

RESMED INC
Form 10-Q
November 09, 2007

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 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, 2007

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

001-15317

(Commission file number)

ResMed Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

98-0152841

(IRS Employer Identification No)

14040 Danielson St

Poway, CA 92064-6857

United States of America

(Address of principal executive offices)

(858) 746 2400

(Registrant's telephone number 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 filing requirements for the past 90 days. Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At November 1, 2007 there were 77,302,180 shares of Common Stock (\$0.004 par value) outstanding. This number excludes 2,917,518 shares held by the registrant as treasury shares.

RESMED INC. AND SUBSIDIARIES**INDEX**

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RESMED INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

(in US\$ thousands, except share and per share data)

	September 30,	June 30,
	2007	2007
ASSETS		
<u>Current assets:</u>		
Cash and cash equivalents	\$251,314	\$257,792
Marketable securities available-for-sale (note 3)	26,450	19,950
Accounts receivable, net of allowance for doubtful accounts of \$5,149 at September 30, 2007 and \$4,704 at June 30, 2007	166,416	167,821
Inventories, net (note 4)	167,072	157,204
Deferred income taxes	46,608	42,109
Income taxes receivable	-	7,952
Prepaid expenses and other current assets	14,842	15,971
<u>Total current assets</u>	672,702	668,799
Property, plant and equipment, net (note 6)	328,079	310,580
Goodwill (note 7)	216,252	206,778
Other intangibles (note 8)	47,648	46,575
Deferred income taxes	12,308	9,206
Other assets	10,854	10,104
Total non-current assets	615,141	583,243
Total assets	1,287,843	\$1,252,042
LIABILITIES AND STOCKHOLDERS' EQUITY		
<u>Current liabilities:</u>		
Accounts payable	\$48,150	\$53,039
Accrued expenses	78,913	98,324
Deferred revenue	20,949	18,865
Income taxes payable (note 14)	7,318	3,410
Deferred income taxes	436	415
Current portion of long-term debt (note 9)	25,375	28,350
Total current liabilities	181,141	202,403
<u>Non-current liabilities:</u>		
Income taxes payable (note 14)	3,951	-
Deferred income taxes	16,682	18,297
Deferred revenue	13,544	12,472
Long-term debt (note 9)	90,540	87,648

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Total non-current liabilities	124,717	118,417
Total liabilities	305,858	320,820
Commitments and contingencies (notes 12 and 13)		-
<u>Stockholders' equity:</u>		
Preferred stock, \$0.01 par value, 2,000,000 shares authorized; none issued		-
Common stock, \$0.004 par value, 200,000,000 shares authorized; issued and outstanding 77,485,735 at September 30, 2007 and 77,617,450 at June 30, 2007 (excluding 2,717,518 and 2,304,918 shares held as Treasury Stock, respectively)	310	311
Additional paid-in capital	432,875	421,701
Retained earnings	462,165	436,954
Treasury stock, at cost	(59,998)	(43,497)
Accumulated other comprehensive income (note 5)	146,633	115,753
Total stockholders' equity	981,985	931,222
Total liabilities and stockholders' equity	\$1,287,843	\$1,252,042

See the accompanying notes to the unaudited condensed consolidated financial statements.

RESMED INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income (Unaudited)

(in US\$ thousands, except share and per share data)

	Three Months Ended September 30,	
	2007	2006
Net revenues	\$185,740	\$163,605
Cost of sales ^(A)	73,963	62,309
Gross profit	111,777	101,296
Operating expenses:		
Selling, general and administrative ^(A)	62,882	53,444
Research and development ^(A)	13,013	10,855
Amortization of acquired intangible assets	1,821	1,681
Restructuring expenses (note 10)	2,297	-
Total operating expenses	80,013	65,980
Income from operations	31,764	35,316
Other income (expense), net:		
Interest income (expense), net	2,314	1,497
Other, net	(266)	(574)
Total other income (expense), net	2,048	923
Income before income taxes	33,812	36,239
Income taxes	9,687	11,240
Net income	\$24,125	\$24,999
Basic earnings per share	\$0.31	\$0.33
Diluted earnings per share (note 2-j)	\$0.31	\$0.32
Basic shares outstanding (000 s)	77,569	75,897
Diluted shares outstanding (000 s)	78,941	78,056
^(A) Includes stock-based compensation costs as follows:		
Cost of sales	\$257	\$306
Selling, general and administrative	3,842	2,870
Research and development	447	448
Total stock-based compensation costs	\$4,546	\$3,624

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See the accompanying notes to the unaudited condensed consolidated financial statements.

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RESMED INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in US\$ thousands)

	Three Months Ended	
	September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$24,125	\$24,999
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,291	10,626
Stock-based compensation costs	4,546	3,624
Amortization of deferred borrowing costs	99	81
Provision for warranties	430	577
Foreign currency options revaluation	(776)	653
Tax benefit from stock option exercises	(1,057)	(1,546)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	3,872	7,218
Inventories, net	(4,243)	(5,188)
Prepaid expenses, deferred income taxes and other current assets	(896)	(6,396)
Accounts payable, accrued expenses and other liabilities	(12,263)	(8,516)
Net cash provided by operating activities	28,128	26,132
Cash flows from investing activities:		
Purchases of property, plant and equipment	(18,367)	(28,146)
Capitalized interest	(194)	(351)
Patent registration costs	(1,284)	(761)
Purchases of non-trading investments	(432)	(631)
Cash paid for acquisitions, including acquisition costs	-	(323)
Purchases of marketable securities available-for-sale	(6,500)	(20,000)
Net cash used in investing activities	(26,777)	(50,212)
Cash flows provided by financing activities:		
Proceeds from issuance of common stock, net	5,617	4,354
Tax benefit from stock option exercises	1,057	1,546
Purchases of treasury stock	(16,501)	-
Repayment of borrowings	(5,108)	-
Net cash provided by financing activities	(14,935)	5,900

