

NATUS MEDICAL INC
Form 10-Q
May 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

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 77-0154833
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
6701 Koll Center Parkway, Suite 120, Pleasanton, CA 94566
(Address of principal executive offices) (Zip Code)
(925) 223-6700
(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,” “smaller reporting company,” or an “emerging growth” company in Rule 12b-2 of the Exchange Act.:

Large Accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 May 2, 2018 was 33,302,866.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NATUS MEDICAL INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)
(in thousands, except share and per share amounts)

	March 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$64,471	\$88,950
Accounts receivable, net of allowance for doubtful accounts of \$8,200 in 2018 and \$8,978 in 2017	128,056	126,809
Inventories	74,543	71,529
Prepaid expenses and other current assets	23,863	18,340
Total current assets	290,933	305,628
Property and equipment, net	22,618	22,071
Intangible assets, net	167,489	172,582
Goodwill	173,297	172,998
Deferred income tax	10,632	10,709
Other assets	17,949	25,931
Total assets	\$682,918	\$709,919
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$24,388	\$25,242
Accrued liabilities	54,066	51,738
Deferred revenue	16,615	15,157
Total current liabilities	95,069	92,137
Long-term liabilities:		
Other liabilities	21,925	21,995
Long-term debt, net	129,331	154,283
Deferred income tax	19,763	19,407
Total liabilities	266,088	287,822
Stockholders' equity:		
Common stock, \$0.001 par value, 120,000,000 shares authorized; shares issued and outstanding 33,271,530 in 2018 and 33,134,101 in 2017	314,760	316,577
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding in 2018 and 2017	—	—
Retained earnings	122,048	129,115
Accumulated other comprehensive loss	(19,978)	(23,595)
Total stockholders' equity	416,830	422,097
Total liabilities and stockholders' equity	\$682,918	\$709,919

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

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2018	2017
Revenue	\$ 128,609	\$ 124,660
Cost of revenue	55,369	56,913
Intangibles amortization	1,587	1,000
Gross profit	71,653	66,747
Operating expenses:		
Marketing and selling	35,872	32,215
Research and development	15,443	12,753
General and administrative	17,448	16,016
Intangibles amortization	4,806	4,074
Restructuring	812	286
Total operating expenses	74,381	65,344
Income (loss) from operations	(2,728)	1,403
Other income (expense), net	(1,821)	(1,039)
Income (loss) before provision for income tax	(4,549)	364
Provision for income tax	(1,401)	16
Net income (loss)	\$(3,148)	\$ 348
Earnings (loss) per share:		
Basic	\$(0.10)	\$ 0.01
Diluted	\$(0.10)	\$ 0.01
Weighted average shares used in the calculation of earnings (loss) per share:		
Basic	32,760	32,485
Diluted		

CGMI is an affiliate of ours. Accordingly, this offering will conform with the requirements addressing conflicts of interest when distributing the securities of an affiliate

set forth
in Rule
5121 of
the
Financial
Industry
Regulatory
Authority.
Client
accounts
over
which
Citigroup
Inc. or its
subsidiaries
have
investment
discretion
will not
be
permitted
to
purchase
the
securities,
either
directly
or
indirectly,
without
the prior
written
consent
of the
client.

Secondary
market
sales of
securities
typically
settle two
business
days after
the date
on which
the
parties
agree to

the sale.
Because
the issue
date for
the
securities
is more
than two
business
days after
the
pricing
date,
investors
who wish
to sell the
securities
at any
time
prior to
the
second
business
day
preceding
the issue
date will
be
required
to specify
an
alternative
settlement
date for
the
secondary
market
sale to
prevent a
failed
settlement.
Investors
should
consult
their own
investment
advisors
in this
regard.

See “Plan of Distribution; Conflicts of Interest” in the accompanying product supplement and “Plan of Distribution” in each of the accompanying prospectus supplement and prospectus for additional information.

