

THORATEC CORP
Form 10-Q
May 03, 2013
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UNITED STATES
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 30, 2013

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 NUMBER: 000-49798

THORATEC CORPORATION

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(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of incorporation
or organization)

94-2340464

(I.R.S. Employer Identification No.)

6035 Stoneridge Drive, Pleasanton, California

(Address of principal executive offices)

94588

(Zip Code)

(925) 847-8600

(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 o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 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 o No x

As of April 27, 2013, the registrant had 57,330,393 shares of common stock outstanding.

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THORATEC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands)

	March 30, 2013	December 29, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 91,459	\$ 101,322
Short-term available-for-sale investments	160,505	148,426
Receivables, net of allowances of \$2,204 and \$2,127, respectively	67,202	70,471
Inventories	57,263	47,100
Deferred tax assets	10,626	10,626
Income tax receivable	15,192	11,950
Prepaid expenses and other assets	9,164	7,162
Total current assets	411,411	397,057
Property, plant and equipment, net	47,338	45,892
Goodwill	191,138	194,182
Purchased intangible assets, net	30,710	33,571
Long-term available-for-sale investments	10,092	10,607
Other long-term assets	17,571	17,055
Total Assets	\$ 708,260	\$ 698,364
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 22,881	\$ 19,959
Accrued compensation	17,611	25,409
Contingent liabilities, current portion	6,138	4,220
Other accrued liabilities	16,692	19,098
Total current liabilities	63,322	68,686
Long-term deferred tax liability	2,006	2,780
Other long-term liabilities	14,033	12,323
Contingent liabilities, non-current portion	11,694	17,832
Total Liabilities	91,055	101,621
Shareholders' equity:		
Common shares: no par, authorized 100,000; issued and outstanding 57,317 and 57,584 as of March 30, 2013 and December 29, 2012, respectively		
Additional paid-in capital	597,593	577,448
Retained earnings	36,751	34,364

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Accumulated other comprehensive loss:				
Unrealized loss on investments		(923)		(1,141)
Cumulative translation adjustments		(16,216)		(13,928)
Total accumulated other comprehensive loss		(17,139)		(15,069)
Total Shareholders' Equity		617,205		596,743
Total Liabilities and Shareholders' Equity	\$	708,260	\$	698,364

See notes to the unaudited condensed consolidated financial statements.

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THORATEC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except per share data)

	Three Months Ended	
	March 30, 2013	March 31, 2012
Product sales	\$ 117,725	\$ 126,769
Cost of product sales	35,073	38,887
Gross profit	82,652	87,882
Operating expenses:		
Selling, general and administrative	34,745	31,201
Research and development	24,513	19,696
Total operating expenses	59,258	50,897
Income from operations	23,394	36,985
Other income and (expense):		
Interest expense and other	(4)	(3)
Interest income and other	1,117	734
Income before income taxes	24,507	37,716
Income tax expense	6,337	12,230
Net income	\$ 18,170	\$ 25,486
Net Income per share:		
Basic	\$ 0.32	\$ 0.44
Diluted	\$ 0.31	\$ 0.43
Shares used to compute net income per share:		
Basic	57,486	58,438
Diluted	58,507	59,382

See notes to the unaudited condensed consolidated financial statements.

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THORATEC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(in thousands)

	Three Months Ended	
	March 30, 2013	March 31, 2012
Net Income	\$ 18,170	\$ 25,486
Unrealized gains on investments (net of taxes of \$146 and \$16 for the three months ended March 30, 2013 and March 31, 2012, respectively)	218	27
Foreign currency translation adjustments	(2,288)	1,631
Total other comprehensive income (loss)	(2,070)	1,658
Comprehensive Income	\$ 16,100	\$ 27,144

See notes to the unaudited condensed consolidated financial statements.

