

SOLTA MEDICAL INC  
Form 10-Q/A  
August 07, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q/A**

**Amendment No. 1**

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

For the quarterly period ended June 30, 2012

**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: 001-33123

**SOLTA MEDICAL, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**68-0373593**  
(I.R.S. Employer  
Identification No.)

**25881 Industrial Boulevard, Hayward, California 94545**  
(Address of principal executive offices) (Zip Code)

**(510) 782-2286**  
(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 or a small reporting company. See definition 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 reporting company) Smaller 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

As of July 31, 2012, 61,945,965 shares of the registrant's common stock were outstanding.

**Explanatory Note**

This Amendment No. 1 to the Quarterly Report on Form 10-Q/A (this Amendment) of Solta Medical, Inc. (Solta Medical) for the quarterly period ended June 30, 2012 is being filed solely to amend a typographical error in the Condensed Consolidated Statement of Cash Flows of Solta Medical's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 1, 2012 (the Original Filing). The Amendment corrects the amounts for the Acquisition of property and equipment and the Net cash used in investing activities in the Cash flows from investing activities line items of the Condensed Consolidated Statements of Cash Flows from \$1,178 to \$(1,178) for the six months ended June 30, 2012 in Solta Medical's Original Filing. All other amounts on the Condensed Consolidated Statement of Cash Flows, including Net (decrease) increase in cash and cash equivalents and Cash and cash equivalents at end of period amounts, as previously reported were accurate and were not affected by the correction of the typographical error. In addition, Solta Medical's Exhibit 101 to the Original Filing which contained the XBRL (eXtensible Business Reporting Language) Interactive Data File did not contain the typographical error and was accurate as previously filed.

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the complete text of Part I, Item 1: Financial Statements is contained in this Amendment. All other items remain unchanged and are not reproduced in this Amendment. This Amendment should be read in conjunction with the Original Filing. Except as specifically noted above, this Amendment does not modify or update disclosures in the Original Filing. Accordingly, this Amendment does not reflect any events that have occurred subsequent to the Original Filing.

## PART 1. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (unaudited)

## Solta Medical, Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS

*(in thousands of dollars, except share and per share data)*

(Unaudited)

|  | June 30,<br>2012  | December 31,<br>2011 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| Current assets:  |                   |                      |
| Cash and cash equivalents  | \$ 15,550         | \$ 17,417            |
| Accounts receivable  | 14,995            | 13,282               |
| Inventories  | 16,452            | 16,524               |
| Prepaid expenses and other current assets  | 7,883             | 8,626                |
| <b>Total current assets</b>  | <b>54,880</b>     | <b>55,849</b>        |
| Property and equipment, net  | 6,449             | 6,818                |
| Purchased intangible assets, net   | 45,887            | 49,352               |
| Goodwill   | 96,620            | 96,620               |
| Other assets   | 646               | 659                  |
| <b>Total assets</b>  | <b>\$ 204,482</b> | <b>\$ 209,298</b>    |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                   |                      |
| Liabilities:   |                   |                      |
| Accounts payable   | \$ 5,606          | \$ 5,767             |
| Accrued liabilities  | 16,465            | 16,126               |
| Current portion of contingent consideration liability  | 22,200            |                      |
| Current portion of deferred revenue  | 4,186             | 4,521                |
| Short-term borrowings  | 7,623             | 7,441                |
| Customer deposits  | 880               | 610                  |
| <b>Total current liabilities</b>   | <b>56,960</b>     | <b>34,465</b>        |
| Deferred revenue, net of current portion   | 642               | 824                  |
| Term loan, net of current portion  | 13,973            | 16,959               |
| Non-current tax liabilities  | 2,999             | 2,975                |
| Contingent consideration liability   | 36,300            | 27,800               |
| Other liabilities  | 110               | 92                   |
| <b>Total liabilities</b>   | <b>110,984</b>    | <b>83,115</b>        |
| Contingencies (Note 7)   |                   |                      |
| Stockholders' equity:  |                   |                      |
| Preferred stock, \$0.001 par value:  |                   |                      |
| 10,000,000 shares authorized, none issued and outstanding  |                   |                      |
| Common stock, \$0.001 par value:   |                   |                      |
| 100,000,000 shares authorized, 61,921,292 and 61,130,740 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively. |                   |                      |
|  | 62                | 61                   |
| Additional paid-in capital   | 200,964           | 198,565              |
| Accumulated deficit  | (107,528)         | (72,443)             |

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|  |            |            |
|--|------------|------------|
| Total stockholders' equity                 | 93,498     | 126,183    |
| Total liabilities and stockholders' equity | \$ 204,482 | \$ 209,298 |

