

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

CYBEROPTICS CORP
Form 10-Q
November 14, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Check One)

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

For the quarterly period ended September 30, 2001

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 0-16577

CYBEROPTICS CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction
of incorporation or organization)

41-1472057

(IRS Employer
Identification No.)

5900 Golden Hills Drive, Minneapolis, Minnesota 55416

(Address of principal executive offices)

(763) 542-5000

(Issuer's telephone number)

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 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

At November 12, 2001, 8,081,039 shares of the issuer's Common Stock, no par value, were outstanding.

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CYBEROPTICS CORPORATION CONSOLIDATED BALANCE SHEETS (In thousands)

| | SEPT. 30, 2001 (UNAUDITED) | DEC. 31, 2000 |
|---|-------------------------------|---------------|
| <hr/> | | |
| ASSETS | | |
| Cash and cash equivalents | \$16,404 | \$13,097 |
| Marketable securities | 3,789 | 6,650 |
| Accounts receivable, net | 3,677 | 12,470 |
| Inventories | 9,723 | 9,497 |
| Income taxes receivable | 2,243 | - |
| Other current assets | 1,736 | 1,710 |
| <hr/> | | |
| Total current assets | 37,572 | 43,424 |
| Marketable securities | 11,230 | 8,538 |
| Equipment and leasehold improvements, net | 3,774 | 3,944 |
| Intangible and other assets, net | 11,948 | 12,911 |
| <hr/> | | |
| Total assets | \$64,524 | \$68,817 |
| <hr/> | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accounts payable | \$1,775 | \$3,433 |
| Income taxes payable | - | 345 |
| Accrued expenses | 2,642 | 5,111 |
| <hr/> | | |
| Total current liabilities | 4,417 | 8,889 |
| Deferred Tax Liabilities | 145 | 145 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, no par value, 5,000 shares authorized, none outstanding | - | - |
| Common stock, no par value, 25,000 shares authorized, 8,070 and 7,952 shares issued and outstanding, respectively | 40,737 | 39,714 |
| Retained earnings | 19,127 | 20,118 |
| Accumulated other comprehensive income (loss) | 98 | (49) |
| <hr/> | | |
| Total stockholders' equity | 59,962 | 59,783 |
| <hr/> | | |
| Total liabilities and stockholders' equity | \$64,524 | \$68,817 |
| <hr/> | | |

SEE THE ACCOMPANYING NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

CYBEROPTICS CORPORATION
STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

| | THREE MONTHS ENDED SEPT. 30, | |
|---|------------------------------|----------|
| | 2001 | 2000 |
| Revenues | \$6,189 | \$16,277 |
| Cost of revenues | 3,691 | 6,021 |
| Gross margin | 2,498 | 10,256 |
| Research and development expenses | 2,023 | 2,036 |
| Selling, general and administrative expenses | 3,924 | 3,808 |
| Non-recurring charges | 169 | - |
| Amortization of goodwill and other intangibles | 592 | 450 |
| Income (loss) from operations | (4,210) | 3,962 |
| Interest income | 311 | 375 |
| Income (loss) before income taxes | (3,899) | 4,337 |
| Provision (benefit) for income taxes | (1,950) | 1,523 |
| Net income (loss) | \$ (1,949) | \$2,814 |
| Net income per share - Basic | \$ (0.24) | \$0.36 |
| Net income per share - Diluted | \$ (0.24) | \$0.33 |
| Weighted average shares outstanding - Basic | 8,052 | 7,890 |
| Weighted average shares outstanding - Diluted | 8,052 | 8,576 |
| | | |
| | NINE MONTHS ENDED SEPT. 30, | |
| | 2001 | 2000 |
| Revenues | \$34,160 | \$44,470 |
| Cost of revenues | 15,791 | 16,534 |
| Gross margin | 18,369 | 27,936 |
| Research and development expenses | 6,473 | 6,927 |
| Selling, general and administrative expenses | 12,952 | 10,916 |
| Non-recurring charges | 419 | - |
| Amortization of goodwill and other intangibles | 1,759 | 1,310 |
| Income (loss) from operations | (3,234) | 8,783 |
| Interest income and other | 1,103 | 938 |
| Income (loss) before income taxes and cumulative effect of change in accounting principle | (2,131) | 9,721 |
| Provision (benefit) for income taxes | (1,140) | 3,601 |

