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VITAL SIGNS INC
Form 10-Q
May 15, 2001

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 March 31, 2001 or
- 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: 0-18793

VITAL SIGNS, INC.
(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

11-2279807
(I.R.S. Employer
Identification No.)

20 Campus Road
Totowa, New Jersey 07512
(Address of principal executive office, including zip code)

973-790-1330
(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.

Yes X No

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

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At May 7, 2001, there were 12,913,685 shares of Common Stock, no par value, outstanding.

VITAL SIGNS, INC.

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PART I.

Financial Information

Item 1.

Financial Statements

Certain information and footnote disclosures required under generally accepted accounting principles have been condensed or omitted from the following consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Vital Signs, Inc. (the "registrant" or the "Company" or "Vital Signs") believes that the disclosures are adequate to assure that the information presented is not misleading in any material respect. It is suggested that the following consolidated financial statements be read in conjunction with the year-end consolidated financial statements and notes thereto included in the registrant's Annual Report on Form 10-K for the year ended September 30, 2000.

The results of operations for the interim periods presented herein are not necessarily indicative of the results to be expected for the entire fiscal year.

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INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Directors
Vital Signs, Inc.

We have reviewed the accompanying consolidated balance sheet of Vital Signs, Inc. as of March 31, 2001, and the related consolidated statements of income, and cash flows for each of the three-month and six month periods ended March 31, 2001 and 2000. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an actual audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements for them to be in conformity with generally accepted accounting principles.

GOLDSTEIN GOLUB KESSLER LLP
New York, New York

April 30, 2001

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VITAL SIGNS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET

| | March 31, 2001 | September 30, 2000 |
|--|-------------------|-----------------------|
| ----- | | |
| (In thousands) | | |
| ASSETS | | |
| (Unaudited) | | |
| ----- | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 24,778 | \$ 7,606 |
| Accounts receivable, less allowance for doubtful accounts of \$656 and \$571 respectively | 28,948 | 26,377 |
| Inventory | 27,228 | 23,964 |
| Prepaid expenses and other current assets | 6,100 | 6,361 |
| | ----- | ----- |
| Total Current Assets | 87,054 | 64,308 |
| Property, plant and equipment - net | 51,163 | 53,016 |
| Marketable securities | 567 | 551 |
| Goodwill and other intangible assets | 47,458 | 47,253 |
| Deferred income taxes | 2,235 | 2,235 |
| Other assets | 3,940 | 5,468 |
| | ----- | ----- |
| Total Assets | \$ 192,417 | \$ 172,831 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 6,151 | \$ 4,772 |
| Current portion of long-term debt | 398 | 535 |
| Accrued expenses | 4,307 | 4,858 |
| Notes payable - bank | 6,603 | 8,756 |
| Other current liabilities | 5,472 | 6,103 |
| | ----- | ----- |

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| | | |
|--|------------|------------|
| Total Current Liabilities | 22,931 | 25,024 |
| Long term debt | 2,375 | 2,711 |
| Other liabilities | 245 | 245 |
| | ----- | ----- |
| Total Liabilities | 25,551 | 27,980 |
| Commitments and contingencies | | |
| Minority interest in subsidiary | 4,269 | 4,171 |
| Stockholder's Equity | | |
| Common stock - no par value; authorized 40,000,000 shares, issued and outstanding 12,900,347 and 12,307,831 shares, respectively | 26,115 | 15,132 |
| Accumulated other comprehensive loss | (1,606) | (1,540) |
| Retained earnings | 138,088 | 127,088 |
| | ----- | ----- |
| Stockholders' equity | 162,597 | 140,680 |
| | ----- | ----- |
| Total Liabilities and Stockholders' Equity | \$ 192,417 | \$ 172,831 |
| | ===== | ===== |

(See Notes to Consolidated Financial Statements)

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VITAL SIGNS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | For the Six Months Ended March 31, | |
|-------------------------------------|---|-----------|
| | 2001 | 2000 |
| | ----- | ----- |
| | (In Thousands Except Per Share Amounts) | |
| Net sales | \$ 81,472 | \$ 72,594 |
| Cost of goods sold | 39,522 | 34,666 |
| | ----- | ----- |
| Gross Profit | 41,950 | 37,928 |
| Operating expenses: | | |
| Selling, general and administrative | 20,669 | 19,169 |
| Research and development | 3,830 | 3,863 |

