

MASIMO CORP
Form 424B4
August 08, 2007
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Filed pursuant to Rule 424(b)(4)
Registration No. 333-142171

11,916,626 Shares

MASIMO CORPORATION

Common Stock

\$17.00 per share

- Masimo Corporation and the selling stockholders are offering 11,916,626 shares of common stock, of which the selling stockholders are offering 10,416,626 shares.
- Trading symbol: NASDAQ Global Market MASI.
- This is our initial public offering and no public market currently exists for our shares.

This investment involves risks. See [Risk Factors](#) beginning on page 10.

	Per Share	Total
Initial public offering price	\$ 17.00	\$ 202,582,642
Underwriting discount	\$ 1.19	\$ 14,180,785
Proceeds, before expenses, to Masimo Corporation	\$ 15.81	\$ 23,715,000
Proceeds, before expenses, to selling stockholders	\$ 15.81	\$ 164,686,857

We have granted the underwriters a 30-day option to purchase up to 1,787,494 additional shares of our common stock at the initial public offering price, less the underwriting discount, to cover over-allotments, if any. We will not receive any proceeds from the sale of common stock by the selling stockholders.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Piper Jaffray

Deutsche Bank Securities

Citi

Cowen and Company

Thomas Weisel Partners LLC

The date of this prospectus is August 7, 2007.

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We have not authorized anyone to provide you with information different from that contained in this prospectus and any free writing prospectus authorized by us. We and the selling stockholders are offering the securities for sale in those jurisdictions in the United States, Europe and elsewhere where it is lawful to make such offers. The distribution or possession of this prospectus or any free writing prospectus in or from certain jurisdictions may be restricted by law. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted or where the person making the offer or sale is not qualified to do so or to any person to whom it is not permitted to make such offer or sale. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

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SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary provides an overview of selected information and does not contain all of the information you should consider before investing in our common stock. You should read carefully the entire prospectus, including Risk Factors and the financial statements and related notes, before making an investment decision. Unless the context indicates otherwise, the references in this prospectus to Masimo, we, us and our refer to Masimo Corporation, together with its subsidiaries.

Our Business

We are a global medical technology company that develops, manufactures and markets non-invasive patient monitoring products that improve patient care. We invented Masimo Signal Extraction Technology, or Masimo SET, which provides the capabilities of Read-Through Motion and Low Perfusion pulse oximetry to address the primary limitations of conventional pulse oximetry. Pulse oximetry is the non-invasive measurement of the oxygen saturation level of arterial blood, or the blood that delivers oxygen to the body's tissues, and pulse rate. Our Masimo SET platform has significantly addressed many of the previous technology limitations. The benefits of Masimo SET have been validated in over 100 independent clinical and laboratory studies. During 2006, we generated product revenue of \$155.1 million and we increased our product revenue at a compound annual growth rate, or CAGR, of approximately 41.6% for the four years ended December 31, 2006. We were profitable in 2005 and 2006, but prior to 2005, we had a history of net losses.

We develop, manufacture and market a family of patient monitoring solutions which incorporate a monitor or circuit board and consumables, including both proprietary single-patient use and reusable sensors and cables. In addition, we offer a remote-alarm/monitoring solution, software and other accessories. We sell our solutions and related products to end-users through our direct sales force and certain distributors, and certain of our products to original equipment manufacturer, or OEM, partners, for incorporation into their products. We estimate that our worldwide installed base of pulse oximeters and OEM monitors that incorporate Masimo SET was approximately 399,000 units as of March 31, 2007. Based on industry reports, we estimate that the worldwide pulse oximetry market is over \$900 million, the largest component of which is the sale of consumables.

We believe that the reliability and accuracy of our Masimo SET platform, along with our remote-alarm and monitoring solutions, will facilitate the expansion of our pulse oximetry products into areas beyond critical care settings, including the general care areas of the hospital. Additionally, we have recently developed products that non-invasively monitor parameters beyond arterial blood oxygen saturation level and pulse rate. In 2005, we launched our Masimo Rainbow SET platform utilizing licensed Rainbow technology, which we believe includes the first and only devices cleared by the U.S. Food and Drug Administration, or FDA, to non-invasively measure carboxyhemoglobin, or carbon monoxide levels in the blood, and methemoglobin saturation levels in the blood. We believe that the use of products incorporating Rainbow technology will become widely adopted for the non-invasive monitoring of these parameters. In addition, we believe that we will develop and introduce new products to monitor additional parameters in the future based on our proprietary technology platforms.