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

## Solta Medical, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

*(in thousands of dollars, except share and per share data)*

(Unaudited)

|  | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2012                           | 2011       | 2012                         | 2011       |
| Net revenue  | \$ 37,262                      | \$ 28,954  | \$ 69,716                    | \$ 55,405  |
| Cost of revenue  | 13,714                         | 10,391     | 25,925                       | 18,781     |
| Gross margin   | 23,548                         | 18,563     | 43,791                       | 36,624     |
| <b>Operating expenses</b>  |                                |            |                              |            |
| Sales and marketing  | 13,673                         | 11,915     | 27,619                       | 23,733     |
| Research and development   | 5,013                          | 3,648      | 10,318                       | 7,213      |
| General and administrative   | 4,615                          | 3,608      | 9,275                        | 7,334      |
| Remeasurement of contingent consideration liability                                | 26,000                         | (484)      | 30,700                       | (484)      |
| Total operating expenses   | 49,301                         | 18,687     | 77,912                       | 37,796     |
| Loss from operations   | (25,753)                       | (124)      | (34,121)                     | (1,172)    |
| Interest income  | 2                              | 19         | 5                            | 33         |
| Interest expense   | (350)                          | (21)       | (701)                        | (74)       |
| Other income and expense, net  | (121)                          | (9)        | (147)                        | 118        |
| Loss before income taxes   | (26,222)                       | (135)      | (34,964)                     | (1,095)    |
| Income tax provision   | 64                             | 71         | 121                          | 136        |
| Net loss   | \$ (26,286)                    | \$ (206)   | \$ (35,085)                  | \$ (1,231) |
| Net loss per share:  |                                |            |                              |            |
| Basic and diluted  | \$ (0.43)                      | \$ (0.00)  | \$ (0.57)                    | \$ (0.02)  |
| Weighted average shares outstanding used in calculating net loss per common share: |                                |            |                              |            |
| Basic and diluted  | 61,719,575                     | 60,634,849 | 61,536,050                   | 60,269,804 |

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

## Solta Medical, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

*(in thousands of dollars)***(Unaudited)**

|   | <b>Six Months Ended<br/>June 30,</b> |              |
|---|--------------------------------------|--------------|
|   | <b>2012</b>                          | <b>2011</b>  |
| <b>Cash flows from operating activities</b>                                     |                                      |              |
| Net loss  | \$ (35,085)                          | \$ (1,231)   |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                                      |              |
| Depreciation and amortization   | 5,340                                | 3,730        |
| Loss on disposal of property, plant and equipment                               | 33                                   | 41           |
| Stock-based compensation  | 2,349                                | 1,481        |
| Contingent consideration fair value adjustment                                  | 30,700                               | (484)        |
| Loan warrant discount amortization  | 44                                   | 9            |
| Provision for doubtful accounts   | 392                                  | (74)         |
| Provision for excess and obsolete inventory                                     | 464                                  | 70           |
| Change in assets and liabilities:   |                                      |              |
| Accounts receivable   | (2,105)                              | (719)        |
| Inventories   | (611)                                | (3,072)      |
| Prepaid expenses and other current assets                                       | 743                                  | (336)        |
| Other assets  | 13                                   | (179)        |
| Accounts payable  | (223)                                | 955          |
| Accrued and other liabilities   | 327                                  | (890)        |
| Deferred revenue  | (517)                                | 704          |
| Customer deposits   | 270                                  | 225          |
| Deferred rent   | (25)                                 | (14)         |
| <b>Net cash provided by operating activities</b>                                | <b>2,109</b>                         | <b>216</b>   |
| <b>Cash flows from investing activities</b>                                     |                                      |              |
| Acquisition of property and equipment   | (1,178)                              | (620)        |
| <b>Net cash used in investing activities</b>                                    | <b>(1,178)</b>                       | <b>(620)</b> |
| <b>Cash flows from financing activities</b>                                     |                                      |              |
| Repayment of loan agreement and short-term margin account borrowings            | (6,348)                              | (16,752)     |
| Cash settlement of vested restricted stock units                                | (469)                                |              |
| Proceeds from exercise of stock options   | 180                                  | 1,174        |
| Proceeds from employee stock purchase plan                                      | 339                                  | 192          |
| Proceeds from loan agreement borrowings   | 3,500                                | 16,000       |
| <b>Net cash (used in) provided by financing activities</b>                      | <b>(2,798)</b>                       | <b>614</b>   |
| Net (decrease) increase in cash and cash equivalents                            | (1,867)                              | 210          |
| Cash and cash equivalents at beginning of period                                | 17,417                               | 36,898       |
| Cash and cash equivalents at end of period                                      | \$ 15,550                            | \$ 37,108    |
| <b>Supplemental disclosure of cash flow information</b>                         |                                      |              |
| Cash paid for interest  | \$ 387                               | \$ 73        |
| Cash paid for taxes   | 34                                   | 102          |

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**Supplemental disclosure of non-cash investing and financing activities**

|  |       |     |
|--|-------|-----|
| Accounts payable and accrued liabilities related to property and equipment purchases | 329   | 144 |
| Issuance of common stock for vested restricted stock units                           | 1,849 | 132 |
| Equity investment earned in the period   |       | 150 |
| Accrued interest for final payment on debt financings                                | 267   |     |

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



**Solta Medical, Inc.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(in thousands of dollars, except share and per share amounts)*

**(Unaudited)**

**NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Background***

Solta Medical, Inc. (the Company) develops, manufactures, and markets aesthetic energy devices to address a range of issues, including skin resurfacing and skin rejuvenation, skin tightening and body contouring, and acne reduction. The Company was incorporated in California on January 11, 1996 as Thermage, Inc. and reincorporated in Delaware on September 10, 2001. The Company commercially launched its first products in October 2002.

