COMPUTER MOTION INC
Form 10-Q/A
August 20, 2002

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FORM 10-Q/A

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

Commission File Number 000-22755

COMPUTER MOTION, INC.

(Exact name of registrant as specified on in its charter)

Delaware	**77-0458805**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

130-B Cremona Drive
Goleta, CA 93117

(Address of principal executive offices)
(805) 968-9600
(Registrant s telephone number, including area code)

Indicate by check [**X**] whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve (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 ninety (90) days.

Yes [**X**] No [ ]

As of August 15, 2002 there were 17,322,184 shares of the Registrant s Common Stock outstanding.

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COMPUTER MOTION, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenue	$ 5,064	$ 4,003	$ 10,755	$ 9,719
Cost of revenue	2,217	1,882	4,862	4,322
Gross profit	2,847	2,121	5,893	5,397
Gross profit %	56%	53%	55%	56%
Research & development expense	2,859	2,506	5,511	5,640
Selling, general & administrative expense	4,933	4,993	9,749	9,338
Total operating expense	7,792	7,499	15,260	14,978
Loss from operations	(4,945)	(5,378)	(9,367)	(9,581)
Interest income	31	36	43	76
Interest expense	(5)	(3)	(18)	(50)
Foreign currency translation gain/(loss)	(2)	60	(29)	86
Other expense	(7)	(9)	(9)	(19)
Total other income/(expense)	17	84	(13)	93
Loss before income tax provision	(4,928)	(5,294)	(9,380)	(9,488)
Income tax provision	6	6	12	12
Net loss	(4,934)	(5,300)	(9,392)	(9,500)
Dividend to Series B preferred shareholders		61	4,978	2,694
Net loss available to common shareholders	$ (4,934)	$ (5,361)	$ (14,370)	$ (12,194)
Weighted average common shares outstanding used to compute net loss per share basic and diluted	17,260	10,179	14,861	10,177
Net loss per share basic and diluted	$ (0.29)	$ (0.53)	$ (0.97)	$ (1.20)

See accompanying notes to condensed consolidated financial statements

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COMPUTER MOTION, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except par value)

	June 30, 2002	December 31, 2001(1)
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,925	$ 987
Restricted cash	107	80
Accounts receivable, net of allowance for doubtful accounts and returns of $463 at June 30, 2002; and $1,184 at December 31, 2001	4,700	8,594
Inventories	6,074	5,853
Other current assets	683	811
Total current assets	15,489	16,325
Property and equipment:		
Furniture and fixtures	2,020	2,020
Computer equipment	2,937	2,889
Machinery and equipment	5,632	5,381
Accumulated depreciation	(6,522)	(5,492)
Property and equipment, net	4,067	4,798
Other assets	59	63
Total assets	$ 19,615	$ 21,186
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Note payable to shareholder	$	$ 900
Accounts payable	3,540	6,497
Accrued expenses	3,534	4,551
Deferred revenue	3,101	3,628
Total current liabilities	10,175	15,576
Deferred revenue	1,642	1,711
Other liabilities	14	37
Total liabilities	11,831	17,324
Shareholders equity:		
Mandatorily redeemable Series B convertible preferred stock, $.001 par value, authorized 5,000 shares, outstanding at 6/30/02-None; 12/31/01- 8.5 shares		8,674
Common stock, $.001 par value, authorized - 50,000 shares; Outstanding 06/30/02 - 17,270 shares; 12/31/01- 11,439 shares	18	11
Additional paid-in capital	107,069	80,343
Deferred compensation	(273)	(326)
Accumulated deficit	(98,964)	(84,594)
Other comprehensive loss	(66)	(246)
Total shareholders equity	7,784	3,862

Total liabilities & shareholders equity	$ 19,615	$ 21,186

(1) Derived from audited financial statements as of December 31, 2001

See accompanying notes to condensed consolidated financial statements

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COMPUTER MOTION INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
Cash Flows from Operating Activities:		
Net Loss	$ (9,392)	$ (9,500)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,034	826
Provision for doubtful accounts and sales allowances		100
Common stock issued for services	1,395	
Stock options issued for services	538	
Amortization of deferred compensation	53	259
Other		(17)
Decrease (Increase) in:		
Accounts receivable	3,894	6,353
Inventories	(221)	(2,541)
Other current assets	128	(22)
Increase (Decrease) in:		
Accounts payable	(2,957)	30
Accrued expenses	(1,017)	(825)
Other liabilities	(23)	
Deferred revenue	(596)	482
Net cash used in operating activities	(7,164)	(4,855)
Cash flows from Investing Activities:		
Purchase of property and equipment	(299)	(674)
Increase in restricted deposits		(80)
Net cash used in investing activities	(299)	(754)
Cash Flows from Financing Activities:		
Repayment of note payable to shareholder	(900)	(3,000)
Proceeds from note payable Accounts receivable financing	133	
Proceeds from preferred stock issuance		9,666
Proceeds from common stock issued and warrants exercised, net of repurchases	10,527	40
Proceeds from common stock Societe Generale (Equity Line)	508	
Proceeds from common stock ESPP plan	61	
Proceeds from exercise of stock options	60	
Comprehensive loss and other	180	(109)
Net cash provided by financing activities	10,569	6,597
Net increase in cash, cash equivalents and restricted cash	3,106	988
Cash, cash equivalents and restricted cash at beginning of period	1,067	1,551
Cash, cash equivalents and restricted cash at end of period	$ 4,173	$ 2,539

See accompanying notes to condensed consolidated financial statements

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COMPUTER MOTION, INC.
Notes to Condensed Consolidated Financial Statements

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Computer Motion, Inc. (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the financial information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

