FORM 10QSB/A

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d) [amend]

Filing Date: **1996-08-26** | Period of Report: **1996-06-30**
SEC Accession No. 0000912057-96-018797

(HTML Version on secdatabase.com)

FILER

PREMIER LASER SYSTEMS INC

CIK:**878543**| IRS No.: **330476284** | State of Incorp.:**CA** | Fiscal Year End: **0331**
Type: **10QSB/A** | Act: **34** | File No.: **000-25242** | Film No.: **96620229**
SIC: **3845** Electromedical & electrotherapeutic apparatus

Mailing Address
3 MORGAN
IRVINE CA 92677

Business Address
3 MORGAN
IRVINE CA 92718

FORM 10-QSB/A

AMENDMENT NO. 1

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

/x/ QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 1996

OR

/ / TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to ___________

Commission file number 0-25242

PREMIER LASER SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

CALIFORNIA	33-0472684
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3 Morgan, Irvine, California 92618
(Address of principal executive offices)

(714) 859-0656
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 X No
--- ---

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Check whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 after the distribution of securities under a plan confirmed by a court.
Yes No
--- ---

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Class A Common Stock:	4,748,758 Shares
Class E-1 Common Stock:	1,256,749 Shares
Class E-2 Common Stock:	1,256,749 Shares

Transitional Small Business Disclosure Format (check one):
Yes No X
--- ---

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

The unaudited financial information for the three month period ended June 30, 1996 and comparative financial information for the prior year, together with the balance sheets as of June 30, 1996 and March 31, 1996 of Premier Laser Systems, Inc. (the "Company") are attached hereto and incorporated herein by this reference.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

RESULTS OF OPERATIONS

The Company's net sales for the quarter ended June 30, 1996 (the "1996 Quarter") increased 1014% to $1,254,082 from $112,564 for the quarter ended June 30, 1995 (the "1995 Quarter"). The increase is primarily attributable to continued growth in sales in the dental market, principally from the Company's three new products, which accounted for $855,654 of the increase. Sales of other dental, surgical and ophthalmic products increased by 325% to $331,651 in the 1996 Quarter from $78,005 in the 1995 Quarter and included initial sales to Mattan Corporation (Medical Laser Institute of America) for its new laser centers.

Cost of sales increased 128% to $1,028,611 in the 1996 Quarter from $450,353 in the 1995 Quarter. This increase is directly attributable to the increase in sales and includes a fee of $87,545 to a third party pursuant to the Company's manufacturing arrangement relating to the argon MOD laser. Cost of sales related to sales to Mattan were 95% of the amount of the corresponding sales due to the fact that the products sold were purchased from original equipment manufacturers, instead of being manufactured by the Company. It is intended that as additional centers are opened the Company will commence manufacturing of the lasers and cost of sales will only include manufacturing costs.

Selling and marketing expenses increased 136% to $461,772 in the 1996 Quarter from $195,831 for the 1995 Quarter. The increase was primarily attributable to marketing and sales efforts related to the Company's dental products. These expenses primarily included increased commissions and related selling expenses, expenses of sales and marketing personnel, trade show attendance and advertising expenses. Sales and marketing expenses also included expenses relating to the initial showing of the Company's Er:YAG laser at the annual meeting of the American Society of Cataract and Refractive Surgeons.

Research and development expenses decreased 50% to $126,779 in the 1996 Quarter from $255,959 in the 1995 Quarter. This net decrease resulted from a $397,634 cash reimbursement received by the Company from a Small Business Innovative Research Grant (SBIR) which was partially offset by increased clinical trial costs for certain ophthalmic applications and expenses incurred in the development of the argon MOD laser.

General and administrative expenses decreased 35% to $326,786 in the 1996 Quarter from $501,078 in the 1995 Quarter. The decrease was primarily attributable to a $57,812 reduction in annual report production and printing expenses which have been delayed, and a $50,423 reduction in "out-of-pocket" legal expenses associated with the Company's litigation with Infrared Fiber Systems, Inc.

Net interest income decreased 108%, to a net interest expense of $7,194 in the 1996 Quarter from net interest income of $94,449 in the 1995 Quarter, reflecting the decreased cash available for the Company to invest and an increase in borrowings under the Company's Credit Facility. See "-Liquidity."

Net loss decreased 42% to $697,060 in the 1996 Quarter from $1,196,208 in the 1995 Quarter. This decrease was primarily attributable to the increase in sales and decreases in research and development and general and administrative expenses, offset in part by increases in sales and marketing expenses.

