

RUDOLPH TECHNOLOGIES INC  
Form 10-Q  
November 08, 2007

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**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: September 30, 2007

**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 No. 000-27965

**RUDOLPH TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

DELAWARE22-3531208 (State or Other Jurisdiction of(I.R.S. Employer Incorporation or Organization)Identification Number)

One Rudolph Road, PO Box 1000

Flanders, New Jersey 07836

(Address of principal executive offices, including zip code)

(973) 691-1300

(Registrant's telephone number, including area code)

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Securities Exchange Act of 1934). Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The number of outstanding shares of the Registrant's Common Stock on October 26, 2007 was 29,164,140.

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### PART I FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

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**PART I FINANCIAL INFORMATION**
**Item 1. Financial Statements****RUDOLPH TECHNOLOGIES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)**

	<b>September 30, 2007 (unaudited)</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 98,780	\$ 72,479
Marketable securities	22,362	33,714
Accounts receivable, net	51,674	65,373
Inventories	61,056	55,433
Prepaid expenses and other current assets	11,288	9,745
Total current assets	245,160	236,744
Property, plant and equipment, net	15,777	16,882
Goodwill	145,005	145,176
Identifiable intangible assets, net	34,043	37,401
Other assets	4,082	4,283
Total assets	\$ 444,067	\$ 440,486
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,470	\$ 18,464
Other current liabilities	9,181	17,338
Total current liabilities	19,651	35,802

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Non-current liabilities	14,658	11,808
Total liabilities	34,309	47,610
Commitments and contingencies		
Stockholders' equity:		
Common stock	29	29
Additional paid-in capital	364,799	361,128
Accumulated other comprehensive loss	(390)	(1,178)
Retained earnings	45,320	32,897
Total stockholders' equity	409,758	392,876
Total liabilities and stockholders' equity	\$ 444,067	\$ 440,486

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

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**RUDOLPH TECHNOLOGIES, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(In thousands, except per share data)**

**(Unaudited)**

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues	\$ 31,461	\$ 58,166	\$ 127,547	\$ 146,706
Cost of revenues	15,921	27,599	60,907	77,199
Gross profit	15,540	30,567	66,640	69,507
Operating expenses:				
Research and development	6,505	8,146	23,319	21,791
In-process research and development	-	-	-	9,900
Selling, general and administrative	7,791	8,712	25,330	23,734
Amortization	1,119	1,126	3,368	2,923
Total operating expenses	15,415	17,984	52,017	58,348
Operating income	125	12,583	14,623	11,159
Interest income and other, net	1,078	769	3,034	2,282
Income before income taxes	1,203	13,352	17,657	13,441
Provision (benefit) for income taxes	(185)	5,281	5,254	9,125
Net income	\$ 1,388	\$ 8,071	\$ 12,403	\$ 4,316
Earnings per share:				
Basic	\$ 0.05	\$ 0.28	\$ 0.43	\$ 0.16
Diluted	\$ 0.05	\$ 0.28	\$ 0.42	\$ 0.16
Weighted average shares outstanding:				
Basic	29,152	28,849	29,099	26,708
Diluted	29,250	29,119	29,265	26,976

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

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**RUDOLPH TECHNOLOGIES, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

**(Unaudited)**

**Nine Months Ended  
September 30,**

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	2007	2006
Cash flows from operating activities:		
Net income	\$ 12,403	\$ 4,316
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Amortization	4,406	3,018
Depreciation	3,497	3,101
In-process research and development	-	9,900
Foreign currency exchange loss	48	38
Net loss on sales of marketable securities	-	159
Share-based compensation	2,286	1,044
Provision for doubtful accounts and inventory valuation	287	3,957
Deferred income taxes	-	263
Decrease (increase) in assets excluding effects of business combinations:		
Accounts receivable	14,054	(24,602)
Inventories	(7,550)	(7,530)
Income tax receivable	(629)	-
Prepaid expenses and other assets	(84)	205
Increase (decrease) in liabilities excluding effects of business combinations:		
Accounts payable and accrued liabilities	(8,030)	3,614
Income tax payable	(626)	5,685
Deferred revenue	(5,579)	4,085
Other current liabilities	(618)	1,241
Non-current liabilities	558	(110)
Net cash and cash equivalents provided by operating activities	14,423	8,604
Cash flows from investing activities:		
Purchases of marketable securities	(62,783)	(59,611)
Proceeds from sales of marketable securities	74,396	81,091
Purchases of property, plant and equipment	(725)	(5,242)
Capitalized software	(596)	(1,543)
Purchase of business, net of cash acquired	-	(12,071)
Net cash and cash equivalents provided by investing activities	10,292	2,624
Cash flows from financing activities:		
Proceeds from sales of shares through share-based compensation plans	1,235	7,651
Tax benefit for sale of shares through share-based compensation plans	150	986
Net cash and cash equivalents provided by financing activities	1,385	8,637
Effect of exchange rate changes on cash and cash equivalents	201	27
Net increase in cash and cash equivalents	26,301	19,892
Cash and cash equivalents at beginning of period	72,479	37,986
Cash and cash equivalents at end of period	\$ 98,780	\$ 57,878

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

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**RUDOLPH TECHNOLOGIES, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(In thousands, except per share data)**

**(Unaudited)**

**NOTE 1. Basis of Presentation**

The accompanying interim unaudited condensed consolidated financial statements have been prepared by Rudolph Technologies, Inc. (the "Company" or "Rudolph") and in the opinion of management reflect all adjustments, consisting only of normal recurring accruals, necessary for their fair presentation in accordance with accounting principles generally accepted in the United States of America. Preparing financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual amounts could differ materially from those amounts. The interim results for the three and nine month periods ended September 30, 2007 are not necessarily indicative of results to be expected for the entire year. This interim financial information should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

**NOTE 2. Business Combinations**

The merger with August Technology was approved by its shareholders, and the issuance of shares of Rudolph common stock was approved by Rudolph's stockholders, at their respective special meetings held on February 15, 2006. The combined company is known as Rudolph Technologies, Inc. The aggregate purchase price of \$246,739, consisting of \$37,200 in cash, 11,298 shares of common stock valued at \$197,833, the fair value of assumed August Technology options of \$6,040 and transaction costs of \$5,666.