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| | | |
|---|-----------|----------|
| Interest (income) | (489) | (226) |
| Interest expense | 405 | 244 |
| Other expense (income) | (315) | 516 |
| Goodwill amortization | 657 | 485 |
| | ----- | ----- |
| | 24,757 | 24,051 |
| | ----- | ----- |
| Income before provision for income taxes and minority interest in income of consolidated subsidiary | 17,193 | 13,877 |
| Provision for income taxes | 5,171 | 4,055 |
| | ----- | ----- |
| Income before minority interest in income of consolidated subsidiary | 12,022 | 9,822 |
| Minority interest in income of consolidated subsidiary | 31 | 360 |
| | ----- | ----- |
| Net income | \$ 11,991 | \$ 9,462 |
| | ===== | ===== |
| Earnings per Common Share: | | |
| Basic net income per share | \$.97 | \$.77 |
| | ===== | ===== |
| Diluted net income per share | \$.94 | \$.76 |
| | ===== | ===== |
| Basic weighted average number of shares | 12,396 | 12,222 |
| | ===== | ===== |
| Diluted weighted average number of shares | 12,701 | 12,400 |
| | ===== | ===== |
| Dividends paid per share | \$.08 | \$.08 |
| | ===== | ===== |

(see Notes to Consolidated Financial Statements)

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VITAL SIGNS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | For the Three Months Ended March 31, | |
|-----------|---|-----------|
| | 2001 | 2000 |
| | ----- | ----- |
| Net sales | \$ 40,874 | \$ 35,481 |

(In Thousands Except Per Share Amounts)

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| | | |
|--|----------|----------|
| Cost of goods sold | 19,855 | 17,096 |
| | ----- | ----- |
| Gross Profit | 21,019 | 18,385 |
| Operating expenses: | | |
| Selling, general and administrative | 10,484 | 9,485 |
| Research and development | 2,056 | 2,235 |
| Interest (income) | (385) | (143) |
| Interest expense | 171 | 121 |
| Other expense (income) | (488) | 84 |
| Goodwill amortization | 298 | 242 |
| | ----- | ----- |
| | 12,136 | 12,024 |
| | ----- | ----- |
| Income before provision for income taxes and minority interest in income of consolidated subsidiary | 8,883 | 6,361 |
| Provision for income taxes | 2,661 | 1,721 |
| | ----- | ----- |
| Income before minority interest in income of consolidated subsidiary | 6,222 | 4,640 |
| Minority interest in income of consolidated subsidiary | 134 | 153 |
| | ----- | ----- |
| Net income | \$ 6,088 | \$ 4,487 |
| | ===== | ===== |
| Earnings per Common Share: | | |
| Basic net income per share | \$.49 | \$.37 |
| | ===== | ===== |
| Diluted net income per share | \$.48 | \$.36 |
| | ===== | ===== |
| Basic weighted average number of shares | 12,549 | 12,263 |
| | ===== | ===== |
| Diluted weighted average number of shares | 12,752 | 12,436 |
| | ===== | ===== |
| Dividends paid per share | \$.04 | \$.04 |
| | ===== | ===== |

(see Notes to Consolidated Financial Statements)

