

RESMED INC
Form 10-Q
November 06, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 September 30, 2009

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: 001-15317

ResMed Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

98-0152841

(I.R.S. Employer Identification No.)

9001 Spectrum Center Blvd.

San Diego, CA 92123

United States of America

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(Address of principal executive offices)

(858) 836-5000

(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

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

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

At October 26, 2009, there were 74,957,650 shares of Common Stock (\$0.04 par value) outstanding. This number excludes 7,616,525 shares held by the registrant as treasury shares.

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PART I - FINANCIAL INFORMATION

Item 1

Item 1. Financial Statements**RESMED INC. AND SUBSIDIARIES**

Condensed Consolidated Balance Sheets (Unaudited)

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

	September 30, 2009	June 30, 2009
ASSETS		
<u>Current assets</u>		
Cash and cash equivalents	\$477,824	\$415,650
Accounts receivable, net of allowance for doubtful accounts of \$8,080 at September 30, 2009 and \$7,381 at June 30, 2009	208,825	212,096
Inventories, net (note 4)	175,108	157,431
Deferred income taxes	43,859	44,368
Income taxes receivable	4,998	2,067
Prepaid expenses and other current assets	24,918	21,672
Investment securities (note 3)	4,278	-
Total current assets	939,810	853,284
<u>Non-current assets</u>		
Property, plant and equipment, net (note 6)	397,375	377,613
Goodwill (note 7)	221,186	213,169
Other intangibles, net (note 8)	35,431	35,023
Deferred income taxes	20,464	19,364
Other assets	5,870	5,261
Investment securities (note 3)	-	4,254
Total non-current assets	680,326	654,684
Total assets	\$1,620,136	\$1,507,968
LIABILITIES AND STOCKHOLDERS EQUITY		
<u>Current liabilities</u>		
Accounts payable	\$47,287	\$48,293
Accrued expenses	75,297	67,018
Deferred revenue	31,192	28,881
Income taxes payable	69,808	56,972
Deferred income taxes	416	391
Current portion of long-term debt (note 9)	68,296	67,545
Total current liabilities	292,296	269,100
<u>Non-current liabilities</u>		
Deferred income taxes	11,548	11,137
Deferred revenue	14,878	15,238

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Long-term debt (note 9)	95,093	94,191
Income taxes payable	3,395	3,110
Total non-current liabilities	124,914	123,676
Total liabilities	417,210	392,776
Commitments and contingencies (note 12)	-	-
<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 74,965,472 at September 30, 2009 and 75,251,209 at June 30, 2009 (excluding 7,490,725 and 6,701,925 shares held as treasury stock, respectively)		
	300	301
Additional paid-in capital	545,186	522,982
Retained earnings	736,893	694,791
Treasury stock, at cost	(244,342)	(208,659)
Accumulated other comprehensive income (note 5)	164,889	105,777
Total stockholders' equity	1,202,926	1,115,192
Total liabilities and stockholders' equity	\$1,620,136	\$1,507,968

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

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Item 1

RESMED INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income (Unaudited)

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

	Three Months Ended	
	September 30,	
	2009	2008
Net revenue	\$246,992	\$217,931
Cost of sales	96,814	90,804
Gross profit	150,178	127,127
Operating expenses:		
Selling, general and administrative	76,756	71,337
Research and development	17,914	17,293
Amortization of acquired intangible assets	1,845	1,933
Donation to Foundation	1,000	-
Total operating expenses	97,515	90,563
Income from operations	52,663	36,564
Other income (expense), net:		
Interest income, net	2,125	3,231
Other, net	3,118	(1,068)
Total other income, net	5,243	2,163
Income before income taxes	57,906	38,727
Income taxes	15,804	10,701
Net income	\$42,102	\$28,026
Basic earnings per share	\$0.56	\$0.37
Diluted earnings per share (note 2-j)	\$0.55	\$0.36
Basic shares outstanding (000 s)	75,394	75,613
Diluted shares outstanding (000 s)	76,762	77,180

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,	
	2009	2008
Cash flows from operating activities:		
Net income	\$42,102	\$28,026
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,094	14,280
Stock-based compensation costs	6,523	5,580
Tax benefit from stock options exercised	(2,069)	(1,070)
Amortization of deferred borrowing costs	280	78
Provision for product warranties	1,509	375
Foreign currency revaluation	(3,349)	16,811
Write-down of cost-method investments	250	-
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	7,226	4,566
Inventories, net	(11,867)	(2,068)
Prepaid expenses, net deferred income taxes and other current assets	(254)	4,516
Accounts payable, accrued expenses and other liabilities	9,696	(3,188)
Net cash provided by operating activities	64,141	67,906
Cash flows from investing activities:		
Purchases of property, plant and equipment	(14,078)	(34,463)
Capitalized interest	-	(560)
Patent registration costs	(1,328)	(1,116)
Purchases of foreign currency options	(891)	(154)
Proceeds from exercise of foreign currency options	2,901	814
Proceeds from disposal of business assets and contracts	-	1,441
Purchases of cost-method investments	-	(899)
Net cash used in investing activities	(13,396)	(34,937)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	13,383	9,103
Proceeds from borrowings	-	21,000
Tax benefit from stock option exercises	2,069	1,070
Purchases of treasury stock	(33,461)	(27,016)
Repayment of borrowings	-	(3,770)
Net cash (used in)/provided by financing activities	(18,009)	387

