

IRIDEX CORP
Form 10-Q
August 05, 2010
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

b **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended July 3, 2010

Or

.. **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: 000-27598

IRIDEX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0210467
(I.R.S. Employer
Identification Number)

1212 Terra Bella Avenue
Mountain View, California
(Address of principal executive offices)

94043-1824
(Zip Code)

Registrant's telephone number, including area code: (650) 940-4700

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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.

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller

Smaller reporting company

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 the registrant's common stock, \$0.01 par value, issued and outstanding as of July 30, 2010 was 8,974,095.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements (unaudited)
IRIDEX Corporation****Condensed Consolidated Balance Sheets****(Unaudited, in thousands except for share data)**

| | July 3, 2010 | January 2, 2010(1) |
|--|------------------|-----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,000 | \$ 9,378 |
| Accounts receivable, net of allowance for doubtful accounts of \$431 in 2010 and \$754 in 2009 | 6,616 | 7,482 |
| Inventories, net | 9,479 | 8,999 |
| Prepays and other current assets | 552 | 470 |
| Total current assets | 23,647 | 26,329 |
| Property and equipment, net | 386 | 486 |
| Other long-term assets | 250 | 323 |
| Other intangible assets, net | 1,892 | 1,153 |
| Goodwill | 473 | |
| Total assets | \$ 26,648 | \$ 28,291 |
| Liabilities and Stockholders Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,013 | \$ 1,872 |
| Bank line of credit | | 3,520 |
| Accrued compensation | 1,691 | 2,171 |
| Accrued expenses | 1,584 | 1,983 |
| Accrued warranty | 1,150 | 1,165 |
| Deferred revenue | 2,266 | 2,405 |
| Total current liabilities | 8,704 | 13,116 |
| Long-term liabilities: | | |
| Other long-term liabilities | 573 | 149 |
| Total liabilities | 9,277 | 13,265 |
| Stockholders equity: | | |
| Convertible preferred stock, \$0.01 par value: | | |
| Authorized: 2,000,000 shares; | | |
| Issued and outstanding: 500,000 shares in 2010 and 2009 | 5 | 5 |
| Common stock, \$0.01 par value: | | |
| Authorized: 30,000,000 shares; | | |
| Issued and outstanding: 8,974,095 shares in 2010 and 8,848,360 shares in 2009 | 89 | 89 |
| Additional paid-in capital | 40,859 | 39,820 |
| Accumulated other comprehensive loss | (205) | (212) |
| Treasury stock, at cost | (430) | (430) |

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| | | |
|--|-----------|-----------|
| Accumulated deficit | (22,947) | (24,246) |
| Total stockholders' equity | 17,371 | 15,026 |
| Total liabilities and stockholders' equity | \$ 26,648 | \$ 28,291 |

- (1) Derived from the consolidated audited financial statements included in our annual report filed on Form 10-K with the SEC for the year ended January 2, 2010.

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

Table of Contents**IRIDEX Corporation****Condensed Consolidated Statements of Operations****(Unaudited, in thousands except per share data)**

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|-------------------------|-------------------------|-------------------------|
| | July 3, 2010 | July 4, 2009 | July 3, 2010 | July 4, 2009 |
| Revenues: | | | | |
| Product revenues | \$ 7,805 | \$ 8,271 | \$ 16,353 | \$ 16,532 |
| Service revenues | 2,085 | 2,242 | 4,295 | 4,717 |
| Total revenues | 9,890 | 10,513 | 20,648 | 21,249 |
| Cost of revenues | 5,354 | 5,684 | 10,887 | 11,372 |
| Gross profit | 4,536 | 4,829 | 9,761 | 9,877 |
| Operating expenses: | | | | |
| Research and development | 966 | 906 | 1,993 | 1,747 |
| Sales and marketing | 2,327 | 2,211 | 4,665 | 4,562 |
| General and administrative | 1,108 | 1,313 | 2,365 | 2,806 |
| Total operating expenses | 4,401 | 4,430 | 9,023 | 9,115 |
| Income from operations | 135 | 399 | 738 | 762 |
| Legal settlement | 800 | 800 | 800 | 800 |
| Interest and other income (expense), net | (50) | 6 | (112) | (133) |
| Income before income taxes | 885 | 1,205 | 1,426 | 1,429 |
| Provision for income taxes | 71 | 7 | 127 | 7 |
| Net income | \$ 814 | \$ 1,198 | \$ 1,299 | \$ 1,422 |
| Net income per share - basic | \$ 0.09 | \$ 0.13 | \$ 0.15 | \$ 0.16 |
| Net income per share - diluted | \$ 0.08 | \$ 0.12 | 0.13 | \$ 0.14 |
| Shares used in computing net income per share - basic | 8,965 | 8,844 | 8,907 | 8,835 |
| Shares used in computing net income per share - diluted | 10,197 | 10,107 | 10,094 | 9,966 |

Condensed Consolidated Statements of Comprehensive Income**(Unaudited, in thousands)**

| | Three Months Ended | | Six Months Ended | |
|------------|---------------------------|-------------------------|-------------------------|-------------------------|
| | July 3, 2010 | July 4, 2009 | July 3, 2010 | July 4, 2009 |
| Net income | \$ 814 | \$ 1,198 | \$ 1,299 | \$ 1,422 |

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| | | | | |
|--|--------|----------|----------|----------|
| Foreign currency translation adjustments | 11 | (31) | 7 | (4) |
| Comprehensive income | \$ 825 | \$ 1,167 | \$ 1,306 | \$ 1,418 |

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

Table of Contents**IRIDEX Corporation****Condensed Consolidated Statements of Cash Flows****(Unaudited, in thousands)**

| | Six Months Ended | |
|---|-------------------------|-------------------------|
| | July 3, 2010 | July 4, 2009 |
| Operating activities: | | |
| Net income | \$ 1,299 | \$ 1,422 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 276 | 446 |
| Stock compensation recognized | 269 | 277 |
| Provision for doubtful accounts | | 102 |
| Tax effect of stock compensation expense | | 129 |
| Provision for inventory reserves | 150 | (292) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 866 | 743 |
| Inventories | (630) | 1,831 |
| Prepays and other current assets | (82) | (58) |
| Other long-term assets | 73 | (105) |
| Accounts payable | 141 | (1,026) |
| Accrued compensation and expense | (834) | (361) |
| Accrued warranty | (15) | (160) |
| Deferred revenue | (139) | (63) |
| Net cash provided by operating activities | 1,374 | 2,885 |
| Investing activities: | | |
| Purchases of property and equipment | (76) | (48) |
| Purchase of RetinaLabs | (225) | |
| Net cash used in investing activities | (301) | (48) |
| Financing activities: | | |
| Net proceeds from sale of common stock | 62 | |
| Proceeds from borrowings | 5,876 | |