CYBEROPTICS CORP
Form 10-Q
November 08, 2007

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Check One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

o TRANSITION PURSUANT TO SECTION 13 OR 15(D)

OF THE SECURITIES EXCHANGE ACT

For the transition period from ______ to ______

COMMISSION FILE NO. (0-16577)

CYBEROPTICS CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota	**41-1472057**
(State or other jurisdiction of	

incorporation or organization)	(I.R.S. Employer Identification No.)
5900 Golden Hills Drive	
MINNEAPOLIS, MINNESOTA	**55416**
(Address of principal executive offices)	(Zip Code)

(763) 542-5000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 x No o

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 or large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. At October 31, 2007, there were 8,934,555 shares of the registrant s Common Stock, no par value, issued and outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

CYBEROPTICS CORPORATION

(Unaudited)

(In thousands, except share information)	**September 30, 2007**	**December 31, 2006**
ASSETS		
Cash and cash equivalents	$ 20,223	$ 30,056
Marketable securities	8,212	12,175
Accounts receivable, net	13,418	10,471
Inventories	11,092	8,357
Other current assets	958	868
Deferred tax assets	2,572	2,725
Total current assets	56,475	64,652
Marketable securities	21,532	6,776
Equipment and leasehold improvements, net	2,014	1,814
Intangible assets, net	1,097	1,214
Goodwill	5,271	5,160
Deferred tax assets	2,252	2,394
Total assets	$ 88,641	$ 82,010
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	$ 4,474	$ 3,783
Advance customer payments	954	76
Accrued expenses	3,333	5,131
Total current liabilities	8,761	8,990
Other liabilities	1,403	
Total liabilities	10,164	8,990
Contingencies (note 10)		
Stockholders equity:		
Preferred stock, no par value, 5,000,000 shares authorized, none outstanding		
Common stock, no par value, 37,500,000 shares authorized, 8,934,555 and 8,861,909 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	50,901	49,544
Accumulated other comprehensive loss	(144)	(453)
Retained earnings	27,720	23,929
Total stockholders equity	78,477	73,020
Total liabilities and stockholders equity	$ 88,641	$ 82,010

SEE THE ACCOMPANYING NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

CONDENSED CONSOLIDATED INCOME STATEMENTS

CYBEROPTICS CORPORATION

(Unaudited)

	Three Months Ended		Nine Months Ended	
(In thousands, except per share amounts)	**September 30, 2007**	**2006**	**September 30, 2007**	**2006**
Revenues	$ 16,173	$ 14,075	$ 43,888	$ 43,344
Cost of revenues	7,910	6,746	21,399	20,267
Gross profit	8,263	7,329	22,489	23,077
Research and development expenses	2,524	2,049	7,057	5,989
Selling, general and administrative expenses	3,888	3,377	11,042	10,495
Amortization of intangibles	45	136	136	515
Income from operations	1,806	1,767	4,254	6,078
Interest income and other	587	568	1,705	1,380
Income before income taxes	2,393	2,335	5,959	7,458
Income tax provision	920	590	2,135	2,350
Net income	$ 1,473	$ 1,745	$ 3,824	$ 5,108
Net income per share Basic	$ 0.17	$ 0.19	$ 0.43	$ 0.57
Net income per share Diluted	$ 0.16	$ 0.19	$ 0.43	$ 0.56
Weighted average shares outstanding Basic	8,924	9,050	8,901	8,992
Weighted average shares outstanding Diluted	8,991	9,121	8,984	9,089

SEE THE ACCOMPANYING NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

CYBEROPTICS CORPORATION

(Unaudited)

(In thousands)	**Nine Months Ended September 30, 2007**	**2006**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,824	$ 5,108
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,389	1,466
Provision for doubtful accounts	63	60
Provision for inventory obsolescence	293	165
Foreign currency transaction (gain) loss	(54)	(203)
Stock compensation costs	554	637
Changes in operating assets and liabilities:		
Accounts receivable	(3,010)	(92)
Inventories	(3,442)	(1,107)
Other current assets	(84)	147
Accounts payable	694	670
Advance customer payments	878	(360)
Accrued expenses	(128)	1,301
Net cash provided by operating activities	977	7,792
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of available for sale marketable securities	15,430	15,142
Purchases of available for sale marketable securities	(25,971)	(5,924)
Additions to equipment and leasehold improvements	(845)	(991)
Additions to patents	(200)	(170)
Net cash (used) provided by investing activities	(11,586)	8,057
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	630	1,410
Excess tax benefit from exercise of stock options	28	184
Proceeds from issuance of common stock under employee stock purchase plan	306	326
Repurchase of common stock	(163)	(81)
Net cash provided by financing activities	801	1,839
Effects of exchange rate changes on cash and cash equivalents	(25)	(27)
Net (decrease) increase in cash and cash equivalents	(9,833)	17,661

