

SOLTA MEDICAL INC
Form 10-Q
November 15, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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

For the transition period from _____ to _____

Commission File Number: 001-33123

SOLTA MEDICAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
25881 Industrial Boulevard, Hayward, California 94545
(Address of principal executive offices) (Zip Code)
(510) 782-2286
(Registrant's telephone number, including area code)

68-0373593
(I.R.S. Employer
Identification No.)

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 small reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated Filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) 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

As of October 31, 2013, 80,739,760 shares of the registrant's common stock were outstanding.

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Table of Contents**PART 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS (unaudited)****Solta Medical, Inc.****CONDENSED CONSOLIDATED BALANCE SHEETS***(in thousands of dollars, except share and per share data)***(Unaudited)**

	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,674	\$ 38,097
Accounts receivable, net	20,331	20,570
Inventories	22,414	16,611
Prepaid expenses and other current assets	5,767	8,476
Total current assets	56,186	83,754
Property and equipment, net	7,215	6,401
Purchased intangible assets, net	56,044	42,428
Goodwill	103,981	96,620
Other assets	948	520
Total assets	\$ 224,374	\$ 229,723
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Accounts payable	\$ 7,929	\$ 7,283
Accrued liabilities	13,656	17,343
Current portion of contingent consideration liability	7,839	21,400
Current portion of deferred revenue	3,953	3,985
Short-term borrowings	694	8,345
Customer deposits	1,067	637
Total current liabilities	35,138	58,993
Deferred revenue, net of current portion	744	683
Term loan, net of current portion	25,954	18,063
Non-current tax liabilities	4,818	2,478
Contingent consideration liability	21,500	38,500
Other liabilities	253	899
Total liabilities	88,407	119,616

Contingencies (Note 7)

Stockholders' equity:

Preferred stock, \$0.001 par value:

10,000,000 shares authorized, none issued and outstanding

Common stock, \$0.001 par value:

100,000,000 shares authorized, 79,838,671 and 68,795,987 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively.

	80	69
Additional paid-in capital	244,467	220,489
Accumulated deficit	(108,580)	(110,451)
Total stockholders' equity	135,967	110,107
Total liabilities and stockholders' equity	\$ 224,374	\$ 229,723

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

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Solta Medical, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of dollars, except share and per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net revenue	\$ 33,540	\$ 35,028	\$ 111,260	\$ 104,744
Cost of revenue	14,491	13,813	44,430	39,738
Gross margin	19,049	21,215	66,830	65,006
Operating expenses				
Sales and marketing	14,807	12,403	45,870	40,022
Research and development	4,701	4,849	15,478	15,167
General and administrative	6,246	4,557	19,651	13,832
Remeasurement of contingent consideration liability	(8,700)	1,900	(21,300)	32,600
Total operating expenses	17,054	23,709	59,699	101,621
Income (loss) from operations	1,995	(2,494)	7,131	(36,615)
Interest income	21	3	48	8
Interest expense	(877)	(377)	(2,372)	(1,078)
Other income (expense), net	(144)	46	(389)	(101)
Income (loss) before income taxes	995	(2,822)	4,418	(37,786)
Income tax provision	351	56	2,546	177
Net income (loss)	\$ 644	\$ (2,878)	\$ 1,872	\$ (37,963)
Net income (loss) per share:				
Basic	\$ 0.01	\$ (0.04)	\$ 0.02	\$ (0.60)
Diluted	\$ 0.01	\$ (0.04)	\$ 0.02	\$ (0.60)
Weighted average shares outstanding used in calculating net income (loss) per common share:				
Basic	79,791,789	65,947,361	77,171,829	63,017,220
Diluted	81,025,627	65,947,361	78,337,342	63,017,220

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

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Solta Medical, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)

(Unaudited)