VITAL SIGNS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

For the Six Months Ended
March 31,
2001 2000

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| | | |
|---|-----------|----------|
| Cash Flows from Operating Activities: | | |
| Net income | \$ 11,991 | \$ 9,462 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation and amortization | 2,685 | 2,026 |
| Decrease (increase) in net income tax asset | -- | (515) |
| Foreign currency unrealized gain | (500) | -- |
| Amortization of goodwill | 657 | 485 |
| Minority interest in income of consolidated subsidiary | 31 | 360 |
| Changes in operating assets and liabilities: | | |
| Increase in accounts receivable | (2,366) | (1,484) |
| Decrease (increase) in inventory | (3,097) | 82 |
| Decrease (increase) in prepaid expenses and other current assets | 261 | (614) |
| Decrease in other liabilities | (131) | (268) |
| Decrease (increase) in other assets | 594 | (441) |
| (Increase) decrease in accounts payable and accrued expenses | 635 | (1,223) |
| | ----- | ----- |
| Net cash provided by operating activities | 10,760 | 7,870 |
| | ----- | ----- |
| Cash Flows from Investing Activities: | | |
| Proceeds from sales of available-for-sale securities | -- | 13 |
| Acquisition of property, plant and equipment | (832) | (5,180) |
| | ----- | ----- |
| Net cash used in investing activities | (832) | (5,167) |
| | ----- | ----- |
| Cash Flows from Financing Activities: | | |
| Purchase of treasury stock | (59) | (1,171) |
| Issuance of treasury stock | 87 | 591 |
| Dividends paid | (991) | (982) |
| Proceeds from exercise of stock options and warrants | 10,955 | 895 |
| Proceeds from short term notes payable | -- | 1,358 |
| Principal payments of long-term debt and notes payable | (2,748) | (5,169) |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | 7,244 | (4,478) |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 17,172 | (1,775) |
| Cash and cash equivalents at beginning of period | 7,606 | 6,655 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 24,778 | \$ 4,880 |
| | ===== | ===== |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the six months for: | | |
| Interest | \$ 529 | \$ 224 |
| Income taxes | 4,395 | 4,696 |

(See Notes to Consolidated Financial Statements)

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VITAL SIGNS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. The consolidated balance sheet as of March 31, 2001, the consolidated statements of income for the three and six months ended March 31, 2001 and 2000 and the consolidated statement of cash flows for the six months ended March 31, 2001 and 2000 have been prepared by Vital Signs, Inc. (the "Company" or "VSI") and are unaudited. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial position at March 31, 2001 and the results of operations and cash flows for the three and six months ended March 31, 2001 and 2000 have been made.
2. See the Company's Annual Report on Form 10-K for the year ended September 30, 2000 (the "Form 10-K") for additional disclosures relating to the Company's consolidated financial statements.
3. The Company adopted Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information" at September 30, 1999. The Company designs, manufactures and distributes single-use medical products. The Company's segment of information does not meet the criteria for separate disclosure.
4. At March 31, 2001, the Company's inventory was comprised of raw materials, \$17,093,000, and finished goods, \$10,135,000.
5. In the third quarter of Fiscal 2000, the Company converted its preferred stock holdings in privately held National Sleep Technologies, Inc. ("NST") into common stock. Upon such conversion the Company acquired an 84% ownership in NST. The total value of the Company's investment in NST as of September 30, 2000 was \$10,439,000. The assets acquired amounted to approximately \$4 million and liabilities assumed approximately \$6 million. This acquisition has been accounted for as a purchase resulting in an excess of purchase price over the fair value of net assets acquired of approximately \$12.8 million. The Company has reflected the operations of NST as a consolidated subsidiary as of June 1, 2000. The net sales and net income for the six months ended March 31, 2001 were \$6,273,000 and \$85,000, respectively.
6. For Details of Legal Proceedings, see Part II, Item 1, "Legal Proceedings".
7. Subsequent to the March 31, 2001 reporting period, the Company purchased 41% of Breas Medical AB bringing the Company's ownership percentage to 94%. The Company paid approximately \$3.7 million upon signing a definitive agreement with the balance payable based on a multiple of Breas' sales and earnings for the twelve months ending March 31, 2002. The ultimate purchase price for the additional 41% ownership interest will be no less than \$10.9 million or more than \$35 million.

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Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Forward Looking Statements

This Quarterly Report on Form 10-Q contains, and from time to time the Company expects to make, certain forward-looking statements regarding its business, financial condition and results of operations. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"), the Company intends to caution investors that there are important factors that could cause the Company's actual results to differ materially from those projected in its forward-looking statements, whether written or oral, made herein or that may be made from time to time by or on behalf of the Company. Investors are cautioned that such forward-looking statements are only predictions and that actual events or results could differ materially from such statements. The Company undertakes no obligation to publicly release the results of any revisions to its forward-looking statements to reflect subsequent events or circumstances or to reflect the occurrence of unanticipated events.

