

Edgar Filing: RESPIRONICS INC - Form 10-Q

RESPIRONICS INC  
Form 10-Q  
May 15, 2001

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, 2001

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)

25-1304989  
(I.R.S. Employer Identification Number)

1501 Ardmore Blvd.  
Pittsburgh, Pennsylvania  
(Address of principal executive offices)

15221  
(Zip Code)

(Registrant's Telephone Number, including area code) 412-731-2100

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  .

As of April 30, 2001, there were 33,938,160 shares of Common Stock of the registrant outstanding, of which 3,639,330 were held in treasury.

INDEX

RESPIRONICS, INC.

PART I - FINANCIAL INFORMATION

Edgar Filing: RESPIRONICS INC - Form 10-Q

Item 1. Financial Statements (Unaudited).

Independent Accountants' Review Report

Consolidated balance sheets -- March 31, 2001 and June 30, 2000.

Consolidated statements of operations -- Three months and nine months ended March 31, 2001 and 2000.

Consolidated statements of cash flows -- Nine months ended March 31, 2001 and 2000.

Notes to consolidated financial statements - March 31, 2001.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Item 2. Changes in Securities.

Item 3. Defaults Upon Senior Securities.

Item 4. Submission of Matters to a Vote of Security Holders.

Item 5. Other Information.

Item 6. Exhibits and Reports on Form 8-K.

SIGNATURES

Independent Accountants' Review Report

Board of Directors  
Respironics, Inc. and Subsidiaries

We have reviewed the accompanying condensed consolidated balance sheet of Respironics, Inc. and Subsidiaries as of March 31, 2001, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended March 31, 2001 and 2000, and the condensed consolidated statements of cash flows for the nine-month periods ended March 31, 2001 and 2000. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and

Edgar Filing: RESPIRONICS INC - Form 10-Q

accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing 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 condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Respironics, Inc. and Subsidiaries as of June 30, 2000, 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 25, 2000, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of June 30, 2000, 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  
April 24, 2001

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

RESPIRONICS, INC. AND SUBSIDIARIES

	March 31 2001
	-----
ASSETS	
CURRENT ASSETS	
Cash and short-term investments	\$ 14,414,806
Trade accounts receivable, less allowance for doubtful accounts of \$18,013,000 and \$17,975,000	102,253,213
Inventories	76,218,660
Prepaid expenses and other	11,770,648
Deferred income tax benefits	18,530,162
	-----
TOTAL CURRENT ASSETS	223,187,489
PROPERTY, PLANT AND EQUIPMENT	
Land	2,506,052
Building	8,490,672
Machinery and equipment	81,073,791
Furniture, office and computer equipment	54,903,899
Leasehold improvements	4,972,300
	-----
	151,946,714
Less allowances for depreciation and amortization	82,729,158
	-----

Edgar Filing: RESPIRONICS INC - Form 10-Q

	69,217,556
OTHER ASSETS	14,360,439
GOODWILL	60,781,489
	-----
	\$ 367,546,973
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	\$ 28,021,568
Accrued expenses and other	24,476,186
Current portion of long-term obligations	1,045,721
	-----
TOTAL CURRENT LIABILITIES	53,543,475
LONG-TERM OBLIGATIONS	93,238,204
SHAREHOLDERS' EQUITY	
Common Stock, \$.01 par value; authorized	
100,000,000 shares; issued and outstanding	
33,925,480 shares at March 31, 2001 and	
33,182,565 shares at June 30, 2000	339,255
Additional capital	117,361,718
Accumulated other comprehensive loss	(4,421,175)
Retained earnings	150,076,057
Treasury stock	(42,590,561)
	-----
TOTAL SHAREHOLDERS' EQUITY	220,765,294
	-----
	\$ 367,546,973
	=====

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

RESPIRONICS, INC. AND SUBSIDIARIES

	Three months ended	
	March 31 2001	March 31 2000
	-----	-----
Net sales	\$ 110,207,939	\$ 97,837,028
Cost of goods sold	58,695,623	51,484,648
Cost of goods sold - restructuring charges	724,990	513,986
	-----	-----
GROSS MARGIN	50,787,326	45,838,394
General and administrative expenses	12,021,926	12,038,211
General and administrative expenses - special items	1,200,000	4,500,000