***Basis of Presentation***

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the Company's financial position as of the date of the interim balance sheet and results of operations and cash flows for the interim periods. The results for the three and six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the year ending December 31, 2012 or for any other interim period or for any future year.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2011 included in the Company's Annual Report on Form 10-K.

***Significant Accounting Policies***

The Company's significant accounting policies that are disclosed in the Company's Annual Report on Form 10-K filed on March 14, 2012 have not changed since December 31, 2011.

***Reclassifications***

To maintain comparability among the periods presented, the Company has reclassified the presentation of certain prior period amounts reported. The Company made the following reclassifications to conform to the three and six months ended June 30, 2012 presentation:

Within the Consolidated Statement of Operations for the three and six months ended June 30, 2011, the Company reclassified amounts that were recorded within general and administrative to remeasurement of contingent consideration liability. The reclassification had no impact on the total loss before income taxes in the periods presented; and

Within the operating activities section of the Consolidated Statements of Cash Flows for the six months ended June 30, 2011, the Company reclassified amounts that were recorded within accrued and other liabilities to contingent consideration fair value adjustment. The reclassification had no impact to the total net cash provided by operating activities in the period presented.

***Segment Information***

The Company operates in one business segment, which encompasses the developing, manufacturing and marketing of aesthetic energy devices. Management uses one measurement of profitability and does not segregate its business for internal reporting. Long-lived assets are primarily maintained in the United States. The Chief Operating Decision Maker is the Chairman, President and Chief Executive Officer of the Company.



The following table summarizes net revenue by product:

|                            | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|----------------------------|--------------------------------|-----------|------------------------------|-----------|
|                            | 2012                           | 2011      | 2012                         | 2011      |
| Systems                    | \$ 17,634                      | \$ 11,553 | \$ 31,776                    | \$ 19,720 |
| Tips and other consumables | 18,167                         | 15,831    | 34,945                       | 32,608    |
| Net revenue from products  | 35,801                         | 27,384    | 66,721                       | 52,328    |
| Services and other         | 1,461                          | 1,570     | 2,995                        | 3,077     |
| Total net revenue          | \$ 37,262                      | \$ 28,954 | \$ 69,716                    | \$ 55,405 |

The following table summarizes net revenue by geographic region:

|                    | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--------------------|--------------------------------|-----------|------------------------------|-----------|
|                    | 2012                           | 2011      | 2012                         | 2011      |
| North America      | \$ 19,349                      | \$ 13,426 | \$ 36,334                    | \$ 24,267 |
| Asia Pacific       | 12,703                         | 9,594     | 22,866                       | 18,128    |
| Europe/Middle East | 3,841                          | 4,443     | 8,267                        | 10,207    |
| Rest of the world  | 1,369                          | 1,491     | 2,249                        | 2,802     |
| Total net revenue  | \$ 37,262                      | \$ 28,954 | \$ 69,716                    | \$ 55,404 |

## NOTE 2 NET LOSS PER COMMON SHARE

Basic net loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period.

Diluted net loss per share attributed to common shares is computed by dividing the net loss attributable to common shares for the period by the weighted average number of common and potential common shares outstanding during the period, if the effect of each class of potential common shares is dilutive. Potential common shares include common stock subject to repurchase rights and shares of common stock issuable upon the exercise of stock options and warrants and shares of common stock issuable under the Employee Stock Purchase Plan and restricted stock units. The dilutive effect of potential common shares is reflected in diluted net loss per share by application of the treasury stock method, which includes consideration of stock-based compensation.

Diluted net loss per share is the same as basic net loss per share for all periods presented because any potential dilutive common shares were anti-dilutive. Such potentially dilutive shares are excluded from the computation of diluted net loss per share when the effect would be to reduce net loss per share. Therefore, in periods when a loss is reported, the calculation of basic and diluted loss per share results in the same value.

|   | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 2012                           | 2011       | 2012                         | 2011       |
| <b>Historical net loss per share:</b>   |                                |            |                              |            |
| Numerator:  |                                |            |                              |            |
| Net loss  | \$ (26,286)                    | \$ (206)   | \$ (35,085)                  | \$ (1,231) |
| Denominator:  |                                |            |                              |            |
| Weighted-average common shares outstanding used in calculating basic and diluted net loss per share | 61,719,575                     | 60,634,849 | 61,536,050                   | 60,269,804 |

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|                                      |    |        |    |        |    |        |    |        |
|--------------------------------------|----|--------|----|--------|----|--------|----|--------|
| Basic and diluted net loss per share | \$ | (0.43) | \$ | (0.00) | \$ | (0.57) | \$ | (0.02) |
|--------------------------------------|----|--------|----|--------|----|--------|----|--------|

The following outstanding options, warrants, common stock issuable under the Employee Stock Purchase Plan and restricted stock units were excluded from the computation of diluted net loss per common share for the periods presented because including them would have had an antidilutive effect:

|  | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--|--------------------------------|-----------|------------------------------|-----------|
|  | 2012                           | 2011      | 2012                         | 2011      |
| Options to purchase common stock                         | 5,609,670                      | 6,153,367 | 5,609,670                    | 6,153,367 |
| Common stock warrants                                    | 4,279,952                      | 4,279,952 | 4,279,952                    | 4,279,952 |
| Restricted stock units                                   | 2,738,871                      | 1,692,130 | 2,738,871                    | 1,692,130 |
| Common stock issuable under Employee Stock Purchase Plan | 155,695                        | 111,992   | 155,695                      | 111,992   |

