IRIDEX CORP Form 10-Q August 05, 2010 Table of Contents

# SECURITIES AND EXCHANGE COMMISSION

# Washington, D.C. 20549

# FORM 10-Q

(Mark One)

**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)

1212 Terra Bella Avenue

Mountain View, California (Address of principal executive offices)

77-0210467

(I.R.S. Employer

**Identification Number**)

f principal executive offices) (Zip Registrant s telephone number, including area code: (650) 940-4700

94043-1824 (Zip 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 b 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 b

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 b

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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#### 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	
Prepaids 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.

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## **IRIDEX** Corporation

**Condensed Consolidated Statements of Operations** 

(Unaudited, in thousands except per share data)

	Three Mor July 3, 2010	nths Ended July 4, 2009	Six Mont July 3, 2010	hs Ended 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 Mo	onths Ended	Six Mont	hs Ended
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Net income	\$ 814	\$ 1,198	\$ 1,299	\$ 1,422

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.

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# **IRIDEX** Corporation

# **Condensed Consolidated Statements of Cash Flows**

## (Unaudited, in thousands)

Operating activities:     \$ 1,29     \$ 1,242       Net income     \$ 1,29     \$ 1,242       Adjustments to reconcile net income to net cash provided by operating activities:     276     446       Depreciation and amortization     276     446       Stock compensation recognized     269     2777       Provision for doubtful accounts     1002     102       Tax effect of stock compensation expense     129       Provision for inventory reserves     150     (292)       Changes in operating assets and liabilities:		Six Mont July 3, 2010	hs Ended July 4, 2009
Adjustments to reconcile net income to net cash provided by operating activities:276446Stock compensation recognized269277Provision for doubtful accounts102Tax effect of stock compensation expense129Provision for inventory reserves150(292)Changes in operating assets and liabilities:866743Accounts receivable866743Inventories(630)1,831Prepaids and other current assets(82)(58)Other long-term assets73(105)Accounts receivable141(1,02)Accounts receivable(834)(361)Accounts payable(15)(160)Deferred revenue(139)(63)Net cash provided by operating activities1,3742,885Investing activities:(76)(48)Purchase of RetinaLabs(225)(301)Net cash used in investing activities(301)(48)Financing activities:(301)(48)Financing activities:62(301)Net proceeds from sale of common stock62	Operating activities:		
Depreciation and amortization276446Stock compensation recognized269277Provision for doubtful accounts102Tax effect of stock compensation expense102Provision for inventory reserves150(292)Changes in operating assets and liabilities:866743Accounts receivable866743Inventories(630)1,831Prepaids and other current assets(82)(58)Other long-term assets73(105)Accounts payable141(1026)Accured compensation and expense(834)(361)Accured warranty(15)(160)Defered revenue(139)(63)Net cash provided by operating activities1,3742,885Investing activities:(225)(225)Net cash used in investing activities(301)(48)Financing activities:(301)(48)Financing activities:1(301)(48)Financing activities:1(301)(48)Financing activities:1(301)(48)Financing activities:1(301)(48)Financing activities:1(301)(48)Financing activities:1(301)(48)Financing activities:1(301)(48)Financing activities:1(301)(48)Financing activities:1(301)(48)Financing activities:11(1Net proceeds from s	Net income	\$ 1,299	\$ 1,422
Stock compensation recognized269277Provision for doubtful accounts102Tax effect of stock compensation expense129Provision for inventory reserves150Changes in operating assets and liabilities:266Accounts receivable866Inventories(630)Inventories(82)Other long-term assets(82)Other long-term assets73Other long-term assets73Accounts payable141Accrued compensation and expense(834)Accrued warranty(15)Deferred revenue(139)Other structures(76)Purchases of property and equipment(76)Purchases of property and equipment(76)Purchases of property and equipment(301)Other structures(301)Net cash used in investing activities(301)Financing activities:(301)Net cash used in investing activities62			
Provision for doubtful accounts102Tax effect of stock compensation expense129Provision for inventory reserves150Changes in operating assets and liabilities:150Accounts receivable866Acas866Inventories(630)Prepaids and other current assets(82)Other long-term assets(82)Accounts payable141Accounts payable141Accounts preving assets and expense(834)Accounts payable(15)Accounts payable(15)Accounts payable(15)Accounts payable(15)Accounts payable(139)Accounts payable(139)Accounts payable(139)Accounts payable(225)Net cash provided by operating activities(225)Net cash used in investing activities(301)Financing activities:(301)Net proceeds from sale of common stock62		276	446
Tax effect of stock compensation expense129Provision for inventory reserves150(292)Changes in operating assets and liabilities:200Accounts receivable866743Inventories(630)1,831Prepaids and other current assets(630)1,831Other long-term assets(82)(58)Other long-term assets73(105)Accounts payable141(1,026)Accrued compensation and expense(834)(361)Accrued waranty(15)(160)Deferred revenue(139)(63)Net cash provided by operating activities1,3742,885Investing activities:(225)(301)(48)Purchases of property and equipment(301)(48)Purchase of RetinaLabs(301)(48)Financing activities:(301)(48)Financing activities:(301)(48)<		269	277