Edgar Filing: RESPIRONICS INC - Form 10-Q

Sales, marketing and commission expenses	18,639,614	15,983,880
Research and development expenses	3,744,747	4,436,693
Restructuring (credit) charges	(1,908,581)	3,718,115
Interest expense	1,839,631	1,845,572
Other income	(272,030)	(261,723)
	-----	-----
	35,265,307	42,260,748
	-----	-----
INCOME BEFORE INCOME TAXES	15,522,019	3,577,646
Income taxes (benefit)	6,208,807	(211,895)
	-----	-----
NET INCOME	\$ 9,313,212	\$ 3,789,541
	=====	=====
Basic earnings per share	\$ 0.31	\$ 0.13
	=====	=====
Basic shares outstanding	30,228,829	29,400,975
Diluted earnings per share	\$ 0.30	\$ 0.13
	=====	=====
Diluted shares outstanding	31,169,860	29,827,850

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

RESPIRONICS, INC. AND SUBSIDIARIES

	Nine Months End 2001
	-----
OPERATING ACTIVITIES	
Net income	\$ 23,613,819
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	20,474,441
Asset sales and write-offs	(877,000)
Changes in operating assets and liabilities:	
Increase in accounts receivable	(5,519,518)
Increase in inventories	(8,449,468)
Change in other operating assets and liabilities:	(3,101,327)
	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	26,140,947
INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(22,650,374)
Additional purchase price for acquired business	(787,580)
	-----
NET CASH USED BY INVESTING ACTIVITIES	(23,437,954)

Edgar Filing: RESPIRONICS INC - Form 10-Q

FINANCING ACTIVITIES	
Net (decrease) increase in borrowings	(15,217,724)
Issuance of common stock	6,573,497
Use (acquisition) of treasury stock, net	761,556
Decrease in minority interest	0
	-----
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(7,882,671)
	-----
DECREASE IN CASH AND SHORT-TERM INVESTMENTS	(5,179,678)
Cash and short-term investments at beginning of period	19,594,484
	-----
CASH AND SHORT-TERM INVESTMENTS AT END OF PERIOD	\$ 14,414,806
	=====

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

RESPIRONICS, INC. AND SUBSIDIARIES

March 31, 2001

NOTE A -- BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with 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 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 months and nine months ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ended June 30, 2001. 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, 2000.

NOTE B -- INVENTORIES

The composition of inventory is as follows:

	March 31 2001	June 30 2000
	-----	-----
Raw materials	\$23,623,000	\$21,561,000
Work-in-process	6,244,000	5,825,000
Finished goods	46,352,000	40,383,000
	-----	-----

Edgar Filing: RESPIRONICS INC - Form 10-Q

\$76,219,000    \$67,769,000  
 =====    =====

NOTE C -- CONTINGENCIES

As previously disclosed, the Company is party to actions filed in a Federal District Court in January 1995 and June 1996 in which a competitor alleges that the Company's manufacture and sale in the United States of certain products infringes four of the competitor's patents. In its response to these actions, the Company has denied the allegations and has separately sought judgment that the claims under the patents are invalid or unenforceable and that the Company does not infringe upon the

patents. The January 1995 and June 1996 actions have been consolidated, and discovery is ongoing. The Court has granted the Company's various motions for summary judgment and held that the Company does not infringe any of the competitor's four patents at issue. The competitor may seek an appeal of those decisions. In any event, the Company intends to continue to pursue its claims that the competitor's patents are invalid or unenforceable.

The Company is, as a normal part of its business operations, a party to other legal proceedings in addition to those previously described by filings of the Company. Legal counsel has been retained for each proceeding and none of these proceedings is expected to have a material adverse impact on the Company's results of operations or financial condition.

NOTE D -- RESTRUCTURING CHARGES

In July 1999, the Company announced a major restructuring of its U.S. operations. The major components of the restructuring included the closing of the Westminster, Colorado manufacturing facility, the closing of 19 customer satisfaction centers throughout the United States, the downsizing of the Marietta, Georgia manufacturing facilities, the opening of a centralized distribution and repair center in Youngwood, Pennsylvania, the realignment of the Company into four divisions with a corresponding management realignment, and a workforce reduction of approximately 10% associated with the facility changes and the realignment. Except as discussed below, all major elements of the restructuring were completed during fiscal year 2000.