The transaction was accounted for using the purchase method of accounting for business combinations and, accordingly, the results of operations of August Technology have been included in the Company's consolidated financial statements since the date of merger. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of merger:

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Cash	\$	29,893
Marketable securities		13,418
Accounts receivable		14,283
Inventories		23,582
Property, plant and equipment		6,075
Goodwill		132,172
Identifiable intangible assets		42,700
Other assets		1,585
Accounts payable and accrued liabilities		(11,733)
Deferred taxes		(3,645)
Other liabilities		(1,591)
	\$	246,739

The above purchase price has been allocated based on estimates of the fair values of assets acquired and liabilities assumed. With the exception of future tax adjustments related to the merger, the effects of purchase accounting were completed during 2006. The fair value of inventories included a step-up of \$3,842, of which \$143 and \$3,356 was recognized in cost of revenues for the nine months ended September 30, 2007 and September 30, 2006, respectively. At the merger date, the Company formulated a plan to exit or restructure certain activities. The Company recorded \$173 for these activities during the year ended December 31, 2006.

Approximately \$9.9 million of the acquired identifiable intangible assets represents the estimated fair value of in-process research and development (IPRD) projects that had not yet reached technological feasibility and had no alternative future use. Accordingly, this amount was immediately expensed in the Consolidated Statement of Operations at the merger date. The purchased in-process technology projects are comprised of next generation automated macro defect inspection systems with enhanced defect capture capabilities and software projects which improve the tools' capabilities. The defect inspection and software projects had a value assigned to them of \$6.9 million and \$3.0 million, respectively. The defect inspection projects relate to the next generation of the Company's AXi defect detection systems with enhanced defect capture capabilities and were completed by the third quarter of 2006. The software projects, relate to new enhancement features to the Company's next generation inspection products and will be completed in 2007.

The following unaudited pro forma consolidated financial information presents the combined results of operations of the Company and August Technology as if the merger occurred at the beginning of the period presented, after giving effect to certain adjustments, including amortization expense, merger costs and inventory step-up. Due to the non-recurring nature of the \$9,900 IPRD and the inventory step-up charges, these amounts have not been included in the unaudited pro forma consolidated financial information. The unaudited pro forma consolidated financial information does not necessarily reflect the results of operations that would have occurred had the merger been completed as of the date indicated or of the results that may be obtained in the future.

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Revenues	\$ 58,166	\$ 159,230
Net income	\$ 8,308	\$ 16,910
Earnings per share:		
Basic	\$ 0.29	\$ 0.59
Diluted	\$ 0.29	\$ 0.58

**NOTE 3. Income Taxes**

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for



Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes" and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, declassification, interest and penalties, accounting in interim periods, disclosure and transition. Under FIN 48, the liability for unrecognized tax benefits is classified as non-current unless the liability is expected to be settled in cash within 12 months of the reporting date.

On May 2, 2007, the FASB issued FASB Staff Position No. 48-1, "Definition of Settlement in FASB Interpretation 48" ("FSP 48-1"). FSP 48-1 amends FIN 48 to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits.

The Company adopted the provisions of FIN 48, as amended by FSP 48-1, effective January 1, 2007. As a result of the implementation of FIN 48, as amended, the Company recognized increases in the liability for unrecognized tax benefits of \$2,173, non-current deferred tax assets of \$1,948 and goodwill of \$245. The adoption of FIN 48, as amended, resulted in a cumulative effect adjustment to retained earnings of \$20 as of January 1, 2007.

The total amount of unrecognized tax benefits as of the date of adoption was \$3,660. Included in the balance of unrecognized tax benefits at January 1, 2007, are \$1,467 of tax benefits that, if recognized, would affect the effective tax rate. Also included in the balance of unrecognized tax benefits at January 1, 2007, are \$245 of tax benefits that, if recognized, would result in a decrease to goodwill recorded in business combinations, and \$1,948 of tax benefits that, if recognized, would result in adjustments to other tax accounts, primarily deferred taxes and non-current receivables. As of September 30, 2007, the total amount of unrecognized tax benefits is \$4,505, of which \$1,789 would impact the effective tax rate if recognized. Additional adjustments to goodwill arising from the August merger may be recorded as accounting for pre-acquisition tax positions is finalized. There are no known tax positions which are reasonably possible to change over the next twelve months necessitating a significant change in the Company's unrecognized tax benefits.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. Upon adoption of FIN 48 on January 1, 2007, the Company increased its accrual for interest to \$92.

The Company is subject to U.S. federal income tax as well as income tax in multiple state and foreign jurisdictions. Presently, the Company has not been contacted by the Internal Revenue Service for examination of income tax returns for open periods, December 31, 2003 through December 31, 2006. The Company has also not been contacted by any U.S. state, local or foreign tax authority for all open tax periods beginning after December 31, 2002.

The Company's effective tax rate for the nine month period ended September 30, 2007 is 29.8%. Its effective tax rate differs from the statutory rate of 35.0% primarily as a function of state income taxes offset by benefits from research and development tax credits, the domestic manufacturing production deduction, and tax exempt interest. In addition, the 2007 tax rate is lower due to a \$250 adjustment recorded in the third quarter of 2007 to recognize the reconciliation of the Company's 2006 federal tax return and tax accounts and the reduction of unrecognized tax benefits of \$153 as a result of a lapse of the applicable statute of limitations.

#### **NOTE 4. Marketable Securities**

The Company has evaluated its investment policies consistent with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and determined that all of its investment securities are to be classified as available-for-sale. Available-for-sale securities are carried

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at fair value, with the unrealized gains and losses reported in Stockholders' Equity under the caption "Accumulated other comprehensive loss". Realized gains and losses, interest and dividends on available-for-sale securities are included in "Interest income and other, net". Net realized gains on available-for-sale securities were \$4 and \$0 for the three and nine months ended September 30, 2007, respectively. Net realized losses on available-for-sale securities were \$31 and \$159 for the three and nine months ended September 30, 2006. Gross unrealized gains on available-for-sale securities were \$1 and \$3 as of September 30, 2007 and December 31, 2006, respectively. Gross unrealized losses on available-for-sale securities were \$124 and \$278 as of September 30, 2007 and December 31, 2006, respectively. Because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2007.

### NOTE 5. Derivative Instruments and Hedging Activities

The Company, when it considers it to be appropriate, enters into forward contracts to hedge the economic exposures arising from foreign currency denominated transactions. At September 30, 2007 and December 31, 2006, these contracts included the sale of Japanese Yen to purchase U.S. dollars. The foreign currency forward contracts were entered into by our Japanese subsidiary to economically hedge a portion of certain intercompany obligations. The forward contracts are not designated as hedges for accounting purposes and therefore, the change in fair value is recorded in selling, general and administrative expenses in the Consolidated Statements of Operations.

