

CUTERA INC  
Form 10-Q  
May 02, 2016  
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended March 31, 2016

**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

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**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)**

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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 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 April 30, 2016 was 13,081,930.



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Table Of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CUTERA, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

(unaudited)

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$6,265	\$ 10,868
Marketable investments	38,184	37,539
Accounts receivable, net	11,168	11,669
Inventories	13,475	12,078
Other current assets and prepaid expenses	1,953	1,675
Total current assets	71,045	73,829
Property and equipment, net	1,428	1,473
Deferred tax asset	376	350
Intangibles, net	87	143
Goodwill	1,339	1,339
Other long-term assets	419	384
Total assets	\$74,694	\$ 77,518
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$2,570	\$ 1,959
Accrued liabilities	11,079	13,834
Deferred revenue	8,836	8,638
Total current liabilities	22,485	24,431
Deferred revenue, net of current portion	1,986	2,287
Income tax liability	127	182
Other long-term liabilities	507	584

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Total liabilities	25,105	27,484
Commitments and Contingencies (Note 10)		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value; authorized: 5,000,000 shares; none issued and outstanding	—	—
Common stock, \$0.001 par value; authorized: 50,000,000 shares; issued and outstanding: 13,076,642 and 12,980,807 shares at March 31, 2016 and December 31, 2015, respectively	13	13
Additional paid-in capital	81,319	79,782
Accumulated deficit	(31,723)	(29,672 )
Accumulated other comprehensive loss	(20 )	(89 )
Total stockholders' equity	49,589	50,034
Total liabilities and stockholders' equity	\$74,694	\$ 77,518

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

Table Of Contents**CUTERA, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share data)****(unaudited)**

	<b>Three Months Ended March 31, 2016      2015</b>	
Net revenue:		
Products	\$17,956	\$14,703
Service	4,467	4,368
Total net revenue	22,423	19,071
Cost of revenue:		
Products	7,648	7,309
Service	2,301	1,743
Total cost of revenue	9,949	9,052
Gross profit	12,474	10,019
Operating expenses:		
Sales and marketing	8,716	8,187
Research and development	2,709	2,445
General and administrative	3,220	2,989
Total operating expenses	14,645	13,621
Loss from operations	(2,171 )	(3,602 )
Interest and other income, net	144	8
Loss before income taxes	(2,027 )	(3,594 )
Provision for income taxes	24	50
Net loss	\$(2,051 )	\$(3,644 )
Net loss per share:		
Basic and Diluted	\$(0.16 )	\$(0.25 )
Weighted-average number of shares used in per share calculations:		
Basic and Diluted	13,010	14,611

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.





Table Of Contents**CUTERA, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(in thousands)****(unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Net loss	\$(2,051)	\$(3,644)
Other comprehensive loss:		
Available-for-sale investments		
Net change in unrealized gain (loss) on available-for-sale investments	69	33
Less: Reclassification adjustment for gains on investments recognized during the period	—	—
Net change in unrealized gain (loss) on available-for-sale investments	69	33
Tax benefit	—	12
Other comprehensive gain, net of tax	69	21
Comprehensive loss	\$(1,982)	\$(3,623)

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

Table Of Contents**CUTERA, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$(2,051 )	\$(3,644 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	1,332	961
Depreciation and amortization	240	327
Other	12	106
Changes in assets and liabilities:		
Accounts receivable	472	737
Inventories	(1,397 )	(867 )
Other current assets and prepaid expenses	(230 )	(15 )
Other long-term assets	(35 )	(1 )
Accounts payable	611	(228 )
Accrued liabilities	(2,758 )	(2,781 )
Other long-term liabilities	(82 )	(72 )
Deferred revenue	(103 )	(559 )
Income tax liability	(55 )	22
Net cash used in operating activities	(4,044 )	(6,014 )
<b>Cash flows from investing activities:</b>		
Acquisition of property, equipment and software	(97 )	(407 )
Proceeds from sales of marketable investments	1,800	5,376
Proceeds from maturities of marketable investments	3,975	12,180
Purchase of marketable investments	(6,399 )	(8,867 )
Net cash provided by (used in) investing activities	(721 )	8,282
<b>Cash flows from financing activities:</b>		
Repurchase of common stock	(279 )	(4,550 )
Proceeds from exercise of stock options and employee stock purchase plan	511	6,002
Payments on capital lease obligations	(70 )	(61 )
Net cash provided by financing activities	162	1,391