RECONCILIATION OF RESTRUCTURING RESERVES

	Employee Severance Costs	Asset Write-Downs	Lease Buyouts & Other Direct Expenses	Res
	-----	-----	-----	-----
Balance at July 1, 1999	\$        --	\$        --	\$        --	\$
Restructuring charges (net)	6,300,000	8,900,000	14,000,000	29
Cash expenditures	(3,100,000)	--	(12,900,000)	(16
Noncash expenditures	--	(1,700,000)	--	(1
	-----	-----	-----	-----
Balance at June 30, 2000	3,200,000	7,200,000	1,100,000	11

Edgar Filing: RESPIRONICS INC - Form 10-Q

Restructuring charges (net)	-----	-----	-----	-----
	--	--	--	
Cash expenditures	(400,000)	--	(400,000)	
Noncash expenditures	--	(700,000)	--	
Balance at September 30, 2000	-----	-----	-----	-----
	2,800,000	6,500,000	700,000	10
Restructuring charges (net)	-----	-----	-----	-----
	--	--	--	
Cash expenditures	(400,000)	--	(400,000)	
Noncash expenditures	--	(900,000)	--	
Balance at December 31, 2000	-----	-----	-----	-----
	2,400,000	5,600,000	300,000	8
Restructuring charges (net)	-----	-----	-----	-----
	(200,000)	1,000,000	--	
Cash expenditures	(400,000)	--	--	
Noncash expenditures	--	(800,000)	--	
Balance at March 31, 2001(1)	-----	-----	-----	-----
	\$ 1,800,000	\$ 5,800,000	\$ 300,000	\$ 7
	=====	=====	=====	=====

(1) The Company also recorded a gain of approximately \$2,000,000 on the sale of a facility related to the restructuring.

During fiscal year 2000, the Company incurred a total of \$29,200,000 in charges related to this restructuring. The primary components of these charges were severance and employment related costs (\$6,300,000), asset write-downs to reflect decisions made regarding product, facility, and systems rationalization (\$8,900,000), and lease buyouts related to facility rationalizations and other direct expenses of the restructuring (\$14,000,000).

During the three months ended March 31, 2001, the Westminster, Colorado facility was sold. A gain of approximately \$2,000,000 was recorded on the sale. Also during the three months ended March 31, 2001, final restructuring expenses of \$800,000 were incurred, primarily for inventory write-offs of discontinued products. Restructuring costs incurred but not yet paid have been credited to accrued expense and asset write-downs have been credited against

the applicable asset accounts. Substantially all of the remaining restructuring accruals as of March 31, 2001 will be paid out during the next fifteen to eighteen months.

NOTE E - COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss), net of tax, were as follows:

	Three Months Ended		Ni
	March 31,	March 31,	March
	2001	2000	2001
	-----	-----	-----
Net income	\$9,313,000	\$3,789,000	\$23,614,
Foreign currency translation gains (losses)	(599,000)	551,000	(1,289,
Comprehensive income	-----	-----	-----
	\$8,714,000	\$4,340,000	\$22,325,
	=====	=====	=====



## Edgar Filing: RESPIRONICS INC - Form 10-Q

### NOTE F - SPECIAL ITEMS

In March 2001, one of the Company's significant hospital distribution customers ceased operations. The Company recorded a special increase to the allowance for doubtful accounts of \$1,200,000 to address the potential uncollectability of the balance due from this customer.

As previously disclosed, in February 2000, the parent company of one of the Company's major customers filed a voluntary petition to reorganize under Chapter 11 of the U.S. Bankruptcy Code. The Company's customer was one of the entities included in the filing. According to press releases issued in connection with the filing and discussions with the customer, the election to seek court protection was made in order to facilitate the restructuring of the parent company's capital and lease obligations and normal business operations of the Company's customer are continuing. The Company's total balance due from the customer at the date of the filing was approximately \$4,500,000, and accordingly, the Company has recorded a \$4,500,000 special increase to the allowance for doubtful accounts during fiscal year 2000. In November 2000, the Company reached a settlement with the customer under which the customer will pay a portion of the petition-date balance in monthly installments over six months. The remaining petition-date balance will constitute a claim in the continuing bankruptcy case.

### NOTE G - INCOME TAXES

During February 2000, the Company reached an agreement with the Internal Revenue Service regarding examinations of federal income tax returns for certain of the Company's U.S. entities for fiscal years 1996 through 1998. Based on this agreement, the Company

recorded a one-time reduction in income tax liability and income tax expense of \$1,643,000 during the quarter ended March 31, 2000.