**NOTE 3 LIPOSONIX AQUISITION**

On September 12, 2011, the Company entered into a stock purchase agreement ( Purchase Agreement ) with Medicis Pharmaceutical Corporation ( Medicis ) pursuant to which the Company agreed to acquire from Medicis all the outstanding shares of Medicis Technologies Corporation (f/k/a LipoSonix, Inc.) ( Liposonix ), subject to the terms and conditions of the Purchase Agreement. The Company closed the transaction on November 1, 2011. In connection with the transaction, the Company has agreed to pay to Medicis additional cash payments, which obligation will expire after approximately seven years, based upon, among other things, the achievement of year-to-year increases and specified targets in the adjusted net sales and adjusted gross profits of the Liposonix products, subject to the terms and conditions of the Purchase Agreement. The fair value of the total contingent consideration recognized on the acquisition date of \$26.6 million was estimated by applying a probability weighted discounted cash-flow approach.

As of June 30, 2012, the fair value of this contingent consideration liability has been increased to \$58,500 to reflect the updated fair value estimate of the liability and accordingly a \$26,000 and \$30,700 charge was recognized as an expense in our condensed consolidated statement of operations during the three and six months ended June 30, 2012, respectively (see note 4 regarding Level 3 unobservable inputs used at June 30, 2012 to measure the contingent consideration liability). The increase in the updated fair value of the contingent consideration is due primarily to the Company s estimate of higher achievement in specified net sales and adjusted gross profit targets over the seven-year earnout period.

As of June 30, 2012 and December 31, 2011, \$22,200 and \$0, respectively, of the contingent consideration liability was classified as current, and \$36,300 and \$27,800, respectively, was classified as non-current.

For the three and six months ended June 30, 2012, revenue from the sales of Liposonix products was \$9,371 and \$16,996, respectively. Net income associated with Liposonix products and operations cannot be determined given the integration of Liposonix operations within the Company.

Reliable information to provide pro forma financial information disclosure on the Liposonix acquisition is currently unavailable and impracticable to prepare at this time. Therefore, such pro forma financial information has not been included herein.

**NOTE 4 BALANCE SHEET DETAIL**

*Inventories, Net*

Inventories, net consist of the following:

|                 | June 30,<br>2012 | December 31,<br>2011 |
|-----------------|------------------|----------------------|
| Raw materials   | \$ 6,806         | \$ 6,344             |
| Work-in-process | 681              | 324                  |
| Finished goods  | 8,965            | 9,856                |
|                 | \$ 16,452        | \$ 16,524            |



**Intangible Assets**

The Company's intangible assets were acquired in connection with the acquisition of Reliant Technologies, Inc. on December 23, 2008, Aesthera Corporation on February 26, 2010, CLRS Technology Corporation on October 15, 2010 and Liposonix on November 1, 2011. The carrying amount and accumulated amortization expense of the acquired intangible assets at June 30, 2012 and December 31, 2011 were as follows:

| <b>June 30, 2012</b>                                      | <b>Estimated Useful Life</b> | <b>Gross Carrying Value</b> | <b>Accumulated Amortization</b> | <b>Net Carrying Value</b> |
|---|------------------------------|-----------------------------|---------------------------------|---------------------------|
| <b>Intangible assets amortized to cost of revenue:</b>    |                              |                             |                                 |                           |
| Core technology   | 6 -12 years                  | \$ 21,320                   | (\$ 6,451)                      | \$ 14,869                 |
| Product technology  | 7 - 9 years                  | 25,170                      | (5,842)                         | 19,328                    |
| Future royalties contract                                 | 10 years                     | 3,890                       | (292)                           | 3,598                     |
|   |                              | 50,380                      | (12,585)                        | 37,795                    |
| <b>Intangible assets amortized to operating expenses:</b> |                              |                             |                                 |                           |
| Trade Names   | 6 -10 years                  | 5,080                       | (1,528)                         | 3,552                     |
| Customer relationships                                    | 4 -12 years                  | 6,710                       | (2,170)                         | 4,540                     |
|   |                              | 11,790                      | (3,698)                         | 8,092                     |
| <b>Total intangible assets</b>                            |                              | <b>\$ 62,170</b>            | <b>(\$ 16,283)</b>              | <b>\$ 45,887</b>          |

| <b>December 31, 2011</b>                                  | <b>Estimated Useful Life</b> | <b>Gross Carrying Value</b> | <b>Accumulated Amortization</b> | <b>Net Carrying Value</b> |
|---|------------------------------|-----------------------------|---------------------------------|---------------------------|
| <b>Intangible assets amortized to cost of revenue:</b>    |                              |                             |                                 |                           |
| Core technology   | 6 -12 years                  | \$ 21,320                   | (\$ 5,441)                      | \$ 15,879                 |
| Product technology  | 7 - 9 years                  | 25,170                      | (4,295)                         | 20,875                    |
| Future royalties contract                                 | 10 years                     | 3,890                       | (97)                            | 3,793                     |
|   |                              | 50,380                      | (9,833)                         | 40,547                    |
| <b>Intangible assets amortized to operating expenses:</b> |                              |                             |                                 |                           |
| Trade name  | 6 -10 years                  | 5,080                       | (1,224)                         | 3,856                     |
| Customer relationships                                    | 4 -12 years                  | 6,710                       | (1,761)                         | 4,949                     |
|   |                              | 11,790                      | (2,985)                         | 8,805                     |
| <b>Total intangible assets</b>                            |                              | <b>\$ 62,170</b>            | <b>(\$ 12,818)</b>              | <b>\$ 49,352</b>          |