The Company wishes to ensure that any forward-looking statements are accompanied by meaningful cautionary statements in order to comply with the terms of the safe harbor provided by the Reform Act. Accordingly, the Company has set forth a list of important factors that could cause the Company's actual results to differ materially from those expressed in forward-looking statements or predictions made herein and from time to time by the Company. Specifically, the Company's business, financial condition, liquidity and results of operations could be materially different from such forward-looking statements and predictions as a result of (i) cost containment pressures on hospitals and competitive factors that could affect the Company's primary markets, including the results of competitive bidding procedures implemented by group purchasing organizations and/or the success of the Company's sales force, (ii) slow downs in the healthcare industry or interruptions or delays in manufacturing and/or sources of supply, (iii) the Company's ability to develop or acquire new and improved products and to control costs, (iv) market acceptance of the Company's new products, (v) technological change in medical technology, (vi) the scope, timing and effectiveness of changes to manufacturing, marketing and sales programs and strategies, (vii) intellectual property rights and market acceptance of competitors' existing or new products, (viii) adverse determinations arising in the context of regulatory matters or legal proceedings (see Part II, Item 1 of this Quarterly Report on Form 10-Q), (ix) healthcare industry consolidation resulting in customer demands for price concessions, (x) the reduction of medical procedures in a cost conscious environment, (xi) efficacy or safety concerns with respect to marketed products, whether scientifically justified or not, that may lead to product recalls, withdrawals or declining sales, and (xii) healthcare reform and legislative and regulatory changes impacting the healthcare market both domestically and internationally.

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Results of Operations

The following table sets forth, for the periods indicated, the percentage increase of certain items included in the Company's consolidated statement of income.

| | INCREASE/(DECREASE) FROM PRIOR PERIOD | |
|---|---|---|
| | THREE MONTHS ENDED MARCH 31, 2001 COMPARED WITH THREE MONTHS ENDED MARCH 31, 2000 | SIX MONTHS ENDED MARCH 31, 2001 COMPARED WITH SIX MONTHS ENDED MARCH 31, 2000 |
| Net Sales | 15.2% | 12.2% |
| Cost of goods sold | 16.1 | 14.0% |
| Gross profit | 14.3% | 10.6% |
| Selling, general and administrative expense | 10.5% | 7.8% |
| Research and development expenses | (8.0%) | (.9%) |
| Income before provision for income taxes and minority interest in income of consolidated subsidiary | 39.6% | 23.9% |
| Provision for income taxes | 54.6% | 27.5% |
| Net income | 35.7% | 26.7% |

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COMPARISON: QUARTER ENDED MARCH 31, 2001 AND QUARTER ENDED MARCH 31, 2000

Net sales for the quarter ended March 31, 2001 increased by 15.2% compared with the same period last year. The increase was due to unit increases (offset in part by slight selling price declines) and in part, to the acquisition of National Sleep Technologies, Inc. ("NST") which was acquired effective June 1, 2000 (see Note 5). The Company's interest in NST is reflected in the results of operations for the three months ended March 31, 2001. The operations of NST are not reflected in the results for the three months ended March 31, 2000. Prices on existing products declined on average approximately .7% in the three months ended March 31, 2001 when compared to the same period in 2000.

Sales of anesthesia products, representing 38.0% of net sales, decreased by approximately 1.2% from the quarter ended March 31, 2001 due largely to international orders that were received in March, 2001 but delayed by the customer until April, 2001. Sales of respiratory/critical care products, representing 43.8% of net sales, increased by approximately 12.1% reflecting

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strong demand in the critical care sector. Sales of sleep services and products, representing 18.2% of net sales, increased by \$3.6 million due largely to the acquisition of NST, effective June 1, 2000. Sleep treatment products grew by 33% in local currency and by 21% when converted to U.S. dollars.

While net sales increased in dollars by 15.2%, gross profit dollars increased by 14.3%. The Company's gross profit percentage for the quarter ended March 31, 2001 was 51.4% compared to 51.8% in the same time period of the last fiscal year. The decrease in gross profit percentage is primarily due to disappointing results in the Company's blow-fill-seal contract packaging division, offset in part by the results of the Company's cost improvement program.

