

CUTERA INC
Form 10-Q
August 06, 2012

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 June 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period _____ to _____.

Commission file number: 000-50644

Cutera, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

77-0492262
(I.R.S. employer identification no.)

3240 Bayshore Blvd., Brisbane, California 94005
(Address of principal executive offices)

(415) 657-5500
(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

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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 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 Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes No

The number of shares of Registrant's common stock issued and outstanding as of July 31, 2012 was 14,125,094.

CUTERA, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CUTERA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 30, 2012 (unaudited)	December 31, 2011 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 17,788	\$ 14,020
Marketable investments	62,794	74,666
Accounts receivable, net	6,203	5,193
Inventories	12,722	10,729
Deferred tax asset	52	55
Other current assets and prepaid expenses	1,443	1,432
Total current assets	101,002	106,095
Property and equipment, net	946	853
Long-term investments	840	3,027
Deferred tax asset, net of current portion	463	446
Intangibles, net	3,186	446
Goodwill	1,339	—
Other long-term assets	539	486
Total assets	\$ 108,315	\$ 111,353
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,199	\$ 2,573
Accrued liabilities	9,382	9,262
Deferred revenue	6,285	5,185
Total current liabilities	17,866	17,020
Deferred rent	1,400	1,448
Deferred revenue, net of current portion	905	840
Income tax liability	469	478
Total liabilities	20,640	19,786
Commitments and Contingencies (Note 12)		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value; authorized: 5,000,000 shares; none issued and outstanding	—	—
	14	14

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Common stock, \$0.001 par value; authorized: 50,000,000 shares; issued and outstanding: 14,124,678 and 13,948,395 shares at June 30, 2012 and December 31, 2011, respectively		
Additional paid-in capital	98,044	95,719
Accumulated deficit	(10,058)	(3,325)
Accumulated other comprehensive loss	(325)	(841)
Total stockholders' equity	87,675	91,567
Total liabilities and stockholders' equity	\$ 108,315	\$ 111,353

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

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CUTERA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net revenue:				
Products	\$ 15,156	\$ 11,301	\$ 27,010	\$ 19,594
Service	4,435	3,594	8,308	6,922
Total net revenue	19,591	14,895	35,318	26,516
Cost of revenue:				
Products	6,968	4,210	12,619	7,498
Service	2,306	2,266	4,500	4,202
Total cost of revenue	9,274	6,476	17,119	11,700
Gross profit	10,317	8,419	18,199	14,816
Operating expenses:				
Sales and marketing	7,112	6,348	14,549	12,294
Research and development	1,872	2,346	4,088	4,476
General and administrative	2,854	2,588	6,349	4,916
Total operating expenses	11,838	11,282	24,986	21,686
Loss from operations	(1,521)	(2,863)	(6,787)	(6,870)
Interest and other income, net	144	199	240	383
Loss before income taxes	(1,377)	(2,664)	(6,547)	(6,487)
Provision (benefit) for income taxes	89	(208)	186	(176)
Net loss	\$ (1,466)	\$ (2,456)	\$ (6,733)	\$ (6,311)
Net loss per share:				
Basic and Diluted	\$ (0.10)	\$ (0.18)	\$ (0.48)	\$ (0.46)
Weighted-average number of shares used in per share calculations:				
Basic and Diluted	14,095	13,765	14,027	13,716

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

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CUTERA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net loss	\$ (1,466)	\$ (2,456)	\$ (6,733)	\$ (6,311)
Other comprehensive income:				
Net change in unrealized gain on available-for-sale securities	373	510	536	690
Provision (benefit) for income taxes related to items of other comprehensive income	(17)	68	20	68
Other comprehensive income, net of tax	390	442	516	622
Comprehensive loss	\$ (1,076)	\$ (2,014)	\$ (6,217)	\$ (5,689)

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

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CUTERA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$ (6,733)	\$ (6,311)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	1,525	2,211
Tax benefit from stock-based compensation	—	16
Excess tax benefit related to stock-based compensation	—	(16)
Depreciation and amortization	768	319
Other	—	(35)
Changes in assets and liabilities:		
Accounts receivable	(1,057)	936
Inventories	(441)	(1,853)
Other current assets and prepaid expenses	503	1,439
Other long-term assets	(53)	—
Accounts payable	(374)	884
Accrued liabilities	(241)	675
Deferred rent	3	(6)
Deferred revenue	385	(548)
Income tax liability	(9)	17
Net cash used in operating activities	(5,724)	(2,272)
Cash flows from investing activities:		
Acquisition of property and equipment	(311)	(397)
Business acquisition	(5,091)	—
Proceeds from sales of marketable and long-term investments	17,795	10,441
Proceeds from maturities of marketable investments	19,835	28,436
Purchase of marketable investments	(23,536)	(32,125)
Net cash provided by investing activities	8,692	6,355
Cash flows from financing activities:		
Proceeds from exercise of stock options and employee stock purchase plan	800	865
Excess tax benefit related to stock-based compensation	—	16
Net cash provided by financing activities	800	881
Net increase in cash and cash equivalents	3,768	4,964
Cash and cash equivalents at beginning of period	14,020	12,519
Cash and cash equivalents at end of period	\$ 17,788	\$ 17,483

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

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CUTERA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Description of Operations and Principles of Consolidation.