The Company has included amortization of acquired intangible assets directly attributable to revenue-generating activities in cost of revenue. The Company has included amortization of acquired intangible assets not directly related to revenue-generating activities in operating expenses. During the three and six months ended June 30, 2012, the Company recorded amortization expense in the amount of \$1,375 and \$2,752 to cost of revenue and \$355 and \$713 to operating expenses, respectively, and during the three and six months ended June 30, 2011, the Company recorded amortization expense in the amount of \$835 and \$1,671 to cost of revenue and \$284 and \$513 to operating expenses, respectively.

As of June 30, 2012, the total expected future amortization related to the Company's existing intangible assets, is as follows:

|                     | Amortization<br>included in Cost<br>of Revenue | Amortization<br>included in<br>Operating<br>Expense | Total<br>Amortization<br>Expense |
|---------------------|--|---|----------------------------------|
| 2012                | \$ 2,750                                       | \$ 711  | \$ 3,461                         |
| 2013                | 5,498  | 1,419   | 6,917                            |
| 2014                | 5,498  | 1,408   | 6,906                            |
| 2015                | 5,469  | 1,136   | 6,605                            |
| 2016 and thereafter | 18,580   | 3,418   | 21,998                           |
|                     | \$ 37,795                                      | \$ 8,092  | \$ 45,887                        |

The Company tests its long-lived assets for impairment if events or changes in circumstances indicate that the assets may be impaired. The impairment test is based on our single operating segment and reporting unit structure. No impairment indicators of intangibles and long-lived assets were identified through June 30, 2012. There can be no assurance that future long-lived asset impairments will not occur.

### *Goodwill*

The changes in the carrying amount of goodwill are as follows:

|                                | June 30,<br>2012 | December 31,<br>2011 |
|--------------------------------|------------------|----------------------|
| Balance at beginning of period | \$ 96,620        | \$ 49,481            |
| Addition from acquisition      |                  | 47,139               |
| Balance at end of period       | \$ 96,620        | \$ 96,620            |

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. The Company tests goodwill for impairment at least annually or more frequently if events or changes in circumstances indicate that this asset may be impaired. The goodwill test is based on our single operating segment and reporting unit structure. No goodwill impairment was identified through June 30, 2012. There can be no assurance that future goodwill impairments will not occur.

### *Accrued Liabilities*

Accrued liabilities consist of the following:

|                                | June 30,<br>2012 | December 31,<br>2011 |
|--------------------------------|------------------|----------------------|
| Payroll and related expenses   | \$ 6,096         | \$ 6,002             |
| Accrued claims and settlements | 3,089            | 3,058                |
| Standard warranty              | 1,619            | 1,647                |
| Professional fees              | 557              | 773                  |
| Other                          | 5,104            | 4,646                |
|                                | \$ 16,465        | \$ 16,126            |

### *Fair Value of Financial Instruments*



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Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. A fair value hierarchy prioritizes the inputs used in measuring fair value as follows:

Level 1 - Observable inputs, such as quoted prices in active markets for identical assets and liabilities.

Level 2 - Inputs other than the quoted prices in active markets that are observable either directly or indirectly at the measurement date and for the duration of the instruments anticipated life.

Level 3 - Unobservable inputs in which there is little or no market data and that are significant to the fair value of the assets and liabilities and which reflect the Company's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The Company considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents. The Company's cash equivalents are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices for identical assets that the Company has the ability to assess at the measurement date. On a recurring basis, the Company measures its cash equivalents at fair value. The Company's cash equivalents, which are money market funds and other instruments that mature in three months or less at the time of purchase, are classified as such at June 30, 2012 and December 31, 2011.

Carrying amounts of the Company's financial instruments, including accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to their short maturities. The carrying amounts of other assets and liabilities approximate their fair values based upon their nature and size.

The carrying value of the Company's term loans under the credit facility approximates fair value as they bear interest based on prevailing variable market rates currently available. As a result, the Company categorizes these term loans as Level 2 in the fair value hierarchy.

The Company's contingent consideration liability is classified within Level 3 of the fair value hierarchy because it is valued using unobservable inputs in which the Company developed its own assumptions at June 30, 2012. At the end of each reporting period, the Company remeasures its contingent consideration liability at fair value.

