

AUGUST TECHNOLOGY CORP

Form 10-Q/A

November 09, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended June 30, 2005

OR

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

For the transition period from _____ to _____

Commission File Number 000-30637

AUGUST TECHNOLOGY CORPORATION

(Exact name of Registrant as specified in its charter)

Minnesota
(State of incorporation)

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

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

55435
(Zip Code)

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined by Exchange Act Rule 12b-2). Yes No

As of July 31, 2005, there were 18,122,976 shares of common stock outstanding.

AUGUST TECHNOLOGY CORPORATION

EXPLANATORY NOTE

As previously disclosed, August Technology Corporation (the "Company") has restated its consolidated financial statements for the year 2004 and for the first two quarters of 2005. The determination to restate these financial statements was made as a result of a correction of the Company's application of revenue recognition principles contained in the Financial Accounting Standard Board's Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21). As a result of subsequently reviewing our revenue recognition policies and procedures, we additionally noted that beginning in the fourth quarter of 2002 certain deferred software revenue should have been fully recognized upon delivery or customer acceptance rather than ratably over a twelve-month period. As a result, the Company has restated its consolidated financial statements for the years 2004, 2003 and 2002 and for the first two quarters of 2005 (the "Restatement"). Our restated consolidated financial statements also include disclosure of restated unaudited quarterly results for 2004 and 2003. The Audit Committee of the Company's Board of Directors (the "Audit Committee") worked closely with the Company's management to review the Restatement and the Company's policies and practices for the recognition of revenue. Further information on the adjustments can be found in Note 2, "Restatement of Financial Statements" to the accompanying consolidated financial statements.

This Amendment No. 1 on Form 10-Q/A (the "Form 10-Q/A") to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005, initially filed with the Securities and Exchange Commission (the "SEC") on August 5, 2005 (the "Original Filing"), is being filed to reflect restatements of the Company's consolidated balance sheet as of June 30, 2005, the Company's consolidated statements of cash flows for the six-month periods ended June 30, 2005 and 2004, and the Company's consolidated statements of operations for the three-month and six-month periods ended June 30, 2005 and June 30, 2004 and the notes related thereto. Certain adjustments were recorded to each quarter in 2004 and the first two quarters of 2005 to correct other miscellaneous items identified in prior external audits or quarterly reviews but were previously passed, none of which were individually significant. For a more detailed description of the restatement, see Note 2, "Restatement of Financial Statements" to the accompanying consolidated financial statements and the section entitled "Restatement" in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-Q/A.

Concurrent with the filing of this Form 10-Q/A we are filing an Amendment No. 1 on Form 10-K/A (the "Form 10-K/A") to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 to reflect restatements of the Company's consolidated balance sheets as of December 31, 2004 and 2003 and the Company's consolidated statements of operations, cash flows and stockholders' equity for the years ended December 31, 2004, 2003 and 2002 and the notes related thereto.

For the convenience of the reader, this Form 10-Q/A sets forth the Original Filing in its entirety. However, this Form 10-Q/A only amends and restates Items 1, 2 and 4 of Part I of the Original Filing, in each case, solely as a result of, and to reflect, the Restatement, and no other information in the Original Filing is amended hereby. The foregoing items have not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain currently-dated certifications from the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the Company's Chief Executive Officer and Chief Financial Officer are attached to this Form 10-Q/A as Exhibits 31.1, 31.2 and 32.1.

Except for the foregoing amended information, this Form 10-Q/A continues to speak as of the date of the Original Filing, and the Company has not updated the disclosures contained herein to reflect events that occurred at a later date. Other events occurring after the filing of the Original Filing or other disclosures

necessary to reflect subsequent events have been or will be addressed in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 which is being filed concurrently with the filing of this Form 10-Q/A, and any reports filed with the SEC subsequent to the date of this filing.

The Company has not amended and does not intend to amend its previously filed Quarterly Reports on Form 10-Q for the periods affected by the Restatement prior to December 31, 2004. For this reason, the consolidated financial statements and related financial information for the affected periods contained in such reports should no longer be relied upon.

AUGUST TECHNOLOGY CORPORATION

TABLE OF CONTENTS

Description

PART I

FINANCIAL INFORMATION

Item 1.