Net increase (decrease) in cash and cash equivalents	(4,603 )	3,659
Cash and cash equivalents at beginning of period	10,868	9,803
Cash and cash equivalents at end of period	\$6,265	\$13,462

**Supplemental disclosure of non-cash items:**

Repurchase of common stock acquired but not settled	\$27	\$656
Assets acquired under capital lease	\$51	\$—

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 other energy-based aesthetic systems for practitioners worldwide. The Company designs, develops, manufactures, and markets laser and other energy-based product platforms for use by physicians and other qualified practitioners which enable them to offer safe and effective aesthetic treatments to their customers. The Company currently markets the following key system platforms: *enlighten*<sup>TM</sup>, *excel HR*<sup>TM</sup>, *truSculpt*<sup>TM</sup>, *excel V*<sup>TM</sup>, and *xeo*<sup>®</sup>. The Company’s systems offer multiple hand pieces and applications, which allow customers to upgrade their systems. The sales of systems, system upgrades, hand pieces, hand piece refills (applicable to *Titan*<sup>®</sup> and *truSculpt*) and the distribution of third party manufactured skincare products are classified as “Products” revenue. In addition to Products revenue, the Company generates revenue from the sale of post-warranty service contracts, parts, detachable hand piece replacements (except for *Titan* and *truSculpt*) and service labor for the repair and maintenance of products that are out of warranty, all of which is classified as “Service” revenue.

Headquartered in Brisbane, California, the Company has wholly-owned subsidiaries that are currently operational in Australia, Belgium, Canada, France, Hong Kong, Japan, Spain, Switzerland and the United Kingdom. These subsidiaries market, sell and service the Company’s 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.

*Unaudited Interim Financial Information*

The interim 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, 2015 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 previously filed audited financial statements and the notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission (the "SEC") on March 15, 2016.

### *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 revenue elements, warranty obligations, sales commissions, accounts receivable and sales allowances, provision for excess and obsolete inventories, fair values of marketable investments, fair values of acquired intangible assets, useful lives of intangible assets and property and equipment, fair values of performance stock units and options to purchase the Company's stock, recoverability of deferred tax assets, legal matters and claims, 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.

### *Recent Accounting Pronouncements*

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, *Improvements to Employee Share-Based Payment Accounting* as part of its simplification initiative, which involves several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The changes required by this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is evaluating the impact the adoption of this standard will have on its Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This guidance requires that lease arrangements longer than twelve months result in a lessee recognizing a lease asset and liability. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of the updated guidance on its Consolidated Financial Statements.

Table Of Contents**Note 2. Cash, Cash Equivalents and Marketable Investments**

The Company invests its cash primarily in money market funds, commercial paper, corporate notes and bonds, municipal bonds, and debt securities issued by the U.S. government and its agencies. 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 with maturities of greater than three months at the time of purchase are accounted for as “available-for-sale,” are carried at fair value with unrealized gains and losses reported as a component of stockholders’ equity, are held for use in current operations and are classified in current assets as “marketable investments.”

The following tables summarize the components, and the unrealized gains and losses position, related to the Company’s cash, cash equivalents and marketable investments (in thousands):

<b>March 31, 2016</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Market Value</b>
Cash and cash equivalents:				
Cash	\$ 4,734	\$ —	\$ —	\$4,734
Money market funds	1,531	—	—	1,531
Commercial paper	—	—	—	—
Total cash and cash equivalents	6,265	—	—	6,265
Marketable investments:				
U.S. government notes	10,400	18	—	10,418
U.S. government agencies	10,626	3	(5 )	10,624
Municipal securities	3,764	6	—	3,770
Commercial paper	2,693	2	—	2,695
Corporate debt securities	10,671	9	(3 )	10,677
Total marketable investments	38,154	38	(8 )	38,184
Total cash, cash equivalents and marketable investments	\$ 44,419	\$ 38	\$ (8 )	\$44,449

<b>December 31, 2015</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Market Value</b>
Cash and cash equivalents:				
Cash	\$ 9,830	\$ —	\$ —	\$9,830

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Money market funds	1,000	—	—	1,000
Commercial paper	38	—	—	38
Total cash and cash equivalents	10,868	—	—	10,868

Marketable investments:

U.S. government notes	7,780	1	(2 )	7,779
U.S. government agencies	12,630	3	(25 )	12,608
Municipal securities	4,344	2	—	4,346
Commercial paper	4,041	1	(2 )	4,040
Corporate debt securities	8,783	—	(17 )	8,766
Total marketable investments	37,578	7	(46 )	37,539