LIQUIDITY

The Company's operations have been financed through the proceeds from the sale of the Company's equity securities, including the IPO, revenues from operations, proceeds from an SBIR grant and funding from a credit facility (the "Credit Facility") with Silicon Valley Bank. The Company's principal capital requirements include the financing of inventory, accounts receivable, research and development activities, the development of an ophthalmic and a surgical sales force, the development of marketing programs and the acquisition and/or licensing of patents.

At June 30, 1996 the Company had a cash balance of $135,881 and working capital of $4,449,812. This represents an increase from March 31, 1996 of $100,418 in cash and cash equivalents. This increase in cash and cash equivalents was largely due to borrowings under the Credit Facility and cash received from the exercise of Class A Warrants, partially offset by cash used in operations.

At June 30, 1996 the Company's indebtedness consisted of a $481,195 short term note payable to Pfizer HPG (the "Pfizer Note"), and $400,000 due to Silicon Valley Bank on the Credit Facility, described below. The Pfizer Note, which is secured by certain of the Company's tangible and intangible assets, is due in three installments. The first installment, of $240,598 in principal, plus accrued interest, was due in July 1996, and additional $120,299 quarterly principal payments, plus accrued interest, are due in October 1996 and January 1997. The Pfizer Note also requires mandatory prepayment upon the closing of certain equity financings by the Company. Although the first installment payment was not made in July 1996, the Company is attempting to negotiate with Pfizer HPG for an extension of this payment date. There can be no assurance that such extension will be granted or that Pfizer will not seek to enforce its rights under the Pfizer Note.

The Company has a Credit Facility with Silicon Valley Bank which permits borrowings of up to $1 million based on the value of the 1,150,000 shares of common stock of Mattan Corporation (the "Mattan Shares") held by the Company. Borrowings under the Credit Facility are secured by the Mattan Shares, bear interest at the rate of 1.0% per annum over the prime rate of interest, and are due and payable in November 1996. In connection with this Credit Facility, the Company issued to such lender warrants to purchase up to 9,756 shares of the Company's Common Stock at an exercise price equal to $10.25 per share. As of June 30, 1996, the Company had drawn $400,000 on this Credit Facility.

At March 31, 1996, the Company had net operating loss carryforwards for federal income tax purposes totaling approximately $16,319,249 which will begin to expire in fiscal 2007. Net operating loss carryforwards for state income tax purposes totaling approximately $7,895,167 at March 31, 1996 begin to expire in fiscal 1998. The Tax Reform Act of 1986 includes provisions which may limit the net operating loss carryforwards available for use in any given year if certain events occur, including significant changes in stock ownership. Utilization of the Company's net operating loss carryforwards to offset future may be limited.

The Company's future capital requirements will depend on many factors, including the progress of the Company's research and development activities, the scope and results of preclinical studies and clinical trials, the costs and timing of regulatory approvals, the rate of technology advances by the Company, competitive conditions within the medical laser industry, the establishment of manufacturing capacity and the establishment of collaborative marketing and other relationships which may either involve cash infusions to the Company, or require additional cash from the Company. The Company's ability to meet its working capital needs will be dependent on its ability to achieve a positive cash flow from operations and profitable operations, in addition to its ability to secure additional debt or equity financing. No assurance can be given that the Company will be able to achieve a positive cash flow from operations, profitable operations or secure financing on acceptable terms.

SEASONALITY OF BUSINESS

To date, the Company's revenues have typically been significantly higher in the second and fourth calendar quarters. This seasonality reflects the timing of major medical and dental industry trade shows in these quarters, significantly reduced sales during the summer and the effect of year end tax planning influencing the purchasing of capital equipment for depreciation during the fourth calendar quarter. The Company expects that this seasonality will continue indefinitely.

GOVERNMENT GRANTS

The Company has been awarded a SBIR grant for approximately $750,000 for the study of laser cataract emulsification. Approximately $647,634 of this amount was drawn at June 30, 1996. The remainder of the grant can be drawn over the next six months upon the achievement of specified criteria. The Company has also applied for new Phase I research grants related to dentistry, orthopedics, tissue mending, and ophthalmology. No assurance can be given that the Company will be awarded any of these potential government grants.

