

STAAR SURGICAL CO
Form 10-Q
May 03, 2017

UNITED STATES

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: March 31, 2017

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: 0-11634

STAAR SURGICAL COMPANY

(Exact name of registrant as specified in its charter)

Delaware 95-3797439
*(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)*

1911 Walker Avenue

Monrovia, California 91016

(Address of principal executive offices)

(626) 303-7902

(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 ☒ 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

☐ Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company
(Do not check if a smaller reporting company)
☐ Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The registrant has 40,932,317 shares of common stock, par value \$0.01 per share, issued and outstanding as of April 28, 2017.

STAAR SURGICAL COMPANY

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STAAR SURGICAL COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value amounts)

(Unaudited)

	March 31, 2017	December 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,500	\$ 13,999
Accounts receivable trade, net of allowance for doubtful accounts of \$2,295 and \$2,056, respectively	15,621	16,344
Inventories, net	14,646	14,825
Prepayments, deposits and other current assets	5,280	4,349
Total current assets	49,047	49,517
Property, plant and equipment, net	12,114	11,790
Intangible assets, net	439	473
Goodwill	1,786	1,786
Deferred income taxes	1,105	1,105
Other assets	948	772
Total assets	\$65,439	\$65,443
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit	\$4,474	\$4,283
Accounts payable	7,602	8,311
Obligations under capital leases	1,294	1,198
Other current liabilities	8,425	7,275
Total current liabilities	21,795	21,067
Obligations under capital leases	1,425	1,339
Deferred income taxes	874	881
Asset retirement obligations	204	195

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Deferred rent	58	59
Pension liability	4,121	3,997
Total liabilities	28,477	27,538

Commitments and contingencies (Note 12)

Stockholders' equity:

Common stock, \$0.01 par value; 60,000 shares authorized; 40,889 and 40,732 shares issued and outstanding at March 31, 2017 and December 30, 2016, respectively	409	407
Additional paid-in capital	198,596	197,657
Accumulated other comprehensive loss	(731)	(1,050)
Accumulated deficit	(161,312)	(159,109)
Total stockholders' equity	36,962	37,905
Total liabilities and stockholders' equity	\$65,439	\$65,443

See accompanying notes to the condensed consolidated financial statements.

STAAR SURGICAL COMPANY**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(Unaudited)**

	Three Months Ended	
	March 31,	April 1,
	2017	2016
Net sales	\$ 20,350	\$ 19,269
Cost of sales	5,773	6,276
Gross profit	14,577	12,993
General and administrative	5,359	8,465
Marketing and selling	6,530	7,675
Research and development	4,783	6,906
Operating loss	(2,095)	(10,053)
Other income (expense):		
Interest expense, net	(28)	(28)
Gain (loss) on foreign currency transactions	(86)	458
Royalty income	131	22
Other income (expense), net	16	(44)
Total other income, net	33	408
Loss before income tax provision (benefit)	(2,062)	(9,645)
Income tax provision (benefit)	141	(1,604)
Net loss	\$ (2,203)	\$ (8,041)
Net loss per share – basic and diluted	\$ (0.05)	\$ (0.20)
Weighted average shares outstanding – basic and diluted	40,749	39,983

See accompanying notes to the condensed consolidated financial statements.

STAAR SURGICAL COMPANY

CONDENSED CONSOLIDATED STATEMENTS

OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended	
	March	April 1,
	31,	2016
	2017	
Net loss	\$ (2,203)	\$ (8,041)
Other comprehensive income (loss):		
Defined Benefit Pension Plans:		
Net change in plan assets	(14)	(11)
Reclassification into earnings	20	27
Foreign currency translation	448	732
Tax effect	(135)	(228)
Other comprehensive income, net of tax	319	520
Comprehensive loss	\$ (1,884)	\$ (7,521)

See accompanying notes to the condensed consolidated financial statements.

STAAR SURGICAL COMPANY**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Three Months Ended	
	March 31,	April 1,
	2017	2016
Cash flows from operating activities:		
Net loss	\$ (2,203)	\$ (8,041)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	756	591
Amortization of long-lived intangibles	54	54
Deferred income taxes	(7)	(1,639)
Change in net pension liability	66	118
Loss on disposal of property and equipment	67	--
Stock-based compensation expense	510	7,458
Provision for sales return and bad debt expense	232	(22)
Changes in working capital:		
Accounts receivable trade, net	624	(317)
Inventories	402	564
Prepayments, deposits and other current assets	(1,083)	(912)
Accounts payable	(1,157)	(435)
Other current liabilities	1,114	(398)
Net cash used in operating activities	(625)	(2,979)
Cash flows from investing activities:		
Acquisition of property and equipment	(313)	(1,006)
Net cash used in investing activities	(313)	(1,006)
Cash flows from financing activities:		
Repayment of capital lease obligations	(301)	(92)
Repurchase of employee common stock for taxes withheld	(217)	(611)
Proceeds from vested restricted stock and exercise of stock options	597	7
Net cash provided by (used in) financing activities	79	(696)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	360	247
Decrease in cash, cash equivalents and restricted cash	(499)	(4,434)

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Cash, cash equivalents and restricted cash, at beginning of the period	14,118	13,521
Cash, cash equivalents and restricted cash, at end of the period	\$ 13,619	\$ 9,087

See accompanying notes to the condensed consolidated financial statements.