Cash and cash equivalents beginning of period	30,056	19,592
Cash and cash equivalents end of period	$ 20,223	$ 37,253

SEE THE ACCOMPANYING NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CYBEROPTICS CORPORATION

(In thousands, except share and per share amounts)

1. INTERIM REPORTING:

The interim condensed consolidated financial statements presented herein as of September 30, 2007, and for the three and nine month periods ended September 30, 2007 and 2006, are unaudited, but in the opinion of our management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations and cash flows for the periods presented.

The results of operations for the three and nine month periods ended September 30, 2007 do not necessarily indicate the results to be expected for the full year. The December 31, 2006, condensed consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These unaudited interim condensed consolidated financial statements should be read in conjunction with our condensed consolidated financial statements and notes thereto, contained in our Annual Report on Form 10-K for the year ended December 31, 2006.

2. ACCOUNTING FOR STOCK-BASED COMPENSATION:

Effective January 1, 2006, we adopted SFAS No. 123(R), Share-Based Payment, applying the modified prospective method. This statement requires all equity-based payments to employees, including grants of employee stock options, to be recognized in the consolidated statement of earnings based on the grant date fair value of the award. Under the modified prospective method, we are required to record equity-based compensation expense for all awards granted after the date of adoption, and for all unvested shares granted prior to the date of adoption. We utilize the straight-line method of expense recognition over the award s service period for our graded vesting options. The fair value of stock options, granted before and after adoption of SFAS No. 123(R), has been determined using the Black-Scholes model. The compensation expense recognized for all equity based awards is net of estimated forfeitures, which were based on historical data. We have classified equity based compensation within our statement of operations in the same manner as our cash based employee compensation costs.

The following tables set forth compensation expense (pre-tax) by segment for our equity-based awards for the three and nine months ended September 30, 2007 and 2006 (in thousands):

	Three months ended September 30,					
	Electronic		Semi-			
(In thousands)	**Assembly**		**Conductor**		**Total**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Cost of revenues	$27	$23	$3	$3	$30	$26
Research and development expenses	32	32	7	7	39	39
Selling, general and administrative expenses	60	64	6	11	66	75
Total	$119	$119	$16	$21	$135	$140

	Nine months ended September 30,					
	Electronic		Semi-			
(In thousands)	**Assembly**		**Conductor**		**Total**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Cost of revenues	$77	$50	$9	$9	$86	$59
Research and development expenses	97	103	21	23	118	126
Selling, general and administrative expenses	332	408	18	44	350	452
Total	$506	$561	$48	$76	$554	$637

Total equity based compensation expense in the three months ended September 30, 2007 includes $98,000 for stock option awards, $28,000 for our employee stock purchase plan and $9,000 for unvested restricted stock units. Total equity based compensation expense in the three months ended September 30, 2006 includes $107,000 for stock option awards, and $33,000 for our employee stock purchase plan. Total equity based compensation expense in the nine months ended September 30, 2007 includes $442,000 for stock option awards, $85,000 for our employee stock purchase plan, and $27,000 for unvested restricted stock units. Total equity based compensation expense in the nine months ended September 30, 2006, includes $546,000 for stock option awards, and $91,000 for our employee stock purchase plan.

At September 30, 2007, the total unrecognized compensation cost related to non vested equity based compensation arrangements was $849,000 and the related weighted average period over which it is expected to be recognized is 1.4 years.

Stock Options

We have three stock incentive plans that are administered under the supervision of the Compensation Committee of the Board of Directors. There are 1,102,372 shares of common stock reserved in the aggregate for issuance of options and other stock based benefits, including restricted stock units, to employees, directors, officers and others. Reserved shares underlying canceled options are available for future grant under our active plans. Options are granted at an option price per share equal to or greater than the market value at the date of grant. Generally, options granted to employees vest over a four-year period and expire five, seven or ten years after the date of grant. Each of our outside directors receives a stock option grant with immediate vesting for 4,500 shares on the day of our annual meeting. The plans allow for option holders to tender shares of our common stock as consideration for the option price provided that the tendered shares have been held by the option holder at least six months. The only stock options granted during the nine months ended September 30, 2007 were the annual grants to our outside directors on May 21, 2007, aggregating 18,000 shares. As of September 30, 2007, there are 446,911 shares of common stock available under these plans for future issuance to employees and 66,300 shares of common stock available for future issuance to our outside directors. In addition, there are 50,000 shares reserved and included in the plan summaries below that are not part of the three stock incentive plans.