A portion of the net proceeds from the sale of the securities will be used to hedge our obligations under the securities. We have hedged our obligations under the securities through CGMI or other of our affiliates.

CGMI or such other of our affiliates may profit from this hedging activity even if the value of the securities declines. This hedging activity could affect the closing level of either underlying index and, therefore, the value of and your return on the securities. For additional information on the ways in which our counterparties may hedge our obligations under the securities, see "Use of Proceeds and

Hedging”
in the
accompanying
prospectus.

Valuation
of the
Securities

CGMI
calculated
the
estimated
value of
the
securities
set forth
on the
cover
page of
this
pricing
supplement
based on
proprietary
pricing
models.
CGMI’s
proprietary
pricing
models
generated
an
estimated
value for
the
securities
by
estimating
the value
of a
hypothetical
package
of
financial
instruments
that

would replicate the payout on the securities, which consists of a fixed-income bond (the “bond component”) and one or more derivative instruments underlying the economic terms of the securities (the “derivative component”). CGMI calculated the estimated value of the bond component using a discount rate based on our internal funding rate. CGMI calculated the estimated value of the derivative component based on a

proprietary
derivative-pricing
model,
which
generated
a
theoretical
price for
the
instruments
that
constitute
the
derivative
component
based on
various
inputs,
including
the
factors
described
under
“Summary
Risk
Factors—The
value of
the
securities
prior to
maturity
will
fluctuate
based on
many
unpredictable
factors” in
this
pricing
supplement,
but not
including
our or
Citigroup
Inc.’s
creditworthiness.
These
inputs
may be
market-observable
or may

be based
on
assumptions
made by
CGMI in
its
discretionary
judgment.

For a
period of
approximately
three
months
following
issuance
of the
securities,
the price,
if any, at
which
CGMI
would be
willing to
buy the
securities
from
investors,
and the
value that
will be
indicated
for the
securities
on any
brokerage
account
statements
prepared
by CGMI
or its
affiliates
(which
value
CGMI
may also
publish
through
one or

more financial information vendors), will reflect a temporary upward adjustment from the price or value that would otherwise be determined. This temporary upward adjustment represents a portion of the hedging profit expected to be realized by CGMI or its affiliates over the term of the securities. The amount of this temporary upward adjustment will decline to zero on a straight-line basis over the three-month temporary adjustment period.

However, CGMI is not obligated to buy the securities from investors at any time. See “Summary Risk Factors—The securities will not be listed on any securities exchange and you may not be able to sell them prior to maturity.”

Certain Selling Restrictions

Hong Kong Special Administrative Region

The contents of this pricing supplement and the accompanying product

supplement,
underlying
supplement,
prospectus
supplement
and
prospectus
have not
been
reviewed
by any
regulatory
authority
in the
Hong
Kong
Special
Administrative
Region
of the
People's
Republic
of China
("Hong
Kong").
Investors
are
advised
to
exercise
caution
in
relation
to the
offer. If
investors
are in
any
doubt
about any
of the
contents
of this
pricing
supplement
and the
accompanying
product
supplement,
underlying
supplement,

prospectus
supplement
and
prospectus,
they
should
obtain
independent
professional
advice.

The
securities
have not
been
offered
or sold
and will
not be
offered
or sold in
Hong
Kong by
means of
any
document,
other
than

to persons
whose
ordinary
business is
to buy or
(i) sell shares
or
debentures
(whether as
principal or
agent); or

(ii) to
“professional
investors” as
defined in
the

Securities
and Futures
Ordinance
(Cap. 571)
of Hong
Kong (the
“Securities
and Futures
Ordinance”)
and any
rules made
under that
Ordinance;
or

April
2018 PS-11

Citigroup
Global
Markets
Holdings
Inc.
Autocallable
Contingent
Coupon
Equity
Linked
Securities
Based on
the Worst
Performing
of the S&P
500® Index
and the
Russell
2000® Index
Due July 30,
2019

in other
circumstances
which do not
result in the
document
being a
“prospectus” as
defined in the
Companies
Ordinance
(iii) (Cap. 32) of
Hong Kong or
which do not
constitute an
offer to the
public within
the meaning of
that
Ordinance;
and

There is
no
advertisement,
invitation
or

document relating to the securities which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to securities which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules

made
under
that
Ordinance.