Cutera, Inc. (Cutera or the Company) is a global provider of laser and light-based aesthetic systems for practitioners worldwide. The Company designs, develops, manufactures, and markets the CoolGlide, Xeo, Solera, GenesisPlus and ExcelV product platforms for use by physicians and other qualified practitioners to allow its customers to offer safe and effective aesthetic treatments to their customers. The Xeo and Solera platforms offer multiple hand pieces and applications, which allow customers to upgrade their systems (Upgrade revenue). In addition to systems and Upgrade revenue, the Company generates revenue from the sale of post warranty service contracts, providing services for products that are out of warranty, and Titan hand piece refills. In Japan the Company also distributes third party manufactured dermal fillers, cosmeceuticals and a Q-switched laser system called myQ.

In February 2012, the Company acquired the global aesthetic business unit of IRIDEX Corporation (or Iridex), which included various laser systems (such as the VariLite and Gemini) and an installed base of customers, whose products will be serviced by the Company.

Headquartered in Brisbane, California, the Company has wholly-owned subsidiaries in Australia, Canada, France, Japan, Spain, and the United Kingdom that market, sell and service its products outside of the United States. Effective March 31, 2012, the Company decided to discontinue its direct operations in Spain and the United Kingdom and instead plans on seeking a distributor to market its products in these countries. The Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries and all inter-company transactions and balances have been eliminated.

Unaudited Interim Financial Information

The financial information filed is unaudited. The Condensed Consolidated Financial Statements included in this report reflect all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for the fair statement of the results of operations for the interim periods covered and of the financial condition of the Company at the date of the interim balance sheet. The December 31, 2011 Condensed Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States of America (GAAP). The results for interim periods are not necessarily indicative of the results for the entire year or any other interim period. The Condensed Consolidated Financial Statements should be read in conjunction with the Company's financial statements and the notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission, or SEC, on March 15, 2012.

Use of Estimates

The preparation of interim Condensed Consolidated Financial Statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported and disclosed in the Condensed Consolidated Financial Statements and the accompanying notes. Actual results could differ materially from those estimates. On an ongoing basis, the Company evaluates these estimates, including those related to warranty obligation, sales commission, accounts receivable and sales allowances, provision for excess and obsolete inventories, fair values of marketable and long-term investments, fair values of acquired intangible assets, useful lives of intangible assets and property and equipment, recoverability of deferred tax assets, and effective income tax rates, among others. Management bases these estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets

and liabilities.

Note 2. Cash and Cash Equivalents, Marketable Securities and Long-Term Investments

The Company considers all highly liquid investments, with an original maturity of three months or less at the time of purchase, to be cash equivalents. Investments in debt securities are accounted for as “available-for-sale” securities, carried at fair value with unrealized gains and losses reported in other comprehensive loss, held for use in current operations and classified in current assets as “Marketable investments” and in long term assets as “Long-term investments.”

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The following tables summarize unrealized gains and losses related to our marketable investments and long-term investments, both designated as available-for-sale (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
June 30, 2012				
Cash and cash equivalents:				
Cash	\$ 2,244	\$ —	\$ —	2,244
Money market funds	12,919	—	—	12,919
Commercial paper	2,625	—	—	2,625
Total cash and cash equivalents	17,788	—	—	17,788
Marketable securities:				
U.S. government notes	1,600	2	—	1,602
U.S. government agencies	32,376	43	(4)	32,415
Municipal securities	5,733	38	(1)	5,770
Commercial paper	3,926	1	—	3,927
Corporate debt securities	19,072	21	(13)	19,080
Total marketable investments	62,707	105	(18)	62,794
Long-term investment in auction rate securities	1,200	—	(360)	840
Total cash, cash equivalents, marketable investments and long-term investments	\$ 81,695	\$ 105	\$ (378)	\$ 81,422
December 31, 2011				
Cash and cash equivalents:				
Cash	\$ 2,153	\$ —	\$ —	2,153
Money market funds	7,318	—	—	7,318
Commercial paper	4,549	—	—	4,549
Total cash and cash equivalents	14,020	—	—	14,020
Marketable securities:				
U.S. government notes	3,655	10	—	3,665
U.S. government agencies	41,535	44	(14)	41,565
Municipal securities	6,091	44	(1)	6,134
Commercial paper	4,747	1	(1)	4,747
Corporate debt securities	18,574	15	(34)	18,555
Total marketable investments	74,602	114	(50)	74,666
Long-term investment in auction rate securities	3,900			