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

| | | |
|---|----------|---------|
| Income (loss) before cumulative effect of change in accounting principle | (991) | 6,120 |
| Cumulative effect of change in accounting principle, net of tax | - | (135) |
| ----- | | |
| Net income (loss) | \$ (991) | \$5,985 |
| ===== | | |
| Net income (loss) per share - Basic | (\$0.12) | \$0.78 |
| Net income (loss) per share - Diluted | (\$0.12) | \$0.71 |
| ===== | | |
| Weighted average shares outstanding - Basic | 8,000 | 7,716 |
| Weighted average shares outstanding - Diluted | 8,000 | 8,429 |
| ===== | | |

SEE THE ACCOMPANYING NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

PAGE 3

CYBEROPTICS CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (In thousands)

NINE MONTHS ENDED SEPT. 30,
2001 2000

| | | |
|--|----------|---------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ (991) | \$5,985 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,239 | 2,477 |
| Provision for losses on inventories | 536 | 516 |
| Provision for doubtful accounts | (2) | 10 |
| Stock compensation expense | 30 | 30 |
| Changes in operating assets and liabilities excluding impact of acquisitions: | | |
| Accounts receivable | 8,795 | (4,185) |
| Inventories | (761) | (3,512) |
| Other current assets | 612 | (328) |
| Accounts payable / receivable | (1,658) | 1,085 |
| Income taxes payable | (2,588) | 1,067 |
| Accrued expenses | (2,469) | 1,540 |
| ----- | | |
| Net cash provided by operating activities | 4,743 | 4,685 |

CASH FLOWS FROM INVESTING ACTIVITIES:

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

| | | |
|---|----------|----------|
| Maturities of marketable securities | 52,195 | 6,328 |
| Purchases of marketable securities | (51,850) | (11,367) |
| Purchases of businesses and technology, net of cash acquired | (1,264) | (54) |
| Additions to equipment and leasehold improvements | (1,177) | (1,880) |
| Additions to patents | (157) | (212) |
| <hr/> | | |
| Net cash used in investing activities | (2,253) | (7,185) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from exercise of stock options | 446 | 3,535 |
| Proceeds from issuance of common stock under Employee Stock Purchase Plan | 371 | 464 |
| <hr/> | | |
| Net cash provided by financing activities | 817 | 3,999 |
| Increase in cash and cash equivalents | 3,307 | 1,499 |
| Cash and cash equivalents - beginning of period | 13,097 | 10,196 |
| <hr/> | | |
| Cash and cash equivalents - end of period | \$16,404 | \$11,695 |
| <hr/> | | |

SEE THE ACCOMPANYING NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

PAGE 4

CYBEROPTICS CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2001

1. INTERIM REPORTING:

The interim consolidated financial statements presented herein as of September 30, 2001, and for the nine and three month periods ended September 30, 2001 and 2000, are unaudited; however, in the opinion of management, the interim consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, except for the cumulative effect of a change in accounting principle recorded in the first quarter of 2000, necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented.

As previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, the results of operations for the nine month period ended September 30, 2000 includes a \$135,000 net-of-tax charge to earnings for the cumulative effect of adopting changes to the Company's revenue recognition policies as required by the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) NO. 101, effective January 1, 2000.

The results of operations for the nine and three month periods ended September

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

30, 2001, do not necessarily indicate the results to be expected for the full year. The December 31, 2000, consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles. These unaudited interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

2. PRO-FORMA INFORMATION:

The following table presents unaudited pro forma consolidated results of operations as if the acquisition of Imagenation Corporation (Imagenation), acquired on October 24, 2000, had occurred as of the beginning of 2000. The unaudited pro forma consolidated results of operations for the nine months ended September 30, 2000 include adjustments for additional amortization of identifiable intangibles and goodwill, the reduction of interest income due to the cash used for the acquisition and the related tax impact of these adjustments. The unaudited pro forma consolidated results of operations are presented for illustrative purposes only and are not necessarily indicative of the combined financial results that actually would have resulted had the acquisitions, in fact, occurred at the beginning of 2000(In thousands):

| | Pro Forma Nine Months Ended September 30, 2000 ----- |
|--------------------------------|---|
| Revenue | \$48,349 |
| Net income | \$ 5,446 |
| Net income per share - Basic | \$0.71 |
| Net income per share - Diluted | \$0.65 |