The operating results of the interim periods presented are not necessarily indicative of the results expected for the entire fiscal year ending December 31, 2002 or for any other interim period. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the audited financial statements and notes thereto for the fiscal year ended December 31, 2001 included in the Company s Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC) on April 1, 2002. As shown in the accompanying Condensed Consolidated Financial Statements, the Company continues to incur losses and negative cash flows from operations. At June 30, 2002, the Company had cash and cash equivalents of approximately $4.0 million. Management is in the process of pursuing financing arrangements in order to meet the Company s cash flow needs and funds its operations through June 30, 2003. (see Note 11). The Company s need for additional financing will depend upon numerous factors, including, but not limited to, net cash used in operating activities, including the progress and scope of ongoing research and development projects, the costs of training physicians to become proficient in the use of the Company s products and procedures, the ability to obtain required FDA approvals, the ability to successfully defend itself in any current or future patent litigation and the ability of the Company s customers to obtain medical reimbursement from third party payors.

The Company applies the provisions of Staff Accounting Bulletin No. 101 (SAB 101) when recognizing revenue. SAB 101 states that revenue generally is realized or realizable and earned when all of the following criteria are met: a) persuasive evidence of an arrangement exists, b) delivery has occurred or the services have been rendered, c) the seller s price to the buyer is fixed or determinable, and d) collectibility is reasonably assured.

The Company recognizes revenue from the sale of products to end-users, including supplies and accessories, once shipment has occurred (as the Company s general terms are FOB shipping point). In those few cases where the customers terms are FOB their plant, revenue is not recognized until the Company receives a signed delivery and acceptance certificate, and all of the conditions of SAB 101 (items a. through d., as identified above) have been met. Revenue is recognized from the performance of services as the services are performed.

The Company recognizes revenue from the sale of products to distributors, including supplies and accessories, once shipment has occurred (as the Company s general terms are FOB shipping point), and all of the conditions of SAB 101 have been met. The Company s distributors do not have rights of return or cancellation. Revenues from distributors that do not meet all of the requirements of SAB 101 are deferred and recognized upon the sale of the product to the end-user.

Revenues from product sales to customers, which are financed by third party financing institutions, are not recognized by the Company until a purchase order is received, the product has been shipped and the funding by the financing institution has been approved.

Revenues for transactions that include multiple elements such as systems, training, product warranties, instruments, accessory kits and service contracts are allocated to each element based on its relative fair value (or in the absence of fair value, the residual method) and recognized when the revenue recognition criteria have been met for each element. The Company recognizes revenue for delivered elements only when the following criteria are satisfied: (1) undelivered elements are not essential to the functionality of delivered elements, (2) uncertainties regarding customer acceptance are resolved and (3) the fair value for all undelivered elements is known.

The Company defers revenue from the sale of extended warranties, product upgrades, procedure training contracts and other contractual items and recognizes them over the life of the contract or upon shipment to the customer, as applicable.

Shipments of products to be used for demonstration purposes or prototype products used in development programs are reflected as consigned inventory and are included in the property and equipment balance in the accompanying consolidated balance sheets. Revenue recognized on the rental of this equipment is recognized as development revenue over the term of the agreement.

The Company records revenue, net of commissions paid to agents, in accordance with Emerging Issues Task Force (EITF) No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent.

The Company believes that Statement of Position 97-2, Software Revenue Recognition (SOP 97-2), is not applicable to the sale of the Company s products in accordance with the guidance in paragraphs 2 and 4 of SOP 97-2. The Company considers the software that it sells incidental to its products sold. In addition, such software is not a significant focus of the Company s marketing efforts nor is the software sold separately. Also, post contract customer support is not sold by the Company in conjunction with the software. As a result, the Company does not separately account for the sale of the software.

Note 2. Net Loss Per Share

Statement of Financial Accounting Standard (SFAS) No. 128, Earnings Per Share, requires that the Company present both basic and diluted net loss per share in its financial statements. The Company s basic net loss per share is the same as its diluted net loss per share because inclusion of outstanding stock options and warrants in the calculation is antidilutive. Basic and diluted loss per share is calculated by dividing net loss available to common stockholders by the weighted average number of common shares outstanding for the period.

The net loss per share for the six months ended June 30, 2002 has been adjusted to include the present value of the dividends paid on the shares of the Company s Series B Convertible Preferred Stock of $1,193,000 and the write off of the beneficial conversion feature of such shares of $3,785,000. The Company is required to recognize these items as a dividend in the net loss computation for loss per share (See Note 3 as the all of the remaining shares of Series B Convertible Preferred Stock were converted into shares of common stock on February 13, 2002).

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(Amounts in thousands, except per share amounts)

	For the three months ended June 30,				For the six months ended June 30,			
	2002		2001		2002		2001	
	(unaudited)							
	Amount	Per share	Amount	Per share	Amount	Per share	Amount	Per share
Unaudited per share data basic and diluted:								
Net Loss and net loss per share (Unaudited)	$(4,934)	$(0.29)	$(5,300)	$(0.52)	$ (9,392)	$(0.63)	$ (9,500)	$(0.93)
Cumulative dividend on the Series B Convertible Preferred Stock			(61)	(0.01)			(2,694)	(0.27)
Present Value of dividend on the Series B Convertible Preferred Stock					(1,193)	(0.08)		
Beneficial Conversion feature of the Series B Convertible Preferred Stock					(3,785)	(0.26)		
Net loss available to common shareholders and net loss per share	$(4,934)	$(0.29)	$(5,361)	$(0.53)	$(14,370)	$(0.97)	$(12,194)	$(1.20)

Note 3. Inventories

Inventories, which include materials, labor and overhead, are stated at the lower of cost or market. The Company uses the first-in, first-out (FIFO) method to value inventories. The components of inventorie