### NOTE H - RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." As amended by FASB Statements No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" and No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," FASB No. 133 was required to be adopted as of the first quarter of fiscal year 2001. The Company adopted FASB No. 133 on July 1, 2000. The statement required, among other things, derivative instruments to be recorded at market value, with changes in fair value reflected in earnings to the extent the derivative instruments do not qualify as hedges in accordance with the statement. Because of the Company's minimal use of derivative instruments, the adoption of FASB No. 133 on July 1, 2000 did not have a material financial impact on the Company, and management believes that FASB No. 133 will not have a material impact on earnings during fiscal year 2001.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES REFORM ACT OF 1995.

The statements contained in this Quarterly Report on Form 10-Q, specifically those contained in Item 2 "Management's Discussion and Analysis of

## Edgar Filing: RESPIRONICS INC - Form 10-Q

Financial Condition and Results of Operations", along with statements in other reports filed with the Securities and Exchange Commission, external documents and oral presentations which are not historical are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21B of the Securities and Exchange Act of 1934, as amended. These forward-looking statements represent the Company's present expectations or beliefs concerning future events. The Company cautions that such statements are qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements. Results actually achieved may differ materially from expected results included in these statements. Those factors include, but are not limited to, the following: foreign currency fluctuations, regulations and other factors affecting operations and sales outside the United States including potential future effects of the change in sovereignty of Hong Kong, customer consolidation and concentration, increasing price competition and other competitive factors in the sale of products, the success of programs, interest rate fluctuations, intellectual property and related litigation, other litigation, FDA and other government regulation, third party reimbursement, restructuring activities, and anticipated cost savings.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### RESULTS OF OPERATIONS

Net sales for the quarter ended March 31, 2001 were \$110,208,000 representing a 13% increase over the sales of \$97,837,000 recorded for the quarter ended March 31, 2000. Increases in unit and dollar sales for the Company's sleep apnea therapy devices (the Company's largest product line) and oxygen concentrator devices, as well as increases in the sales of masks and accessories, helped to drive the increase in sales for the quarter. These product lines, along with ventilation devices, comprise the major part of the Company's homecare product offerings. Sales of the Company's domestic hospital products also increased during the current quarter, led by unit and dollar increases for the Company's Esprit(R) ventilators.

Net sales for the nine months ended March 31, 2001 were \$306,820,000 representing a 14% increase over the sales of \$270,139,000 recorded for the nine months ended March 31, 2000. Increases in the Company's sleep apnea therapy devices, oxygen concentrators, and masks as discussed above accounted for the majority of the increase in sales, along with increased sales of the Company's Esprit(R) hospital ventilator.

Partially offsetting this increase in sales in the current nine-month period was a decrease in domestic sales of the Company's non-invasive ventilatory support devices for use in the home compared to prior year levels. This sales decrease was caused by the previously disclosed October 1, 1999 implementation of revised government insurance coverage guidelines for the home use of these products in the United States and the corresponding reduction in purchases of these units by the Company's dealer customers. For the nine months ended March 31, 2001, sales of non-invasive ventilatory support units for home use in the United States accounted for approximately two percent of total sales.

The Company's gross profit was 47% of net sales for the quarter and nine-month periods ended March 31, 2001 and 2000, excluding the impact of restructuring charges. This gross profit percentage reflects the impact of higher revenue levels and the positive impact of the Company's restructuring activities in the manufacturing area, offset by sales mix.

General and administrative expenses were \$12,022,000 (11% of net sales) for the quarter ended March 31, 2001 as compared to \$12,038,000 (12% of net sales)

## Edgar Filing: RESPIRONICS INC - Form 10-Q

for the quarter ended March 31, 2000. For the nine-month period ended March 31, 2001, general and administrative expenses were \$35,852,000 (12% of net sales) as compared to \$33,989,000 (13% of net sales) for the prior year nine-month period. The increase in absolute dollars of general and administrative expenses for the nine-month periods was due primarily to increases in information technology department expenses, credit and collection department expenses, and other

spending consistent with the growth of the Company's business. Partially offsetting any increases in expenses were lower operating expenses due to the Company's restructuring. General and administrative expenses decreased as a percent of sales in both the quarter and year-to-date comparisons.

