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CYBEROPTICS CORP

Form 10-Q

November 06, 2018

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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, 2018

**☐ 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)

5900 Golden Hills Drive

MINNEAPOLIS, MINNESOTA

(Address of principal executive offices)

41-1472057

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

55416

(Zip Code)

(763) 542-5000

(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 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer		Accelerated Filer
Non-Accelerated Filer	(Do not check if a smaller reporting company)	Smaller Reporting Company
		Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 October 31, 2018, there were 7,078,190 shares of the registrant's Common Stock, no par value, issued and outstanding.

PART I. FINANCIAL INFORMATION**ITEM 1. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS****CYBEROPTICS CORPORATION****(Unaudited)**

(In thousands, except share information)	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	\$ 7,633	\$ 6,944
Marketable securities	6,396	6,670
Accounts receivable, less allowance for doubtful accounts of \$290 at September 30, 2018 and \$473 at December 31, 2017	14,525	10,772
Inventories	13,935	14,393
Other current assets	2,314	1,593
Total current assets	44,803	40,372
Marketable securities, long-term	9,806	9,073
Equipment and leasehold improvements, net	2,326	2,307
Intangible assets, net	333	380
Goodwill	1,366	1,366
Other assets	201	261
Deferred tax assets	5,546	5,742
Total assets	\$ 64,381	\$ 59,501
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 5,380	\$ 4,294
Advance customer payments	1,240	393
Accrued expenses	2,656	2,285
Total current liabilities	9,276	6,972
Other liabilities	156	88
Reserve for income taxes	159	159
Total liabilities	9,591	7,219
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, no par value, 5,000,000 shares authorized, none outstanding	—	—
Common stock, no par value, 25,000,000 shares authorized, 7,064,089 shares issued and	35,452	34,080

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outstanding at September 30, 2018 and 6,979,686 shares issued and outstanding at December 31, 2017

Accumulated other comprehensive loss	(1,733)	(1,409)
Retained earnings	21,071	19,611
Total stockholders' equity	54,790	52,282
Total liabilities and stockholders' equity	\$ 64,381	\$ 59,501

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

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

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	\$ 16,683	\$ 11,828	\$ 46,657	\$ 40,157
Cost of revenues	9,247	6,236	25,738	21,434
Gross margin	7,436	5,592	20,919	18,723
Research and development expenses	2,162	1,947	6,585	5,892
Selling, general and administrative expenses	3,935	3,793	12,413	11,821
Amortization of intangibles	10	15	35	50
Income (loss) from operations	1,329	(163)	1,886	960
Interest income and other	35	(25)	192	(141)
Income (loss) before income taxes	1,364	(188)	2,078	819
Income tax expense (benefit)	297	(116)	444	10
Net income (loss)	\$ 1,067	\$ (72)	\$ 1,634	\$ 809
Net income (loss) per share – Basic	\$ 0.15	\$ (0.01)	\$ 0.23	\$ 0.12
Net income (loss) per share – Diluted	\$ 0.15	\$ (0.01)	\$ 0.23	\$ 0.11
Weighted average shares outstanding – Basic	7,041	6,959	7,012	6,939
Weighted average shares outstanding – Diluted	7,299	6,959	7,176	7,041

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**CYBEROPTICS CORPORATION****(Unaudited)**

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	\$ 1,067	\$ (72)	\$ 1,634	\$ 809
Other comprehensive income, before tax:				
Foreign currency translation adjustments	(50)	157	(252)	587
Unrealized gains (losses) on available-for-sale securities:				
Unrealized gains (losses)	3	—	(33)	31
Reclassification adjustment for gains included in net income	(3)	—	(3)	—
Total unrealized gains (losses) on available-for-sale securities	—	—	(36)	31
Other comprehensive income (loss), before tax	(50)	157	(288)	618
Income tax provision (benefit), other comprehensive income	—	(35)	8	(184)
Other comprehensive income (loss), net of tax	(50)	122	(280)	434
Total comprehensive income	\$ 1,017	\$ 50	\$ 1,354	\$ 1,243