PAGE 5

3. PURCHASES OF BUSINESSES AND TECHNOLOGIES

In May 2001, the Company paid additional purchase consideration of \$164,000 to the shareholders of HAMA Laboratories, Inc. under the terms of the May 1999 Asset Purchase Agreement. Additional consideration could be payable in May 2002 under this Agreement based on meeting certain operation thresholds.

In July 2001, the Company acquired certain intellectual property and a software license for a cash payment of \$1.1 million.

4. INVENTORIES (IN THOUSANDS):

| | Sept. 30, 2001 (unaudited) | Dec. 31, 2000 |
|---------------|----------------------------------|------------------|
| Raw materials | \$5,506 | \$5,841 |

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

| | | |
|-------------------|---------|---------|
| Work in process | 533 | 1,177 |
| Finished goods | 3,684 | 2,479 |
| | ----- | ----- |
| Total inventories | \$9,723 | \$9,497 |
| | ===== | ===== |

5. NET INCOME (LOSS) PER SHARE:

Basic net income per share has been computed using the weighted average number of shares outstanding. The diluted net income per share includes the effect of common stock equivalents for each period. The shares used in the basic and diluted net income per share computation for the nine and three month periods ended September 30, 2001 are the same, as additional shares in the denominator would be anti-dilutive due to the Company's net loss. The number of shares utilized in the denominator of the diluted net income per share computation has been increased by 713,000 and 686,000 equivalent shares for the nine and three month periods ended September 30, 2000, respectively. Shares for which the option exercise price exceeded the average market price were 490,000 and 862,000 for the nine and three month periods ended September 30, 2001, respectively. Shares excluded due to the option exercise price exceeding the average market price were 60,100 and 5,400 for the nine and three month periods ended September 30, 2000, respectively.

6. COMPREHENSIVE INCOME (LOSS):

Statement of Financial Accounting Standards No. 130 requires that unrealized gains and losses on the Company's available-for-sale marketable securities and certain foreign currency translation adjustments be included as a component of other comprehensive income.

During the nine month periods ended September 30, 2001 and 2000, total comprehensive income (loss) amounted to (\$844,000) and \$6,016,000, respectively. During the three month periods ended September 30, 2001 and 2000, total comprehensive income (loss) amounted to (\$1,796,000) and \$2,927,000, respectively. Accumulated other comprehensive income (loss) at September 30, 2001 and December 31, 2000 was \$98,000 and (\$49,000), respectively.

7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES:

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," on January 1, 2001. The adoption of SFAS No. 133 did not materially impact the Company's financial position as of September 30, 2001 or its results of operations or cash flows for the nine months then ended.

PAGE 6

The Company enters into foreign currency swap agreements to hedge short term inter-company financing transactions with its subsidiary in the United Kingdom. These currency swap agreements are structured to mature on the last day of each quarter and are designated as cash flow hedges. At September 30, 2001, the Company had one open swap agreement that was purchased on that date. As a

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

result, there were no unrealized gains or losses as of September 30, 2001. During the three months ended September 30, 2001, the Company recognized a loss of approximately \$181,000 from settlement of a foreign currency swap agreement which offset the \$116,000 translation gain on the underlying inter-company balance.

The Company's foreign currency swap agreements contain credit risk to the extent that its bank counter-parties may be unable to meet the terms of the agreements. The Company minimizes such risk by limiting its counter-parties to major financial institutions. Management does not expect material losses as a result of defaults by other parties.