The dollar equivalent of the US dollar forward contracts and related fair values were as follows:

	September 30, 2007	December 31, 2006
Notional amount	\$ 4,384	\$ 6,439
Fair value of asset (liability)	\$ (113)	\$ 144

### NOTE 6. Identifiable Intangible Assets

Identifiable intangible assets as of September 30, 2007 are as follows:

	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	\$ 37,991	\$ 10,412	\$ 27,579
Customer relationships	4,400	794	3,606
Trade names	3,400	542	2,858
Total identifiable intangible assets	\$ 45,791	\$ 11,748	\$ 34,043

Identifiable intangible assets as of December 31, 2006 are as follows:

	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	\$ 37,991	\$ 7,669	\$ 30,322
Customer relationships	4,400	429	3,971
Trade names	3,400	292	3,108
Total identifiable intangible assets	\$ 45,791	\$ 8,390	\$ 37,401

Intangible asset amortization expense for the three and nine months ended September 30, 2007 was \$1,120 and \$3,358, respectively. For the three and nine months ended September 30, 2006, intangible asset amortization expense was \$1,119 and \$2,908, respectively. Estimated amortization expense for the remainder of 2007 amounts to \$1,118 and in each of the next five years amounts to \$4,442 for 2008, \$4,102 for 2009, \$4,085 for 2010, \$4,085 for 2011 and \$4,085 for 2012.

### NOTE 7. Accounts Receivable

Accounts receivable are net of the allowance for doubtful accounts of \$93 and \$299 as of September 30, 2007 and December 31, 2006, respectively.

**NOTE 8. Inventories**

	September 30, 2007	December 31, 2006
Materials	\$ 36,185	\$ 33,347
Work-in-process	14,423	12,687
Finished goods	10,448	9,399
Total inventories	\$ 61,056	\$ 55,433

**NOTE 9. Property, Plant and Equipment**

	September 30, 2007	December 31, 2006
Land and building	\$ 5,180	\$ 5,180
Machinery and equipment	10,890	9,471
Furniture and fixtures	2,687	2,425
Computer equipment	6,041	5,207
Leasehold improvements	5,785	5,945
	30,583	28,228
Accumulated depreciation	(14,806)	(11,346)
Net property, plant and equipment	\$ 15,777	\$ 16,882

**NOTE 10. Commitments and Contingencies***Warranty Reserves*

Changes in the Company's warranty reserves are as follows:

	Nine Months Ended September 30,	
	2007	2006
Balance, beginning of the period	\$ 2,171	\$ 1,234
Accruals	2,140	1,684
Warranty liability assumed in merger	-	1,244
Settlements	(2,230)	(1,773)
Balance, end of the period	\$ 2,081	\$ 2,389

**NOTE 11. Share-Based Compensation***Restricted Stock Unit Activity*

A summary of the Company's nonvested restricted stock unit activity with respect to the nine month period ended September 30, 2007 follows:

Number of Shares

		<b>Weighted Average Grant Date Fair Value</b>
Nonvested at December 31, 2006	336	\$ 16.68
Granted	416	\$ 16.07
Vested	(81)	\$ 15.73
Forfeited	(30)	\$ 16.24
Nonvested at September 30, 2007	641	\$ 16.42

As of September 30, 2007 and December 31, 2006, there was \$8,409 and \$2,808 of total unrecognized compensation cost related to restricted stock units granted under the plans, respectively. That cost is expected to be recognized over a weighted average period of 3.8 years and 3.6 years for the respective periods.

The Company is required to estimate the expected forfeiture rate of its share grants and only recognize the expense for those shares expected to vest. If the actual forfeiture rate is materially different from the Company's estimate, its share-based compensation expense could be materially different. During the nine months ended September 30, 2007, the Company revised its estimate of the expected forfeiture rate of its share grants from 15% to a range of 3-5%.

#### NOTE 12. Interest Income and Other, Net

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Interest income	\$ 1,074	\$ 800	\$ 3,034	\$ 2,433
Realized gains (losses) on sales of marketable securities, net	4	(31)	-	(159)
Rental income	-	-	-	8
Total interest income and other, net	\$ 1,078	\$ 769	\$ 3,034	\$ 2,282

#### NOTE 13. Comprehensive Income

The difference between net income and comprehensive income for the Company is due to currency translation adjustments and unrealized gains on investments.

The components of comprehensive income are as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net income	\$ 1,388	\$ 8,071	\$ 12,403	\$ 4,316
Change in net unrealized gains on investments, net of tax	150	234	152	136
Change in currency translation adjustments	450	371	636	(252)
Total comprehensive income	\$ 1,988	\$ 8,676	\$ 13,191	\$ 4,200

#### NOTE 14. Earnings Per Share

Basic earnings per share is calculated using the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed in the same manner and also gives effect to all dilutive common equivalent shares outstanding during the period. Potentially dilutive common equivalent shares consist of stock options and restricted stock units for the 2007 and 2006 periods. During the three and nine months ended September 30, 2007 and 2006, there were stock options with exercise prices above the average fair market

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value of the Company's common stock which were excluded from the computation of diluted earnings per share due to the anti-dilutive nature of these options. During the three and nine months ended September 30, 2007 and 2006, there were restricted stock units which were excluded from the computation of diluted earnings per share as their effect would be anti-dilutive. For the three and nine months ended September 30, 2007, the weighted average number of stock options and restricted stock units excluded from the computation of diluted earnings per share was 2,848 and 2,113. For the three and nine months ended September 30, 2006, the weighted average number of stock options and restricted stock units excluded from the computation of diluted earnings per share was 2,108 and 2,150.

The Company's basic and diluted earnings per share amounts are as follows:

	<b>Three Months Ended September 30, 2007</b>		<b>September 30, 2006</b>	
<b>Numerator:</b>				
Net income	\$ 1,388	\$ 8,071	\$ 12,403	\$ 4,316
<b>Denominator:</b>				
Basic earnings per share - weighted average shares outstanding	29,152	28,849	29,099	26,708
<b>Effect of potential dilutive securities:</b>				
Employee stock options and restricted stock units - dilutive shares	98	270	166	268
Diluted earnings per share - weighted average shares outstanding	29,250	29,119	29,265	26,976
<b>Earnings per share:</b>				
Basic	\$ 0.05	\$ 0.28	\$ 0.43	\$ 0.16
Diluted	\$ 0.05	\$ 0.28	\$ 0.42	\$ 0.16

### NOTE 15. Segment Reporting and Geographic Information

Operating segments are business units that have separate financial information and are separately reviewed by the Company's chief decision maker. The Company's chief decision maker is the Chief Executive Officer. The Company and its subsidiaries currently operate in a single reportable segment: the design, development, manufacture, sale and service of process control systems used in semiconductor device manufacturing. The chief operating decision maker allocates resources and assesses performance of the business and other activities at the operating segment level.