The Masimo Solution

Our innovative and proprietary technologies and products are designed to overcome the primary limitations of pulse oximetry, which involve maintaining accuracy in the presence of motion artifact, or patient movement, and low perfusion, or low arterial blood flow. We overcame these limitations through our read-through motion and low perfusion pulse oximetry technology. Our Masimo SET platform,

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which became available to hospitals in the United States in 1998, is the basis of our pulse oximetry products, and we believe it represented the first significant technological advancement in pulse oximetry since its introduction in the early 1980s. Our products have gained significant acceptance in the market due to their ability to provide clinicians with reliable, continuous, real-time information even in the presence of both motion artifact and low perfusion.

To complement our Masimo SET platform, we have developed a wide range of proprietary single-patient use and reusable sensors, cables and other accessories designed specifically to work with Masimo SET software and hardware. Although our technology platforms operate solely with our proprietary sensor lines, our sensors have the capability to work with certain competitive pulse oximetry monitors through the use of our adapter cables. Our proprietary Low Noise Optical Probe, or LNOP, neonatal sensors have been clinically proven to exhibit greater durability compared to competitive products.

In 2005, we introduced our Masimo Rainbow SET platform, leveraging Masimo Signal Extraction Technology and incorporating licensed Rainbow technology to enable reliable, real-time monitoring of additional parameters beyond arterial blood oxygen saturation and pulse rate. The Masimo Rainbow SET platform has the unique ability to distinguish oxygenated hemoglobins, or hemoglobins carrying oxygen, from certain dyshemoglobins, or hemoglobins incapable of transporting oxygen, and allows for the rapid, non-invasive monitoring of carboxyhemoglobin and methemoglobin, which we refer to as Pulse CO-Oximetry. High levels of carboxyhemoglobin are indicative of carbon monoxide poisoning, which requires quick treatment to prevent long-term organ damage or death. Methemoglobin is another form of hemoglobin that is unable to carry oxygen to tissues throughout the body, and elevated levels can cause cyanosis, or bluish discoloration of the skin. This condition can also cause organ damage and, in extreme cases, death. Along with the release of our Masimo Rainbow SET Pulse CO-Oximetry products, we have developed specialized sensors that have the ability to monitor multiple parameters with a single sensor. We believe that the use of Masimo Rainbow SET Pulse CO-Oximetry products will become widely adopted for the non-invasive monitoring of these parameters.

Benefits of Our Products and Technology

We believe that our technology and products offer several key benefits, including:

Accurate, Real-Time Measurement.

Increased Quality of Patient Care.

Reduced Cost of Care.

Masimo SET Platform Allows for Expansion into Non-Critical Care Settings.

Upgradeable Platform for the Monitoring of Additional Parameters.

Our Strategy

Since inception, our mission has been to develop non-invasive patient monitoring solutions that improve patient outcomes and reduce the cost of patient care. We intend to continue to grow our business and to improve our market position by pursuing the following strategies:

Continue to expand our market share in pulse oximetry.

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Expand the pulse oximetry market to other patient care settings.

Utilize our customer base and OEM relationships to market our Masimo Rainbow SET Pulse CO-Oximetry products incorporating licensed Rainbow technology.

Continue to innovate and maintain our technology leadership position.

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Nellcor Patent Litigation Settlement