	September 30,	
	2013	2012
Cash flows from operating activities		
Net income (loss)	\$ 1,872	\$ (37,963)
Adjustments to reconcile net loss to net cash provided (used) in operating activities:		
Depreciation and amortization	9,755	8,012
Loss on disposal of property, plant and equipment		33
Stock-based compensation	3,034	3,553
Contingent consideration fair value adjustment	(21,300)	32,600
Tax benefit from stock option exercises		2
Loan warrant discount amortization	322	104
Final payment accrual on debt financings	782	399
Provision for doubtful accounts	451	520
Write-down of excess and obsolete inventory	405	591
Change in assets and liabilities:		
Accounts receivable	2,117	(3,903)
Inventories	(3,351)	(845)
Prepaid expenses and other current assets	1,310	770
Other assets	73	(25)
Accounts payable	(1,318)	450
Accrued and other liabilities	(816)	(588)
Contingent consideration liability payment	(9,367)	
Deferred revenue	(80)	(823)
Customer deposits	430	239
Deferred rent	16	(77)
Net cash provided by (used in) operating activities	(15,665)	3,049
Cash flows from investing activities		
Acquisition of property and equipment	(1,451)	(2,115)
Payments for acquisitions, net of cash acquired	(4,243)	
Net cash used in investing activities	(5,694)	(2,115)
Cash flows from financing activities		
Repayment of loan agreements	(35,082)	(9,555)
Contingent consideration liability payment	(6,294)	
Cash settlement of vested restricted stock units	(937)	(469)

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Proceeds from equity financing		16,279
Payment of equity financing costs		(171)
Payment of debt financing fees	(2,440)	
Proceeds from exercise of stock options	373	273
Proceeds from employee stock purchase plan	316	339
Proceeds from loan agreement borrowings	35,000	13,500
Net cash provided by (used in) financing activities	(9,064)	20,196
Net increase (decrease) in cash and cash equivalents	(30,423)	21,130
Cash and cash equivalents at beginning of period	38,097	17,417
Cash and cash equivalents at end of period	\$ 7,674	\$ 38,547

Supplemental disclosure of cash flow information

Cash paid for interest	\$ 1,061	\$ 576
Cash paid for taxes	157	51
Accounts payable and accrued liabilities related to property and equipment purchases	366	126
Issuance of common stock for vested restricted stock units	3,040	1,860
Issuance of warramts in connection with debt financing		700

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of dollars, except share and per share amounts)

(Unaudited)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Solta Medical, Inc. (the Company) develops, manufactures, and markets aesthetic energy devices to address a range of issues, including skin resurfacing and skin rejuvenation, skin tightening and body contouring, and acne reduction. The Company was incorporated in California on January 11, 1996 as Thermage, Inc. and reincorporated in Delaware on September 10, 2001. The Company commercially launched its first products in October 2002.

Basis of Presentation

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the Company's financial position as of the date of the interim balance sheet and results of operations and cash flows for the interim periods. The results for the nine months ended September 30, 2013 are not necessarily indicative of the results to be expected for the year ending December 31, 2013 or for any other interim period or for any future year.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2012 included in the Company's Annual Report on Form 10-K.

Significant Accounting Policies

The Company's significant accounting policies that are disclosed in the Company's Annual Report on Form 10-K filed on March 6, 2013 have not changed since December 31, 2012.

Recent Accounting Pronouncement

In July 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11), relating to Income Taxes (Topic 740), which provides guidance on the presentation of unrecognized tax benefits. The intent of ASU 2013-11 is to better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of ASU 2013-11 is not expected to have a material impact on the Company's consolidated condensed financial statements.

Segment Information

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The Company operates in one business segment, which encompasses the developing, manufacturing and marketing of aesthetic energy devices. Management uses one measurement of profitability and does not segregate its business for internal reporting. Long-lived assets are primarily maintained in the United States. The Chief Operating Decision Maker is the President and Chief Executive Officer of the Company.

The following table summarizes net revenue by product:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Systems	\$ 13,762	\$ 16,164	\$ 46,532	\$ 47,940
Tips and other consumables	17,848	16,900	59,022	51,845