The following table lists the different sources of revenue:

	<b>Three Months Ended September 30,</b>				<b>Nine Months Ended September 30,</b>			
	2007		2006		2007		2006	
<b>Revenue Type:</b>								
<b>Systems:</b>								
Metrology	\$ 6,754	22%	\$ 16,805	28%	\$ 30,467	24%	\$ 50,992	34%
Inspection	15,963	50%	32,879	57%	66,207	52%	72,729	50%
Parts	3,282	10%	3,684	6%	9,537	7%	10,775	7%
Services	3,540	11%	2,643	5%	10,530	8%	8,092	6%
Software licensing	1,922	7%	2,155	4%	10,806	9%	4,118	3%
Total	\$ 31,461	100%	\$ 58,166	100%	\$ 127,547	100%	\$ 146,706	100%

For geographical reporting, revenues are attributed to the geographic location in which the customer is located. Revenue by geographic region is as follows:

<b>Three Months Ended September 30,</b>	<b>Nine Months Ended September 30,</b>
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	2007	2006	2007	2006
United States	\$ 5,333	\$ 15,600	\$ 24,418	\$ 41,005
Asia	18,808	37,658	76,925	91,521
Europe	7,320	4,908	26,204	14,180
Total	\$ 31,461	\$ 58,166	\$ 127,547	\$ 146,706

Customers comprising 10% or more of revenue:

	Nine Months Ended September 30,	
	2007	2006
Customer A	12.7%	11.3%

**NOTE 16. Recent Accounting Pronouncements**

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities- Including an amendment of FASB Statement No. 115." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reporting earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for fiscal years that begin after November 15, 2007. The Company is currently evaluating the potential impact of adopting SFAS 159.

In September 2006, the FASB issued SFAS No. 157 ("SFAS 157"), "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the potential impact of adopting SFAS 157.

**NOTE 17. Reclassifications**

Certain prior period amounts have been reclassified to conform to current financial statement presentation.

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**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors of Rudolph Technologies, Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Rudolph Technologies, Inc. and subsidiaries as of September 30, 2007, and the related condensed consolidated statements of operations for the three and nine month periods ended September 30, 2007 and 2006 and cash flows for the nine-month periods ended September 30, 2007 and 2006. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an

audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Rudolph Technologies, Inc. and subsidiaries as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the year then ended (not presented herein); and in our report dated February 21, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2006, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP  
Short Hills, New Jersey  
November 7, 2007

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## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Certain statements in this quarterly report on Form 10-Q are forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, we may, from time to time, make oral forward looking statements. Forward looking statements may be identified by the words "anticipate", "believe", "expect", "intend", "will" and similar expressions, as they relate to us or our management. These statements include, without limitation, the statement that we believe that our existing cash and cash equivalents will be sufficient to meet our anticipated cash requirements for working capital and capital expenditures for the foreseeable future.

The forward looking statements contained herein reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Actual results may differ materially from those projected in such forward looking statements due to a number of factors, risks and uncertainties, including the risk factors set forth in this Current Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2006. We disclaim any obligation to update any forward looking statements as a result of developments occurring after the date of this quarterly report.

### **Critical Accounting Policies**

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions and estimates that affect the amounts reported. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

A critical accounting policy is defined as one that is both material to the presentation of our consolidated financial statements and requires management to make difficult, subjective or complex judgments that could have a material effect on our financial condition or results of operations. Specifically, these policies have the following

attributes: (1) we are required to make judgments and assumptions about matters that are highly uncertain at the time of the estimate; and (2) different estimates we could reasonably have used, or changes in the estimate that are reasonably likely to occur, could have a material effect on our financial position and results of operations.

Estimates and assumptions about future events and their effects cannot be determined with certainty. We base our estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as our operating environment changes. These changes are included in the consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. These uncertainties are discussed in the section below entitled Risk Factors. Based on a critical assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that our consolidated financial statements are fairly stated in accordance with accounting principles generally accepted in the United States of America, and provide a fair presentation of our financial position and results of operations.

For further information about our critical accounting policies, see the discussion of critical accounting policies in our 2006 Annual Report on Form 10-K.

### **Impact of Recent Accounting Pronouncements**

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities- Including an amendment of FASB Statement No. 115." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reporting earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for fiscal years that begin after November 15, 2007. The Company is currently evaluating the potential impact of adopting SFAS 159.

In September 2006, the FASB issued SFAS No. 157 ("SFAS 157"), "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the potential impact of adopting SFAS 157.

### **Results of Operations for the Three and Nine Month Periods Ended September 30, 2007 and 2006**

We are a worldwide leader in the design, development, manufacture and support of high-performance process control metrology, defect inspection, and data analysis systems used by semiconductor device manufacturers. We provide yield management solutions used in both wafer processing and final manufacturing through a family of standalone systems and integrated modules for both transparent and opaque thin film measurements and macro-defect inspection. All of these systems feature production-worthy automation and are backed by worldwide customer support.

On February 15, 2006, the merger with August Technology was completed. The combined company continues to be known as Rudolph Technologies, Inc. Under the terms of the agreement, we paid an aggregate of \$37.2 million in cash and issued an aggregate of 11.3 million shares of our common stock to former August Technology shareholders. The results of operations of August Technology have been included in our consolidated financial statements since the date of the merger. Due to the size of August Technology and the effects of purchase accounting, our financial position, results of operations and cash flows may not be comparable to prior periods. With the exception of future tax adjustments related to the merger, the effects of purchase accounting were completed in 2006.



August Technology was a world-class provider of automated defect detection and product characterization systems for microelectronic device manufacturers. Their systems provided manufacturers with information that enables process-enhancing decisions, to ultimately lower manufacturing costs and decrease time-to-market. They had traditionally provided systems to address the automated inspection needs of the early stages of the final manufacturing or back-end of the microelectronic device manufacturing process. In addition, they had introduced new products for edge and backside inspection systems for advanced macro defect detection primarily in the front-end of the wafer manufacturing process. When used in conjunction with one another these systems allow a manufacturer to inspect the top, edge and back of a wafer's surface.

Rudolph's business is affected by the annual spending patterns of our customers on semiconductor capital equipment. The amount that our customers devote to capital equipment spending depends on a number of factors, including general worldwide economic conditions as well as other economic drivers such as personal computer and cell phone sales. Current forecasts by industry analysts for the semiconductor device manufacturing industry project a year-over-year decrease in capital spending of 5-10% for 2008. We monitor capital equipment spending through announced capital spending plans by our customers and monthly-published industry data such as the book-to-bill ratio. The book-to-bill ratio is a 3-month running statistic that compares bookings or orders placed with capital equipment suppliers to billings or shipments. A book-to-bill above one shows that semiconductor device equipment manufacturers are ordering equipment at a pace that exceeds the equipment suppliers' shipments for the period. The nine month rolling average North American semiconductor equipment book-to-bill ratio was 0.81 for the month of September 2007, decreasing from the December 2006 book-to-bill ratio of 1.01.

