

NATUS MEDICAL INC
Form 10-Q
August 08, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2008

“ 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: 000-33001

NATUS MEDICAL INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction)

of incorporation or organization)

1501 Industrial Road, San Carlos, CA 94070

(Address of principal executive offices) (Zip Code)

77-0154833
(I.R.S. Employer

Identification No.)

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(650) 802-0400

(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 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 ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

The number of issued and outstanding shares of the registrant's Common Stock, \$0.001 par value, as of August 4, 2008 was 27,774,502.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****NATUS MEDICAL INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)****(in thousands, except share amounts)**

	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 65,696	\$ 11,916
Short-term investments	11,013	
Accounts receivable, net of allowance for doubtful accounts of \$1,053 and \$993	28,255	27,018
Inventories	20,627	19,264
Prepaid expenses and other current assets	3,304	3,402
Deferred income taxes	3,974	3,974
Total current assets	132,869	65,574
Property and equipment, net	15,276	14,504
Intangible assets	54,275	54,177
Goodwill	58,798	54,961
Other non-current assets	41	355
Total assets	\$ 261,259	\$ 189,571
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable	\$ 8,767	\$ 9,763
Current portion of long-term debt	2,297	18,554
Accrued liabilities	12,252	13,362
Deferred revenue	5,098	4,732
Total current liabilities	28,414	46,411
Long-term debt	1,441	18,262
Other liabilities	1,577	2,636
Deferred income taxes	6,183	6,544
Total liabilities	37,615	73,853
Stockholders' equity:		
Common Stock, \$0.001 par value, 120,000,000 shares authorized; shares issued and outstanding 27,772,648 and 21,923,509	240,974	137,837
Accumulated deficit	(16,421)	(22,815)
Accumulated other comprehensive income (loss)	(909)	696
Total stockholders' equity	223,644	115,718

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Total liabilities and stockholders' equity	\$ 261,259	\$ 189,571
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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NATUS MEDICAL INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue	\$ 39,862	\$ 28,260	\$ 76,721	\$ 55,310
Cost of revenue	15,374	10,151	29,379	20,326
Gross profit	24,488	18,109	47,342	34,984
Operating expenses:				
Marketing and selling	9,180	6,900	19,056	13,396
Research and development	4,068	4,372	7,895	8,196
General and administrative	5,440	3,589	10,296	7,697
Total operating expenses	18,688	14,861	37,247	29,289
Income from operations	5,800	3,248	10,095	5,695
Other income, net	386	234	386	475
Income before provision for income tax	6,186	3,482	10,481	6,170
Provision for income tax	2,419	1,156	4,087	2,325
Net income	\$ 3,767	\$ 2,326	\$ 6,394	\$ 3,845
Earnings per share:				
Basic	\$ 0.16	\$ 0.11	\$ 0.28	\$ 0.18
Diluted	\$ 0.15	\$ 0.10	\$ 0.26	\$ 0.17
Weighted average shares used in the calculation of earnings per share:				
Basic	24,248	21,584	23,000	21,525
Diluted	25,514	22,830	24,253	22,783

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**NATUS MEDICAL INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)****(in thousands)**

	Six Months Ended June 30,	
	2008	2007
Operating activities:		
Net income	\$ 6,394	\$ 3,845
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,971	2,185
Accounts receivable reserves	306	82
Warranty reserves	250	126
Loss on disposal of property and equipment	46	
Share-based compensation	1,423	790
Excess tax benefits on the exercise of options	(702)	(884)
Changes in operating assets and liabilities:		
Accounts receivable	(1,247)	(2,055)
Inventories	(1,331)	(2,052)
Prepaid expenses and other assets	409	640
Accounts payable	(1,051)	(994)
Accrued liabilities and deferred revenue	(2,457)	(68)
Net cash provided by operating activities	5,011	1,615
Investing activities:		
Acquisition of property and equipment	(1,757)	(1,132)
Capitalized software development costs	(738)	
Acquisition of business, net of cash acquired	(6,764)	(192)
Purchase of short-term investments	(11,013)	(518)
Net cash used in investing activities	(20,272)	(1,842)
Financing activities:		
Proceeds from stock option exercises and ESPP purchases	1,542	1,325
Proceeds from issuance of common stock, net of issuance costs	99,470	
Excess tax benefits upon the exercise of options	702	884
Borrowings on credit facility	6,000	
Payments on credit facility	(39,022)	
Net cash provided by financing activities	68,692	2,209
Exchange rate effect on cash and cash equivalents	349	460
Net increase in cash and cash equivalents	53,780	2,442
Cash and cash equivalents, beginning of period	11,916	15,392
Cash and cash equivalents, end of period	\$ 65,696	\$ 17,834
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 955	\$

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Cash paid for income taxes	\$ 3,077	\$ 1,285
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Non-cash investing activities:

Unpaid earnout obligations recorded as accrued expenses	\$ 772	\$ 501
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Table of Contents**NATUS MEDICAL INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****1 - Basis of Presentation**

The accompanying interim condensed consolidated financial statements of Natus Medical Incorporated (Natus, we, us, or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Except as updated below, the accounting policies followed in the preparation of the interim condensed consolidated financial statements are consistent in all material respects with those presented in Note 1 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Interim financial reports are prepared in accordance with the rules and regulations of the Securities and Exchange Commission, accordingly they do not include all of the information and notes required by GAAP for annual financial statements. The interim financial information is unaudited, but reflects all normal adjustments that are, in the opinion of management, necessary for the fair presentation of our financial position, results of operations, and cash flows for the interim periods presented. Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries; intercompany transactions have been eliminated in consolidation.

Short Term Investments

Short term investments are classified as available for sale and recorded at fair value. Unrealized gains or losses, net of the deferred tax effect, are reported in other comprehensive income as a separate component of stockholders' equity. Fair values are based on prices obtained from an independent pricing service which considers such observable data as dealer quotes, market spreads, cash flows, market consensus prepayment speeds, credit information, and the investment's terms and conditions, among other factors.

Internal Use Software Development Costs

The Company accounts for Internal Use Software Development costs in accordance with American Institute of Certified Public Accountants Statement of Position No. (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. In accordance with SOP 98-1, costs to develop internal use computer software during the application development stage are capitalized and reported as a component of intangible assets and amortized on a straight-line basis over the estimated useful lives of the related software applications.

Comprehensive Income

Comprehensive income is comprised of net income and gains or losses resulting from currency translations of foreign investments. The details of comprehensive income are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	\$ 3,767	\$ 2,326	\$ 6,394	\$ 3,845
Foreign currency translation adjustment	92	714	(1,604)	460
Unrealized loss on available for sale securities	(1)		(1)	
Comprehensive income	\$ 3,858	\$ 3,040	\$ 4,789	\$ 4,305

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Stockholders' Equity

The details of changes in stockholders' equity are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Balance, beginning of period	\$ 118,039	\$ 102,880	\$ 115,718	\$ 101,026
Net income	3,767	2,326	6,394	3,845
Proceeds from stock option exercises and ESPP	1,075			