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Effect of exchange rate changes on cash	7,106	(209)
Net decrease in cash and cash equivalents	(6,478)	(18,389)
Cash and cash equivalents at beginning of period	257,792	219,544
Cash and cash equivalents at end of period	\$251,314	\$201,155
Supplemental disclosure of cash flow information:		
Income taxes paid	\$1,198	\$13,007
Interest paid	1,523	1,429
Fair value of assets acquired in acquisition	\$	\$-
Liabilities assumed	-	-
Goodwill on acquisition	-	-
Net acquisition costs paid	-	323
Cash paid for acquisition, including acquisition costs	\$-	\$323

See the accompanying notes to the unaudited condensed consolidated financial statements.

RESMED INC. AND SUBSIDIARIES**Notes to Condensed Consolidated Financial Statements****(unaudited)****(1) Organization and Basis of Presentation**

ResMed Inc. is a Delaware corporation formed in March 1994 as a holding company for the ResMed Group. Unless otherwise stated in this 10-Q, the terms we, us, our and the Company refer to ResMed Inc. and its subsidiaries, consolidated basis. Through our subsidiaries, we design, manufacture and market equipment for the diagnosis and treatment of sleep-disordered breathing and other respiratory disorders, including obstructive sleep apnea. Our manufacturing operations are located in Australia, France and the United States of America. Major distribution and sales sites are located in the United States of America, Germany, France, the United Kingdom, Switzerland, Australia and Sweden.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. 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 considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending June 30, 2008.

The condensed consolidated financial statements for the three months ended September 30, 2007 and 2006 are unaudited and should be read in conjunction with the condensed consolidated financial statements and notes thereto included in our Form 10-K for the year ended June 30, 2007.

(2) Summary of Significant Accounting Policies**(a) Basis of Consolidation**

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from management's estimates.

RESMED INC. AND SUBSIDIARIES**Notes to Condensed Consolidated Financial Statements****(unaudited)****(2) Summary of Significant Accounting Policies, Continued****(b) Revenue Recognition**

Revenue on product sales is generally recorded upon shipment, at which time title transfers to the customer. Revenue on product sales which require customer acceptance is not recorded until acceptance is received. Royalty revenue from license agreements is recorded when earned. Service revenue received in advance from service contracts is initially deferred and recognized ratably over the life of the service contract. Revenue received in advance from rental unit contracts is initially deferred and recognized ratably over the life of the rental contract. Revenue from sale of marketing or distribution rights is initially deferred and recognized ratably as revenue over the life of the contract. Freight charges billed to customers are included in revenue. All freight-related expenses are charged to cost of sales.

We do not recognize revenues to the extent that we offer a right of return or other recourse with respect to the sale of our products, other than returns for product defects or other warranty claims, nor do we recognize revenues if we offer variable sale prices for subsequent events or activities. However, as part of our sales processes, we may provide upfront discounts for large orders, one-time special pricing to support new product introductions, sales rebates for centralized purchasing entities or price-breaks for regular order volumes. The costs of all such programs are recorded as an adjustment to revenue. Our products are predominantly therapy-based equipment and require no installation. As such, we have no significant installation obligations.

(c) Cash and Cash Equivalents

Cash equivalents include certificates of deposit, commercial paper and other highly liquid investments and are stated at cost, which approximates market. Investments with original maturities of 90 days or less are considered to be cash equivalents for purposes of the condensed consolidated statements of cash flows.

(d) Inventories

Inventories are stated at the lower of cost, determined principally by the first-in, first-out method, or net realizable value. We review and provide for any product obsolescence in our manufacturing and distribution operations with assessments of individual products and components (based on estimated future usage and sales) being performed throughout the year.

RESMED INC. AND SUBSIDIARIES**Notes to Condensed Consolidated Financial Statements****(unaudited)****(2) Summary of Significant Accounting Policies, Continued****(e) Property, Plant and Equipment**

Property, plant and equipment, including rental equipment, is recorded at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, generally two to ten years except for buildings which are depreciated over an estimated useful life of 40 years. Straight-line and accelerated methods of depreciation are used for tax purposes. Maintenance and repairs are charged to expense as incurred.

We capitalize interest in connection with the construction of facilities. Actual construction costs incurred relating to facilities under active development qualify for interest capitalization. Interest capitalization ceases when the construction of a facility is complete and available for use. During the three months ended September 30, 2007 and 2006, we capitalized \$0.2 million and \$0.4 million, respectively, of interest relating to such construction costs.

(f) Intangible Assets

The registration costs for new patents are capitalized and amortized over the estimated useful life of the patent, generally five years. In the event of a patent being superseded, the unamortized costs are written off immediately.

Other intangible assets are amortized on a straight-line basis over their estimated useful lives, which range from seven to nine years. We evaluate the recoverability of intangible assets periodically and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. All of our intangible assets are subject to amortization. No impairment of intangible assets has been identified during any of the periods presented.

(g) Goodwill

We conducted our annual review for goodwill impairment during the final quarter of fiscal 2007. In conducting our review of goodwill impairment, we identified reporting units, being components of our operating segment, as each of the entities acquired and giving rise to the goodwill. The fair value for each reporting unit was determined based on discounted cash flows and involved a two-step process as follows:

- Step 1 - Compare the fair value for each reporting unit to its carrying value, including goodwill. For each reporting unit where the carrying value, including goodwill, exceeds the reporting unit's fair

value, move on to step 2. If a reporting unit's fair value exceeds the carrying value, no further work is performed and no impairment charge is necessary.