In October 1999, we filed a patent infringement lawsuit in the United States District Court for the Central District of California against Mallinckrodt, Inc., now part of Covidien Ltd. (formerly Tyco Healthcare), and one of its subsidiaries, Nellcor Puritan Bennett, Inc., collectively referred to as Nellcor. Nellcor is one of the largest manufacturers and distributors of pulse oximetry products in the world. The lawsuit was filed for infringement of our pulse oximetry signal processing patents. Nellcor denied our claims and made counterclaims alleging infringement of its patents by us. This lawsuit resulted in a jury verdict that Nellcor had infringed several of our patents. In September 2005, the U.S. Federal Court of Appeals ruled that Nellcor infringed several Masimo patents and ordered the lower court to enjoin Nellcor's infringing products. Prior to the issuance of a permanent injunction, Nellcor entered into a settlement agreement with us on January 17, 2006, under which we agreed to settle all pending patent litigation with Nellcor. In return, Nellcor agreed to pay us \$263.0 million for damages incurred through January 2006. We granted Nellcor a covenant not to sue on certain new products and Nellcor agreed to pay us royalties on its total U.S. pulse oximetry revenue at least through March 14, 2011. In addition, in January 2006, Nellcor made an advance royalty payment to us of \$67.5 million for estimated sales of its products in the United States during the remainder of the calendar year 2006. Through December 31, 2006, we have received \$330.5 million in cash from Nellcor pursuant to the settlement agreement.

We believe the result of this judgment was to strengthen the patents on which we prevailed, which included some patents supporting our Masimo SET platform. We intend to continue protecting our rights and pursuing additional infringement claims against other companies whose products we believe infringe our patents.

In March 2006 and February 2007, we declared dividends to holders of our common stock and preferred stock in the aggregate amount of approximately \$208.9 million. In addition, in March 2006 and March 2007, we made special bonus payments in the aggregate amount of \$11.7 million to our employees and directors who held vested stock options as of March 1, 2006. The funds used to pay these cash dividends and special bonus payments were made from the after-tax proceeds that we received from our patent infringement lawsuit against Nellcor and the interest on those proceeds.

We recorded the \$263.0 million lump sum payment as patent litigation proceeds in January 2006 and we recognized approximately \$68.8 million of royalty revenue in 2006. We recognize royalty revenue based on the estimated average royalty rate per the settlement agreement multiplied by our estimate of Nellcor's sales for each quarter. This estimate is adjusted when we receive the Nellcor royalty report, 60 days after the end of each quarter. Per our settlement agreement, the 2006 royalty rate will decline significantly and, as a result, we expect our future Nellcor royalties to be significantly below the levels recognized in 2006.

We do not intend to distribute any future royalties received from Nellcor under the settlement agreement to our stockholders or our option holders.

Masimo Laboratories, Inc.

Masimo Laboratories, Inc., or Masimo Labs, is an independent entity spun off from us to our stockholders in 1998. Joe E. Kiani and Jack Lasersohn, members of our board of directors, are also members of the board of directors of Masimo Labs. Joe E. Kiani, our Chairman and Chief Executive Officer, is also the Chairman and Chief Executive Officer of Masimo Labs. We are a party to a cross-licensing agreement with Masimo Labs, which was recently amended and restated effective January 1, 2007, or the Cross-Licensing Agreement, that governs each party's rights to certain of the intellectual property held by the two companies.

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Under the Cross-Licensing Agreement, we granted Masimo Labs an exclusive, perpetual and worldwide license, with sublicense rights to use all Masimo SET owned by us, including all improvements on this technology, for the measurement of non-vital signs parameters and to develop and sell devices incorporating Masimo SET for monitoring non-vital signs parameters in any product market in which a product is intended to be used by a patient or pharmacist rather than a professional medical caregiver, which we refer to as the Labs Market. We also granted Masimo Labs a non-exclusive, perpetual and worldwide license, with sublicense rights to use all Masimo SET for the measurement of vital signs in the Labs Market.

Vital signs parameters include peripheral venous oxygen saturation, arterial oxygen saturation, or SpO₂, mixed venous oxygen saturation, fetal oximetry, sudden infant death syndrome, electrocardiogram, or ECG, blood pressure (non-invasive blood pressure, invasive blood pressure and continuous non-invasive blood pressure), temperature, respiration rate, carbon dioxide, or CO₂, pulse rate, cardiac output, electroencephalogram, or EEG, perfusion index, depth of anesthesia, cerebral oximetry, tissue oximetry and/or electromyography, or EMG, and associated features derived from these parameters, such as 3-D alarms, Pleth Variability Index and other features. Non-vital signs parameters are body fluid constituents other than vital signs parameters, and include, but are not limited to, carbon monoxide, methemoglobin, blood glucose, total hemoglobin and bilirubin.

