

NATUS MEDICAL INC
Form 10-Q
August 06, 2010
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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, 2010

.. **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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

77-0154833
(I.R.S. Employer
Identification No.)

1501 Industrial Road, San Carlos, CA 94070
(Address of principal executive offices) (Zip Code)

(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 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 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 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 2, 2010 was 28,859,510.

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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, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 38,956	\$ 32,586
Short-term investments	946	965
Accounts receivable, net of allowance for doubtful accounts of \$1,245 in 2010 and \$1,515 in 2009	38,576	43,750
Inventories	25,540	22,408
Prepaid expenses and other current assets	4,079	4,213
Deferred income tax	4,191	4,248
Total current assets	112,288	108,170
Property and equipment, net	15,417	14,066
Intangible assets	66,903	70,144
Goodwill	91,958	92,258
Other assets	5,918	6,853
Total assets	\$ 292,484	\$ 291,491
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 9,598	\$ 11,074
Current portion of long-term debt	178	178
Accrued liabilities	14,531	17,245
Deferred revenue	4,819	4,705
Total current liabilities	29,126	33,202
Long-term liabilities:		
Long-term debt	842	931
Other liabilities	7,685	7,186
Deferred income tax	5,925	7,016
Total liabilities	43,578	48,335
Stockholders equity:		
Common Stock, \$0.001 par value, 120,000,000 shares authorized; shares issued and outstanding 28,826,248 in 2010 and 28,380,967 in 2009	255,489	250,374
Retained earnings	8,539	5,737
Accumulated other comprehensive loss	(15,122)	(12,955)

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Total stockholders' equity	248,906	243,156
Total liabilities and stockholders' equity	\$ 292,484	\$ 291,491

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,	
	2010	2009	2010	2009
Revenue	\$ 52,697	\$ 37,263	\$ 101,857	\$ 70,620
Cost of revenue	21,575	14,370	41,123	27,419
Gross profit	31,122	22,893	60,734	43,201
Operating expenses:				
Marketing and selling	13,581	10,251	27,354	20,238
Research and development	5,238	3,950	10,368	7,664
General and administrative	7,791	5,270	18,708	10,774
Total operating expenses	26,610	19,471	56,430	38,676
Income from operations	4,512	3,422	4,304	4,525
Other income, net	240	387	186	513
Income before provision for income tax	4,752	3,809	4,490	5,038
Provision for income tax	1,647	1,473	1,688	1,915
Net income	\$ 3,105	\$ 2,336	\$ 2,802	\$ 3,123
Earnings per share:				
Basic	\$ 0.11	\$ 0.08	\$ 0.10	\$ 0.11
Diluted	\$ 0.11	\$ 0.08	\$ 0.10	\$ 0.11
Weighted average shares used in the calculation of earnings per share:				
Basic	27,809	27,644	27,755	27,625
Diluted	29,110	28,276	28,956	28,208

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,	
	2010	2009
Operating activities:		
Net income	\$ 2,802	\$ 3,123
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,262	4,440
Accounts receivable reserves	(24)	1,331
Warranty reserves	86	639
Loss on disposal of property and equipment	25	
Share-based compensation	2,330	1,773
Excess tax benefits on the exercise of options	(779)	(12)
Impairment of intangible assets	300	
Changes in operating assets and liabilities:		
Accounts receivable	5,353	893
Inventories	(3,625)	987
Prepaid expenses and other assets	136	564
Accounts payable	(1,475)	6
Deferred income tax	68	
Accrued liabilities and deferred revenue	(2,772)	163
Net cash provided by operating activities	6,687	13,907
Investing activities:		
Cash paid for business acquisitions and earn out obligations, net of cash acquired	(19)	(998)
Purchases of property and equipment	(2,052)	(2,080)
Capitalized software development costs	(161)	(377)
Purchases of marketable securities	(975)	(866)
Sales of marketable securities	975	
Net cash used in investing activities	(2,232)	(4,321)
Financing activities:		
Proceeds from stock option exercises and ESPP purchases	2,007	414
Excess tax benefits on the exercise of options	779	12
Payments on borrowings	(89)	(89)
Net cash provided by financing activities	2,697	337
Exchange rate effect on cash and cash equivalents	(782)	845
Net increase in cash and cash equivalents	6,370	10,768
Cash and cash equivalents, beginning of period	32,586	56,915
Cash and cash equivalents, end of period	\$ 38,956	\$ 67,683
Supplemental disclosure of cash flow information:		

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Cash paid for interest	\$ 31	\$ 25
Cash paid for income taxes	\$ 2,635	\$ 129
Non-cash investing activities:		
Acquisition-related earn out obligations included in accrued liabilities	\$	\$ 19

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

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, 2009.

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, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

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		Six Months	
Ended		Ended	
June 30,		June 30,	
2010	2009	2010	2009