CUTERA INC
Form 10-Q
May 07, 2007
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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, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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 30, 2007 was 13,550,880

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CUTERA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	March 31, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 16,876	$ 11,800
Marketable investments	94,363	96,285
Accounts receivable, net	8,565	9,601
Inventories	6,516	5,220
Deferred tax asset	5,809	5,792
Other current assets	3,488	2,702
Total current assets	135,617	131,400
Property and equipment, net	1,212	1,029
Intangibles, net	1,398	1,446
Deferred tax asset, net of current portion	361	
Total assets	$ 138,588	$ 133,875
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 1,893	$ 2,212
Accrued liabilities	11,615	13,675
Deferred revenue	3,780	3,514
Total current liabilities	17,288	19,401
Deferred rent	1,478	1,424
Deferred revenue, net of current portion	3,192	3,258
Income tax liability	1,018	60
Total liabilities	22,976	24,143
Commitments and Contingencies (Note 8)		
Stockholders equity:		
Common stock	13	13
Additional paid-in capital	90,304	86,242
Deferred stock-based compensation	(190)	(331)
Retained earnings	25,530	23,866
Accumulated other comprehensive loss	(45)	(58)

Total stockholders equity	115,612	109,732
Total liabilities and stockholders equity	$ 138,588	$ 133,875

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, 2007	2006
Net revenue	$ 23,257	$ 20,757
Cost of revenue	7,781	5,811
Gross profit	15,476	14,946
Operating expenses:		
Sales and marketing	9,063	8,546
Research and development	1,747	1,307
General and administrative	3,018	4,375
Total operating expenses	13,828	14,228
Income from operations	1,648	718
Interest and other income, net	1,002	956
Income before income taxes	2,650	1,674
Provision for income taxes	895	567
Net income	$ 1,755	$ 1,107
Net income per share:		
Basic	$ 0.13	$ 0.09
Diluted	$ 0.12	$ 0.08
Weighted-average number of shares used in per share calculations:		
Basic	13,216	12,257
Diluted	14,629	14,174

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

CUTERA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31, 2007	2006
Cash flows from operating activities:		
Net income	$ 1,755	$ 1,107
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	226	199
Change in allowance for doubtful accounts	62	83
Provision for excess and obsolete inventories	18	
Change in deferred tax asset	60	22
Stock-based compensation	1,342	1,086
Tax benefit from stock options	710	1,006
Excess tax benefit related to stock-based compensation expense	(288)	(999)
Changes in assets and liabilities:		
Accounts receivable	974	(252)
Inventories	(1,314)	(1,439)
Other current assets	(786)	(212)
Accounts payable	(319)	1,035
Accrued liabilities	(1,605)	(258)
Deferred rent	54	82
Deferred revenue	200	652
Income tax liability	(26)	
Net cash provided by operating activities	1,063	2,112
Cash flows from investing activities:		
Acquisition of property and equipment	(341)	(114)
Acquisition of intangibles	(20)	
Proceeds from sales of marketable investments	15,149	439
Proceeds from maturities of marketable investments	7,630	18,688
Purchase of marketable investments, net	(20,844)	(24,989)
Net cash provided by (used in) investing activities	1,574	(5,976)
Cash flows from financing activities:		
Proceeds from exercise of stock options and employee stock purchase plan	2,151	556
Excess tax benefit related to stock-based compensation expense	288	999
Net cash provided by financing activities	2,439	1,555
Net increase (decrease) in cash and cash equivalents	5,076	(2,309)
Cash and cash equivalents at beginning of period	11,800	5,260
Cash and cash equivalents at end of period	$ 16,876	$ 2,951

Non-cash disclosure of cash flow information:		
Change in deferred stock-based compensation, net of terminations	$ (8)	$ (1,255)

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

Cutera Inc., or Cutera or the Company, is a Delaware corporation headquartered in Brisbane, California. The Company is a global provider of laser and other light-based aesthetic systems for practitioners worldwide. The Company, designs, develops, manufactures, markets and services the CoolGlide, Xeo and Solera platforms for use by dermatologists, plastic surgeons, gynecologists, primary care physicians, and other qualified practitioners to offer safe, effective and non-invasive aesthetic treatments to their customers. The Company has wholly-owned subsidiaries in Australia, Canada, France, Germany, Japan, Spain, Switzerland and United Kingdom. The purpose of these subsidiaries is to market, sell and service the Company s products outside of the United States.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Unaudited Interim Financial Information

The financial information furnished 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, 2006 Condensed Balance Sheet was derived from audited financial statements, but does not include all disclosure required by accounting principles generally accepted in the United States of America. 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, 2006 filed with the Securities and Exchange Commission, or SEC, on March 16, 2007.

Use of Estimates

The preparation of interim Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States requires the Company s management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from those estimates. On an ongoing basis, the Company evaluates their estimates, including those related to the accounts receivable and sales allowances, fair values of marketable investments, fair values of acquired intangible assets, useful lives of intangible assets and property and equipment, fair values of options to purchase the Company s common stock, recoverability of deferred tax assets, and effective income tax rates, among others. Management bases their 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, 2006 and have not changed significantly as of March 31, 2007, except for the following:

Accounting for Income Taxes

In July 2006, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, or FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with Statement of Financial Accounting Standards, or SFAS, No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted the provisions of FIN 48 effective January 1, 2007. Refer to Note 7 for further details of the impact of adoption.

Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities or SFAS No. 159, which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 also includes an amendment to SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, which applies to all entities with available-for-sale and trading securities. This statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company is currently assessing the potential impact of implementing this standard on its consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* or SFAS No. 157. This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosure about fair value measurements. This pronouncement applies under other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurement. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company will be required to adopt SFAS 157 in the quarter ended March 31, 2008. The Company is currently assessing the impact that SFAS 157 may have on its consolidated financial position, results of operations and cash flows.

Note 2. Balance Sheet Details

Cash, Cash Equivalents and Marketable 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 income, held for use in current operations and classified in current assets as Marketable Investments.

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The following is a summary of cash, cash equivalents and marketable investments:

March 31, 2007 (in thousands)	Amortized Cost	Gross Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and cash equivalents	$ 16,876	$	$	$ 16,876
Marketable investments	94,408		(45)	94,363
	$ 111,284	$	$ (45)	$ 111,239

December 31, 2006 (in thousands)	Amortized Cost	Gross Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and cash equivalents	$ 11,800	$	$	$ 11,800
Marketable investments	96,343		(58)	96,285
	$ 108,143	$	$ (58)	$ 108,085

Inventories:

Inventories consist of the following (in thousands):

	March 31, 2007	December 31, 2006
Raw materials	$ 3,881	$ 2,816
Finished goods	2,635	2,404
	$ 6,516	$ 5,220

Intangible Assets:

Intangible assets are principally comprised of a technology sublicense acquired in 2002; a patent sublicense acquired in 2006; and other intangibles. The components of intangible assets were as follows (in thousands):

	March 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patent sublicense	$ 1,218	$ 138	$ 1.080
Technology sublicense	538	261	277
Other intangibles	185	144	41
Total	$ 1,941	$ 543	$ 1,398

	December 31, 2006
	Gross