POTENTIAL FUTURE CHARGE TO INCOME

The Securities and Exchange Commission has adopted a position with respect to arrangements such as the one entered into among the Company and the holders of its outstanding Class E-1 and Class E-2 Common Stock (the "Escrow Shares") which provides that in the event any shares are released from escrow to certain persons who are officers, directors, employees or consultants of the Company, compensation expense will be recorded for financial reporting

purposes. Accordingly, the Company expects, in the event of the release of the Escrow Shares from escrow, to recognize substantial noncash charges to earnings during the periods in which the criteria for release of the Escrow Shares are met, which would have the effect of significantly increasing the Company's loss or reducing or eliminating earnings, if any, at such time. The recognition of such compensation expense by the Company may have a depressive effect on the market price of the Company's securities.

The Escrow Shares will be automatically converted into Class A Common Stock (at a conversion rate of one share of Class A Common Stock for each Escrow Share) in the event that the Company meets certain criteria relating to the market price of the Class A Common Stock or the achievement by the Company of certain levels of "income," as defined. Different criteria relate to the Class E-1 Common Stock and Class E-2 Common Stock. For these purposes, "income" means the Company's net income before provision for income taxes, including earnings from joint ventures, distribution agreements and licensing agreements, but exclusive of any other earnings that are classified as an extraordinary item, and exclusive of charges to income that may result from conversion of the Escrow Shares into Class A Common Stock, as stated in the Company's financial statements audited by the Company's independent accountants.

If none of the pretax net income or market price levels are attained, the Escrow Shares, as well as any dividends or other distributions made with respect thereto, will be cancelled. The pretax net income and market price levels were determined by negotiation between the Company and the Company's underwriter in the Company's initial public offering and should not be construed to imply or predict any future earnings by the Company or any increase in the market price of its securities. There can be no assurance that such earnings and market price levels will be attained or that any or all of the Escrow Shares will be converted into Class A Common Stock.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

In March 1994, the Company instituted litigation in the U.S. District Court, Central District of California, against Infrared Fiber Systems, Inc., a Delaware corporation ("IFS") which contracted to supply optical fiber to the Company for the Company's Er:YAG laser. Two of IFS's senior officers are also named as defendants. The Company's complaint in this matter alleges that IFS and two of its officers made misrepresentations to the Company and that IFS breached its agreement to supply fibers and certain warranties concerning the quality of the fiber to be provided. The Company is seeking damages and an injunction requiring IFS to subcontract the production of optical fiber to a third party, as provided in the supply agreement. In April 1994, IFS filed a general denial and a cross-complaint against the Company alleging breach of contract and intentional interference with prospective economic advantage, seeking compensatory damages "in excess of $500,000," punitive damages and a judicial declaration that the contract has been terminated and that IFS is free to market its fibers to others.

IFS has agreed to license certain fiber technologies, to which the Company claims exclusive license rights, to Coherent, Inc. ("Coherent"), a competitor of the Company. Coherent joined the above litigation on behalf of IFS, seeking a declaration that IFS had the legal right to enter into this license and supply the fiber covered by that agreement.

In May 1995, the Company instituted litigation concerning this dispute in the Orange County, California Superior Court against Coherent, Westinghouse Electric Corporation ("Westinghouse") and an individual employee of Westinghouse who was an officer of IFS from 1986 to 1993, when the events involved in the federal action against IFS took place and while Westinghouse owned a substantial minority interest in IFS. The complaint charges that Coherent conspired with IFS in the wrongful conduct which is the subject of the federal lawsuit described above and interfered with the Company's contracts and relations with IFS and with prospective contracts and advantageous economic relations with third parties. The complaint asserts that Westinghouse is liable for its employee's wrongful acts as an IFS executive while acting within the scope of his employment at Westinghouse. The lawsuit seeks injunctive relief and compensatory damages. In October 1995, the federal action was stayed by order of the court in favor of the California state court action, in which the pleadings have been amended to include all claims asserted by the Company in the federal action.

In July 1996, the court in the California state court action granted demurrers by Westinghouse and the employee of Westinghouse to all causes of action against them, as well as to several, but not all, of the Company's claims against Coherent. As a result, the claims that are the subject of the granted demurrers have been dismissed, subject to the Company's right to appeal. The Company has decided that it will file an appeal of these decisions. No trial date has been set as to the remaining outstanding causes of action.

In accordance with the requirements of the Exchange Act, the registrant caused this Amendment No. 1 to be signed on its behalf by the undersigned, thereunto duly authorized.

PREMIER LASER SYSTEMS, INC.

Dated: August 23, 1996 By: /S/ COLETTE COZEAN

Colette Cozean, Chief Executive Officer, as duly authorized officer on behalf of the registrant

Attachment to Quarterly Report for the quarter ended June 30, 1996

PREMIER LASER SYSTEMS INC.

FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE MONTH

PERIOD ENDED JUNE 30, 1996

Premier Laser Systems, Inc.
Balance Sheets
(Unaudited)
<TABLE>
<CAPTION>

	March 31 1996	June 30 1996
Assets		
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 35,463	$ 135,881
Short -term investments	4,547,377	3,372,260
Accounts receivable, net of allowance for doubtful accounts of $126,327	508,315	1,114,200
Inventories	2,185,355	2,466,839
Prepaid expenses and other current assets	419,504	807,365
Total current assets	7,696,014	7,896,545
Property and equipment, net	493,942	476,510
Intangibles, net	7,353,462	7,211,072
Other assets	131,150	86,150
	$ 15,674,568	$15,670,277

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable	$ 1,208,219	$ 2,313,391
Accrued liabilities	188,108	252,147
Notes payable to related party	481,195	481,195
Notes payable other		400,000
Total current liabilities	1,877,522	3,446,733
Shareholders' equity :		
Common stock - Class A - no par value 35,600,000 shares authorized; 4,702,808 and 4,748,758 shares issued and outstanding at March 31, 1996 and June 30, 1996, respectively	16,317,376	16,565,250
Common stock - Class E-1 - no par value, 2,200,000 shares authorized; 1,256,818, shares issued and outstanding at March 31, 1996 and June 30, 1996	4,769,878	4,769,878
Common stock - Class E-2 - no par value 2,200,000 authorized; 1,256,818 shares issued and outstanding at March 31, 1996 and June 30, 1996	4,769,878	4,769,878
Class A warrants	2,321,057	2,295,328
Class B warrants	376,774	453,304
Warrants to purchase Class A common stock	192,130	192,130
Unrealized holding gain on short-term investments	3,666,367	2,491,250
Accumulated deficit	(18,616,414)	(19,313,474)
Total shareholders' equity	13,797,046	12,223,544
	$ 15,674,568	$15,670,277

</TABLE>

See condensed notes to unaudited financial statements.

Premier Laser Systems, Inc.
Statements of Operations
(Unaudited)

	Three Months Ended June 30,	
	1995	1996
Net sales	$ 112,564	$1,254,082
Cost of sales	450,353	1,028,611
Gross profit (loss)	(337,789)	225,471
Selling and marketing expenses	195,831	461,772

Research and development expenses	255,959	126,779
General and administrative expenses	501,078	326,786
Loss from operations	1,290,657	689,866
Interest expense (income), net	(94,449)	7,194
Net loss	$1,196,208	$ 697,060
Net loss per share:		
Net loss	$ (.27)	$ (0.15)
Weighted average shares outstanding	4,501,899	4,719,923

See condensed notes to unaudited financial statements.

Premier Laser Systems, Inc.
Statements of Cash Flows
(Unaudited)
<TABLE>
<CAPTION>

	Three Months Ended June 30, 1995	Three Months Ended June 30, 1996
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss	($1,196,208)	($697,060)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	201,362	208,892
Exchange of product for clinical studies	--	(28,468)
Amortization of Clinical Program Expense	7,842	94,000
Provision for doubtful accounts receivable	(9,625)	(28,350)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	32,947	(577,535)
Increase in inventories	(403,185)	(281,484)
Decrease in prepaid expenses and other current assets	29,497	(453,393)
Decrease (increase) in other assets	--	45,000
Increase (decrease) in accounts payable	(297,102)	1,104,649
(Increase) decrease in accrued liabilities	(95,678)	64,039
Net cash used in operating activities	(1,730,150)	(549,710)
Cash flows from investing activities:		
Purchases of property and equipment	(3,232)	(17,666)

Patent expenditures	(54,348)	(31,404)
Net cash used in investing activities	(57,580)	(49,070)
Cash flows from financing activities:		
Proceeds from exercise of Class A Warrants		299,198
Proceeds from Credit Facility		400,000
Net cash provided by financing activities		699,198
Net increase (decrease) in cash	(1,787,730)	100,418
Cash and cash equivalents, beginning of period	5,888,237	35,463
Cash and cash equivalents, end of period	$4,100,507	$135,881

</TABLE>

See condensed notes to unaudited financial statements.

PREMIER LASER SYSTEMS, INC.
CONDENSED NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1: GENERAL

In the opinion of the Company's management, the accompanying unaudited statements include all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the financial position of the Company at June 30, 1996 and the results of operations and cash flows for the three months ended June 30. 1996 and 1995. Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. Results of operations for interim periods are not necessarily indicative of results of operations to be expected for the full year.