Selling, general and administrative expenses (S, G & A) increased by \$999,000 primarily due to the acquisition of National Sleep Technologies, Inc., in June, 2000 offset by cost reductions in the anesthesia/respiratory business units. NST incurred \$1,266,000 of S, G & A expenses in the current quarter.

Research and development expenses ("R&D") decreased by \$179,000 primarily due to reduced expenditures in the Company's Breas Medical AB division.

Other expense, which includes interest income, realized capital gains and losses, legal and currency gains and losses, decreased by \$572,000 from the quarter ended March 31, 2000 to the quarter ended March 31, 2001 primarily due to the benefit of foreign currency translation gains on certain liabilities payable in other than U.S. dollars.

The Company's effective tax rates were 30.0% and 27.1% for the quarters ended March 31, 2001 and 2000, respectively. The Company's tax rate in the current period is lower than statutory rates primarily due to benefits realized from its international operations. The increase in the effective tax rate is related to the increase in taxable income.

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COMPARISON: SIX MONTHS ENDED MARCH 31, 2001 AND SIX MONTHS ENDED MARCH 31, 2000

Net sales for the six months ended March 31, 2001 increased by 12.2% compared with the same period last year. The increase was due to unit increases (offset in part by slight selling price declines) and in part, to the acquisition of National Sleep Technologies, Inc. ("NST") which was acquired effective June 1, 2000 (see Note 5). The Company's interest in NST is reflected in the results of operations for the six months ended March 31, 2001. The operations of NST are not reflected in the results for the six months ended March 31, 2000. Prices on existing products declined on average approximately .3% in the six months ended March 31, 2001 when compared to the same period in 2000.

Sales of anesthesia products, representing 39.8% of net sales, decreased by approximately .3% from the six months ended March 31, 2000

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primarily due to selling price declines and delays in international shipments. Sales of respiratory/critical care products, representing 42.0% of net sales, increased by approximately 6.3%. Sales of sleep services and products, representing 18.2% of net sales, increased by \$6.9 million due largely to the acquisition of NST, effective June 1, 2000.

While net sales increased in dollars by 12.2%, gross profit dollars increased by 10.6%. The Company's gross profit percentage for the six months ended March 31, 2001 was 51.5% compared to 52.2% in the same time period of the last fiscal year. The decrease in gross profit percentage is primarily due to the disappointing results in the Company's blow-fill-seal contract packaging division, offset in part by the results of the Company's cost improvement program.

Selling, general and administrative expenses (S, G & A) increased by \$1,500,000 primarily due to the acquisition of National Sleep Technologies, Inc., in June, 2000 offset by cost reductions in the anesthesia/respiratory business units. NST incurred \$2,257,000 of S, G & A expenses in the current six months.

Research and development expenses ("R&D") decreased by \$33,000 primarily due to decreased activity at the Company's Breas Medical AB subsidiary.

Other expense, which includes interest income, realized capital gains and losses, legal and currency gains and losses, decreased by \$831,000 from the six months ended March 31, 2000 to the six months ended March 31, 2001 primarily due to the sale of an investment and currency transaction gains on certain liabilities payable in other than U.S. dollars.

The Company's effective tax rates were 30.1% and 29.2% for the quarters ended March 31, 2001 and 2000, respectively. The Company's tax rate in the current period is lower than statutory rates primarily due to benefits realized from its international operations. The increase in effective tax rate is related to the increase in taxable income.

Liquidity and Capital Resources

The Company continues to rely upon cash flow from its operations. During the six months ended March 31, 2001, cash and cash equivalents increased by \$17,172,000 of which approximately \$11 million represents proceeds from the exercise of stock options. During the period, the Company paid dividends of approximately \$991,000, spent \$832,000 on capital expenditures and reduced long term debt and notes payable by \$2.7 million. The combined total of cash and cash equivalents and long-term marketable securities was approximately \$25.3 million at March 31, 2001 as compared to \$8.2 million at September 30, 2000.