Provision for inventory reserves150(292)Changes in operating assets and liabilities:Accounts receivable866743Inventories(630)1,831Prepaids and other current assets(82)(58)Other long-term assets73(105)Accounts payable141(1,026)Accrued compensation and expense(834)(361)Accrued warranty(15)(160)Deferred revenue(139)(63)Net cash provided by operating activities1,3742,885Investing activities:(76)(48)Purchases of property and equipment(76)(48)Purchase of RetinaLabs(301)(48)Financing activities:(301)(48)Financing activities:62(301)	Provision for doubtful accounts		102
Changes in operating assets and liabilities:KeyAccounts receivable866743Inventories(630)1,831Prepaids and other current assets(82)(58)Other long-term assets73(105)Accounts payable141(1,026)Accrued compensation and expense(834)(361)Accrued warranty(15)(160)Deferred revenue(139)(63)Net cash provided by operating activities1,3742,885Investing activities:(76)(48)Purchases of property and equipment(76)(48)Purchase of RetinaLabs(301)(48)Financing activities:(301)(48)Financing activities:(301)(48)Net cash used in investing activities62(301)	Tax effect of stock compensation expense		129
Accounts receivable866743Inventories(630)1.831Prepaids and other current assets(82)(58)Other long-term assets73(105)Accounts payable141(1.026)Accrued compensation and expense(834)(361)Accrued warranty(15)(160)Deferred revenue(139)(63)Net cash provided by operating activities1,3742,885Investing activities:(76)(48)Purchases of property and equipment(76)(48)Purchase of RetinaLabs(301)(48)Financing activities:(301)(48)Financing activities:(301)(301)Financing activities:(301)(301)Financing activities:(301)(301)Financing activitie		150	(292)
Inventories(630)1,831Prepaids and other current assets(82)(58)Other long-term assets73(105)Accounts payable141(1,026)Accrued compensation and expense(834)(361)Accrued warranty(15)(160)Deferred revenue(139)(63)Net cash provided by operating activities1,3742,885Investing activities:(76)(48)Purchases of property and equipment(76)(48)Purchase of RetinaLabs(225)(301)(48)Financing activities:(301)(48)Financing activities:(301)(48)Financing activities:Net proceeds from sale of common stock62	Changes in operating assets and liabilities:		
Prepaids and other current assets(82)(18)Other long-term assets73(105)Accounts payable141(1,026)Accrued compensation and expense(834)(361)Accrued warranty(15)(160)Deferred revenue(139)(63)Net cash provided by operating activities1,3742,885Investing activities:(76)(48)Purchases of property and equipment(76)(48)Purchase of RetinaLabs(225)(301)(48)Financing activities:(301)(48)Financing activities:(301)(48)Net proceeds from sale of common stock62(42)	Accounts receivable	866	743
Other long-term assets73(105)Accounts payable141(1,026)Accrued compensation and expense(834)(361)Accrued warranty(15)(160)Deferred revenue(139)(63)Net cash provided by operating activities1,3742,885Investing activities:	Inventories	(630)	1,831
Accounts payable141(1,026)Accrued compensation and expense(834)(361)Accrued warranty(15)(160)Deferred revenue(139)(63)Net cash provided by operating activities1,3742,885Investing activities:	Prepaids and other current assets	(82)	(58)
Accrued compensation and expense(834)(361)Accrued warranty(15)(160)Deferred revenue(139)(63)Net cash provided by operating activities1,3742,885Investing activities:1,3742,885Purchases of property and equipment(76)(48)Purchase of RetinaLabs(225)(301)Net cash used in investing activities(301)(48)Financing activities:Net proceeds from sale of common stock62	Other long-term assets	73	(105)
Accrued warranty(15)(160)Deferred revenue(139)(63)Net cash provided by operating activities1,3742,885Investing activities:1,3742,885Purchases of property and equipment(76)(48)Purchase of RetinaLabs(225)(301)Net cash used in investing activities:(301)(48)Financing activities:2(301)Net proceeds from sale of common stock62		141	
Deferred revenue(139)(63)Net cash provided by operating activities1,3742,885Investing activities:Purchases of property and equipment(76)(48)Purchase of RetinaLabs(225)(225)Net cash used in investing activities:(301)(48)Financing activities:Net proceeds from sale of common stock62		(834)	(361)
Net cash provided by operating activities1,3742,885Investing activities:2Purchases of property and equipment(76)(48)Purchase of RetinaLabs(225)(225)Net cash used in investing activities(301)(48)Financing activities:2Net proceeds from sale of common stock62		(15)	(160)
Investing activities:   Investing activities:     Purchase 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	Deferred revenue	(139)	(63)
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	Net cash provided by operating activities	1,374	2,885
Purchase of RetinaLabs (225)   Net cash used in investing activities (301)   Financing activities: Vertical control of common stock   Net proceeds from sale of common stock 62	Investing activities:		
Net cash used in investing activities   (301)   (48)     Financing activities:   Net proceeds from sale of common stock   62	Purchases of property and equipment	(76)	(48)
Financing activities:     Net proceeds from sale of common stock   62	Purchase of RetinaLabs	(225)	
Net proceeds from sale of common stock 62	Net cash used in investing activities	(301)	(48)
	Financing activities:		
Proceeds from borrowings 5,876		62	
	Proceeds from borrowings	5,876	