8. RECENT ACCOUNTING DEVELOPMENTS

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations", and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," (Collectively, "the Statements"). The Statements eliminate the pooling-of-interest method of accounting for business combinations and the systematic amortization of goodwill and other intangible assets with indeterminable lives. The Company will adopt the Statements on January 1, 2002 and is currently estimating the impact of any goodwill impairment charge required upon adoption. In addition to any potential impairment charge that may be required, the Company estimates that the adoption of the Statements will reduce fiscal 2002 amortization expense, on a pretax basis by approximately \$1.1 million.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (the "Statement"). This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement also eliminates the exception to the consolidation for a subsidiary for which control is likely to be temporary. The Company will adopt the Statement on January 1, 2002 and does not expect the adoption of the Statement to have a material impact on either the financial position or operating results of the Company.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of certain significant factors which have affected the Company's results and financial position during the periods included in the accompanying financial statements or could have an impact on future results. This discussion should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2000 and the Company's interim consolidated financial statements and associated notes.

The following Management's Discussion and Analysis contains "forward looking statements" within the meaning of federal securities laws which represent management's expectations or beliefs relating to future events, including statements regarding trends in the industries in which the Company functions, levels of orders, research and development expenses, taxation levels, the sufficiency of cash to meet operating and capital expenses and the ability to continue to price foreign transactions in U.S. currency. These and other forward looking statements made by the Company, must be evaluated in the context of a number of factors that may affect the Company's financial condition and results of operations, including the following:

- The cyclical nature of capital expenditures in the electronics and semiconductor industry;

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

- The affects of world events and economic conditions on the Company and its customers;
- The dependence of such operations on orders of one sensor product

PAGE 7

line from large OEM's of component placement machines in the surface mount industry;

- The dependence of such operations on orders from two OEM customers;
- The significant proportion of the Company's revenue that is derived from export sales;
- The dependence of the Company's manufacturing on outside contractors and suppliers, many of which require significant lead time;
- The degree to which the Company is successful in protecting its technology and enforcing its technology rights in the United States and other countries;
- The dependence of the Company's operations on several key personnel;
- The ability of the Company to effectively integrate the operations of acquired companies and product lines;
- The ability to effectively commercialize significant new products introduced in 2000 and 2001;
- The speed of changes in technology in the microelectronics manufacturing industry from which most of the Company's sales are derived;
- Competition for the functions that the Company's products perform by larger "vision" companies and by other optical sensor companies;
- The ability of the Company to successfully develop acquired in-process technology into viable products;

RESULTS OF OPERATIONS

REVENUES

The following table sets forth revenues by product group for the three and nine month periods ended September 30 (in Thousands):

| Nine months ended | | Three months ended | |
|-------------------|-------|--------------------|-------|
| September 30, | | September 30, | |
| 2001 | 2000 | 2001 | 2000 |
| ----- | ----- | ----- | ----- |

OEM Solutions:

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

| | | | | |
|-----------------------------------|----------|----------|---------|----------|
| Electronic Assembly Sensors (EAS) | | | | |
| Products | \$19,033 | \$31,365 | \$2,345 | \$11,577 |
| Semiconductor Products | 5,492 | 5,622 | 1,343 | 2,237 |
| SMT Systems Products | 9,635 | 7,483 | 2,501 | 2,463 |
| | ----- | ----- | ----- | ----- |
| Total | \$34,160 | \$44,470 | \$6,189 | \$16,277 |

Revenues from the EAS sensor products decreased 39% during the nine months ended September 30, 2001 compared to the same period in 2000. During the third quarter of 2001, EAS sensor revenues decreased 80% compared to the same period in 2000. Decreased revenues during the third quarter reflects further deterioration in global markets for electronic assembly equipment, including demand from our major EAS customers. A major customer of EAS products has notified the Company to suspend new product sensor shipments as it works off excess sensor inventory. The Company believes

PAGE 8

this suspension of scheduled shipments could continue beyond the end of the year. During the third quarter, a second OEM sensor customer also significantly reduced its order rate for the balance of the year. The Company believes that this reduction could continue beyond the end of the year. As a result of these developments, fourth quarter sales of electronic assembly sensors are expected to continue to decline compared to the third quarter of 2001. The Company's two largest EAS customers accounted for approximately 44% of total revenues for the nine months ended September 30, 2001, and 57% of revenues for the comparable period in 2000. These customers accounted for approximately 27% of revenues in the third quarter of 2001 compared to 59% in the third quarter of 2000.