In March 2001, one of the Company's significant hospital distribution customers ceased operations. During the three months ended March 31, 2001, the Company recorded a special increase to the allowance for doubtful accounts of \$1,200,000 to address the potential uncollectability of the balance due from this customer. During the three months ended March 31, 2000, a special increase to the allowance for doubtful accounts was recorded related to a previously disclosed filing by one of the Company's major customers under Chapter 11 of the U.S. Bankruptcy Code. The Company's total balance due from the customer at the date of the filing was approximately \$4,500,000 and accordingly, the Company recorded a \$4,500,000 special increase to the allowance for doubtful accounts during the three months ended March 31, 2000.

Sales, marketing and commission expenses were \$18,640,000 (17% of net sales) for the quarter ended March 31, 2001 as compared to \$15,984,000 (16% of net sales) for the quarter ended March 31, 2000. For the nine-month period ended March 31, 2001, sales, marketing and commission expenses were \$53,059,000 (17% of net sales) as compared to \$46,328,000 (17% of net sales) for the prior year nine-month period. The increases in absolute dollars of expense for the current quarter and nine-month periods were due primarily to increased sales (resulting in higher commission and bonus expenses) and increased sales, marketing, and product support and service activity levels in the Company's homecare and hospital product lines during the current year, partially offset by lower operating expenses due to the Company's restructuring.

Research and development expenses were \$3,745,000 (3% of net sales) for the quarter ended March 31, 2001 as compared to \$4,437,000 (5% of net sales) for the quarter ended March 31, 2000. For the nine-month period ended March 31, 2001, research and development expenses were \$10,843,000 (4% of net sales) as compared to \$12,764,000 (5% of net sales) for the prior year nine-month period. The decreases in absolute dollars of expense for the current quarter and nine-month periods were due primarily to the timing of certain research and development projects and the impact of certain new products transitioning from development into production. During the current quarter, the Company introduced the new REMstar(R) Plus CPAP (Continuous Positive Airway Pressure) device. Significant product development efforts are ongoing and new product launches in many of the Company's major product lines are scheduled for the remainder of fiscal year 2001. Additional development work and clinical trials are being conducted in certain product areas outside the Company's current core products.

During the three months ended March 31, 2001, the Company incurred additional restructuring charges of \$800,000, related to a

previously disclosed restructuring. These additional restructuring costs were primarily for asset write-downs to reflect decisions made regarding product, facility, and systems rationalization and other direct expenses of the restructuring. Approximately \$700,000 of these charges related to inventory write-offs of discontinued products and have been reported as a separate component of cost of goods sold. Also during the three months ended March 31,

## Edgar Filing: RESPIRONICS INC - Form 10-Q

2001, the Westminster, Colorado facility was sold and a gain of approximately \$2,000,000 was recorded on the sale.

During the three months and nine months ended March 31, 2000, the Company incurred charges of \$4,200,000 and \$22,200,000, respectively, related to this same restructuring action. The primary components of these costs were severance and employment related costs, asset write-downs to reflect decisions made regarding product, facility, and systems rationalization, and lease buyouts related to facility rationalizations and other direct expenses of the restructuring. Approximately \$5,100,000 of these charges related to inventory write-offs in connection with product rationalizations and have also been reported as a separate component of cost of goods sold. See Note D to the Consolidated Financial Statements for additional information about the restructuring charges.

During the three months ended March 31, 2000, the Company reached an agreement with the Internal Revenue Service regarding examinations of federal income tax returns for certain of the Company's U.S. entities for fiscal years 1996 through 1998. Based on this agreement, the Company recorded a one-time reduction in income tax liability and income tax expense of \$1,643,000 during the quarter ended March 31, 2000. Excluding this adjustment for the three months and nine months ended March 31, 2000, the Company's effective income tax rate was 40% for all periods presented.

As a result of the factors described above, the Company's net income was \$9,313,000 (8% of net sales) or \$0.30 per diluted share for the quarter ended March 31, 2001 as compared to net income of \$3,789,000 (4% of net sales) or \$0.13 per diluted share for the quarter ended March 31, 2000. For the nine-month period ended March 31, 2001, the Company's net income was \$23,614,000 (8% of net sales) or \$0.77 per diluted share as compared to net income of \$2,899,000 (1% of net sales) or \$0.10 per diluted share for the prior year nine-month period. Excluding the impact of the restructuring credits and charges and the special increase to the allowance for doubtful accounts described above, the Company's net income for the quarter and nine months ended March 31, 2001 was \$9,323,000 (8% of net sales) or \$0.30 per diluted share and \$23,624,000 (8% of net sales) or \$0.77 per diluted share, respectively. Excluding the impact of the restructuring charges, the special increase to the allowance for doubtful accounts, and the one-time income tax liability adjustment described above, the Company's net income for the three months and nine months ended March 31, 2000 was \$7,386,000 (8% of net sales) or \$0.25 per

diluted share and \$17,298,000 (6% of net sales) or \$0.58 per diluted share, respectively.