The unobservable inputs at June 30, 2012 are as follows:

| Level 3 Fair Value Measurement     | Fair Value at<br>June 30,<br>2012 | Valuation Technique  | Unobservable Input               | Input % |
|------------------------------------|-----------------------------------|----------------------|----------------------------------|---------|
| Contingent consideration liability | \$ 58,500                         | Discounted cash flow | Weighted average cost of capital | 20.0%   |
|                                    |                                   |                      | Long term discount rate          | 25.0%   |

The unobservable inputs at December 31, 2011 are as follows:

| Level 3 Fair Value Measurement     | Fair Value<br>at<br>December 31,<br>2011 | Valuation Technique  | Unobservable Input               | Input % |
|------------------------------------|--|----------------------|----------------------------------|---------|
| Contingent consideration liability | \$ 27,800                                | Discounted cash flow | Weighted average cost of capital | 25.1%   |
|                                    |  |                      | Long term discount rate          | 30.0%   |

The significant unobservable inputs used in the fair value measurement of the Company's contingent consideration liability are weighted average cost of capital and long term discount rate. Significant increases or decreases in any of these inputs in isolation would result in a significantly higher or lower fair value measurement. Generally, a change in the assumption used for the weighted average cost of capital is accompanied by a directionally similar change in the assumption used for the long term discount rate.

The change in the value of the contingent consideration liability is summarized below:

|   |           |
|---|-----------|
| Fair value at December 31, 2011   | \$ 27,800 |
| Change in fair value of the contingent consideration liability recorded as an expense | 30,700    |
| Fair value at June 30, 2012   | \$ 58,500 |



**NOTE 5 WARRANTY AND SERVICE CONTRACTS***Standard Warranty*

The Company currently accrues for the estimated cost to repair or replace or replace products under warranty at the time of sale and is recorded as a current liability in accrued liabilities. A summary of standard warranty accrual activity is shown below:

|  | Six Months Ended<br>June 30, |          |
|--|------------------------------|----------|
|  | 2012                         | 2011     |
| Balance at beginning of period                   | \$ 1,647                     | \$ 1,525 |
| Accruals for warranties issued during the period | 2,025                        | 1,505    |
| Settlements made during the period               | (2,053)                      | (1,559)  |
| Balance at end of period                         | \$ 1,619                     | \$ 1,471 |

*Extended Warranty Service Contracts*

The Company sells extended warranty service contracts to its customers. At the time of sale, the Company defers the amounts billed for such service contracts. Deferred service contract revenue, included in deferred revenue on the balance sheet, is recognized on a straight-line basis over the period of the applicable extended warranty contract. A summary of extended warranty contract activity is shown below:

|                                | Six Months Ended<br>June 30, |          |
|--------------------------------|------------------------------|----------|
|                                | 2012                         | 2011     |
| Balance at beginning of period | \$ 3,256                     | \$ 2,805 |
| Payments received              | 1,963                        | 2,112    |
| Revenue recognized             | (2,197)                      | (1,960)  |
| Balance at end of period       | \$ 3,022                     | \$ 2,957 |

As of June 30, 2012 and December 31, 2011, \$2,380 and \$2,432, respectively, of the extended warranty contracts was classified as current, and \$642 and \$824, respectively, was classified as non-current. The Company incurred costs of \$445 and \$811 under extended warranty contracts during the three and six months ended June 30, 2012, respectively, and costs of \$369 and \$694 during the three and six months ended June 30, 2011, respectively.

**NOTE 6 CREDIT FACILITY**

The Company entered into a Loan and Security Agreement (the *Loan Agreement*) with Silicon Valley Bank (the *Lender*) on March 9, 2009, with subsequent amendments through October 25, 2011. The amendments include increasing our revolving loan facility to \$8,000. At June 30, 2012, \$1,750 was outstanding on the revolving loan facility and \$20,000 was outstanding as secured term loans under the Loan Agreement. As of June 30, 2012, the Loan Agreement contains financial covenants requiring us to maintain a minimum liquidity, a maximum leverage ratio and a minimum fixed charge coverage ratio. The Company was in compliance with these covenants as of June 30, 2012. The Company repaid all funds drawn from the revolving loan facility in July 2012.

**NOTE 7 CONTINGENCIES***Litigation Matters*

From time to time, the Company is involved in litigation relating to claims arising from the ordinary course of business. The Company routinely assesses the likelihood of any adverse judgments or outcomes related to legal matters and claims, including those involving its intellectual property protection, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after thoughtful analysis of each known issue and an analysis of historical experience. In the cases where we believe that a reasonably

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possible loss exists, we disclose the facts and circumstances of the litigation, including an estimated range, if possible. The Company does not believe the final disposition of these matters will have a material effect on the financial statements and future cash flows of the Company. All legal expenses, including those related to intellectual property protection, are expensed as they are incurred.