Historically, a significant portion of our revenues in each quarter and year has been derived from sales to relatively few customers, and we expect this trend to continue. For the nine month period ended September 30, 2007 and for the years ended December 31, 2004, 2005 and 2006, sales to customers that individually represented at least five percent of our revenues accounted for 39.8%, 53.4%, 62.6%, and 40.9% of our revenues, respectively. For the nine month period ended September 30, 2007 and for the years ended December 31, 2004, 2005 and 2006, sales to Intel accounted for 12.7%, 23.2%, 20.3% and 14.0% of our revenues, respectively.

We do not have purchase contracts with any of our customers that obligate them to continue to purchase our products, and they could cease purchasing products from us at any time. A delay in purchase or cancellation by any of our large customers could cause quarterly revenues to vary significantly. In addition, during a given quarter, a significant portion of our revenues may be derived from the sale of a relatively small number of systems. Our transparent film measurement systems range in average selling price from approximately \$250,000 to \$1.0 million per system, our opaque film measurement systems range in average selling price from approximately \$900,000 to \$2.0 million per system and our macro-defect inspection systems range in average selling price from approximately \$250,000 to \$1.4 million per system. Accordingly, a small change in the number of systems we sell may also cause significant changes in our operating results. Because fluctuations in the timing of orders from our major customers or in the number of our individual systems we sell could cause our revenues to fluctuate significantly in any given quarter or year, we do not believe that period-to-period comparisons of our financial results are necessarily meaningful, and they should not be relied upon exclusively as an indication of our future performance.

A significant portion of our revenues has been derived from customers outside of the United States. In the nine month period ended September 30, 2007, approximately 80.9% of our revenues were derived from customers outside of the United States, of which 60.3% were derived from customers in Asia and 20.6% were derived from customers in Europe. In 2006, approximately 70.6% of our revenues were derived from customers outside of the United States, of which 59.9% were derived from customers in Asia and 10.7% were derived from customers in Europe. In 2005, approximately 77.5% of our revenues were derived from customers outside of the United States, of which 56.3% were derived from customers in Asia and 21.2% were derived from customers in Europe. In 2004, approximately 69.1% of our revenues were derived from customers outside of the United States, of which 59.6% were derived from customers in Asia and 9.5% were derived from customers in Europe. We expect that revenues generated from customers outside of the United States will continue to account for a significant percentage of our revenues.

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*Revenues.* Our revenues are primarily derived from the sale of our systems, services, spare parts and software licensing. Our revenues were \$31.5 million and \$127.5 million for the three and nine month periods ended September 30, 2007, compared to \$58.2 million and \$146.7 million for the three and nine month periods ended September 30, 2006, representing a decrease of 45.9% and a decrease of 13.1%, respectively.

The following table lists the different sources of our revenue:

Revenue Type:	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007		2006		2007		2006	
Systems:								
Metrology	\$ 6,754	22%	\$ 16,805	28%	\$ 30,467	24%	\$ 50,992	34%
Inspection	15,963	50%	32,879	57%	66,207	52%	72,729	50%
Parts	3,282	10%	3,684	6%	9,537	7%	10,775	7%
Services	3,540	11%	2,643	5%	10,530	8%	8,092	6%
Software licensing	1,922	7%	2,155	4%	10,806	9%	4,118	3%
Total	\$ 31,461	100%	\$ 58,166	100%	\$ 127,547	100%	\$ 146,706	100%

The year-over-year decrease in systems revenue for the nine month period ended September 30, 2007 compared to the same period in 2006 is due to current weakness in the overall semiconductor industry and reflects a decrease in metrology systems revenue of \$20.5 million and a decrease in inspection systems revenues of \$6.5 million. Systems revenue generated by our latest product releases and major enhancements in each of our product families amounted to 26% and 29% of total revenues for the three and nine month periods ended September 30, 2007 compared to 22% and 34% of total revenues for the three and nine month periods ended September 30, 2006. The year-over-year increase in total parts and services revenue for the nine month period ended September 30, 2007 is primarily due to customers continuing to spend more on repair and maintenance of their existing equipment. Parts and services revenues are generated from part sales, maintenance service contracts, system upgrades, as well as time and material billable service calls. The year-over-year increase in software licensing revenues for the nine month period ended September 30, 2007 is primarily due to the sale of certain technology rights to Tokyo Electron. Reflecting the emerging recovery in the back-end semiconductor segment of the market, offset by the current weakness in the overall industry and reductions in capital spending by our top three customers, we anticipate our quarterly revenues to be flat to up 10% for the three month period ending December 31, 2007.

Deferred revenues of \$6.3 million are recorded in other current liabilities at September 30, 2007 and primarily consist of \$5.3 million for deferred maintenance agreements and \$1.0 million for systems awaiting acceptance and outstanding deliverables.

*Gross Profit.* Our gross profit has been and will continue to be affected by a variety of factors, including manufacturing efficiencies, excess and obsolete inventory write-offs, pricing by competitors or suppliers, new product introductions, product sales mix, production volume, customization and reconfiguration of systems, international and domestic sales mix, and parts and service margins. Our gross profit was \$15.5 million and \$66.6 million for the three and nine month periods ended September 30, 2007, compared to \$30.6 million and \$69.5 million for the three and nine month periods ended September 30, 2006. Our gross profit represented 49.4% and 52.2% of our revenues for the three and nine months periods ended September 30, 2007 and 52.6% and 47.4% of our revenues for the same periods in the prior year. The increase in gross profit as a percentage of revenue for the nine month period ended September 30, 2007, compared to the nine month period ended September 30, 2006 is primarily due to the transfer of certain technology rights to Tokyo Electron and higher charges to cost of goods sold in the 2006 period including a \$3.4 million charge for the sale of inventory written-up to fair value upon merger and \$2.4 million in charges related to duplicative inventory. We anticipate our gross profit will be approximately 48-50% of revenues for the three month period ending December 31, 2007.

*Research and Development.* Our research and development expense was \$6.5 million and \$23.3 for the three and nine month periods ended September 30, 2007, compared to \$8.1 million and \$21.8 million for the same periods in the prior year. Research and development expense represented 20.7% and 18.3% of our revenues for the three and nine month periods ended September 30, 2007, compared to 14.0% and 14.9% of revenues for the same periods in the prior year. The year-over-year dollar increase in research and development expenses for the nine month period ended September 30, 2007 compared to the same period in 2006 primarily reflects the engineering team from the August Technology merger being included for the full nine months ended September 30, 2007, increased compensation costs and the write-off of \$0.5 million for certain software project costs. We anticipate research and development expense will be approximately 21-23% of revenues for the three month period ending December 31, 2007.