The financial information in this quarterly report should be read in conjunction with the audited March 31, 1996 financial statements and notes thereto included in the Company's annual report filed on Form 10-KSB.

The Company has suffered recurring losses from operations and may continue to incur losses for the foreseeable future due to the significant costs anticipated to be incurred in connection with manufacturing, marketing and distributing its laser products. In addition, the Company intends to conduct continuing research and development activities, including regulatory submittals and clinical trials to develop additional applications for its laser technology. The Company is subject to all of the risks inherent in new business enterprises. It is anticipated that these difficulties will be compounded by the highly competitive environment in which the Company operates.

NOTE 2: SHORT-TERM INVESTMENTS, STRATEGIC ALLIANCE

In December 1995, the Company entered into a strategic marketing alliance with Mattan Corporation (Mattan), a Canadian corporation whose stock is publicly traded on the Alberta Stock Exchange. The purchasing agreement (the Agreement) stipulates that the Company will supply all laser equipment and associated disposables for all laser surgery centers to be designed and opened by Mattan in Canada and the United States. It is anticipated that these surgery centers will be operated under the name of Medical Laser Institute of America. In connection with this alliance, the Company also entered into a share exchange agreement pursuant to which the Company issued 200,000 shares of the Company's Class A Common Stock to certain parties

affiliated with Mattan, who purchased 1,150,000 shares of Mattan's common stock, representing approximately 12% of Mattan's common stock, for approximately $881,010 on the Company's behalf. Prior to March 31, 1996, the Mattan affiliates sold the 200,000 shares of the Company's Class A Common Stock and released the shares of the Mattan common stock to the Company. The Company accounts for this investment as an available-for-sale security pursuant to SFAS 115. At June 30, 1996, the fair value of this investment totaled approximately $3,372,260 and the related unrealized holding gain totaled $2,491,250.

NOTE 3: INVENTORIES

Inventories are summarized as follows:

	3/31/96	6/30/96
Raw Materials	$ 938,560	$ 940,100
Work-in-progress	276,998	211,099
Finished goods	969,797	1,315,640
	$2,185,355	$2,466,839

NOTE 4: LITIGATION

The Company entered an agreement with Infrared Fiber Systems, Inc. (IFS), a supplier of certain fiber optics that expires in the fiscal year ending March 31, 2002 and requires the supplier to sell exclusively to the Company, fiber optics for medical and dental applications as long as the Company purchases the following minimum amounts.

In March 1994, the Company instituted litigation against IFS. The Company's complaint alleges that IFS and two of its officers misrepresented IFS's ability to supply optical fibers, and that IFS breached its supply agreement and certain warranties. In April 1994, IFS filed a cross-complaint alleging breach of contract and intentional interference with prospective economic advantage, seeking declaratory relief that the contract has been terminated and that IFS is free to market its fibers to others. In July 1994, Coherent, Inc., a major shareholder of IFS and a manufacturer of medical lasers which employ IFS optical fibers, joined the lawsuit for the express purpose of defending their rights to the IFS optical fibers. In May 1995, the Company instituted litigation

concerning this dispute in the Orange County, California Superior Court against Coherant, Westinghouse Electric Corporation ("Westinghouse") and an individual employee of Westinghouse who was an officer of IFS from 1986-1993, when the events involved in the federal action against IFS took place and while Westinghouse owned a substantial minority interest in IFS. The complaint charges that Coherent conspired with IFS in the wrongful conduct which is the subject of the federal lawsuit and interfered with the Company's contracts and relations with IFS and with prospective contracts and advantageous economic relations with third parties. The complaint asserts that Westinghouse is liable for its employee's wrongful acts as an IFS executive while acting within the scope of his employment at Westinghouse. The lawsuit seeks injunctive relief and compensatory damages. In October 1995 the federal action was stayed by order of the court in favor of the California state court action, in which the pleadings have been amended to include all claims asserted by the Company in the federal action. No trial date had been set. The Company believes that the likely liability of the Company, if any, arising from this litigation would not have a materially adverse impact upon the Company.

The Company is involved in various disputes and other lawsuits from time to time arising from its normal operations. The litigation process is inherently uncertain and it is possible that the resolution of the IFS litigation, disputes and other lawsuits may adversely affect the Company. It is the opinion of management, that the outcome of such matters will not have a material adverse impact on the Company's financial position, results of operations or cash flows.