Semiconductor product revenues decreased 2% during the nine month period ended September 30, 2001 from the comparable period in 2000, and decreased 40% for the third quarter of 2001 compared to the same period in 2000. Because it was not acquired until October 2000, sales from Imagination are not reflected in sales for the first nine months of 2000. Excluding the impact of the Imagination acquisition, semiconductor product revenues decreased 55% during the nine month period ended September 30, 2001 from the comparable period in 2000, and decreased 75% for the third quarter of 2001 compared to the same period in 2000. This decrease was primarily due to a weakening demand in the semiconductor capital equipment market which is expected to continue during the fourth quarter of 2001.

SMT systems product revenues increased 29% during the nine month period ended September 30, 2001 from the comparable period in 2000, and increased 2% for the third quarter of 2001 compared to the same period in 2000. The sales increase was driven by sales of new-generation SE 300 solder paste inspection and KS 100 and KS 50 AOI systems, which all began contributing revenues in the fourth quarter of 2000. SMT systems revenues reflect continued demand for the Company's new-generation end user system products from electronic manufacturing services (EMS) customers. As a result of industry consolidation, EMS companies are becoming a larger proportion of worldwide electronic assembly capacity. As a result of weakness in the electronic assembly market, the Company expects demand below the third quarter 2001 levels for its end-user system products during the fourth quarter of 2001.

International revenues comprised approximately 69% and 76% of total revenues

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

during the nine month periods ended September 30, 2001 and 2000, respectively, and approximately 53% and 75% of revenues during the third quarter of 2001 and 2000, respectively. The international markets in Europe, Japan and the rest of Asia account for a significant portion of the production capability of capital equipment for the manufacture of electronics, the primary market for the Company's EAS sensors and SMT systems product lines.

Revenues generated from products used primarily for SMT production (revenues from OEM sensors and SMT systems) were approximately 84% and 87% of revenues for the nine month periods ended September 30, 2001 and 2000, respectively.

GROSS MARGIN

Gross margin for the nine months ended September 30, 2001 decreased as a percent of revenues to 54% compared to 63% during the same period in 2000. For the third quarter of 2001, gross margin decreased to 40% of revenues compared to 63% during the comparable period in 2000. Gross margin is highly dependent on the level of revenues over which to spread the fixed component of cost of sales and the related realization of manufacturing efficiencies. During 2001, gross margin was negatively impacted by lower revenue levels. Gross margin was also negatively impacted by reduced EAS product and semiconductor product revenues, which have a higher margin than other products, and the increase in new-generation SMT Systems product revenues, which generate a lower margin during their initial introductory period. The Company expects that SMT System products will continue to grow as a percentage of total revenue, which will continue to impact gross margin during the fourth quarter of 2001.

RESEARCH AND DEVELOPMENT

Research and development expenses decreased 7% to \$6.5 million during the nine

PAGE 9

month period ended September 30, 2001 compared to the same period of 2000. For the third quarter of 2001, research and development expenses decreased less than 1% to \$2.0 million compared to the same period in 2000. As a percentage of revenue, research and development expenses increased to 19% during the nine months ended September 30, 2001 from 16% during the comparable period in 2000, and increased to 33% in the second quarter of 2001 compared to 13% in the same period in 2000. Decreased research and development expenses in 2001 is due primarily to cost reduction measures initiated in the second quarter and customer funded development recognized as a reduction in research and development expense.

Research and development expenses during the first three quarters of 2001 were primarily focused on continued engineering development of the new high speed solder paste inspection system, the SE 300, and KS 100 and KS 50 AOI systems, as well as development work on the in-process products acquired from Imagination and Hama. In addition, research and development expenses in 2001 included development of next generation LaserAlign products, a board alignment camera and enhancements to the semiconductor wafer mapping sensor product family.