Non-insured
Product:
These
securities
are not
insured
by any
governmental
agency.
These
securities
are not
bank
deposits
and are
not
covered
by the
Hong
Kong
Deposit
Protection
Scheme.

Singapore

This
pricing
supplement
and the
accompanying
product
supplement,
underlying
supplement,
prospectus
supplement
and
prospectus
have not

been registered as a prospectus with the Monetary Authority of Singapore, and the securities will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the “Securities and Futures Act”). Accordingly, the securities may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this pricing supplement or any other document

or
material
in
connection
with the
offer or
sale or
invitation
for
subscription
or
purchase
of any
securities
be
circulated
or
distributed,
whether
directly
or
indirectly,
to any
person in
Singapore
other
than (a)
to an
institutional
investor
pursuant
to
Section
274 of
the
Securities
and
Futures
Act, (b)
to a
relevant
person
under
Section
275(1) of
the
Securities
and
Futures
Act or to
any

person
pursuant
to
Section
275(1A)
of the
Securities
and
Futures
Act and
in
accordance
with the
conditions
specified
in
Section
275 of

the
Securities
and
Futures
Act, or
(c)
otherwise
pursuant
to, and in
accordance
with the
conditions
of, any
other
applicable
provision
of the
Securities
and
Futures
Act.
Where
the
securities
are
subscribed
or
purchased
under
Section

275 of
the
Securities
and
Futures
Act by a
relevant
person
which is:

a
corporation
(which is
not an
accredited
investor (as
defined in
Section 4A
of the
Securities
and Futures
Act)) the
sole
(a) business of
which is to
hold
investments
and the
entire share
capital of
which is
owned by
one or more
individuals,
each of
whom is an
accredited
investor; or

(b) a trust
(where the
trustee is not
an accredited
investor)
whose sole
purpose is to
hold
investments

and each beneficiary is an individual who is an accredited investor, securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interests (howsoever described) in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the relevant securities pursuant to an offer under Section 275 of the Securities and Futures Act except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act or to any

person
arising from
an offer
referred to in
Section
275(1A) or
Section
276(4)(i)(B)
of the
Securities
and Futures
Act; or

where no
consideration
(ii) is or will be
given for the
transfer; or

where the
transfer is
(iii) by
operation
of law; or

pursuant
to Section
276(7) of
the
(iv) Securities
and
Futures
Act; or

as specified
in Regulation
32 of the
Securities
and Futures
(Offers of
(v) Investments)
(Shares and
Debentures)
Regulations
2005 of
Singapore.

Any securities referred to herein may not be registered with any regulator, regulatory body or similar organization or institution in any jurisdiction.

The securities are Specified Investment Products (as defined in the Notice on Recommendations on Investment Products and Notice on the Sale of Investment Product issued by the Monetary Authority of Singapore on 28 July 2011) that is neither

listed nor
quoted
on a
securities
market or
a futures
market.

Non-insured
Product:
These
securities
are not
insured
by any
governmental
agency.
These
securities
are not
bank
deposits.
These
securities
are not
insured
products
subject to
the
provisions
of the
Deposit
Insurance
and
Policy
Owners'
Protection
Schemes
Act 2011
of
Singapore
and are
not
eligible
for
deposit
insurance
coverage
under the

Deposit
Insurance
Scheme.

