

CYBEROPTICS CORP  
Form 10-Q  
August 08, 2006

**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 June 30, 2006

**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**

(State or other jurisdiction of  
incorporation or organization)

**41-1472057**

(I.R.S. Employer  
Identification No.)

**5900 Golden Hills Drive  
MINNEAPOLIS, MINNESOTA**

(Address of principal executive offices)

**55416**

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

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

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 Act). 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 July 31, 2006, there were 9,060,957 shares of the registrant's Common Stock, no par value, issued and outstanding.

**PART I. FINANCIAL INFORMATION**

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**CONSOLIDATED BALANCE SHEETS  
 CYBEROPTICS CORPORATION  
 (Unaudited)**

(In thousands except share information)	June 30, 2006	December 31, 2005
<b>ASSETS</b>		
Cash and cash equivalents	\$ 32,934	\$ 19,592
Marketable securities	12,238	15,607
Accounts receivable, net	8,533	9,775
Inventories	8,703	7,512
Other current assets	828	924
Deferred tax assets	1,942	1,942
Total current assets	<u>65,178</u>	<u>55,352</u>
Marketable securities	3,412	5,941
Equipment and leasehold improvements, net	1,722	1,378
Intangible and other assets, net	1,334	1,737
Goodwill	5,019	4,856
Deferred tax assets	3,858	3,763
Total assets	<u>\$ 80,523</u>	<u>\$ 73,027</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 3,217	\$ 2,633
Advance customer payments	273	428
Accrued expenses	5,548	3,776
Total current liabilities	<u>9,038</u>	<u>6,837</u>

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

Commitments

Stockholders' equity:		
Preferred stock, no par value, 5,000,000 shares authorized, none outstanding		
Common stock, no par value, 37,500,000 shares authorized, 9,020,209 and 8,899,409 shares issued and outstanding, respectively	51,268	49,351
Accumulated other comprehensive loss	(685)	(700)
Retained earnings	20,902	17,539
	<u>71,485</u>	<u>66,190</u>
Total stockholders' equity		
	<u>71,485</u>	<u>66,190</u>
Total liabilities and stockholders' equity	\$ 80,523	\$ 73,027
	<u>\$ 80,523</u>	<u>\$ 73,027</u>

SEE THE ACCOMPANYING NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**CYBEROPTICS CORPORATION**  
(Unaudited)

(In thousands, except per share amount)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenues	\$ 14,551	\$ 8,429	\$ 29,269	\$ 19,718
Cost of revenues	6,438	3,558	13,521	8,468
Gross profit	8,113	4,871	15,748	11,250
Research and development expenses	1,907	1,678	3,940	3,387
Selling, general and administrative expenses	3,565	2,960	7,118	6,110
Amortization of intangibles	172	207	379	414
Income from operations	2,469	26	4,311	1,339
Interest income and other	418	246	812	403
Income before income taxes	2,887	272	5,123	1,742
Income tax provision	980	70	1,760	420
Net income	\$ 1,907	\$ 202	\$ 3,363	\$ 1,322
Net income per share - Basic	\$ 0.21	\$ 0.02	\$ 0.38	\$ 0.15

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

Net income per share	Diluted	\$ 0.21	\$ 0.02	\$ 0.37	\$ 0.15
Weighted average shares outstanding	Basic	8,997	8,859	8,962	8,853
Weighted average shares outstanding	Diluted	9,100	8,980	9,072	8,988

SEE THE ACCOMPANYING NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

2

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**CYBEROPTICS CORPORATION**  
**(Unaudited)**

(In thousands)	Six Months Ended June 30,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 3,363	\$ 1,322
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	1,013	996
Provision for doubtful accounts	46	23
Provision for inventory obsolescence	168	46
Deferred income taxes	(95)	80
Foreign currency adjustment	(175)	210
Stock compensation costs	497	
Changes in operating assets and liabilities:		
Accounts receivable	1,196	2,066
Inventories	(1,538)	(657)
Other current assets	109	(37)
Accounts payable	581	324
Advance customer payments	(155)	(62)
Accrued expenses	1,766	(1,766)
Net cash provided by operating activities	6,776	2,545
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of available for sale marketable securities	10,356	4,563
Purchases of available for sale marketable securities	(4,432)	(8,716)
Additions to equipment and leasehold improvements	(671)	(304)
Additions to patents	(69)	(110)
Net cash provided (used) by investing activities	5,184	(4,567)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from exercise of stock options	1,230	193
Excess tax benefit from exercise of stock options	167	