*Selling, General and Administrative.* Our selling, general and administrative expense was \$7.8 million and \$25.3 million for the three and nine month periods ended September 30, 2007, compared to \$8.7 million and \$23.7 million for the same periods in the prior year. Selling, general and administrative expense represented 24.8% and 19.9% of our revenues for the three and nine month periods ended September 30, 2007 compared to 15.0% and 16.2% of our revenues for the same periods in the prior year. The year-over-year dollar increase in selling, general and administrative expenses for the nine month period ended September 30, 2007 compared to the same period in 2006 was primarily due to administrative costs associated with the merged activities of August Technology being included for the full nine months ended September 30, 2007 and increased compensation costs. We currently anticipate that selling, general and administrative expenses will represent approximately 22-24% of revenue for the three month period ending December 31, 2007.

*Interest income and other, net.* Interest income and other, net was \$1.1 million and \$3.0 million for the three and nine month periods ended September 30, 2007, compared to \$0.8 million and \$2.3 million for the same periods in the prior year. Interest income and other, net consisted primarily of interest income and realized gains and losses on sales of marketable securities. The year-over-year increase in interest income and other, net was primarily attributable to higher average cash and marketable securities balance and higher interest rates.

*Income Taxes.* We use the asset and liability method of accounting for income taxes prescribed by SFAS No. 109, "Accounting for Income Taxes." Income tax benefit was \$0.2 million for the three month period ended September 30, 2007 and income tax expense was \$5.3 million for the nine month period ended September 30, 2007, compared to an income tax expense of \$5.3 million and \$9.1 million for the same periods in the prior year. Our effective tax rate for the nine month period ended September 30, 2007 is 29.8%. Our effective tax rate differs from the statutory rate of 35.0% primarily as a function of state income taxes offset by benefits from research and development tax credits, the domestic manufacturing production deduction, and tax exempt interest. The 2007 tax rate is lower due to a \$250 adjustment recorded in the third quarter of 2007 to recognize the reconciliation of our 2006 federal tax return and tax accounts and the reduction of unrecognized tax benefits of \$153 as a result of a lapse of the applicable statute of limitations. In addition, in the 2006 period, our effective tax rate was impacted by the non-deductibility of the \$9.9 million IPRD charge for tax purposes.

## **Liquidity and Capital Resources**

At September 30, 2007, we had \$121.1 million of cash, cash equivalents and marketable securities and \$225.5 million in working capital. At December 31, 2006, we had \$106.2 million of cash, cash equivalents and marketable securities and \$200.9 million in working capital.

Typically during periods of revenue growth, increases in accounts receivable and inventories represent a use of cash as we incur costs and expend cash in advance of receiving cash from our customers. Similarly, during periods of declining revenue, decreases in accounts receivable and inventories represent a source of cash as inventory purchases decline and revenue from prior periods is collected. However, for the nine months ended September 30, 2007, as our revenues declined our change in inventories represented a use of cash. This was primarily due to increasing inventory

related to new products, the slow down in the back-end of the inspection business and prior tool shipments awaiting acceptance.

Operating activities provided \$14.4 million in cash and cash equivalents for the nine month period ended September 30, 2007. The net cash and cash equivalents provided by operating activities during the nine month period ended September 30, 2007 was primarily a result of net income, adjusted to exclude the effect of non-cash charges, of \$22.9 million and a decrease in accounts receivable of \$14.1 million, partially offset by a decrease in accounts payable and accrued liabilities of \$8.0 million, an increase in inventories of \$7.6 million, a decrease in deferred revenue of \$5.6 million, an increase in income tax receivable of \$0.6 million, and a decrease in income tax payable of \$0.6 million. The net cash provided by operating activities during the nine month period ended September 30, 2006 of \$8.6 million was primarily a result of net income, adjusted to exclude the effect of non-cash charges of \$25.8 million, an increase in deferred revenue of \$4.1 million, an increase in accounts payable and accrued liabilities of \$3.6 million, an increase in income tax payable of \$5.7 million and an increase in other current liabilities of \$1.2 million, partially offset by an increase in accounts receivable of \$24.6 million and an increase in inventories of \$7.5 million.

Net cash and cash equivalents provided by investing activities during the nine month period ended September 30, 2007 of \$10.3 million was due to proceeds from sales of marketable securities of \$74.4 million, offset by purchases of marketable securities of \$62.8 million, capital expenditures of \$0.7 million and costs incurred for capitalized software of \$0.6 million. Net cash and cash equivalents provided by investing activities during the nine month period ended September 30, 2006 of \$2.6 million was primarily due to proceeds from sales of marketable securities of \$81.1 million, partially offset by purchases of marketable securities of \$59.6 million, and acquisition costs for the August Technology merger of \$12.1 million net of cash acquired, capital expenditures of \$5.2 million and costs incurred for capitalized software of \$1.5 million.

Net cash and cash equivalents provided by financing activities for the nine month periods ended September 30, 2007 of \$1.4 million was due to proceeds received and tax benefit for sales of shares through share-based compensation plans. Net cash and cash equivalents provided by financing activities for the nine month period ended September 30, 2006 of \$8.6 million was a result of proceeds received and tax benefit for sales of shares through share-based compensation plans.

From time to time we evaluate whether to acquire new or complementary businesses, products and/or technologies. We may fund all or a portion of the purchase price for these acquisitions in cash and/or the issuance of equity securities.

Our future capital requirements will depend on many factors, including the timing and amount of our revenues and our investment decisions, which will affect our ability to generate additional cash and/or common stock. We believe that our existing cash, cash equivalents and marketable securities will be sufficient to meet our anticipated cash requirements for working capital and capital expenditures for the foreseeable future. Thereafter, if cash generated from operations and financing activities is insufficient to satisfy our working capital requirements, we may seek additional funding through bank borrowings, sales of securities or other means. There can be no assurance that we will be able to raise any such capital on terms acceptable to us or at all.