We exclusively license from Masimo Labs the right to make and distribute products in the professional medical caregiver markets, or the Masimo Market, that utilize Rainbow technology for the measurement of carbon monoxide, methemoglobin, fractional arterial oxygen saturation, and total hemoglobin, which includes hematocrit. To date, we have developed and commercially released devices that measure carbon monoxide and methemoglobin using licensed Rainbow technology. We also have the option to obtain the exclusive license to make and distribute products that utilize Rainbow technology for the measurement of other non-vital signs parameters, including blood glucose, in product markets where the product is intended to be used by a professional medical caregiver, which we refer to as the Masimo Market.

Risks Associated with Our Business

Our business is subject to numerous risks, as more fully described in the section entitled **Risk Factors** immediately following this prospectus summary. There are several risks associated with our business, such as:

We currently derive substantially all of our revenue from our Masimo SET platform and related products.

If the patents we own or license, or our other intellectual property rights, do not adequately protect our products, we may lose market share to our competitors and be unable to operate our business profitably.

If third parties claim that we infringe their intellectual property rights, we may incur liabilities and costs and may have to redesign or discontinue selling certain products.

Some of our products, including those based on licensed Rainbow technology, are in development or have been recently introduced into the market and may not achieve market acceptance, which could adversely affect our potential growth.

Our operating results are volatile and difficult to predict and, prior to 2005, we had a history of net losses. We may experience significant fluctuations in our quarterly results and we may not maintain our recent profitability in the future.

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Corporate Information

We were incorporated in California in May 1989 and reincorporated in Delaware in May 1996. Our executive offices are located at 40 Parker, Irvine, California 92618. Our telephone number at that address is (949) 297-7000 and our website is www.masimo.com. The information contained on, or that can be accessed through, our website is not incorporated by reference into this prospectus and should not be considered to be part of this prospectus.

Masimo, Rainbow, SET, Signal Extraction Technology, RAD, Rad-5, Rad-8, Rad-9, Rad-Link, LNCS, LNOP, DCI, FastSat, Signal I.Q., MS-3, MS-5, MS-7, DST, FST, Discrete Saturation Transform, SpCO, SPO2.COM, CleanShield, N . . . When You Need It Most, Improving Patient Outcome And Reducing Cost Of Care, Improving Patient Outcome And Reducing Cost Of Care. . . By Taking Non-Invasive Monitoring To New Sites And Applications, The Proof Is In The Performance, SensAid, Stethos, I Stethos, Androscope and Androsonix are our registered trademarks.

Pulse CO-Oximeter, Signal Extraction Pulse CO-Oximeter, RadNet, Patient SafetyNet, Personal Pulse Oximeter, SofTouch, Blue, R . . . PPO+, PVI, SafetyNetwork, SEPCO, SPAO2, SpHB, SpMET, SPVO2, NCT, BCM, MX-1, and Androfact, Androflo, Androlink are the subject of pending trademark applications owned by us.

RAD-57, Signal Extraction Pulse Oximeter and Improving Patient Outcomes And Reducing Cost Of Care By Making Non-Invasive Patient Monitoring Effective And Reliable And Taking It To New Sites And Applications are other of our trademarks.

We have also applied for or registered some of our trademarks in other jurisdictions, including Europe, Japan and other selected geographies.

All other trademarks, trade names and service marks appearing in this prospectus are the property of their respective owners.

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The Offering

Common stock offered by us	1,500,000 shares
Common stock offered by the selling stockholders	10,416,626 shares
Common stock to be outstanding after this offering	52,816,788 shares
Initial public offering price	\$17.00 per share
Use of proceeds	We expect to use approximately \$10.0 million of the net proceeds from this offering for capital expenditures and the placement of equipment, approximately \$5.0 million for sales and marketing activities, approximately \$5.0 million for research and development activities and the remaining amount for working capital and general corporate purposes. We will not receive any proceeds from the sale of common stock by the selling stockholders. See Use of Proceeds.