Prohibition
of Sales
to EEA
Retail
Investors

The
securities
may not
be
offered,
sold or
otherwise
made
available
to any
retail
investor
in the
European
Economic
Area.
For the
purposes
of this
provision:

the
expression
“retail
investor”
(a) means a
person
who is one
(or more)
of the
following:

(i) a retail client
as defined in

point (11) of
Article 4(1)
of Directive
2014/65/EU
(as
amended,
“MiFID II”);
or

a customer
within the
meaning of
Directive
2002/92/EC,
where that
customer
(ii) would not
qualify as a
professional
client as
defined in
point (10) of
Article 4(1)
of MiFID II;
or

April PS-12
2018

Citigroup
Global
Markets
Holdings
Inc.
Autocallable
Contingent
Coupon
Equity
Linked
Securities
Based on
the Worst
Performing
of the S&P
500® Index
and the
Russell
2000® Index
Due July 30,
2019

not a
qualified
investor as
(iii) defined in
Directive
2003/71/EC;
and

the expression
“offer” includes
the
communication
in any form and
by any means
of sufficient
information on
the terms of the
(b) offer and the
securities
offered so as to
enable an
investor to
decide to
purchase or
subscribe the
securities.

Validity
of the
Securities

In the
opinion
of Davis
Polk &
Wardwell
LLP, as
special
products
counsel
to
Citigroup
Global
Markets
Holdings
Inc.,
when the
securities
offered
by this
pricing
supplement
have
been
executed
and
issued by
Citigroup
Global
Markets
Holdings
Inc. and
authenticated
by the
trustee
pursuant
to the
indenture,
and
delivered
against
payment
therefor,
such

securities
and the
related
guarantee
of
Citigroup
Inc. will
be valid
and
binding
obligations
of
Citigroup
Global
Markets
Holdings
Inc. and
Citigroup
Inc.,
respectively,
enforceable
in
accordance
with their
respective
terms,
subject to
applicable
bankruptcy,
insolvency
and
similar
laws
affecting
creditors'
rights
generally,
concepts
of
reasonableness
and
equitable
principles
of
general
applicability
(including,
without
limitation,
concepts
of good

faith, fair dealing and the lack of bad faith), provided that such counsel expresses no opinion as to the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above. This opinion is given as of the date of this pricing supplement and is limited to the laws of the State of New York, except that such counsel expresses no opinion as to the application of state

securities
or Blue
Sky laws
to the
securities.

In giving
this
opinion,
Davis
Polk &
Wardwell
LLP has
assumed
the legal
conclusions
expressed
in the
opinions
set forth
below of
Scott L.
Flood,
General
Counsel
and
Secretary
of
Citigroup
Global
Markets
Holdings
Inc., and
Barbara
Politi,
Assistant
General
Counsel—Capital
Markets
of
Citigroup
Inc. In
addition,
this
opinion
is subject
to the
assumptions
set forth

in the
letter of
Davis
Polk &
Wardwell
LLP
dated
April 7,
2017,
which
has been
filed as
an
exhibit to
a Current
Report
on Form
8-K filed
by
Citigroup
Inc. on
April 7,
2017,
that the
indenture
has been
duly
authorized,
executed
and
delivered
by, and is
a valid,
binding
and
enforceable
agreement
of, the
trustee
and that
none of
the terms
of the
securities
nor the
issuance
and
delivery
of the
securities
and the

related
guarantee,
nor the
compliance
by
Citigroup
Global
Markets
Holdings
Inc. and
Citigroup
Inc. with
the terms
of the
securities
and the
related
guarantee
respectively,
will
result in
a
violation
of any
provision
of any
instrument
or
agreement
then
binding
upon
Citigroup
Global
Markets
Holdings
Inc. or
Citigroup
Inc., as
applicable,
or any
restriction
imposed
by any
court or
governmental
body
having
jurisdiction
over
Citigroup

Global
Markets
Holdings
Inc. or
Citigroup
Inc., as
applicable.