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### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### *Interest Rate Risk*

We are exposed to changes in interest rates primarily from our investments in certain available-for-sale securities. Our available-for-sale securities consist primarily of fixed income investments (U.S. Treasury and Agency securities, municipal securities and corporate bonds). We continually monitor our exposure to changes in interest rates and credit ratings of issuers from our available-for-sale securities. It is possible that we are at risk if interest rates or credit ratings of issuers change in an unfavorable direction. The magnitude of any gain or loss will be a function of the difference

between the fixed rate of the financial instrument and the market rate and our financial condition and results of operations could be materially affected. Based on sensitivity analysis performed on our financial investments held as of September 30, 2007, an immediate adverse change of 10% in interest rates (e.g. 3.00% to 3.30%) would result in a less than \$0.1 million decrease in the fair value of our available-for-sale securities.

#### *Foreign Currency Risk*

We have branch operations in Taiwan, Singapore, China and Korea and wholly-owned subsidiaries in Europe and Japan. Our international subsidiaries and branches operate primarily using local functional currencies. These foreign branches and subsidiaries are limited in their operations and level of investment so that the risk of currency fluctuations is not material. A substantial portion of our international sales are denominated in U.S. dollars and, as a result, we have relatively little exposure to foreign currency exchange risk with respect to these sales. Substantially all our sales in Japan are denominated in Japanese yen. From time to time, we may enter into forward exchange contracts to economically hedge a portion of, but not all, existing and anticipated foreign currency denominated transactions expected to occur within 12 months. The change in fair value of the forward contracts is recognized in the Consolidated Statements of Operations each reporting period. As of September 30, 2007, we had twelve forward contracts outstanding with a total notional contract value of \$4.4 million. We do not use derivative financial instruments for trading or speculative purposes.

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#### Item 4. Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow for timely decisions regarding required disclosure. The disclosure controls and procedures are designed to provide reasonable assurance of achieving the desired control objectives. As of September 30, 2007, an evaluation was carried out under the supervision and with the participation of the Company's management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

There have been no significant changes in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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## PART II OTHER INFORMATION

#### Item 1. Legal Proceedings

A discussion regarding pending legal proceedings is included in Part 1, Item 3, "Legal Proceedings," included in our Annual Report on Form 10-K for the year ended December 31, 2006.

## **Item 1A. Risk Factors**

There are no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year 2006, except as set forth below:

### **Our largest customers account for a significant portion of our revenues, and our revenues and cash flows would significantly decline if one or more of these customers were to purchase significantly fewer of our systems or they delayed or cancelled a large order**

In 2004, 2005, 2006 and the nine month ended September 30, 2007, sales to customers that individually represented at least five percent of our revenues accounted for, in the aggregate, 53.4%, 62.6%, 40.9% and 39.8% of our revenues. In 2004, 2005, 2006 and the nine month ended September 30, 2007, sales to Intel Corporation, a key customer, accounted for 23.2%, 20.3%, 14.0% and 12.7% of our revenues, respectively. We operate in the highly concentrated, capital-intensive semiconductor device manufacturing industry. Historically, a significant portion of our revenues in each quarter and year has been derived from sales to relatively few customers, and this trend is expected to continue. If any of our key customers were to purchase significantly fewer of our systems in the future, or if a large order were delayed or cancelled, our revenues and cash flows would significantly decline. We expect that we will continue to depend on a small number of large customers for a significant portion of our revenues for at least the next several years. In addition, as large semiconductor device manufacturers seek to establish closer relationships with their suppliers, we expect that our customer base will become even more concentrated.

### **Our efforts to protect our intellectual property may be less effective in certain foreign countries, where intellectual property rights are not as well protected as in the United States**

In 2004, 2005, 2006 and the nine months ended September 30, 2007, 69.1%, 77.5%, 70.6% and 80.9%, respectively, of our revenue was derived from sales in foreign countries, including certain countries in Asia, such as Taiwan, China, Korea, Singapore and Japan and certain Western European countries. The laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States, and many U.S. companies have encountered substantial problems in protecting their proprietary rights against infringement abroad. For example, Taiwan is not a signatory of the Patent Cooperation Treaty, which is designed to specify rules and methods for defending intellectual property internationally. The publication of a patent in Taiwan prior to the filing of a patent in Taiwan would invalidate the ability of a company to obtain a patent in Taiwan. Similarly, in contrast to the United States where the contents of patents remain confidential during the patent application process, in Taiwan the contents of a patent are published upon filing which provides competitors an advance view of the contents of a patent application prior to the establishment of patent rights. Consequently, there is a risk that we may be unable to adequately protect its proprietary rights in certain foreign countries. If this occurs, it would be easier for our competitors to develop and sell competing products in these countries.

### **Because we derive a significant portion of our revenues from sales in Asia, our sales and results of operations could be adversely affected by the instability of Asian economies**

Our sales to customers in Asian markets represented approximately 59.6%, 56.3%, 59.9% and 60.3% of our revenues in 2004, 2005, 2006 and the nine months ended September 30, 2007, respectively. Countries in the Asia Pacific region, including Japan, Korea, China, Singapore and Taiwan, each of which accounted for a significant portion of our business in that region, have experienced currency, banking and equity market weaknesses in the past. We expect that political or economic instability in the Asian markets we service could adversely affect our results of operations and cash flows in future periods.

### **Our significant level of international sales subjects us to operational, financial and political risks, such as unexpected changes in regulatory requirements, tariffs, political and economic instability, outbreaks of**

**hostilities, and difficulties in managing foreign sales representatives and foreign branch operations**

International sales accounted for approximately 69.1%, 77.5% , 70.6% and 80.9%, respectively, of our revenues in 2004, 2005, 2006 and the nine months ended September 30, 2007. We anticipate that international sales will account for a significant portion of our revenue during at least the next five years. Due to the significant level of our international sales, we are subject to a number of material risks, including:

*Unexpected changes in regulatory requirements including tariffs and other market barriers.* The semiconductor device industry is a high-visibility industry in many of the European and Asian countries in which we sell our products. Because the governments of these countries have provided extensive financial support to our semiconductor device manufacturing customers in these countries, we believe that our customers could be disproportionately affected by any trade embargoes, excise taxes or other restrictions imposed by their governments on trade with United States companies such as ourselves. Any restrictions of these types could result in a reduction in our sales to customers in these countries.

*Political and economic instability.* We are subject to various global risks related to political and economic instabilities in countries in which we derive sales. If terrorist activities, armed conflict, civil or military unrest or political instability occurs outside of the U.S., these events may result in reduced demand for our products. There is considerable political instability in Taiwan related to its disputes with China and in South Korea related to its disputes with North Korea. In addition, several Asian countries, particularly Japan, have experienced significant economic instability. An outbreak of hostilities or other political upheaval in China, Taiwan or South Korea, or an economic downturn in Japan or other countries, would likely harm the operations of our customers in these countries. The effect of these types of events on our revenues and cash flows could be material because we derive substantial revenues from sales to semiconductor device foundries in Taiwan such as TSMC and UMC, from memory chip manufacturers in South Korea such as Hynix and Samsung, and from semiconductor device manufacturers in Japan such as NEC and Toshiba.