On December 21, 2009, a complaint was filed in the Santa Clara County Superior Court by three former stockholders of Reliant against Reliant and certain former officers and directors of Reliant in connection with the Company's acquisition of Reliant, which closed on December 23, 2008. The complaint purports to be brought on behalf of the former common stockholders of Reliant. As a result of the acquisition, a successor entity to Reliant, Reliant Technologies, LLC, became the Company's wholly-owned subsidiary. One member of the Company's Board of Directors and the Company's former Chief Technology Officer and former member of the Company's Board of Directors are among the defendants named in the complaint. The principal claim, among others,

is that Reliant violated the California Corporations Code by failing to obtain the vote from a majority of holders of Reliant's common stock prior to the consummation of the acquisition. The complaint also purports to challenge disclosures made by Reliant in connection with its entry into the acquisition and alleges that the defendants failed to maximize the value of Reliant for the benefits of Reliant's common stockholders. On August 2, 2010, defendants filed a motion to dismiss or stay the entire action based on a mandatory forum selection clause in the merger agreement which requires that claims related to the merger be litigated in Delaware. On September 28, 2010, the Court granted the defendants motion to dismiss or stay, and stayed the action indefinitely. On January 20, 2012, the Court dismissed plaintiffs' case without prejudice. Plaintiffs have appealed. To date, the plaintiffs have not filed a complaint against the defendants in Delaware. The Company believes that this suit is without merit, and the Company intends to vigorously defend it. Although the Company does not expect that the final disposition of this litigation will have a material effect on its financial results, the Company expects to devote certain personnel and resources to resolve this litigation.

On December 4, 2009, Aesthera was served with a class action complaint filed in the United States District Court for the District of Connecticut alleging that Aesthera caused unsolicited fax advertisements to be sent to the plaintiffs in violation of the Telephone Consumer Protection Act, or TCPA, and Connecticut state law. The complaint purports to be filed on behalf of a class, and it alleges that Aesthera caused unsolicited fax advertisements to be sent from August 1, 2006 through the present. Plaintiffs seek statutory damages under the TCPA and Connecticut state law, attorneys' fees and costs of the action, and an injunction to prevent any future violations. In May 2010, Aesthera reached an agreement in principle to settle the matter on a class-wide basis by consenting to certification of a settlement class to receive payment out of a settlement fund. On November 5, 2010, the plaintiffs filed an unopposed motion for certification of a settlement class and for preliminary approval of the parties' settlement. On April 15, 2011, the Court denied plaintiffs' motion without prejudice on the grounds that the proposed means of giving notice to the class i.e., via fax was not adequate. The Court directed the plaintiffs to revise their motion to provide for notice to the class via United States mail. The Court further directed that the cost of this notice should be borne by Aesthera without reduction to the amount of the settlement fund. On August 22, 2011, the plaintiffs filed a renewed unopposed motion for certification of a settlement class and for preliminary approval of the parties' settlement. This renewed motion provides for notice to the class via United States mail. Pursuant to the Class Action Fairness Act (see 28 U.S.C. § 1715), on August 30, 2011, Aesthera gave the Attorney General of the United States and each of the state attorneys general notice of the proposed settlement. On September 29, 2011, the Court entered an Order stating that it would grant plaintiffs renewed motion upon submission of a revised notice to the class providing that the claim form will be a fillable PDF that will enable perspective class members to complete and submit the form electronically. On October 12, 2011, the parties jointly submitted revised long-form and summary versions of the Notice to the Class providing that the Proof of Claim will be a fillable PDF that will enable perspective class members, if they so choose, to complete and submit the form electronically without need to print it. On October 14, 2011, the Court granted Plaintiffs renewed Motion to Certify Class for Preliminary Approval of Class Settlement. Notice was sent by the claim's administrator to potential members of the class. A fairness hearing was held on March 27, 2012 at which the Court approved the settlement subject to certain conditions, which have since been fulfilled. On May 5, 2012, the Court ordered the Plaintiffs to submit an amended settlement agreement and final approval order. Plaintiffs filed the required papers on June 15, 2012. Upon the Court's execution of the final approval order, the Company will be released from the class claims. The Company does not believe the final disposition of this action will have a material effect on its financial statements and future cash flows.

In January 2008, a product design complaint was filed against the Company in Federal District Court in Maryland. The individual plaintiff sought monetary damages, attorney's fees and costs of the action. Trial commenced on September 11, 2011. On September 29, 2011 a jury reached a verdict which was in favor of the plaintiff and awarded to the plaintiff an amount of total damages that is within the Company's insurance limits. In response to the verdict, the Company filed a motion for judgment notwithstanding the verdict and alternatively, a motion for a new trial. If those motions are not successful, the Company expects to file an appeal to the Circuit Court of Appeals. The Company believes that it has meritorious reasons to contest and appeal the judgment.

### *Indemnifications*

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and provide for general indemnifications. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. To date, the Company has not paid any claims or been required to defend any action related to its indemnification obligations. However, the Company may record charges in the future as a result of these indemnification obligations.

In accordance with its certificate of incorporation, bylaws and individual indemnification agreements, the Company has indemnification obligations to its officers and directors and certain key employees for certain events or occurrences, subject to certain limits, while they are serving at the Company's request in such a capacity. There have been no claims to date and the Company has a director and officer insurance policy that may enable it to recover a portion of any amount paid for future claims.