Financial Statements (unaudited)

Consolidated Balance Sheets as of June 30, 2005 and December 31, 2004

Consolidated Statements of Operations for the three and six months ended June 30, 2005 and 2004

Consolidated Statements of Cash Flows for the six months ended June 30, 2005 and 2004

Notes to Consolidated Financial Statements

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 3.

Quantitative and Qualitative Disclosures About Market Risk

Item 4.

Controls and Procedures

PART II

OTHER INFORMATION

Item 1.

Legal Proceedings

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

Item 4.

Submission of Matters to a Vote of Security Holders

Item 6.

Exhibits

SIGNATURES

EXHIBIT INDEX

PART I FINANCIAL INFORMATION**Item 1. Financial Statements****AUGUST TECHNOLOGY CORPORATION****CONSOLIDATED BALANCE SHEETS****(In thousands, except share amounts)****(Unaudited)**

	June 30, 2005 (Restated)	December 31, 2004 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,313	\$ 5,518
Short-term marketable debt securities	22,583	28,615
Accounts receivable, net	10,389	8,328
Inventories	21,393	20,106
Inventories at customers under purchase orders	9,294	6,704
Prepaid expenses and other current assets	1,951	2,517
Total current assets	75,923	71,788
Property and equipment, net	5,342	5,994
Long-term marketable debt securities	9,034	16,289
Purchased technology, net	3,098	3,703
Goodwill	498	498
Other assets	162	150
Total assets	\$ 94,057	\$ 98,422
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 6,747	\$ 3,291
Accrued compensation	2,952	1,636
Other accrued liabilities	2,294	2,322
Customer deposits and deferred revenues	17,051	11,973
Total current liabilities	29,044	19,222
Other non-current liabilities	108	131
Total liabilities	29,152	19,353
Commitments and contingencies (note 9)		
Shareholders' equity:		
Common stock, no par value, 42,000,000 shares authorized, 18,064,032 and 17,839,298 shares issued and outstanding, respectively	91,447	90,363
Undesignated capital stock, no par value, 3,000,000 shares authorized, no shares issued or outstanding		
Accumulated deficit	(26,446)	(11,188)

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Accumulated other comprehensive loss	(96)	(106)
Total shareholders' equity	64,905	79,069
Total liabilities and shareholders' equity	\$ 94,057	\$ 98,422

See accompanying notes to consolidated financial statements.

AUGUST TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
Net revenues	\$ 16,749	\$ 18,024	\$ 31,785	\$ 34,869
Cost of revenues	6,953	8,159	13,777	15,217
Gross profit	9,796	9,865	18,008	19,652
Selling, general and administrative expenses	7,236	5,390	13,574	10,579
Research and development expenses	3,324	3,322	6,990	6,230
Operating income (loss)	(764)	1,153	(2,556)	2,843
Merger expenses	(11,991)		(13,225)	
Interest income	334	189	623	390
Income (loss) before provision for income taxes	(12,421)	1,342	(15,158)	3,233
Provision for income taxes	50	59	100	100
Net income (loss)	\$ (12,471)	\$ 1,283	\$ (15,258)	\$ 3,133
Net income (loss) per share:				
Basic	\$ (0.69)	\$ 0.07	\$ (0.85)	\$ 0.18
Diluted	\$ (0.69)	\$ 0.07	\$ (0.85)	\$ 0.17
Weighted average number of shares:				
Basic	18,005	17,778	17,936	17,700
Diluted	18,005	18,349	17,936	18,421

See accompanying notes to consolidated financial statements.

