

RESPIRONICS INC
Form 10-Q
May 10, 2005
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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, 2005

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 No. 000-16723

RESPIRONICS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

1010 Murry Ridge Lane

25-1304989
(I.R.S. Employer

Identification Number)

15668-8525

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Murrysville, Pennsylvania
(Address of principal executive offices)

(Zip Code)

724-387-5200

(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 an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes x No ..

As of April 30, 2005, there were 78,566,356 shares of Common Stock of the registrant outstanding, of which 6,990,650 were held in treasury. These amounts have been adjusted to reflect the two-for-one stock split effected in the form of a 100% stock dividend that was declared on April 20, 2005.

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RESPIRONICS, INC.

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Review Report of Independent Registered Public Accounting Firm

Board of Directors

Respironics, Inc. and Subsidiaries

We have reviewed the accompanying consolidated balance sheet of Respironics, Inc. and Subsidiaries as of March 31, 2005, and the related consolidated statements of operations for the three-month and nine-month periods ended March 31, 2005 and 2004, and the condensed consolidated statements of cash flows for the nine-month periods ended March 31, 2005 and 2004. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). 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 audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, 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.

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

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Respironics, Inc. and Subsidiaries as of June 30, 2004, and the related consolidated statements of operations, shareholders equity, and cash flows for the year then ended not presented herein, and in our report dated July 20, 2004 we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph related to the Company's adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, effective July 1, 2002. In our opinion, the information set forth in the accompanying consolidated balance sheet as of June 30, 2004 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania

May 6, 2005

Table of Contents**CONSOLIDATED BALANCE SHEETS****RESPIRONICS, INC. AND SUBSIDIARIES**

	(Unaudited)	
	March 31	June 30
	2005	2004
	<u> </u>	<u> </u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 223,237,039	\$ 192,445,866
Trade accounts receivable	149,843,491	140,633,793
Inventories	96,196,063	85,539,100
Prepaid expenses and other current assets	12,789,192	8,621,042
Deferred income tax benefits	27,479,981	25,373,010
	<u> </u>	<u> </u>
TOTAL CURRENT ASSETS	509,545,766	452,612,811
PROPERTY, PLANT AND EQUIPMENT		
Land	3,267,764	3,214,679
Buildings	23,302,509	17,258,260
Production and office equipment	269,187,338	245,978,933
Leasehold improvements	9,417,203	7,989,040
	<u> </u>	<u> </u>
	305,174,814	274,440,912
Less allowances for depreciation and amortization	180,982,241	163,383,655
	<u> </u>	<u> </u>
	124,192,573	111,057,257
OTHER ASSETS	45,434,508	37,466,117
GOODWILL	159,576,929	110,003,068
	<u> </u>	<u> </u>
TOTAL ASSETS	\$ 838,749,776	\$ 711,139,253
	<u> </u>	<u> </u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 57,731,690	\$ 52,789,363
Accrued expenses and other current liabilities	110,592,472	88,255,213
Current portion of long-term obligations	16,834,167	10,536,473
	<u> </u>	<u> </u>
TOTAL CURRENT LIABILITIES	185,158,329	151,581,049
LONG-TERM OBLIGATIONS	29,794,137	26,896,842
OTHER NON-CURRENT LIABILITIES	20,390,569	13,608,331
SHAREHOLDERS' EQUITY		
	785,439	769,570

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Common Stock, \$.01 par value; authorized 100,000,000 shares; issued 78,543,902 shares at March 31, 2005 and 76,957,022 shares at June 30, 2004; outstanding 71,553,252 shares at March 31, 2005 and 69,966,538 shares at June 30, 2004		
Additional capital	275,168,565	249,209,760
Accumulated other comprehensive (loss) income	(828,469)	458,621
Retained earnings	369,721,626	310,051,723
Treasury stock	(41,440,420)	(41,436,643)
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TOTAL SHAREHOLDERS EQUITY	603,406,741	519,053,031
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TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 838,749,776	\$ 711,139,253
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All share and per share information has been adjusted to reflect the two-for-one stock split effected in the form of a 100% stock dividend that was declared on April 20, 2005.