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THORATEC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Three Months Ended	
	March 30, 2013	March 31, 2012
Cash flows from operating activities:		
Net Income	\$ 18,170	\$ 25,486
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,495	4,852
Investment premium amortization, net	821	493
Allowance for bad debt	8	(42)
Non-cash interest income and other	380	(361)
Tax benefit related to stock options	1,293	1,552
Share-based compensation expense	6,167	4,899
Excess tax benefits from share-based compensation	(1,271)	(1,468)
Loss on disposal of assets	57	1
Change in net deferred tax liability	(737)	(824)
Changes in assets and liabilities:		
Receivables	2,781	(10,532)
Inventories	(11,071)	7,542
Other current and non-current assets	(261)	(1,100)
Accounts payable	3,865	(610)
Income taxes, net	(1,913)	9,314
Other current and non-current liabilities	(9,288)	2,054
Net cash provided by operating activities	13,496	41,256
Cash flows from investing activities:		
Purchases of available-for-sale investments	(48,708)	(56,388)
Sales and maturities of available-for-sale investments	36,243	62,195
Purchases of property, plant and equipment	(3,883)	(1,558)
Net cash provided by (used in) investing activities	(16,348)	4,249
Cash flows from financing activities:		
Payment of contingent consideration	(4,220)	(1,518)
Proceeds from stock option exercises	2,512	3,050
Excess tax benefits from share-based compensation	1,271	1,468
Repurchase and retirement of common shares	(5,802)	(4,736)
Net cash used in financing activities	(6,239)	(1,736)
Effect of exchange rate changes on cash and cash equivalents	(772)	449
Net increase/(decrease) in cash and cash equivalents	(9,863)	44,218
Net cash and cash equivalents at beginning of period	101,322	42,661
Net cash and cash equivalents at end of period	\$ 91,459	\$ 86,879
Supplemental disclosure of consolidated cash flow information:		
Cash paid for taxes	\$ 7,660	\$ 2,222

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Supplemental disclosure of consolidated non-cash investing and financing activities:			
Transfers of equipment from inventory	\$	594	\$ 246
Purchases of property, plant and equipment through accounts payable and accrued liabilities	\$	445	\$ 132

See notes to the unaudited condensed consolidated financial statements.

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THORATEC CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1. Operations and Significant Accounting Policies

Basis of Presentation

The interim unaudited condensed consolidated financial statements of Thoratec Corporation (we, our, us, or the Company) have been prepared and presented in accordance with accounting principles generally accepted in the United States of America (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC), without audit, and reflect all adjustments necessary (consisting only of normal recurring adjustments) to present fairly our financial position, results of operations and cash flows as of and for the periods presented. Certain information and footnote disclosures normally included in our annual financial statements, prepared in accordance with GAAP, have been condensed or omitted. The accompanying financial statements should be read in conjunction with our fiscal 2012 consolidated financial statements, and the accompanying notes thereto, filed with the SEC in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012 (the 2012 Annual Report). The operating results for any interim period are not necessarily indicative of the results that may be expected for any future period.

The preparation of our unaudited condensed consolidated financial statements necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the unaudited condensed consolidated balance sheet dates and the reported amounts of revenues and expenses for the periods presented. The actual amounts could differ from those estimated amounts.

New Accounting Standards Adopted

In February 2013, the Financial Accounting Standards Board (FASB) amended existing rules to improve how issuers report the reclassification of items out of accumulated other comprehensive income (AOCI). Specifically, the amendments address (i) changes in the AOCI balances by component and (ii) significant items reclassified out of AOCI during the period, if any. The new guidance does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. We adopted this standard in the first quarter of 2013 and it did not have an impact on our condensed consolidated financial statements but did expand our disclosures related to AOCI activities during the period. Refer to Note 4 for these new disclosures.

Note 2. Fair Value Measurements

Our financial assets and liabilities carried at fair value are primarily comprised of investments in money market funds, certificates of deposit, municipal and corporate bonds, commercial paper, variable demand notes, auction rate securities, derivative contracts, certain investments held as assets under the deferred compensation plan, marketable equity securities, and the contingent consideration. The fair value accounting guidance requires that assets and liabilities be carried at fair value and classified in one of the following three categories:

Level 1: Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data such as quoted prices, interest rates and yield curves

Level 3: Inputs that are unobservable data points that are not corroborated by market data

We review the fair value hierarchy classification on a quarterly basis. Changes in the ability to observe valuation inputs may result in a reclassification of levels of certain securities within the fair value hierarchy. We recognize transfers into and out of levels within the fair value hierarchy in the period in which the actual event or change in circumstances that caused the transfer occurs. There were no transfers between Level 1, Level 2, and Level 3 during either the first quarter of 2013 or first quarter of 2012.