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Effect of exchange rate changes on cash	29,438	(52,360)
Net increase/(decrease) in cash and cash equivalents	62,174	(19,004)
Cash and cash equivalents at beginning of period	415,650	321,078
Cash and cash equivalents at end of period	\$477,824	\$302,074

Supplemental disclosure of cash flow information:

Income taxes paid	\$8,679	\$2,227
Interest paid	461	1,816

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

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PART I - FINANCIAL INFORMATION

Item 1

RESMED INC. AND SUBSIDIARIES

Notes to the 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 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, Singapore, France and the United States. Major distribution and sales sites are located in the United States, Germany, France, the United Kingdom, Switzerland, Australia, Norway and Sweden.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by U.S. 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, 2009 are not necessarily indicative of the results that may be expected for the year ending June 30, 2010.

The condensed consolidated financial statements for the three months ended September 30, 2009 and 2008 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, 2009.

(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 intercompany transactions and balances have been eliminated in consolidation.

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

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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 and risk of loss 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. Taxes assessed by government authorities that are imposed on and concurrent with revenue-producing transactions, such as sales and value added taxes, are reported on a net basis (excluded from revenue).

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 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. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs. 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.

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Item 1

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 are 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, 2009 and 2008, we capitalized \$Nil and \$0.6 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 2009. In conducting our review of goodwill impairment we identified reporting units, being components of our operating segment of 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:

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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.

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RESMED INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(2) Summary of Significant Accounting Policies, Continued

(g) Goodwill (continued)

Step 2 - Allocate the fair value of the reporting unit to its identifiable tangible and non-goodwill intangible assets and liabilities. This will derive an implied fair value for the goodwill. Then, compare the implied fair value of the reporting unit's goodwill with the carrying amount of the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill is greater than the implied fair value of its goodwill, an impairment loss must be recognized for the excess.

The results of the review during the final quarter of fiscal 2009 indicated that goodwill was not impaired.

(h) Foreign Currency

The consolidated financial statements of our non-U.S. subsidiaries, whose functional currencies are other than U.S. dollars, are translated into U.S. dollars for financial reporting purposes. Assets and liabilities of non-U.S. subsidiaries whose functional currencies are other than U.S. dollars are translated at period-end exchange rates, and revenue and expense transactions are translated at average exchange rates for the period. Cumulative translation adjustments are recognized as part of comprehensive income, as described in Note 5, and are included in accumulated other comprehensive income in the condensed consolidated balance sheet until such time as the subsidiary is sold or substantially or completely liquidated. Gains and losses on transactions denominated in other than the functional currency of the entity are reflected in the condensed consolidated financial statements.

(i) Research and Development

All research and development costs are expensed in the period incurred.

(j) Earnings Per Share

Basic earnings per share is computed by dividing the net income available to common stockholders by the weighted average number of shares of common stock outstanding. For purposes of calculating diluted earnings per share, the denominator includes both the weighted average number of shares of common stock outstanding and the number of

dilutive common stock equivalents such as stock options.

The weighted average shares used to calculate basic earnings per share were 75,394,000 and 75,613,000 for the three months ended September 30, 2009 and 2008, respectively. The difference between basic earnings per share and diluted earnings per share is attributable to the impact of outstanding stock options during the periods presented. Stock options had the effect of increasing the number of shares used in the calculation (by application of the treasury stock method) by 1,368,000 and 1,567,000 for the three months ended September 30, 2009 and 2008, respectively.

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RESMED INC. AND SUBSIDIARIES**Notes to Condensed Consolidated Financial Statements****(Unaudited)**

(2) Summary of Significant Accounting Policies, Continued

(j) Earnings Per Share (continued)

Stock options of 4,377,000 and 5,840,000 for the three months ended September 30, 2009 and 2008, respectively, were not included in the computation of diluted earnings per share as the effect of exercising these options would have been anti-dilutive.

Basic and diluted earnings per share for the three months ended September 30, 2009 and 2008 are calculated as follows (in thousands except per share data):

	Three Months Ended September 30,	
	2009	2008
Numerator:		
Net Income, used in calculating diluted earnings per share	\$ 42,102	\$ 28,026
Denominator:		
Basic weighted-average common shares outstanding	75,394	75,613