See notes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****RESPIRONICS, INC. AND SUBSIDIARIES**

	Three-month periods ended		Nine-month periods ended	
	March 31		March 31	
	2005	2004	2005	2004
Net sales	\$ 236,488,112	\$ 196,731,854	\$ 661,853,843	\$ 553,107,884
Cost of goods sold	106,252,226	90,245,455	301,465,631	261,085,894
	130,235,886	106,486,399	360,388,212	292,021,990
General and administrative expenses (excluding acquisition earn-out expenses)	28,733,303	25,524,277	93,830,573	77,524,517
Acquisition earn-out expenses	1,116,019	3,376,875	2,667,705	5,156,125
Sales, marketing and commission expenses	47,948,185	36,901,588	130,822,735	107,222,034
Research and development expenses	11,493,556	7,615,763	31,883,555	20,547,970
Contribution to foundation			1,500,000	1,500,000
Restructuring and acquisition-related expenses	203,420	2,884,655	4,628,897	8,775,281
Other (income) expense, net	366,412	(280,934)	(1,467,258)	(1,995,530)
	89,860,895	76,022,224	263,866,207	218,730,397
INCOME BEFORE INCOME TAXES	40,374,991	30,464,175	96,522,005	73,291,593
Income taxes	15,965,412	12,170,259	36,852,102	27,946,160
NET INCOME	\$ 24,409,579	\$ 18,293,916	\$ 59,669,903	\$ 45,345,433
Basic earnings per share	\$ 0.34	\$ 0.26	\$ 0.84	\$ 0.66
Basic shares outstanding	71,274,694	69,060,748	70,668,958	68,444,194
Diluted earnings per share	\$ 0.34	\$ 0.26	\$ 0.83	\$ 0.64
Diluted shares outstanding	72,661,176	71,047,482	72,155,038	70,316,592

All share and per share information has been adjusted to reflect the two-for-one stock split effected in the form of a stock dividend that was declared on April 20, 2005.

See notes to consolidated financial statements.

Table of Contents**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****RESPIRONICS, INC. AND SUBSIDIARIES**

	Nine-month periods ended	
	March 31	
	2005	2004
OPERATING ACTIVITIES		
Net income	\$ 59,669,903	\$ 45,345,433
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,117,466	31,832,477
Changes in operating assets and liabilities:		
Accounts receivable	(4,722,948)	(7,656,020)
Inventories	(8,443,979)	(2,139,446)
Other operating assets and liabilities	19,306,500	23,945,345
NET CASH PROVIDED BY OPERATING ACTIVITIES	100,926,942	91,327,789
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(50,915,416)	(36,419,582)
Acquisition of businesses, net of cash acquired	(47,557,247)	(4,470,423)
Additional purchase price and transaction costs for previously acquired businesses	(3,239,292)	(1,985,458)
NET CASH USED BY INVESTING ACTIVITIES	(101,711,955)	(42,875,463)
FINANCING ACTIVITIES		
Net increase (decrease) in borrowings	8,564,413	(1,966,081)
Issuance of common stock	23,011,773	15,380,943
NET CASH PROVIDED BY FINANCING ACTIVITIES	31,576,186	13,414,862
INCREASE IN CASH AND CASH EQUIVALENTS	30,791,173	61,867,188
Cash and cash equivalents at beginning of period	192,445,866	95,900,114
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 223,237,039	\$ 157,767,302

See notes to consolidated financial statements.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****RESPIRONICS, INC. AND SUBSIDIARIES****March 31, 2005****NOTE A BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. 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 (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ended June 30, 2005. The amounts and information as of June 30, 2004 set forth in the consolidated balance sheet and notes to the consolidated financial statements that follow were derived from the Company's Annual Report on Form 10-K for the year ended June 30, 2004. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2004.

All share and per share information has been adjusted to reflect the two-for-one stock split of the Company's common stock effected in the form of a 100% stock dividend that was declared on April 20, 2005.

NOTE B STOCK OPTION AND PURCHASE PLANS

At March 31, 2005, the Company has one active employee stock option plan and an employee stock purchase plan, which are described more fully in Note M in the Company's June 30, 2004 consolidated financial statements. The Company accounts for these plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant (or within permitted discounted prices as it pertains to the employee stock purchase plan). The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Three-Month Periods Ended		Nine-Month Periods Ended	
	March 31		March 31	
	2005	2004	2005	2004
Net income, as reported	\$ 24,410,000	\$ 18,294,000	\$ 59,670,000	\$ 45,345,000

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Add: Stock-based employee compensation expense included in reported net income, net of related tax effects

Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,080,000)	(1,879,000)	(6,013,000)	(5,265,000)
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