

RESMED INC
Form 10-Q
November 08, 2006

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, 2006

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, 2006 there were 76,039,801 shares of Common Stock (\$0.004 par value) outstanding. This number excludes 2,254,918 shares held by the registrant as treasury shares.

RESMED INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1

RESMED INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

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

	September 30, 2006	June 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 201,155	\$ 219,544
Marketable securities available-for-sale (note 3)	20,000	
Accounts receivable, net of allowance for doubtful accounts of \$4,902 at September 30, 2006 and \$4,645 at June 30, 2006	129,912	138,147
Inventories, net (note 4)	122,965	116,194
Deferred income taxes	32,443	26,636
Prepaid expenses and other current assets	11,474	9,763
Total current assets	517,949	510,284
Property, plant and equipment, net (note 6)	265,078	245,376
Goodwill (note 7)	193,847	195,612
Other intangibles (note 8)	47,067	48,897
Other assets	7,067	7,052
Total noncurrent assets	513,059	496,937
Total assets	\$ 1,031,008	\$ 1,007,221
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 35,180	\$ 45,045
Accrued expenses	40,208	40,901
Deferred revenue	15,276	15,344
Income taxes payable	25,772	22,841
Current portion of long-term debt (note 9)	4,825	4,869
Total current liabilities	121,261	129,000
Noncurrent liabilities:		
Deferred income taxes	11,431	12,377
Deferred revenue	11,372	11,484
Long-term debt (note 9)	115,484	116,212
Total noncurrent liabilities	138,287	140,073
Total liabilities	259,548	269,073
Commitments and contingencies (notes 12 and 13)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 2,000,000 shares authorized; none issued		
Series A Junior Participating preferred stock, \$0.01 par value, 250,000 shares authorized; none issued		
Common stock, \$0.004 par value, 100,000,000 shares authorized; issued and outstanding 75,988,324 at September 30, 2006 and 75,670,316 at June 30, 2006 (excluding 2,254,918 and 2,254,918 shares held as Treasury Stock, respectively)		
	304	303

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Additional paid-in capital	362,850	353,464
Retained earnings	395,651	370,652
Treasury stock, at cost	(41,405)	(41,405)
Accumulated other comprehensive income (note 5)	54,060	55,134
Total stockholders' equity	771,460	738,148
Total liabilities and stockholders' equity	\$ 1,031,008	\$ 1,007,221

See the accompanying notes to the 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, 2006	2005
Net revenues	\$ 163,605	\$ 127,127
Cost of sales ^(A)	62,309	47,008
Gross profit	101,296	80,119
Operating expenses:		
Selling, general and administrative ^(A)	53,444	44,680
Research and development ^(A)	10,855	8,425
Amortization of acquired intangible assets	1,681	1,545
Restructuring expenses (note 10)		956
Total operating expenses	65,980	55,606
Income from operations	35,316	24,513
Other income (expense), net:		
Interest income (expense), net	1,497	(937)
Other, net	(574)	291
Total other income (expense), net	923	(646)
Income before income taxes	36,239	23,867
Income taxes	11,240	7,425
Net income	\$ 24,999	\$ 16,442
Basic earnings per share	\$ 0.33	\$ 0.23
Diluted earnings per share (note 2-j)	\$ 0.32	\$ 0.23
Basic shares outstanding (000 s)	75,897	70,352
Diluted shares outstanding (000 s)	78,056	76,277

^(A) Includes stock-based compensation costs as follows:

Cost of sales	\$ 306	\$
Selling, general and administrative	2,870	2,875
Research and development	448	516
Total stock-based compensation costs	\$ 3,624	\$ 3,391

See the accompanying notes to the condensed consolidated financial statements.

RESMED INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in US\$ thousands)

	Three Months Ended	
	September 30, 2006	2005
Cash flows from operating activities:		
Net income	\$ 24,999	\$ 16,442
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,626	9,567
Stock-based compensation costs	3,624	3,391
Amortization of deferred borrowing costs	81	270
Provision for warranties	577	277
Foreign currency options revaluation	653	529
Tax benefit from stock option exercises	(1,546)	(1,460)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	7,218	769
Inventories, net	(5,188)	(10,552)
Prepaid expenses, deferred income taxes and other current assets	(6,396)	(4,549)
Accounts payable, accrued expenses and other liabilities	(8,516)	1,256
Net cash provided by operating activities	26,132	15,940
Cash flows from investing activities:		
Purchases of property, plant and equipment	(28,146)	(39,573)
Capitalized interest	(351)	(124)
Patent registration costs	(761)	(710)
Purchases of non-trading investments	(631)	(612)
Cash paid for acquisitions, including acquisition costs	(323)	(2,483)
Purchases of marketable securities available-for-sale	(20,000)	(4,499)
Net cash used in investing activities	(50,212)	(48,001)
Cash flows provided by financing activities:		
Proceeds from issuance of common stock, net	4,354	8,921
Tax benefit from stock option exercises	1,546	1,460
Proceeds from borrowings, net of borrowing costs	10,000	10,000
Repayment of assumed borrowings from acquisitions	(469)	(469)
Net cash provided by financing activities	5,900	19,912
Effect of exchange rate changes on cash	(209)	(307)
Net decrease in cash and cash equivalents	(18,389)	(12,456)
Cash and cash equivalents at beginning of period	219,544	142,185
Cash and cash equivalents at end of period	\$ 201,155	\$ 129,729

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Supplemental disclosure of cash flow information:

Income taxes paid	\$ 13,007	\$ 10,980
Interest paid	1,429	580
Fair value of assets acquired in acquisition	\$	\$ 2,552
Liabilities assumed		(1,871)
Goodwill on acquisition		1,785
Net acquisition costs paid	323	17
Cash paid for acquisition, including acquisition costs	\$ 323	\$ 2,483

See the accompanying notes to the condensed consolidated financial statements.

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

ResMed Inc. (referred to herein as *we*, *us*, *our* or the *Company*) is a Delaware corporation formed in March 1994 as a holding company for the ResMed Group. 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, Germany, 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, 2006 are not necessarily indicative of the results that may be expected for the year ending June 30, 2007.

The condensed consolidated financial statements for the three months ended September 30, 2006 and 2005 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, 2006.

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

The 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