*Difficulties in staffing and managing foreign branch operations.* During periods of tension between the governments of the United States and certain other countries, it is often difficult for United States companies such as ourselves to staff and manage operations in such countries.

**Item 6. Exhibits**

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of September 27, 2005, by and among the Registrant, NS Merger Sub, Inc. and August Technology Corporation (incorporated by reference to Exhibit 99.2 to the Company's Schedule 13D filed with the SEC on July 7, 2005).
2.2	Amendment No. 1, dated as of December 8, 2005, by and among the Registrant, NS Merger Sub, Inc. and August Technology Corporation, to the Agreement and Plan of Merger, dated as of September 27, 2005, by and among the Registrant, NS Merger Sub, Inc. and August Technology Corporation (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 9, 2005).
3.1	Restated Certificate of Incorporation of Registrant (incorporated herein by reference to Exhibit (3.1(b)) to the Registrant's Registration Statement on Form S-1, as amended (SEC File No. 333-86871 filed on September 9, 1999).
3.2	Amended and Restated Bylaws of Registrant (incorporated herein by reference to Exhibit (3.2(b) to the Registrant's Registration Statement on Form S-1, as amended (SEC File No. 333-86871), filed on September 9, 1999).

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- 3.3 Amendment to Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on February 15, 2006, No. 000-27965).
- 3.4 Amendment to Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on August 1, 2007, No. 000-27965).
- 4.1 Rights Agreement (incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form 8-A, filed with the Commission on June 28, 2005, No. 000-27965).
- 4.2 August Technology Corporation 1997 Stock Incentive Plan (incorporated by reference to the Appendix to August Technology Corporation's Proxy Statement for its 2004 Annual Shareholders Meeting, filed with the Commission on March 11, 2004, No. 000-30637).
- 15 Letter re: Unaudited Interim Financial Information
- 31.1 Certification of Paul F. McLaughlin, Chief Executive Officer, pursuant to Securities Exchange Act Rule 13a-14(a).
- 31.2 Certification of Steven R. Roth, Chief Financial Officer, pursuant to Securities Exchange Act Rule 13a-14(a).
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Paul F. McLaughlin, Chief Executive Officer of Rudolph Technologies, Inc.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Steven R. Roth, Chief Financial Officer of Rudolph Technologies, Inc.
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**SIGNATURES**

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

**Rudolph Technologies, Inc.**

Date: November 7, 2007

By: /s/ Paul F. McLaughlin

Paul F. McLaughlin  
Chairman and Chief Executive Officer

Date: November 7, 2007

By: /s/ Steven R. Roth  
Steven R. Roth  
Senior Vice President, Chief Financial Officer  
and Principal Accounting Officer



**EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of September 27, 2005, by and among the Registrant, NS Merger Sub, Inc. and August Technology Corporation (incorporated by reference to Exhibit 99.2 to the Company's Schedule 13D filed with the SEC on July 7, 2005).
2.2	Amendment No. 1, dated as of December 8, 2005, by and among the Registrant, NS Merger Sub, Inc. and August Technology Corporation, to the Agreement and Plan of Merger, dated as of September 27, 2005, by and among the Registrant, NS Merger Sub, Inc. and August Technology Corporation (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 9, 2005).
3.1	Restated Certificate of Incorporation of Registrant (incorporated herein by reference to Exhibit (3.1(b)) to the Registrant's Registration Statement on Form S-1, as amended (SEC File No. 333-86871 filed on September 9, 1999).
3.2	Amended and Restated Bylaws of Registrant (incorporated herein by reference to Exhibit (3.2(b)) to the Registrant's Registration Statement on Form S-1, as amended (SEC File No. 333-86871), filed on September 9, 1999.
3.3	Amendment to Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on February 15, 2006, No. 000-27965).
3.4	Amendment to Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on August 1, 2007, No. 000-27965).
4.1	Rights Agreement (incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form 8-A, filed with the Commission on June 28, 2005, No 000-27965).
4.2	August Technology Corporation 1997 Stock Incentive Plan (incorporated by reference to the Appendix to August Technology Corporation's Proxy Statement for its 2004 Annual Shareholders Meeting, filed with the Commission on March 11, 2004, No. 000-30637).
15	Letter re: Unaudited Interim Financial Information
31.1	Certification of Paul F. McLaughlin, Chief Executive Officer, pursuant to Securities Exchange Act Rule 13a-14(a).

- 31.2 Certification of Steven R. Roth, Chief Financial Officer, pursuant to Securities Exchange Act Rule 13a-14(a).
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Paul F. McLaughlin, Chief Executive Officer of Rudolph Technologies, Inc.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Steven R. Roth, Chief Financial Officer of Rudolph Technologies, Inc.
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EXHIBIT 15

**Awareness Letter of KPMG LLP, Independent Registered Public Accounting Firm**

November 7, 2007

Rudolph Technologies, Inc.  
One Rudolph Road  
Flanders, NJ 07836

Re: Registration Statement Nos. 333-132283 and 333-129773 on Form S-8 and No. 333-54860 on Form S-3 of Rudolph Technologies, Inc.

With respect to the subject registration statements, we acknowledge our awareness of the incorporation by reference therein of our report dated November 7, 2007, which is included in your Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007, related to our review of interim financial information as of September 30, 2007 and for the three and nine-month periods ended September 30, 2007 and 2006.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP  
Short Hills, New Jersey

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EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Paul F. McLaughlin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rudolph Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2007

By: /s/ Paul F. McLaughlin  
Paul F. McLaughlin  
Chairman and Chief Executive Officer

EXHIBIT 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Steven R. Roth, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rudolph Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2007

By: /s/ Steven R. Roth  
Steven R. Roth  
Senior Vice President, Chief Financial Officer

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**EXHIBIT 32.1**

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Paul F. McLaughlin, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Rudolph Technologies, Inc. on Form 10-Q for the quarter ended September 30, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Rudolph Technologies, Inc.

Date: November 7, 2007

By: /s/ Paul F. McLaughlin  
Paul F. McLaughlin  
Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Rudolph Technologies, Inc. and will be retained by Rudolph Technologies, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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**EXHIBIT 32.2**

CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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I, Steven R. Roth, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Rudolph Technologies, Inc. on Form 10-Q for the quarter ended September 30, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Rudolph Technologies, Inc.

Date: November 7, 2007

By: /s/ Steven R. Roth

Steven R. Roth

Senior Vice President, Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Rudolph Technologies, Inc. and will be retained by Rudolph Technologies, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.