

AUGUST TECHNOLOGY CORP

Form 10-Q

August 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the
quarterly
period ended
June 30, 2002
OR
TRANSITION
REPORT
PURSUANT
TO SECTION
13 OR 15(d)
OF THE
SECURITIES
EXCHANGE
ACT OF 1934
For the
transition
period from
_____ to

Commission File Number 000-30637

AUGUST TECHNOLOGY CORPORATION
(Exact name of Registrant as specified in its charter)

Minnesota
(State or other jurisdiction of
incorporation or organization)

41-1729485
(I.R.S. Employer
Identification No.)

4900 West 78th Street
Bloomington, MN
(Address of principal executive offices)

55435
(Zip Code)

(952) 820-0080
(Registrant's telephone number, including area code)

N/A
(Former name, former address, and former fiscal year, if changed since last report.)

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

As of July 31, 2002, there were 13,120,624 shares of common stock outstanding.

**AUGUST TECHNOLOGY CORPORATION
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

AUGUST TECHNOLOGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)
(Unaudited)

	<u>June 30,</u> <u>2002</u>	<u>December</u> <u>31,</u> <u>2001</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,406	\$ 1,523
Short-term investments	18,950	23,196
Accounts receivable, net	4,638	4,737
Inventories	8,663	9,384
Prepaid expenses and other current assets	1,388	2,838
	<u>37,045</u>	<u>41,678</u>
Property and equipment, net	3,703	3,541
Long-term investments	2,088	1,138
Other assets	725	798
	<u>43,561</u>	<u>47,155</u>
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,976	\$ 1,641
Accrued compensation	672	615
Accrued liabilities	465	536
Customer deposits	932	1,715
	<u>4,045</u>	<u>4,507</u>
Total current liabilities	4,045	4,507
Other non-current liabilities	110	125
	<u>4,155</u>	<u>4,632</u>
Total liabilities		
Shareholders' equity:		
Common stock, no par value, 42,000,000 shares authorized, 13,112,586 and 12,812,164 shares issued and outstanding, respectively	42,037	41,020
Undesignated capital stock, no par value, 3,000,000 shares authorized, no shares issued or outstanding		
Deferred compensation related to stock options	(135)	(192)
Retained earnings (accumulated deficit)	(2,530)	1,704
Accumulated other comprehensive income (loss)	34	(9)
	<u>39,406</u>	<u>42,523</u>
Total shareholders' equity	39,406	42,523

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Total liabilities and shareholders' equity	<u>\$ 43,561</u>	<u>\$ 47,155</u>
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See accompanying notes to consolidated financial statements.

AUGUST TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net revenues	\$ 6,980	\$ 10,155	\$ 12,490	\$ 21,059
Cost of revenues	2,965	3,923	5,329	8,194
Gross profit	4,015	6,232	7,161	12,865
Selling, general and administrative expenses	2,832	3,071	5,658	6,248
Research and development expenses	2,729	2,176	4,864	4,340
Non-recurring expenses	568	432	568	432
Operating income (loss)	(2,114)	553	(3,929)	1,845
Interest income	174	371	382	847
Other expense		(17)		(17)
Income (loss) before provision for income taxes	(1,940)	907	(3,547)	2,675
Provision for income taxes	1,491	290	687	909
Net income (loss)	\$ (3,431)	\$ 617	\$ (4,234)	\$ 1,766
Net income (loss) per share:				
Basic	\$ (0.26)	\$ 0.05	\$ (0.33)	\$ 0.14
Diluted	\$ (0.26)	\$ 0.05	\$ (0.33)	\$ 0.13

See accompanying notes to consolidated financial statements.

AUGUST TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	<u>Six Months Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Net income (loss)	\$ (4,234)	\$ 1,766
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Deferred income taxes	896	
Depreciation and amortization	681	405
Amortization of deferred compensation related to stock options	31	47
Provision for doubtful accounts	26	114
Loss on disposition of assets		17
Issuance of stock options to nonemployees		18
Changes in operating assets and liabilities:		
Accounts receivable	73	(637)
Inventories	721	259
Prepaid expenses and other current assets	1,129	(322)
Accounts payable	336	(409)
Accrued compensation	57	(265)
Accrued liabilities	(86)	(351)
Customer deposits	(783)	(183)
	<u> </u>	<u> </u>
Net cash provided by (used in) operating activities	(1,153)	459
	<u> </u>	<u> </u>
Cash flows from investing activities:		
Maturities of marketable securities	19,823	31,712
Purchases of marketable securities	(16,487)	(28,816)
Purchases of property and equipment	(797)	(1,211)
Investment in other assets	(546)	(110)
	<u> </u>	<u> </u>
Net cash provided by investing activities	1,993	1,575
	<u> </u>	<u> </u>
Cash flows from financing activities:		
Net proceeds from issuances of common stock	1,043	307
	<u> </u>	<u> </u>
Net cash provided by financing activities	1,043	307
	<u> </u>	<u> </u>
Effect of exchange rates on cash and cash equivalents		(6)
	<u> </u>	<u> </u>
Net increase in cash and cash equivalents	1,883	2,335
Cash and cash equivalents at beginning of period	1,523	3,103
	<u> </u>	<u> </u>
Cash and cash equivalents at end of period	\$ 3,406	\$ 5,438
	<u> </u>	<u> </u>
Supplemental cash flow information:		
Cash refunds of (paid for) income taxes	\$ 1,749	\$ (1,877)

See accompanying notes to consolidated financial statements.

AUGUST TECHNOLOGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)
(Unaudited)

Note 1 Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations. In the opinion of the management of August Technology Corporation (the Company), all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included in the balance sheet at June 30, 2002, and the operating results and cash flows for the six months ended June 30, 2002 and 2001. The results of operations of the interim periods are not necessarily indicative of the results of operations that may be expected for any other period or for the year as a whole. These consolidated financial statements and notes hereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001, filed with the Securities and Exchange Commission on March 15, 2002.