**NOTE 8 STOCK-BASED COMPENSATION**

Stock-based compensation expense is recognized using a fair-value based method for costs related to all share-based payments related to stock options granted to employees and non-employees, the Employee Stock Purchase Plan and restricted stock unit awards. The stock-based compensation expenses are allocated to cost of revenue, sales and marketing, research and development and general and administrative as follows:

|   | Three Months       |               | Six Months ended |                 |
|---|--------------------|---------------|------------------|-----------------|
|   | ended              |               | June 30,         |                 |
|   | 2012               | 2011          | 2012             | 2011            |
| <b>Stock-based compensation expense:</b>      |                    |               |                  |                 |
| Employee stock-based compensation expense     | \$ 189             | \$ 371        | \$ 370           | \$ 774          |
| Employee stock purchase plan                  | 95                 | 389           | 167              | 85              |
| Restricted and market -based stock units      | 925                | 52            | 1,812            | 622             |
| <b>Total stock-based compensation expense</b> | <b>\$ 1,209</b>    | <b>\$ 812</b> | <b>\$ 2,349</b>  | <b>\$ 1,481</b> |
|   |                    |               |                  |                 |
|   | Three Months ended |               | Six Months ended |                 |
|   | June 30,           |               | June 30,         |                 |
|   | 2012               | 2011          | 2012             | 2011            |
| Cost of revenue                               | \$ 127             | \$ 95         | \$ 239           | \$ 164          |
| Sales and marketing                           | 259                | 193           | 466              | 419             |
| Research and development                      | 197                | 95            | 359              | 142             |
| General and administrative                    | 626                | 429           | 1,285            | 756             |
| <b>Total stock-based compensation expense</b> | <b>\$ 1,209</b>    | <b>\$ 812</b> | <b>\$ 2,349</b>  | <b>\$ 1,481</b> |

During the six months ended June 30, 2012, under the 2006 Equity Incentive Plan, the board of directors approved the issuance of 961,954 shares of restricted stock units and 699,000 shares of market-based stock units to certain employees. The fair value of the restricted stock awards of \$2,839 was based on the closing stock market price on the date of award. These restricted stock units vest over three years. The fair value of the market-based stock units at the issuance date of \$2,528 was estimated using the Monte-Carlo simulation model which is a probabilistic approach for calculating the fair value of the awards. The Monte-Carlo simulation is a statistical technique used, in this instance, to simulate future stock prices of the Company and the Russell Microcap Index by using the following assumptions: expected volatility of 76.38% and 29.57%, correlation coefficients of 1.0 and 0.3561, risk-free interest rate of 1.34%, and contractual term of 2.9 years. The market stock units will vest over three years if certain market conditions are met. The market conditions are tied to the performance of the Company's common stock relative to the Russell Microcap Index.

**NOTE 9 SUBSEQUENT EVENT**

On July 26, 2012, the Company signed a commitment letter with Silicon Valley Bank for a \$10 million subordinated debt facility (the Subordinated Debt Facility). This Subordinated Debt Facility would be in addition to the Company's existing Loan Agreement with the Lender described in Note 6. Outstanding loans under the Subordinated Debt Facility would bear interest at a 7% fixed rate and the principal amount would be due and payable over a 24-month period following an 8-month interest only period that begins on the first calendar day following the advance of the loan. In connection with signing the commitment letter with the Lender, the Company issued a warrant to the Lender on July 26, 2012 for the purchase of 307,692 shares of common stock with an exercise price of \$3.25, subject to certain adjustments as provided in the warrant agreement with the Lender. The Subordinated Debt Facility would not contain any financial covenants and any loans under this Subordinated Debt Facility would not count towards the covenants contained in the existing Loan Agreement discussed in Note 6. The Company expects to execute the loan documents for the Subordinated Debt Facility in August 2012.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOLTA MEDICAL, INC.

Date: August 7, 2012

/s/ Stephen J. Fanning  
Stephen J. Fanning  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 7, 2012

/s/ John F. Glenn  
John F. Glenn  
Chief Financial Officer  
(Principal Financial and Accounting Officer)



## EXHIBIT INDEX TO FORM 10Q/A

| Exhibit<br>Number | Description  | Incorporated by Reference |           |                      | Filed<br>Herewith |
|-------------------|--|---------------------------|-----------|----------------------|-------------------|
|                   |  | Form                      | File No.  | Exhibit Date Filed   |                   |
| 3.1               | Amended and Restated Certificate of Incorporation  | S-1/A                     | 333-13650 | 3.3 November 9, 2006 |                   |
| 3.2               | Amended and Restated Bylaws  | 8-K                       | 001-33123 | 3.1 April 12, 2012   |                   |
| 31.1              | Certification of Chief Executive Officer under Securities Exchange Act Rule 13a-14(a).   |                           |           |                      | X                 |
| 31.2              | Certification of Chief Financial Officer under Securities Exchange Act Rule 13a-14(a).   |                           |           |                      | X                 |
| 32.1              | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350 and Securities Exchange Act Rule 13a-14(b). |                           |           |                      | X                 |
| 101.INS**         | XBRL Instance Document.  |                           |           |                      |                   |
| 101.SCH**         | XBRL Taxonomy Extension Schema Document.   |                           |           |                      |                   |
| 101.CAL**         | XBRL Taxonomy Extension Calculation Linkbase Document.   |                           |           |                      |                   |
| 101.DEF**         | XBRL Taxonomy Extension Definition Linkbase Document.  |                           |           |                      |                   |
| 101.LAB**         | XBRL Taxonomy Extension Labels Linkbase Document.  |                           |           |                      |                   |
| 101.PRE**         | XBRL Taxonomy Extension Presentation Linkbase Document.  |                           |           |                      |                   |

\*\* Exhibit was previously filed with the original Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 filed on August 1, 2012.