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The following table represents the fair value hierarchy for our financial assets and financial liabilities measured at fair value on a recurring basis:

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
As of March 30, 2013:				
Cash equivalents:				
Money market funds	\$ 50,675	\$ 50,675	\$	\$
Commercial paper	12,999		12,999	
Municipal bonds	11,916		11,916	
Short-term investments:				
Municipal bonds	137,690		137,690	
Variable demand notes	7,700		7,700	
Corporate bonds	5,819		5,819	
Commercial paper	7,296		7,296	
Certificate of deposit	2,000		2,000	
Prepaid expenses and other assets:				
Foreign exchange contracts	2,071		2,071	
Long-term investments:				
Auction rate securities	10,092			10,092
Other long-term assets:				
Investments included in our deferred compensation plan				
	2,322		2,322	
Marketable equity securities	2,615	2,615		
Other accrued liabilities				
Foreign exchange contracts	262		262	
Contingent consideration (current and long-term portions)	\$ 17,832	\$	\$	\$ 17,832

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
As of December 29, 2012:				
Cash equivalents:				
Money market funds	\$ 59,230	\$ 59,230	\$	\$
Commercial paper	4,998		4,998	
Municipal bonds	3,045		3,045	
Corporate bonds	380		380	
Short-term investments:				
Municipal bonds	107,533		107,533	
Variable demand notes	21,330		21,330	
Corporate bonds	12,258		12,258	
Commercial paper	5,299		5,299	
Certificate of deposit	2,006		2,006	
Prepaid expenses and other assets:				
Foreign exchange contracts	16		16	
Long-term investments:				
Auction rate securities	10,607			10,607

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Other long-term assets:						
Investments included in our deferred compensation plan		1,731			1,731	
Marketable equity securities		2,602		2,602		
Other accrued liabilities						
Foreign exchange contracts		380			380	
Contingent consideration (current and long-term portions)	\$	22,052	\$	\$	\$	22,052

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Financial assets and liabilities are considered Level 2 when their fair values are determined using inputs that are observable in the market or can be derived principally from or corroborated by observable market data such as pricing for similar securities, recently executed transactions, cash flow models with yield curves, and benchmark securities. Our Level 2 financial assets and liabilities include short-term investments, foreign exchange instruments and certain of our deferred compensation plan securities. In addition, Level 2 financial instruments are valued using comparisons to like-kind financial instruments and models that use readily observable market data as their basis.

Financial assets and liabilities are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies, or similar techniques, and at least one significant model assumption or input is unobservable. Level 3 financial assets and liabilities include the following:

- Auction rate securities** Due to limited market activity the determination of fair value requires significant judgment or estimation. The auction rate securities were valued using a discounted cash-flow model over a five-year period based on estimated interest rates, the present value of future principal payments, and interest payments discounted at rates considered to reflect the current market conditions and the credit quality of auction rate securities.
- Contingent consideration** The fair value of the contingent consideration in connection with the acquisition of the medical business of Levitronix LLC (Levitronix Medical) in August 2011 requires significant management judgment or estimation and is calculated using the income approach, utilizing various revenue assumptions and applying a probability to each outcome. By applying this method, the estimated undiscounted range of outcomes was from \$9.7 million to \$37.4 million. The fair value of the contingent consideration as of the acquisition date was estimated and recorded at \$23.6 million. The fair value of the contingent consideration is remeasured at the estimated fair value at each reporting period with the change in fair value recorded within operating expense within our consolidated statements of operations. Actual amounts paid may differ from the obligations recorded. In first quarters of 2013 and 2012, we paid \$4.2 million and \$1.5 million, respectively, of the contingent consideration. As of March 30, 2013, the estimated fair value of the remaining contingent consideration was \$17.8 million.

Available-for-sale investments are carried at fair value and are included in the tables above under short- and long-term investments. The aggregate market value, amortized cost basis and gross unrealized gains and losses of available-for-sale investments by major security type were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
As of March 30, 2013:				
Short-term investments:				
Municipal bonds	\$ 137,502	\$ 198	\$ (10)	\$ 137,690
Variable demand notes	7,700			7,700
Corporate bonds	5,805	14		5,819
Commercial paper	7,296			7,296
Certificate of deposit	2,000			2,000
Total short-term investments	\$ 160,303	\$ 212	\$ (10)	\$ 160,505
Long-term investments:				