporation and Intraluminal Devices, Inc. ("IDI") dated October 2, 1996.

Exhibit 27 Financial Data Schedule

- - - - -

(1) Previously filed as an exhibit to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on November 12, 1996.

(b) No reports on Form 8-K were filed during the quarter.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by undersigned thereto duly authorized.

CARDIOVASCULAR DYNAMICS, INC.

Date: November 12, 1996 /s/ MICHAEL R. HENSON

President and Chief Executive Officer
(Principal Executive Officer)

Date: November 12, 1996 /s/ DANA P. NICKELL

Vice President-Finance and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

EXHIBIT INDEX

2.3 (1) Agreement and Plan of Reorganization by and among CardioVascular Dynamics, Inc., IDI Acquisition Corporation and Intraluminal Devices, Inc. ("IDI") dated October 2, 1996.

27 Financial Data Schedule

- - - - -

- (1) Previously filed as an exhibit to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on November 12, 1996.

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