Earnings per share amounts for the quarters and nine-month periods ended March 31, 2001 and 2000 reflect the impact of shares repurchased under the Company's stock buyback program which is described below.

### FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of \$169,644,000 at March 31, 2001 and \$155,095,000 at June 30, 2000. Net cash provided by operating activities was \$26,141,000 for the nine months ended March 31, 2001 as compared to \$5,599,000 for the nine months ended March 31, 2000. The increase in cash provided by operating activities for the current nine-month period was primarily due to higher earnings as compared to the prior year.

Net cash used by investing activities was \$23,438,000 for the nine months ended March 31, 2001 as compared to \$21,393,000 for the nine months ended March 31, 2000. Cash used by investing activities for both periods include capital

## Edgar Filing: RESPIRONICS INC - Form 10-Q

expenditures, including the purchase of leasehold improvements, production equipment, computer hardware and software, and telecommunications and office equipment. In addition, cash used by investing activities in the periods described includes additional purchase price paid for a previously acquired business pursuant to the terms of that acquisition agreement. The funding for investment activities in both periods was provided by positive cash flow from operating activities, and accumulated cash and short-term investments, and in fiscal year 2000, borrowings under long-term obligations.

Net cash provided by financing activities includes borrowings and repayments under the Company's various long-term obligations, proceeds from the issuance of common stock under the Company's stock option plans, and the acquisition of treasury stock. Net cash used by financing activities was \$7,883,000 for the nine months ended March 31, 2001 as compared to net cash provided by financing activities of \$187,000 for the nine months ended March 31, 2000. The increase in cash used by financing activities was due primarily to a repayment of \$10,000,000 of borrowings under the Company's revolving credit facility and the repayment of the remaining \$4,120,000 balance of the Industrial Development Revenue Bond which had been secured by a mortgage on the Company's Westminster, Colorado facility.

The Company has been repurchasing shares of its outstanding common stock since August 1998 pursuant to a series of Board of Directors' actions that have authorized stock buybacks totaling 4,000,000 shares. No shares were repurchased under this buyback program during the nine months ended March 31, 2001. During the nine months ended March 31, 2000, the Company's buyback activity resulted in net use of cash of \$9,210,000. The Company has

repurchased a total of 3,800,000 shares under this buyback program. At March 31, 2001, approximately 3,639,000 shares remained in treasury. Shares that are repurchased are added to treasury shares pending future use and reduce the number of shares outstanding used in calculating earnings per share.

In July 1999, the Company announced a major restructuring of its U.S. operations that included facility closings and downsizings, a divisional and management realignment, and an approximate ten percent workforce reduction associated with those changes. The restructuring activities have been completed and restructuring charges totaling \$29,200,000 were recorded during the fiscal year ended June 30, 2000. In the three months ended March 31, 2001, final restructuring charges of \$800,000 were incurred, primarily for inventory write-offs related to discontinued products. Also during the quarter ended March 31, 2001, the Westminster, Colorado facility was sold and a gain of approximately \$2,000,000 was recorded on the sale. See Note D to the Consolidated Financial Statements for an analysis of these charges, including the reserve balances relating to these charges that remain at March 31, 2001. The reserves shown for employee severance, lease buyouts, and other direct expenses will require corresponding cash expenditures in future periods. The Company does not expect to incur additional charges in respect to this restructuring. As previously disclosed, annualized savings associated with the restructuring are expected to be approximately \$10,000,000. These savings began to be realized primarily during the third quarter of fiscal year 2000. These cost savings are expected to positively impact cost of sales, general and administrative expenses, and sales and marketing expenses, and will be offset to some extent by planned increases in those expenses consistent with expected increases in sales in future periods and the Company's continuing investment in the business.