Note 1 - Basis of Presentation and Significant Accounting Policies

The condensed consolidated financial statements of the Company present the financial position, results of operations, and cash flows of STAAR Surgical Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Commission. In accordance with those rules and regulations certain information and footnote disclosures normally included in comprehensive financial statements have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet as of December 30, 2016 was derived from the audited financial statements at that date, but does not include all the information and footnotes required by GAAP. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 30, 2016.

The condensed consolidated financial statements for the three months ended March 31, 2017 and April 1, 2016, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company’s financial condition and results of operations. The results of operations for the three months ended March 31, 2017 and April 1, 2016 are not necessarily indicative of the results to be expected for any other interim period or for the entire year.

Each of the Company's reporting periods ends on the Friday nearest to the quarter ending date and generally consists of 13 weeks. Unless the context indicates otherwise “we,” “us,” the “Company,” and “STAAR” refer to STAAR Surgical Company and its consolidated subsidiaries.

Recently Adopted Accounting Pronouncements

During the quarter ended March 31, 2017, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2015-11, “Simplifying the Measurement of Inventory”. ASU 2015-11 requires a company to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the “estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation”. We adopted this standard as of December 31, 2016 (beginning of FY 2017). The adoption of ASU 2015-11 did not have a material effect on the consolidated financial statements.

During the quarter ended March 31, 2017, the Company adopted ASU 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”, which simplified several aspects of the

accounting for share-based payment transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification of awards on the statement of cash flows. We adopted this standard as of December 31, 2016 (beginning of FY 2017). The adoption of ASU 2016-09 did not have a material effect on the consolidated financial statements and prior periods were not restated.

During the quarter ended March 31, 2017, the Company adopted ASU 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes”, on a retrospective basis, which changes how deferred taxes are classified on the Company’s balance sheets. Accordingly, the Company adjusted the December 30, 2016 balance sheet for current and noncurrent deferred tax assets to conform to the presentation for the current quarter due to the adoption of ASU 2015-17. The ASU eliminates the requirement to present deferred tax liabilities and assets as current and noncurrent on the balance sheet. Instead, companies are required to classify all deferred tax assets and liabilities as noncurrent. We adopted this standard as of December 31, 2016 (beginning of FY 2017). The adoption of ASU 2015-17 did not have a material effect on the consolidated financial statements.

During the quarter ended March 31, 2017, the Company adopted ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash”, that requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash and that restricted cash be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We early adopted this standard as of December 31, 2016 (beginning of FY 2017). The adoption of ASU 2016-18 did not have a material effect on the consolidated financial statements, however, prior period restricted cash was added to beginning and ending cash and cash equivalents in the statement of cash flows to conform to the current presentation.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheet that sum to the total of the same such amounts shown in the condensed consolidated statement of cash flows (in 000’s):

	March 31, 2017	December 30, 2016	April 1, 2016	January 1, 2016
Cash and cash equivalents	\$ 13,500	\$ 13,999	\$ 8,968	\$ 13,402
Restricted cash included in other long-term assets	119	119	119	119
Total cash, cash equivalents, and restricted cash as shown in the statement of cash flows	\$ 13,619	\$ 14,118	\$ 9,087	\$ 13,521

The Company has restricted cash of approximately \$119,000 set aside as collateral for a standby letter of credit required by the California Department of Public Health for unforeseen future regulatory costs related to the decommissioning of certain manufacturing equipment.

Recent Accounting Pronouncements Not Yet Adopted

In 2017, the FASB issued ASU No. 2017-07, “Compensation-Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” The standard requires that an employer report the service cost component in the same line items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside of operating profit. The standard is effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Prior periods are required to be recast. We will adopt this standard as of December 30, 2017 (beginning of FY 2018) and are currently evaluating the impact ASU 2017-07 will have on our consolidated financial statements.

In 2016, the FASB issued ASU No. 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory”, which removes the prohibition in ASC 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The ASU is effective for public companies for fiscal years beginning after December 15, 2017, and interim periods within those annual periods. The ASU should be applied on a modified retrospective basis, recognizing the effects in retained earnings as of the beginning of the year of adoption. We will adopt this standard as of December 30, 2017 (beginning of FY 2018) and are currently evaluating the impact ASU 2016-16 will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles—Goodwill and Other (Topic 350)”, which simplifies the test for goodwill impairment. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company does not expect ASU 2017-04 to have a material effect on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”), which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. The Company is currently evaluating the impact ASU 2016-15 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”, which requires lessees to recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. The update is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that reporting period. Early adoption is permitted. The Company is gathering data to evaluate the impact the adoption of ASU 2016-02 will have on its consolidated financial statements and expects to complete the evaluation by the third quarter of 2018.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”, which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. The revised revenue standard is effective for public entities for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients; or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures).

In August 2015, ASU 2014-09 was amended by ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date”, which defers the effective date of ASU 2014-09 by one year for a