At March 31, 2001, the Company had approximately \$24.8 million in cash and cash equivalents. On that date, the Company's working capital was \$64.1 million and the current ratio was 3.8 to 1, as compared to \$39.3 million and 2.6

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to 1 at September 30, 2000.

The Company's current policy is to retain working capital and earnings for use in its business, subject to the payment of certain cash dividends and treasury stock repurchases. Such funds may be used for product development, product acquisitions and business acquisitions, among other things. The Company regularly evaluates and negotiates with domestic and foreign medical device companies regarding potential business or product line acquisitions or licensing arrangements by the Company. In May, 2001 \$3.7 million was used as an initial payment to acquire an additional 41% of Breas Medical. An additional payment will be made in April, 2002 for a minimum of \$7.1 million and maximum of \$31.2 million.

The Company has a \$25 million line of credit with Chase Manhattan Bank ("Chase"). Chase has also expressed its intention to provide additional funds for the Company's future acquisitions, provided that each such acquisition meets certain criteria. The terms for any borrowing would be negotiated at the date of origination. There were no amounts outstanding at March 31, 2001.

Management believes that the funds generated from operations, along with the Company's current working capital position and bank credit, will be sufficient to satisfy the Company's capital requirements for the foreseeable future. This statement constitutes a forward-looking statement under the Reform Act. The Company's liquidity could be adversely impacted and its need for capital could materially change if costs are higher than anticipated, the Company were to undertake acquisitions demanding significant capital, operating results were to differ significantly from recent experience or adverse events were to affect the Company's operations.

Item 3.

Quantitative and Qualitative Disclosure About Market Risk

Not Applicable

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PART II. OTHER INFORMATION

Item 1.

Legal Proceedings:

- (a) Reference is made to Item 3 of the Company's Annual Report on Form 10-K for the year ended September 30, 2000.
- (b) In September 1996, a patent infringement action was filed in Japan against an OEM medical device distributor in connection with the sale in Japan of Marquest Medical Products, Inc.'s ABG syringe product line. In July 1999 the Court indicated at a hearing that, based on one exhibit submitted by the plaintiff, the Marquest ABG syringe products appear to infringe the

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plaintiff's patent, and requested that the plaintiff submit an updated proof of damages. In July 1999, plaintiff filed an updated proof of damages of approximately \$6.5 million, plus interest and costs. On June 23, 2000 the Court entered a judgment against the Company's distributor for Yen 336,872,689 (\$2,887,645) plus five percent annual interest. The distributor (which has patent indemnification protection from Marquest) has appealed the judgment to the Tokyo Supreme Court. The matter is in the appellate process. The Company continues to believe that Marquest ABG syringe products do not infringe the plaintiff's patent and will continue to vigorously defend the action.

- (c) On December 6, 1999 a complaint was filed against the Company on behalf of the former shareholders of Vital Pharma, Inc. alleging breach of contract for failure to pay earnout payments allegedly due under the stock purchase agreement for the sale of VPI in December, 1995. The Company answered the complaint, filed counter-claims and moved to transfer the case to arbitration. In August, 2000 the court ordered plaintiff to submit such claims to binding arbitration and stayed all other proceedings pending the outcome of the arbitration. An arbitrator has been selected and the parties are in the discovery stages of the arbitration.

The Company is also involved in other legal proceedings arising in the ordinary course of business.

The Company cannot predict the outcome of its legal proceedings with certainty. However, based upon its review of pending legal proceedings, the Company does not believe the ultimate disposition of its pending legal proceedings will be material to its financial condition. Predictions regarding the impact of pending legal proceedings constitute forward-looking statements under the Reform Act. The actual results and impact of such proceedings could differ materially from the impact anticipated, primarily as a result of uncertainties involved in the proof of facts in legal proceedings.

Item 6.

Exhibits and Reports on Form 8-K

a) Reports on Form 8-K filed during the quarter ended March 31, 2001:
None.

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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 the undersigned thereunto duly authorized.

VITAL SIGNS, INC.

By: /s/ Anthony J. Dimun

 Anthony J. Dimun
 Executive Vice President of
 Finance and Chief Financial Officer

Date: May 15, 2001