The Company believes that projected positive cash flow from operating activities, the availability of additional funds (totaling approximately \$32,000,000 at March 31, 2001) under its revolving credit facility, and its accumulated cash and short-term investments will be sufficient to meet its current and presently anticipated future needs for the next twelve months for

## Edgar Filing: RESPIRONICS INC - Form 10-Q

operating activities (including payments against restructuring accruals), investing activities, and financing activities (primarily consisting of payments on long-term debt).

### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company is exposed to market risk from changes in interest rates and foreign exchange rates.

**Interest Rates:** The Company's primary interest rate risk relates to its long-term debt obligations. At March 31, 2001, the Company had total long-term debt obligations, including the current

portion of those obligations, of \$94,284,000. Of that amount, \$2,384,000 was in fixed rate obligations and \$91,900,000 was in variable rate obligations. Assuming a 10% increase in interest rates on the Company's variable rate obligations (i.e. an increase from the March 31, 2001 weighted average interest rate of 6.28% to a weighted average interest rate of 6.91%), annual interest expense would be approximately \$577,000 higher based on the March 31, 2001 outstanding balance of variable rate obligations. The Company has no interest rate swap or exchange agreements.

**Foreign Exchange Rates:** Information relating to the sensitivity to foreign currency exchange rate changes is omitted because foreign exchange exposure risk has not materially changed from that disclosed in the Company's Annual Report on Form 10-K for the year ended June 30, 2000.

### Inflation

Inflation has not had a significant effect on the Company's business during the periods discussed.

### Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." As amended by FASB Statements No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" and No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," FASB No. 133 was required to be adopted as of the first quarter of fiscal year 2001. The Company adopted FASB No. 133 on July 1, 2000. The statement required, among other things, derivative instruments to be recorded at market value, with changes in fair value reflected in earnings to the extent the derivative instruments do not qualify as hedges in accordance with the statement. Because of the Company's minimal use of derivative instruments, the adoption of FASB No. 133 on July 1, 2000 did not have a material financial impact on the Company, and management believes that FASB No. 133 will not have a material impact on earnings during fiscal year 2001.

In December 1999, the Staff of the Securities and Exchange Commission released Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition," to provide guidance on the recognition, presentation, and disclosure of revenues in financial statements. This statement became effective during the fourth fiscal quarter of fiscal year 2001, beginning on April 1, 2001. The Company does not believe that SAB No. 101 will have a material effect on the financial statements during fiscal year 2001.

## Edgar Filing: RESPIRONICS INC - Form 10-Q

In September 2000, the FASB issued Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." FASB No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral, and is effective for transfers and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001. The Company does not believe that FASB No. 140 will have a material effect on the financial statements during fiscal year 2001.

### PART 2 OTHER INFORMATION

#### Item 1: Legal Proceedings

-----

Private citizens may make claims against companies for violations of healthcare laws in actions known as qui tam suits. The Company was a defendant in a qui tam proceeding, previously disclosed in the Company's Form 10-K for fiscal year ended June 30, 2000, that was dismissed in April 2001.

The Company is, as a normal part of its business operations, a party to other legal proceedings in addition to those previously described by filings of the Company. Legal counsel has been retained for each proceeding and none of these proceedings is expected to have a material adverse impact on the Company's results of operations or financial condition.

#### Item 2: Changes in Securities

-----

- (a) Not applicable
- (b) Not applicable
- (c) Not applicable

#### Item 3: Defaults Upon Senior Securities

-----

- (a) Not applicable
- (b) Not applicable

#### Item 4: Submission of Matters to a Vote of Security Holders

-----

Not applicable.

#### Item 5: Other Information

-----

Not applicable

#### Item 6: Exhibits and Reports on Form 8-K

-----

- (a) Exhibits

Exhibit 10.47 2000 Stock Incentive Plan, filed as Exhibit A to 2000 Proxy Statement incorporated by reference into Annual Report on Form 10-K for the fiscal year ended June 30, 2000.

Edgar Filing: RESPIRONICS INC - Form 10-Q

Exhibit 15 Acknowledgement of Ernst & Young, LLP.

(b) Reports on Form 8-K

Not applicable

SIGNATURES

-----

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RESPIRONICS, INC.

Date: May 15, 2001

-----

/s/ Daniel J. Bevevino

-----

Daniel J. Bevevino  
Vice President, and Chief  
Financial and Principal  
Accounting Officer

Signing on behalf of the  
registrant and as Chief  
Financial and Principal  
Accounting Officer