AUGUST TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2005 (Restated)	2004 (Restated)
Cash flows from operating activities:		
Net income (loss)	\$ (15,258)	\$ 3,133
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	2,115	1,019
Provision for (recovery of) doubtful accounts	(57)	79
Tax benefit from employee stock options	13	
Deferred income taxes	6	
Stock based compensation	30	
Amortization of deferred compensation related to stock options		27
Changes in operating assets and liabilities:		
Accounts receivable	(1,998)	(8,874)
Inventories	(1,142)	(7,048)
Inventories at customers under purchase orders	(2,590)	(3,679)
Prepaid expenses and other current assets	575	(402)
Accounts payable	3,456	2,120
Accrued compensation	1,312	696
Accrued liabilities		9
Customer deposits and deferred revenues	5,076	2,202
Net cash used in operating activities	(8,462)	(10,718)
Cash flows from investing activities:		
Proceeds from maturities of marketable debt securities	45,389	94,356
Purchases of marketable debt securities	(32,119)	(91,499)
Purchases of property and equipment	(843)	(2,455)
Investment in other assets	(186)	(77)
Cash paid for acquisitions	(28)	(17)
Proceeds from disposition of property and equipment	4	
Net cash provided by investing activities	12,217	308
Cash flows from financing activities:		
Net proceeds from issuances of common stock to employees	1,161	1,988
Redemption of common stock	(120)	
Net cash provided by financing activities	1,041	1,988
Effect of exchange rates on cash and cash equivalents	(1)	(13)
Net increase (decrease) in cash and cash equivalents	4,795	(8,435)
Cash and cash equivalents at beginning of period	5,518	10,027
Cash and cash equivalents at end of period	\$ 10,313	\$ 1,592
Supplemental cash flow information:		
Cash payments of income taxes	\$ (209)	\$ (78)
Cash payments for merger expenses	\$ (12,342)	\$

See accompanying notes to consolidated financial statements.

AUGUST TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

(In thousands, except per share amounts)

(Unaudited)

Note 1 Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations. In the opinion of the management of August Technology Corporation (collectively with its subsidiaries, the Company), all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included in the consolidated balance sheet at June 30, 2005, the consolidated statements of operations for the three and six months ended June 30, 2005 and 2004, and the consolidated statements of cash flows for the six months ended June 30, 2005 and 2004. The statements of operations of the interim periods are not necessarily indicative of the results of operations that may be expected for any other period or for the year as a whole. These consolidated financial statements and notes hereto should be read in conjunction with the audited restated consolidated financial statements and notes thereto included in the Company's Amendment No. 1 on Form 10-K/A for the year ended December 31, 2004, which is being filed with the Securities and Exchange Commission concurrently with the filing of this Form 10-Q/A.

The accompanying consolidated financial statements include the accounts of August Technology Corporation and its wholly owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation.

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Note 2 Restatement of Financial Statements

We have restated our consolidated financial statements for the years 2004, 2003 and 2002 and for the first two quarters of 2005. In addition, certain disclosures in Notes 4, 6, 7, 10, 12 and 13 to the consolidated financial statements contained in this report have been restated to reflect the Restatement adjustments. Our restated consolidated financial statements also include disclosure of restated unaudited quarterly results for 2004 and 2003. The initial determination to restate the 2004 and first half 2005 consolidated financial statements was made as a result of a correction of the Company's application of revenue recognition principles, as contained in the Financial Accounting Standard Board's Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21). As a result of subsequently reviewing our

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revenue recognition policies and procedures, we additionally noted that beginning in the fourth quarter of 2002 certain deferred software revenue should have been fully recognized upon delivery or customer acceptance rather than ratably over a twelve-month period. This created the need to restate our 2002 and 2003 consolidated financial statements. Certain adjustments were recorded to each quarter in 2004 and first two quarters of 2005 to correct other miscellaneous items identified in prior external audits or quarterly reviews but were previously passed, none of which were individually significant.

In 2004 and the first half of 2005, the Company sold AXi 930 systems to a customer for an aggregate amount of approximately \$12.2 million (\$6.7 million in 2004, \$3.1 million in the first quarter of 2005 and \$2.4 million in the second quarter of 2005) and recognized the revenue for these sales. The cost of revenues related to these sales was \$2.7 million in 2004, \$1.5 million in the first quarter of 2005 and \$1.2 million in the second quarter of 2005. For the three and six months ended June 30, 2004, the Company originally recognized \$2.2 million in revenue and \$0.9 million in cost of revenue for these AXi 930 sales. During the same time periods, the Company accepted orders from the same customer for enhancement packages to the AXi 930 system but had not yet delivered the enhancement packages. In connection with preparing to finalize its results for the quarter ended September 30, 2005, the Company determined that recognition of the \$12.2 million of revenue from the AXi 930 systems should have been deferred until the delivery of the enhancement packages, according to EITF 00-21. The customer cancelled its orders for the enhancement packages on September 27, 2005, which allowed the Company to recognize the entire \$12.2 million of AXi 930 deferred revenue in the quarter ended September 30, 2005.