In the
opinion
of Scott
L. Flood,
Secretary
and
General
Counsel
of
Citigroup
Global
Markets
Holdings
Inc., (i)
the terms
of the
securities
offered
by this
pricing
supplement
have
been duly
established
under the
indenture
and the
Board of
Directors
(or a duly
authorized
committee
thereof)
of
Citigroup
Global
Markets
Holdings
Inc. has
duly
authorized

the
issuance
and sale
of such
securities
and such
authorization
has not
been
modified
or
rescinded;
(ii)
Citigroup
Global
Markets
Holdings
Inc. is
validly
existing
and in
good
standing
under the
laws of
the State
of New
York;
(iii) the
indenture
has been
duly
authorized,
executed
and
delivered
by
Citigroup
Global
Markets
Holdings
Inc.; and
(iv) the
execution
and
delivery
of such
indenture
and of
the
securities

offered
by this
pricing
supplement
by
Citigroup
Global
Markets
Holdings
Inc., and
the
performance
by
Citigroup
Global
Markets
Holdings
Inc. of its
obligations
thereunder,
are
within its
corporate
powers
and do
not
contravene
its
certificate
of
incorporation
or bylaws
or other
constitutive
documents.
This
opinion
is given
as of the
date of
this
pricing
supplement
and is
limited to
the laws
of the
State of
New
York.

Scott L. Flood, or other internal attorneys with whom he has consulted, has examined and is familiar with originals, or copies certified or otherwise identified to his satisfaction, of such corporate records of Citigroup Global Markets Holdings Inc., certificates or documents as he has deemed appropriate as a basis for the opinions expressed above. In such examination, he or such persons has assumed

the legal
capacity
of all
natural
persons,
the
genuineness
of all
signatures
(other
than
those of
officers
of
Citigroup
Global
Markets
Holdings
Inc.), the
authenticity
of all
documents
submitted
to him or
such
persons
as
originals,
the
conformity
to
original
documents
of all
documents
submitted
to him or
such
persons
as
certified
or
photostatic
copies
and the
authenticity
of the
originals
of such
copies.

In the
opinion
of
Barbara
Politi,
Assistant
General
Counsel—Capital
Markets
of
Citigroup
Inc., (i)
the Board
of
Directors
(or a duly
authorized
committee
thereof)
of
Citigroup
Inc. has
duly
authorized
the
guarantee
of such
securities
by
Citigroup
Inc. and
such
authorization
has not
been
modified
or
rescinded;
(ii)
Citigroup
Inc. is
validly
existing
and in
good
standing
under the
laws of
the State

of
Delaware;
(iii) the
indenture
has been
duly
authorized,
executed
and
delivered
by
Citigroup
Inc.; and
(iv) the
execution
and
delivery
of such
indenture,
and the
performance
by
Citigroup
Inc. of its
obligations
thereunder,
are
within its
corporate
powers
and do
not
contravene
its
certificate
of
incorporation
or bylaws
or other
constitutive
documents.
This
opinion
is given
as of the
date of
this
pricing
supplement
and is
limited to

the
General
Corporation
Law of
the State
of
Delaware.

Barbara
Politi, or
other
internal
attorneys
with
whom
she has
consulted,
has
examined
and is
familiar
with
originals,
or copies
certified
or
otherwise
identified
to her
satisfaction,
of such
corporate
records
of
Citigroup
Inc.,
certificates
or
documents
as she
has
deemed
appropriate
as a basis
for the
opinions
expressed
above. In
such

examination,
she or
such
persons
has
assumed
the legal
capacity
of all
natural
persons,
the
genuineness
of all
signatures
(other
than
those of
officers
of
Citigroup
Inc.), the
authenticity
of all
documents
submitted
to her or
such
persons
as
originals,
the
conformity
to
original
documents
of all
documents
submitted
to her or
such
persons
as
certified
or
photostatic
copies
and the
authenticity
of the
originals

of such
copies.

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may
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(212)
723-7005.

April PS-13
2018

Citigroup
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Coupon
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Based on
the Worst
Performing
of the S&P
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