Customer funded research and development is recognized as a reduction of research and development expense. During the nine months ended September 30, 2001, customer funded research and development recognized as a reduction of

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

research and development expense totaled \$604,000 compared to \$397,000 during the comparable period of 2000. The Company expects customer funded R&D recognized in the fourth quarter of 2001 to exceed the \$293,000 recognized in the third quarter of 2001.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased 19% to \$13.0 million during the nine month period ended September 30, 2001 compared to \$10.9 million during the comparable period in 2000. For the third quarter of 2001, selling, general and administrative expenses increased 3% to \$3.9 million compared to the same period in 2000. As a percentage of revenue, selling, general and administrative expenses increased to 38% during the nine month period ended September 30, 2001 from 25% in 2000, and for the third quarter increased to 63% in 2001 from 23% in 2000. Increased selling, general and administrative expenses in 2001 are primarily the result of personnel and marketing investments made to develop the end-user SMT systems sales and service channel, the acquisition of Imagenation and the costs associated with operating the new sales office in Singapore.

ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT

On October 24, 2000, the Company acquired Imagenation Corporation. At the time of acquisition, Imagenation had two products under development. The first was a new generation of frame grabber that contains features that greatly exceed the performance of current products. This product was introduced in June 2001. The second was a machine vision product concept that, if successfully developed, will integrate all vision components on a single circuit board, to be used as a 'wafer mapper' primarily in a semiconductor manufacturing environment and other potential applications. The Company recorded a \$2.1 million charge to operations at the time of acquisition for the estimated fair value of the acquired in-process research and development. Since the date of the acquisition, there have been no significant changes to the estimated total research and development costs to be incurred to complete development or the estimated revenues to be generated from these products, if successfully developed.

NON-RECURRING CHARGES

In April 2001, the Company incurred approximately \$250,000 of severance related costs associated with cost reduction measures. In September 2001, the Company incurred approximately \$169,000 of additional severance related costs associated with a second round of cost reduction measures. A total of 23 and 22 employees were terminated in April and September 2001, respectively. Substantially, all of these costs were paid as of September 30, 2001.

PAGE 10

AMORTIZATION OF GOODWILL AND OTHER INTANGIBLE ASSETS

Amortization of acquired intangible assets was approximately \$1.8 and \$592,000 for the nine and three month periods ended September 30, 2001 compared to \$1.3 million and \$450,000 during the comparable periods of 2000. The amortization is attributable to identifiable intangible assets and goodwill resulting from the Company's acquisition of certain technology and other assets of Kestra and HAMA

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

during the second quarter of 1999 and the Company's acquisition of Imagenation during the fourth quarter of 2000. Except for the impact of the possible future payment of contingent consideration relating to the HAMA and Imagenation acquisitions, the amounts of which are not yet determinable, amortization of these intangible assets is expected to approximate \$592,000 for the fourth quarter of fiscal 2001. The Company intends to adopt the provisions of FASB statements No. 141 and No. 142 during the first quarter of fiscal 2002, which will eliminate the systematic amortization of goodwill and other intangible assets with indeterminable lives.

INTEREST AND OTHER

Interest income and other primarily includes interest earned on investments during the period.

PROVISION FOR INCOME TAXES AND EFFECTIVE INCOME TAX RATE

The Company recorded a tax benefit of \$1.1 million for the nine month period ended September 30, 2001, and \$1.5 million for the third quarter of 2001. The tax benefit during 2001 reflects anticipated tax losses for the year, benefits from the Company's foreign sales corporation and research and development tax credits. These benefits were partially offset by non-deductible goodwill amortization, and valuation allowances established to eliminate the future tax benefit of net operating loss carryforwards generated by CyberOptics Ltd. (formerly Kestra) due to uncertainty about realization. The third quarter benefit from the Company's foreign sales corporation includes a benefit for amendments to the 1997 through 2000 returns, which were filed in September 2001.

ORDER RATE AND BACKLOG

CyberOptics' orders totaled \$25.1 million during the nine month period ended September 30, 2001 compared to \$46.1 million during the same period in 2000. For the third quarter of 2001, orders totaled \$4.6 million compared to \$13.0 million in 2000. Backlog totaled \$2.7 million and \$13.0 million at September 30, 2001 and 2000, respectively. The scheduled shipment of the September 30, 2001 backlog is as follows (in thousands):

| | |
|----------------------------|----------|
| 4th Quarter 2001 | \$ 2,512 |
| 1st Quarter 2002 and after | 183 |
| | ----- |
| Total backlog | \$ 2,695 |

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and marketable securities increased \$3.1 million to \$31.4 million as of September 30, 2001 from \$28.3 million as of December 31, 2000, primarily due to \$4.7 million of cash generated from operations and \$0.8 million of cash provided by the exercise of stock options and stock issued under the ESPP. Increases in cash were partially offset by \$2.6 million of cash used to purchase fixed assets and other intangibles.

