CUTERA INC
Form 10-Q
May 02, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

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	77-0492262
(State or other jurisdiction of incorporation or organization)	(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 days. Yes x 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 x 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 x

The number of shares of Registrant's common stock issued and outstanding as of April 26, 2011 was 13,721,045.

CUTERA, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CUTERA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	March 31, 2011	December, 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$13,164	$12,519
Marketable investments	75,934	77,484
Accounts receivable, net	3,334	4,208
Inventories, net	7,268	6,448
Deferred tax asset	14	63
Other current assets and prepaid expenses	1,665	2,740
Total current assets	101,379	103,462
Property and equipment, net	668	597
Long-term investments	6,492	6,784
Intangibles, net	589	637
Deferred tax asset, net of current portion	321	325
Total assets	$109,449	$111,805
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$1,545	$1,296
Accrued liabilities	5,861	6,194
Deferred revenue	5,671	5,633
Total current liabilities	13,077	13,123
Deferred rent	1,478	1,501
Deferred revenue, net of current portion	1,045	1,287
Income tax liability	479	477
Total liabilities	16,079	16,388
Commitments and Contingencies (Note 8)		
Stockholders’ equity:		
Common stock	14	14
Additional paid-in capital	92,051	90,423
Retained earnings	2,881	6,736

Accumulated other comprehensive loss	(1,576)	(1,756)
Total stockholders’ equity	93,370	95,417
Total liabilities and stockholders’ equity	$109,449	$111,805

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 March 31, 2011	Three Months Ended March 31, 2010
Net revenue	$ 11,621	$ 13,749
Cost of revenue	5,224	5,829
Gross profit	6,397	7,920
Operating expenses:		
Sales and marketing	5,946	6,361
Research and development	2,130	1,454
General and administrative	2,328	2,242
Total operating expenses	10,404	10,057
Loss from operations	(4,007)	(2,137)
Interest and other income, net	184	166
Loss before income taxes	(3,823)	(1,971)
Provision for income taxes	32	47
Net loss	$ (3,855)	$ (2,018)
Net loss per share:		
Basic and Diluted	$ (0.28)	$ (0.15)
Weighted-average number of shares used in per share calculations:		
Basic and Diluted	13,667	13,438

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)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Cash flows from operating activities:		
Net loss	$(3,855)	$(2,018)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	886	828
Depreciation and amortization	157	194
Provision for excess and obsolete inventories	(45)	(23)
Provision for doubtful accounts receivable	(9)	(82)
Gain on sale of marketable investments, net	—	(43)
Change in deferred tax asset	53	(3)
Changes in assets and liabilities:		
Accounts receivable	883	(79)
Inventories	(775)	(522)
Other current assets and prepaid expenses	1,509	338
Accounts payable	249	817
Accrued liabilities	(353)	(1,760)
Deferred rent	(3)	(55)
Deferred revenue	(204)	(264)
Income tax liability	2	(20)
Net cash used in operating activities	(1,505)	(2,692)
Cash flows from investing activities:		
Acquisition of property and equipment	(180)	(95)
Proceeds from sales of marketable investments	4,241	14,990
Proceeds from maturities of marketable investments	12,125	14,125
Purchase of marketable investments	(14,778)	(26,712)
Net cash provided by investing activities	1,408	2,308
Cash flows from financing activities:		
Proceeds from exercise of stock options and employee stock purchase plan	742	74
Net cash provided by financing activities	742	74
Net increase/(decrease) in cash and cash equivalents	645	(310)
Cash and cash equivalents at beginning of period	12,519	22,829
Cash and cash equivalents at end of period	$13,164	$22,519

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

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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 Excel V 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, Titan hand piece refills, and dermal fillers and cosmeceuticals.

Headquartered in Brisbane, California, the Company has wholly-owned subsidiaries in Australia, Canada, France, Japan, Spain, Switzerland and United Kingdom that market, sell and service its products outside of the United States. The Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All inter-company transactions and balances have been eliminated.

Business Segment
In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 280 guidance on disclosures about segments of an enterprise and related information, operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. Our chief decision maker, as defined under the FASB’s ASC 280 guidance, is a combination of the Chief Executive Officer; and the Executive Vice President and Chief Financial Officer. To date, the Company has viewed its operations, managed its business, and used one measurement of profitability for the one operating segment – the sale of aesthetic medical equipment and services, and distribution of cosmeceuticals and dermal filler products, to qualified medical practitioners. In addition, substantially all of the Company’s long-lived assets are located in one facility in the United States. As a result, the financial information disclosed in the Company’s Condensed Consolidated Financial Statements represents all of the material financial information related to the Company’s operating segment.

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, 2010 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, 2010 filed with the Securities and Exchange Commission, or SEC, on March 15, 2011.

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.

Significant Accounting Policies

The Company's significant accounting policies are disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 15, 2011, and have not changed significantly as of March 31, 2011, except for the accounting standard on revenue recognition explained below.

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Revenue Recognition

The FASB amended the accounting standards for multiple deliverable revenue arrangements to:

- provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;
- require an entity to allocate revenue in an arrangement using estimated selling price (ESP) of deliverables if a vendor does not first have vendor-specific objective evidence (VSOE) of selling price or secondly does not have third-party evidence (TPE) of selling price; and
- eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

Multiple-element arrangements - A multiple-element arrangement includes the sale of one or more tangible product offerings with one or more associated services offerings, each of which are individually considered separate units of accounting. The determination of the Company's units of accounting did not change with the adoption of the new revenue recognition guidance and as such the Company allocates revenue to each element in a multiple-element arrangement based upon the relative selling price of each deliverable. When applying the relative selling price method, the Company determines the selling price for each deliverable using VSOE of selling price, if it exists, or TPE of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, the Company uses its best estimate of selling price for that deliverable. Revenue allocated to each element is then recognized when the other revenue recognition criteria are met for each element.

The above mentioned update was effective for the Company from January 1, 2011 and the Company elected to apply it prospectively to new or materially modified revenue arrangements after its effective date.

The above mentioned update did not have a material impact on the Company's financial position or results of operations for the quarter ended March 31, 2011 and does not change the units of accounting for its revenue transactions. The Company's assessment considered that the amounts recorded as revenue for delivered elements are limited to the amounts not contingent on the future delivery of products or services.

The new accounting guidance for revenue recognition is not expected to have a significant effect on revenue when applied to the Company's multiple element arrangements based on the existence of TPE of selling prices for the typical undelivered elements in most of the Company's product and service offerings.

The new accounting standard, if applied to the year ended December 31, 2010, would not have had a material impact on our revenue for that year.

Note 2. Balance Sheet Details

Cash and Cash Equivalents, Marketable Investments 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 cash, cash equivalents, marketable investments and long-term investments (in thousands):

	March 31, 2011	December 31, 2010
Cash and cash equivalents:		
Cash	$ 1,903	$ 1,989
Cash equivalents:		
Money market funds	9,261	8,330
Commercial paper	2,000	2,200
Total cash and cash equivalents	13,164	12,519
Marketable investments:		
U.S. government notes	3,669	2,070
U.S. government agencies	27,140	24,087
Municipal securities	9,659	15,011
Commercial Paper	8,991	11,465
Corporate debt securities	26,262	24,851
ARS	213	—
Total marketable investments	75,934	77,484
Long-term investments in ARS	6,492	6,784
Total cash, cash equivalents, marketable investments and long term investments	$ 95,590	$ 96,787

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

March 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Cash and cash equivalents	$ 13,164	$ —	$ —	$ 13,164
Marketable investments				
U.S. government notes	3,663	6	—	3,669