RESMED INC
Form 10-Q
February 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended December 31, 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

(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 [x] 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 [x] 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 [x]

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

At January 27, 2010, there were 75,150,154 shares of Common Stock ($0.04 par value) outstanding. This number excludes 8,176,868 shares held by the registrant as treasury shares.

ResMed Inc. and Subsidiaries

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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)

	December 31, 2009	June 30, 2009
Assets		
Current assets		
Cash and cash equivalents	$451,431	$415,650
Accounts receivable, net	208,947	212,096
Inventories, net (note 4)	182,870	157,431
Deferred income taxes	45,110	44,368
Income taxes receivable	6,762	2,067
Prepaid expenses and other current assets	28,767	21,672
Investment securities (note 3)	3,746	-
Total current assets	927,633	853,284
Non-current assets		
Property, plant and equipment, net (note 6)	403,208	377,613
Goodwill (note 7)	225,094	213,169
Other intangibles, net (note 8)	39,486	35,023
Deferred income taxes	20,166	19,364
Other assets	5,663	5,261
Investment securities (note 3)	-	4,254
Total non-current assets	693,617	654,684
Total assets	$1,621,250	$1,507,968
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$46,617	$48,293
Accrued expenses	81,548	67,018
Deferred revenue	31,954	28,881
Income taxes payable	27,005	56,972
Deferred income taxes	2,970	391
Current portion of long-term debt (note 9)	50,525	67,545
Total current liabilities	240,619	269,100
Non-current liabilities		
Deferred income taxes	10,363	11,137
Deferred revenue	14,496	15,238
Long-term debt (note 9)	94,599	94,191

Income taxes payable	3,654	3,110
Total non-current liabilities	123,112	123,676
Total liabilities	363,731	392,776
Commitments and contingencies (note 12)	-	-
Stockholders equity		
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 75,204,449 at December 31, 2009 and 75,251,209 at June 30, 2009 (excluding 8,096,968 and 6,701,925 shares held as treasury stock, respectively)	301	301
Additional paid-in capital	580,099	522,982
Retained earnings	782,876	694,791
Treasury stock, at cost	(274,488)	(208,659)
Accumulated other comprehensive income (note 5)	168,731	105,777
Total stockholders equity	1,257,519	1,115,192
Total liabilities and stockholders equity	$1,621,250	$1,507,968

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

Condensed Consolidated Statements of Income (Unaudited)

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

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
Net revenues	$275,134	$222,980	$522,126	$440,911
Cost of sales	110,929	91,955	207,743	182,759
Gross profit	164,205	131,025	314,383	258,152
Operating expenses:				
Selling, general and administrative	84,094	70,086	160,850	141,424
Research and development	19,059	14,915	36,973	32,208
Amortization of acquired intangible assets	2,130	1,694	3,975	3,627
Donation to Foundation	1,000	1,000	2,000	1,000
Total operating expenses	106,283	87,695	203,798	178,259
Income from operations	57,922	43,330	110,585	79,893
Other income, net:				
Interest income, net	3,166	2,666	5,290	5,898
Other, net	2,009	985	5,127	(83)
Total other income, net	5,175	3,651	10,417	5,815
Income before income taxes	63,097	46,981	121,002	85,708
Income taxes	17,114	13,128	32,917	23,829
Net income	$45,983	$33,853	$88,085	$61,879
Basic earnings per share	$0.61	$0.45	$1.17	$0.82
Diluted earnings per share (note 2-j)	$0.60	$0.44	$1.15	$0.80
Basic shares outstanding (000 s)	75,123	75,742	75,272	75,678
Diluted shares outstanding (000 s)	77,034	77,358	76,874	77,269

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

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In US$ thousands)

	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
Cash flows from operating activities:		
Net income	$88,085	$61,879
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,693	26,019
Stock-based compensation costs	13,812	12,422
Amortization of deferred borrowing costs	281	110
Provision for product warranties	2,496	1,010
Foreign currency revaluation	(5,273)	20,147
Write-down of cost-method investments	250	1,105
Tax benefit from stock option exercises	(5,163)	(1,440)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	5,657	(11,139)
Inventories, net	(19,468)	(7,012)
Prepaid expenses, net deferred income taxes and other current assets	(5,501)	(85)
Accounts payable, accrued expenses and other liabilities	(29,160)	21,383
Net cash provided by operating activities	75,709	124,399
Cash flows from investing activities:		
Purchases of property, plant and equipment	(28,593)	(61,861)
Capitalized interest	-	(1,201)
Patent registration costs	(2,585)	(2,268)
Proceeds from sale of maturing investment securities	1,000	-
Business acquisitions, net of cash acquired of $1,260 ($Nil in 2008)	(10,660)	(322)
Purchases of cost-method investments	-	(899)
Proceeds from disposal of business assets and contracts	-	1,441
Purchases of foreign currency options	(1,086)	(710)
Proceeds from exercise of foreign currency options	7,319	814
Net cash used in investing activities	(34,605)	(65,006)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	38,509	12,739
Proceeds from borrowings	-	71,000
Tax benefit from stock option exercises	5,163	1,440
Purchases of treasury stock	(65,829)	(28,977)
Repayment of borrowings	(18,263)	(37,912)

Net cash (used in)/provided by financing activities	(40,420)	18,290
Effect of exchange rate changes on cash	35,097	(78,276)
Net increase/(decrease) in cash and cash equivalents	35,781	(593)
Cash and cash equivalents at beginning of period	415,650	321,078
Cash and cash equivalents at end of period	$451,431	$320,485
Supplemental disclosure of cash flow information:		
Income taxes paid/(received)	$70,059	($148)
Interest paid	$1,101	$2,675
Fair value of assets acquired in acquisitions, excluding cash	$7,937	$-
Liabilities assumed	(3,377)	-
Goodwill on acquisition	8,183	322
Fair value of contingent consideration	(2,083)	-
Cash paid for acquisitions	$10,660	$322

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

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 and six months ended December 31, 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 and six months ended December 31, 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.

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 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.

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 and six months ended December 31, 2009, we did not capitalize interest relating to such construction costs. During the three and six months ended December 31, 2008, we capitalized interest of $0.6 and $1.2 million, respectively.

(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 three 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:

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.

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.