The Company generated \$4.7 million of cash from operations during the first nine months of 2001, primarily due to a net loss of \$1.0 million, including \$3.8 million of non-cash expenses for depreciation and amortization, and the provision for inventory obsolescence. The cash generated from operations also included a decrease in accounts receivable of \$8.8 million primarily the result of reduced revenue levels. These items were offset somewhat by a \$0.7 million increase

in inventories, a \$1.7 million decrease in accounts payable, a \$2.5 million decrease in accrued liabilities, and a \$2.6 million increase in income taxes receivable. The decrease in accounts payable and accrued liabilities are the result of lower purchasing and spending activities associated with lower revenue volumes and spending reduction measures.

The Company used \$2.3 million of cash in investing activities during the nine month period ended September 30, 2001. The change in cash from investing activities is partially due to changes in the level of investment in marketable securities resulting from the purchases and maturities of those securities, which provided \$0.3 million of cash in 2001. In addition, the Company used approximately \$2.6 million of cash for the purchase of fixed assets, and the acquisition of certain technology and other intangible assets during the nine months ended September 30, 2001.

The Company generated \$0.8 million of cash from financing activities during the nine months ended September 30, 2001, resulting from cash received from stock option exercises and stock issued under the ESPP.

In May 2001, the Company announced that its board of directors approved the repurchase of up to 500,000 shares of CyberOptics' common stock. The shares will be repurchased from time to time in the open market or through negotiated transactions. Repurchased shares will be utilized for employee compensation plans and other corporate purposes. As of September 30, 2001, the company has not purchased any shares under this authorization.

The Company has no material capital commitments. The Company believes working capital and anticipated funds from operations will be adequate for anticipated operating needs.

OTHER FACTORS

Changes in revenues have resulted primarily from changes in the level of unit shipments and new product introductions. The Company believes that inflation has not had any significant effect on operations. Most of the Company's international export sales are negotiated, invoiced and paid in U.S. dollars. Accordingly, although currency fluctuations do not have a significant effect the Company's revenue and income per unit, they can influence the price competitiveness of the Company's products relative to other technologies and the willingness of existing and potential customers to purchase products and services.

As a result of the Kestra acquisition the Company has an operating unit located in the UK. The Company does not believe that currency fluctuations will have a material impact on its consolidated financial statements.

RECENT ACCOUNTING DEVELOPMENTS

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations", and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," (Collectively, "the Statements"). The Statements eliminate the pooling-of-interest method of

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

accounting for business combinations and the systematic amortization of goodwill and other intangible assets with indeterminable lives. The Company will adopt the Statements on January 1, 2002 and is currently estimating the impact of any goodwill impairment charge required upon adoption. In addition to any potential impairment charge that may be required, the Company estimates that the adoption of the Statements will reduce fiscal 2002 amortization expense, on a pretax basis by approximately \$1.1 million.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (the "Statement"). This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement also eliminates the exception to the consolidation for a subsidiary for which control is likely to be temporary. The Company will adopt the Statement on January 1, 2002 and does not expect the adoption of the Statement to have a material impact on either the financial position or operating results of the Company.

PAGE 12

PART II. OTHER INFORMATION

ITEM 6 - EXHIBITS AND REPORTS ON 8-K

a. Exhibits

None

b. Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended September 30, 2001, or during the period from September 30, 2001 to the date of this quarterly report on Form 10-Q.

PAGE 13

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.

CyberOptics Corporation

/s/ Steven M. Quist

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

Steven M. Quist, President and Chief Executive Officer
(Principal Executive Officer and
Duly Authorized Officer)

/s/ Scott G. Larson

Scott G. Larson, Chief Financial Officer
(Principal Accounting Officer and
Duly Authorized Officer)

Dated: November 14, 2001

PAGE 14