The following is a summary of stock option activity during the nine months ended September 30, 2007:

	Options Outstanding	Weighted Average Exercise Price Per Share
Outstanding, December 31, 2006	763,721	$ 12.11
Granted	18,000	$ 12.89
Exercised	(57,125)	$ 11.11
Forfeited or expired	(147,175)	$ 14.28
Outstanding, September 30, 2007	577,421	$ 11.68
Exercisable, September 30, 2007	458,576	$ 11.46

The intrinsic value of an option is the amount by which the fair value of the underlying stock exceeds its exercise price. The weighted average remaining contractual term and aggregate intrinsic value for options outstanding at September 30, 2007 was 4.02 years and $358,000. The weighted average remaining contractual term and aggregate intrinsic value of options exercisable at September 30, 2007 was 3.77 years and $385,204. The aggregate intrinsic value of stock options exercised in the nine months ended September 30, 2007 was $132,000. During the nine months ended September 30, 2007, we received total proceeds of $630,000 from the exercise of stock options and the excess tax benefit recognized as a credit to stockholders equity was $28,000.

Restricted Stock Units

Our 1998 Stock Incentive Plan also permits our Compensation Committee to grant other stock-based benefits, including restricted stock units. Restricted stock units are valued at a price equal to the fair market value of our common stock on the date of grant. In December 2006, we awarded 11,740 restricted stock units to our officers and certain key employees. The restricted stock units vest over a four year period and entitle the holders to one share of our common stock for each restricted unit. The fair value of each restricted stock unit on the date of grant was $12.95, and the aggregate intrinsic value of outstanding restricted stock units as of September 30, 2007 was $144,000. There were no grants or forfeitures of restricted stock units in the nine months ending September 30, 2007. As of September 30, 2007, none of the restricted stock units were vested.

A summary of activity in non vested restricted stock units for the nine months ended September 30, 2007 follows:

Non vested restricted stock units	**Shares**	**Weighted Average Grant Date Fair Value**
Non vested at December 31, 2006	11,740	$12.95
Granted		
Vested		
Forfeited		
Non vested at September 30, 2007	11,740	$12.95

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan available to eligible U.S. employees. Under terms of the plan, eligible employees may designate from 1% to 10% of their compensation to be withheld through payroll deductions, up to a maximum of $6,500 in each plan year, for the purchase of common stock at 85% of the lower of the market price on the first or last day of the offering period. Under the plan, 800,000 shares of common stock have been reserved for issuance. Share issuances under this plan were 28,859 in the nine months ended September 30, 2007 and 29,398 in the nine months ended September 30, 2006. As of September 30, 2007, 141,317 shares remain available for future issuance under this plan.

3. CERTAIN BALANCE SHEET COMPONENTS:

Inventories consist of the following:

(In thousands)	**September 30, 2007**	**December 31, 2006**
Raw materials and purchased parts	$5,439	$3,462
Work in process	1,624	1,043
Finished goods	4,029	3,852
Total inventories	$11,092	$8,357

Warranty liabilities:

We provide for the estimated cost of product warranties at the time revenue is recognized. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of component suppliers, warranty obligations are affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from our estimates, revisions to the estimated warranty liability would be required. Our warranty liability is included as a component of accrued expenses. At the end of each reporting period we revise our estimated warranty liability based on these factors. A reconciliation of the changes in our estimated warranty liability is as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(In thousands)	**2007**	**2006**	**2007**	**2006**
Balance at beginning of period	$905	$654	$796	$558
Accrual for warranties	88	349	341	764
Settlements made during the period	(87)	(283)	(231)	(602)

Balance at end of period	$906	$720	$906	$720

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4. INTANGIBLE ASSETS AND GOODWILL:

Intangible assets consist of the following:

	As of September 30, 2007			As of December 31, 2006		
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	$7,775	$ (7,077)	$698	$7,775	$ (6,941)	$834
Patents and trademarks	2,483	(2,084)	399	2,365	(1,985)	380
Total	$10,258	$ (9,161)	$1,097	$10,140	$ (8,926)	$1,214

Amortization expense for the three and nine months ended September 30, 2007 and 2006 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2007	2006	2007	2006
Developed technology	$ 45	$ 134	$ 136	$ 507
Patents and trademarks	61	53		