NASDAQ Global Market symbol

MASI

The number of shares of common stock to be outstanding upon completion of this offering is based on 51,316,788 shares of common stock outstanding as of June 30, 2007 which assumes the conversion of all outstanding shares of preferred stock into an aggregate of 34,612,503 shares of common stock, and excludes as of that date:

8,143,575 shares of common stock issuable upon exercise of outstanding options with a weighted average exercise price of \$6.12 per share, of which 3,605,943 options were vested;

2,661,642 shares of common stock reserved for awards available for future issuance under our current equity incentive plans; and

3,000,000 shares of our common stock reserved for future issuance under our 2007 Stock Incentive Plan, which will become effective in connection with this offering. Shares available for future issuance under our 2007 Stock Incentive Plan do not include shares that may become available for issuance pursuant to a provision in this plan that provides for the automatic annual increase in the number of shares reserved thereunder.

Unless otherwise indicated, the information in this prospectus assumes:

the conversion of all outstanding shares of preferred stock into 34,612,503 shares of common stock immediately prior to the closing of this offering;

no exercise of the underwriters' over-allotment option;

a three-for-one forward split of our common stock effected on June 25, 2007; and

the filing of our amended and restated certificate of incorporation, which will become effective at the closing of this offering.

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Summary Consolidated Financial Data

The following table presents summary consolidated historical and pro forma as adjusted financial data. We derived the summary statement of operations data for the years ended December 31, 2004, 2005 and 2006 and the summary balance sheet data as of December 31, 2006 from our audited consolidated financial statements and notes thereto included in this prospectus. We derived the summary statement of operations data for the three months ended March 31, 2006 and 2007 and the summary balance sheet data as of March 31, 2007 from our unaudited consolidated financial statements and notes thereto included in this prospectus. We have prepared this unaudited information on the same basis as the audited financial statements and have included all adjustments, consisting of normal recurring adjustments, that we consider necessary for a fair statement of our financial position and operating results for such periods. Our historical results are not necessarily indicative of the results that may be expected in the future. You should read this data together with our consolidated financial statements and the notes thereto, Selected Consolidated Financial Data, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this prospectus.

The pro forma basic and diluted net income per common share data in the statement of operations data for the year ended December 31, 2006 and the three months ended March 31, 2007, reflect the conversion of all of our outstanding shares of convertible preferred stock into 34,612,503 shares of common stock in connection with this offering.

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	Three months ended				
	Year ended December 31,			March 31,	
	2004	2005	2006	2006 (unaudited)	2007 (unaudited)
(in thousands, except share data)					
Statement of Operations Data⁽¹⁾:					
Revenue:					
Product	\$ 69,069	\$ 107,613	\$ 155,131	\$ 34,679	\$ 45,764
Royalty and license fee	288	277	69,207	14,627	13,190
Total revenue	69,357	107,890	224,338	49,306	58,954
Cost of goods sold	29,354	42,717	61,640	16,138	16,901
Gross profit	40,003	65,173	162,698	33,168	42,053
Operating expenses:					
Research and development	6,044	8,548	24,875	11,794	5,454
Selling, general and administrative	30,118	43,085	91,493	36,139	21,412
Patent litigation expenses (proceeds)	6,204	1,736	(262,605)	(262,665)	
Purchased in-process research and development		2,800			
Total operating expenses	42,366	56,169	(146,237)	(214,732)	26,866
Operating income (loss)	(2,363)	9,004	308,935	247,900	15,187
Non-operating income (expense):					
Interest income	107	224	6,741	2,659	355
Interest expense	(1,434)	(1,851)	(1,824)	(505)	(427)
Other	8	(8)	551	99	41
Total non-operating income (expense):	(1,319)	(1,635)	5,468	2,253	(31)
Income (loss) before provision for (benefit from) income taxes	(3,682)	7,369	314,403	250,153	15,156
Provision for (benefit from) income taxes	161	(26,012)	132,577	105,456	6,059
Net income (loss)	(3,843)	33,381	181,826	144,697	9,097
Preferred stock dividend			(77,785)	(58,571)	
Accretion of preferred stock	(8,477)	(8,278)	(7,985)	(2,117)	(1,956)
Undistributed income attributable to preferred stockholders		(19,599)	(34,275)	(34,783)	(4,828)
Net income (loss) attributable to common stockholders	\$ (12,320)	\$ 5,504	\$ 61,781	\$ 49,226	\$ 2,313