In the fourth quarter of 2002, the Company began deferring Yield Pilot software revenue and recognizing it over a twelve-month period which represented the Company's obligation to provide warranty and support. The Company determined based on a subsequent review of Statement of Position 97-2, *Software Revenue Recognition* that Yield Pilot software revenues should have been recognized upon delivery or customer acceptance. The correction of this error had no significant impact on revenues for the three months ended June 30, 2005 and decreased revenue by \$0.3 million for the three months ended March 31, 2005. The correction increased revenue by \$0.4 million for each of the first two quarters in 2004 and had no impact on cost of revenues. The correction increased revenue by \$0.9 million, \$0.5 million and \$0.2 million for 2004, 2003 and 2002, respectively and had no impact on costs of revenues.

In the second quarter of 2005, the Company recognized \$0.6 million in revenue and \$0.2 million in cost of revenue related to the sale of an NSX 105 inspection system. It was subsequently determined that this revenue should have been deferred until the newly introduced software component of this bundled transaction was completed and delivered. This error was corrected as part of the restatement of the second quarter of 2005. The Company expects to realize revenue on the completed transaction in the fourth quarter of 2005 when all elements will be delivered and accepted and fair value has been established for the newly introduced software component.

The impact of the Restatement on the consolidated statements of operations for the three-month and six-month periods ended June 30, 2005 and 2004 is shown in the accompanying tables. The primary impact of the Restatement on the consolidated balance sheet at June 30, 2005 was to increase inventory at customers under purchase orders related to the deferral of the cost of revenue and to increase customer deposits and deferred revenues related to cash collected for revenue deferred in the Restatement. The Restatement had no impact on cash balances or net cash flows from operating, investing, or financing activities. The impact of the Restatement on the consolidated balance sheet and consolidated statements of cash flows is shown in the accompanying tables.

The following table presents the effect of the Restatement on the consolidated balance sheet:

	June 30, 2005		
	As Previously Reported	Adjustments	As Restated
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 10,313	\$	\$ 10,313
Short-term marketable debt securities	22,583		22,583
Accounts receivable, net	12,035	(1,646)	10,389
Inventories	21,393		21,393
Inventories at customers under purchase orders	3,646	5,648	9,294
Prepaid expenses and other current assets	1,651	300	1,951
Total current assets	71,621	4,302	75,923
Property and equipment, net	5,342		5,342
Long-term marketable debt securities	9,034		9,034
Purchased technology, net	3,098		3,098
Goodwill	498		498
Other assets	162		162
Total assets	\$ 89,755	\$ 4,302	\$ 94,057
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	\$ 6,947	\$ (200)	\$ 6,747
Accrued compensation	2,952		2,952
Other accrued liabilities	2,353	(59)	2,294
Customer deposits and deferred revenues	6,769	10,282	17,051
Total current liabilities	19,021	10,023	29,044
Other non-current liabilities	108		108
Total liabilities	19,129	10,023	29,152
Shareholders' equity:			
Common stock, no par value	91,437	10	91,447
Undesignated capital stock, no par value			
Accumulated deficit	(20,715)	(5,731)	(26,446)
Accumulated other comprehensive loss	(96)		(96)
Total shareholders' equity	70,626	(5,721)	64,905
Total liabilities and shareholders' equity	\$ 89,755	\$ 4,302	\$ 94,057

The following table presents the effect of the Restatement on the consolidated statements of operations:

	Three Months Ended June 30, 2005			Three Months Ended June 30, 2004		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
Net revenues	\$ 19,688	\$ (2,939)	\$ 16,749	\$ 19,855	\$ (1,831)	\$ 18,024
Cost of revenues	8,403	(1,450)	6,953	9,059	(900)	8,159
Gross profit	11,285	(1,489)	9,796	10,796	(931)	9,865