The accompanying consolidated financial statements include the accounts of August Technology Corporation and its subsidiaries (together, the Company). All significant intercompany balances and transactions are eliminated in Consolidation.

Certain prior year amounts have been reclassified to conform to the 2002 presentation.

Note 2 Pending Acquisition

On May 23, 2002, the Company entered into a definitive agreement (the Agreement) with ASTI Holdings, Ltd. (ASTI) of Singapore to acquire Semiconductor Technologies and Instruments, Inc. (STI) for a purchase price of \$26.1 million, consisting of \$12 million cash, a \$3 million six month note to ASTI and \$11.1 million in stock. The Company has requested changes in the terms of the Agreement including a reduction in the purchase price. The Company and ASTI are in the process of negotiating an amendment to the Agreement.

There is no assurance that the Company and ASTI will agree upon an amendment to the Agreement on terms acceptable to the Company. In the event the Company and ASTI do not agree upon an amendment to the Agreement, the Company believes it is entitled to terminate the Agreement without payment of a \$2.6 million break up fee (the Break up Fee), as outlined in the Agreement. ASTI may dispute the Company's right to terminate the Agreement and seek the Break up Fee or damages under the Agreement in an arbitration proceeding or through litigation. In the event the Company fails to prevail in any such dispute, resulting damage awards or the payment of the Break up Fee and the write-off of \$0.1 million of acquisition costs, on the balance sheet as of June 30, 2002, may have a material effect on the Company's financial condition. Whether or not the Company prevails, the legal expenses involved in any such proceeding may be material.

Note 3 Accounts Receivable

Accounts receivable consisted of the following:

	<u>June 30, 2002</u>	<u>December 31, 2001</u>
Billed receivables	\$4,331	\$4,640
Unbilled receivables	735,499	
	<u>5,066,139</u>	
Allowance for doubtful accounts	(428)	(402)
	<u>Accounts receivable, net</u>	<u>\$4,638</u>
	<u>\$4,737</u>	

Note 4 Inventories

Inventories consisted of the following:

	<u>June 30, 2002</u>	<u>December 31, 2001</u>
Raw materials	\$3,076	\$ 3,118
Work in process	1,067,779	
Finished goods	3,868,455	
Inventories at customers under purchase orders	652,103	
	<u>Inventories</u>	<u>\$8,663</u>
	<u>\$9,384</u>	

Inventories at customers under purchase orders represents systems that have shipped under the terms of a customer purchase order, but have not yet qualified for revenue recognition as the systems had not met customer specifications as of June 30, 2002 or December 31, 2001.

Note 5 Investments

During the quarter ended June 30, 2002, the Company changed the classification of all of its investments from held-to-maturity to available-for-sale. The change in classification was due to the Company's announcement of the pending acquisition of STI, which would require the sale of a portion of the investments to fund the acquisition. Available-for-sale investments are recorded at fair value. At June 30, 2002 the Company had recorded a net unrealized gain of \$40 as a component of other comprehensive income.

Note 6 Other Assets

During the quarter ended June 30, 2002, the Company invested \$500 in Excelebrate Technologies, Inc. in the form of a six month note receivable. The note receivable bears interest at 8% and is convertible into preferred stock of Excelebrate Technologies.

Note 7 Shareholders Equity

Changes in shareholders equity during the six months ended June 30, 2002 were as follows:

Shareholders equity balance at December 31, 2001	\$42,523
Issuances of common stock in conjunction with: Exercises of employee stock options 913 Employee stock purchase plan 130 Amortization of deferred compensation related to stock options 31 Comprehensive loss: Net loss (4,234) Other comprehensive income 43	
Shareholders equity balance at June 30, 2002	\$39,406

Note 8 Income Taxes

The Company has deferred tax assets, which have arisen primarily as a result of operating losses, as well as other temporary differences between book and tax accounting. Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, requires the establishment of a valuation allowance to reflect the likelihood of the realization of deferred tax assets. As a result of operating losses during the previous twelve months, anticipated operating losses for the remainder of 2002 and uncertainty as to the extent and timing of profitability in future periods, the Company has recorded a full valuation allowance of \$3.0 million against its deferred tax assets as of June 30, 2002, resulting in income tax expense of \$687 for the six months ended June 30, 2002.

Note 9 Net Income (Loss) Per Share

The components of basic and diluted net income (loss) per share are as follows:

	Three Months Ended June 30,		Six Months Ended June, 30	
	2002	2001	2002	2001
Net income (loss)	\$(3,431)	\$617	\$(4,234)	\$1,766
Weighted average common shares: Basic 13,033 12,687 12,939 12,664 Effect of dilutive stock options and warrants 614 636				

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Diluted 13,033 13,301 12,939 13,300

Net income (loss) per
share: Basic \$(0.26) \$0.05 \$(0.33) \$0.14 Diluted \$(0.26) \$0.05 \$(0.33) \$0.13

The total weighted average number of stock options and warrants excluded from the calculation of potentially dilutive securities either due to the exercise price exceeding the average market price or the inclusion of such securities in a calculation of net loss per share would have been anti-dilutive for the three months ended June 30, 2002 and 2001 were 1,533 and 460, respectively, and for the six months ended June 30, 2002 and 2001 were 1,604 and 439, respectively.

Note 10 Comprehensive Income (Loss)

Comprehensive income (loss) is defined as net income (loss) and other changes in shareholders' equity from transactions and other events from sources other than shareholders. The components of and changes in other comprehensive income (loss) are as follows:

Three Months Ended June 30,		Six Months Ended June 30,	
2002	2001	2002	2001