Edgar Filing: CYBEROPTICS CORP - Form 10-Q

Repurchase of common stock		(252)
Net cash provided (used) by financing activities	1,397	(59)
Effects of exchange rate changes on cash and cash equivalents	(15)	
Net increase (decrease) in cash and cash equivalents	13,342	(2,081)
Cash and cash equivalents beginning of period	19,592	25,416
Cash and cash equivalents end of period	\$ 32,934	\$ 23,335

SEE THE ACCOMPANYING NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

3

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**CYBEROPTICS CORPORATION**  
(In thousands, except share and per share amounts)

1. INTERIM REPORTING:

The interim consolidated financial statements presented herein as of June 30, 2006, and for the three and six month periods ended June 30, 2006 and 2005, are unaudited, but in the opinion of our management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented.

The results of operations for the three and six month periods ended June 30, 2006 do not necessarily indicate the results to be expected for the full year. The December 31, 2005, consolidated balance sheet data was derived from our 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 consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto, contained in our Annual Report on Form 10-K for the year ended December 31, 2005.

2. ACCOUNTING FOR STOCK-BASED COMPENSATION:

We also have three stock option plans that are administered under the supervision of the Board of Directors and have 1,436,397 shares of common stock reserved in the aggregate for issuance to employees, directors, officers and others. Reserved shares underlying canceled options are available for future grant under all 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. The plans allow for option holders to tender shares of the Company's common stock as consideration for the option price provided that the tendered shares have been held by the option holder at least six months. In anticipation of adopting SFAS No. 123(R), we did not modify the terms of any previously granted options.

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. As of June 30, 2006, 600,426 shares have been issued under this plan.

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 awards granted prior to the date of adoption. We

## Edgar Filing: CYBEROPTICS CORP - Form 10-Q

utilize the straight-line method of expense recognition over the award's service period for our graded vesting options. The fair values of stock options granted both before and after adoption of SFAS No. 123(R) have been determined using the Black-Scholes model. The compensation expense recognized for all equity based awards is net of estimated forfeitures. We have classified equity based compensation within our statement of operations in the same manner as our cash based employee compensation costs.

Prior to adoption of SFAS 123(R), we measured compensation cost related to our employee stock option plans and employee stock purchase plan using the intrinsic value method of accounting prescribed by APB Opinion No. 25 and related interpretations. No compensation expense was recognized for share purchase rights granted under these plans. The following table presents the effect of adopting SFAS 123(R) on reported items during the three and six month periods ended June 30, 2006:

(In thousands except per share information)	Three Months Ended June 30, 2006		Six Months Ended June 30, 2006	
	As Reported	Impact of Adopting SFAS 123(R)	As Reported	Impact of Adopting SFAS 123(R)
Income from operations	\$ 2,469	\$ (305)	\$ 4,311	\$ (497)
Net Income	\$ 1,907	\$ (235)	\$ 3,363	\$ (402)
Net income per share:				
Basic	\$ 0.21	\$ (0.03)	\$ 0.38	\$ (0.04)
Diluted	\$ 0.21	\$ (0.03)	\$ 0.37	\$ (0.04)

4

The total equity based compensation expense includes \$289,000 and \$439,000 for the three and six months ended June 30, 2006, respectively, for the unvested portion of stock option awards outstanding as of the date of adoption and expense for all awards granted after the date of adoption. Total equity based compensation expense also includes \$16,000 and \$58,000 for the three and six months ended June 30, 2006, respectively, related to our employee stock purchase plan. Inventory balances at June 30, 2006 include \$23,000 of equity compensation costs that have been capitalized.

For the six month period ended June 30, 2006, stock option activity was as follows:

(In thousands, except per share amounts and years)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding at December 31, 2005	901,176	\$ 11.96		
Granted	19,500	\$ 13.75		