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

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

(In thousands)	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,634	\$ 809
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,876	1,659
Provision for doubtful accounts	(159)	(15)
Deferred taxes	261	(27)
Foreign currency transaction (gains) losses	(140)	139
Stock based compensation	701	640
Unrealized loss on available-for-sale equity security	24	—
Realized gain on available-for-sale marketable securities	(3)	—
Changes in operating assets and liabilities:		
Accounts receivable	(3,594)	(1,022)
Inventories	(387)	(5,260)
Other assets	(692)	(133)
Accounts payable	1,124	866
Advance customer payments	638	(3)
Accrued expenses	382	(1,906)
Net cash provided by (used in) operating activities	1,665	(4,253)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of available-for-sale marketable securities	6,018	5,187
Proceeds from sales of available-for-sale marketable securities	480	—
Purchases of available-for-sale marketable securities	(7,006)	(5,604)
Additions to equipment and leasehold improvements	(1,079)	(851)
Additions to patents	(76)	(107)
Net cash used in investing activities	(1,663)	(1,375)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	452	330
Proceeds from issuance of common stock under Employee Stock Purchase Plan	219	258
Net cash provided by financing activities	671	588
Effects of exchange rate changes on cash and cash equivalents	16	(7)
Net increase (decrease) in cash and cash equivalents	689	(5,047)

Cash and cash equivalents – beginning of period	6,944	10,640
Cash and cash equivalents – end of period	\$ 7,633	\$ 5,593

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CYBEROPTICS CORPORATION

1. INTERIM REPORTING:

The interim condensed consolidated financial statements of CyberOptics Corporation ("we", "us" or "our") presented herein as of September 30, 2018, and for the three and nine month periods ended September 30, 2018 and 2017, are unaudited, but in the opinion of management, include all adjustments, consisting 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 nine month periods ended September 30, 2018 do not necessarily indicate the results to be expected for the full year. The December 31, 2017 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. The unaudited interim condensed 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, 2017.

2. REVENUE RECOGNITION:

Change in Revenue Accounting

Effective January 1, 2018, we adopted ASU No. 2014-9, "Revenue from Contracts with Customers" and the related amendments ("Topic 606") using the modified retrospective method. Topic 606 was applied to all uncompleted contracts by recognizing the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of retained earnings at January 1, 2018. Therefore, the comparative financial information for the three and nine months ended September 30, 2017 has not been adjusted and continues to be reported under Topic 605, "Revenue Recognition".

Accounting for contracts recognized over time involves the use of various techniques to estimate total contract revenue and costs. Contract estimates are based on various assumptions to project the outcome of future events that may span multiple years. We review and update our contract-related estimates regularly, and record adjustments as needed.

The adoption of Topic 606 caused changes for (1) the impact of volume discounts that represent a material right which will now be estimated and recognized over the contract life rather than on a prospective basis, and (2) revenue will be recognized over time as the products are manufactured under certain contracts where our product is customized rather than at shipment. These changes increased our revenues in the three and nine months ended September 30, 2018 by \$123,000 and \$232,000, respectively, when compared to revenue recognition under Topic 605 (see Note 16).

Performance Obligations

Under Topic 606, revenue is measured based on consideration specified in the contract with a customer. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in Topic 606. Revenue from all customers, including distributors, is recognized when a performance obligation is satisfied by transferring control of a product or service to a customer. Amounts billed to customers for shipping and handling are included in revenue. Taxes collected from customers and remitted to governmental authorities are excluded from revenue on the net basis of accounting. Accounts receivable are due under normal trade terms, typically 90 days or less.

Sales involving multiple performance obligations typically include the sale of an inspection system or metrology product, installation and training, and in some cases, an extended warranty. When a sale involves multiple performance obligations, we account for individual products and services separately if the customer can benefit from the product or service on its own or with other resources that are readily available to the customer and the product or service are separately identifiable from other promises in the arrangement. The consideration is allocated between separate performance obligations in proportion to their estimated stand-alone selling price. If the stand-alone selling price is not directly observable, we use the cost plus margin approach to estimate stand-alone selling price. Costs related to products delivered are recognized in the period revenue is recognized, including product warranties for periods ranging from 1 to 3 years (see Note 7).

Our performance obligations are satisfied at a point in time or over time as work progresses. Revenue from products and services transferred to customers at a point in time in the three and nine months ended September 30, 2018 totaled \$15.4 million and \$43.4 million, respectively, which represented 93% of our total revenue in both periods. Revenue from these contracts is recognized when obligations under the terms of the contract with our customer are satisfied; generally with the transfer of control upon shipment. Sales of some products may require customer acceptance due to performance or other acceptance criteria that is considered more than a formality. For these product sales, revenue is recognized upon notification of customer acceptance.

Revenue from products and services transferred to customers over time in the three and nine months ended September 30, 2018 totaled \$1.2 million and \$3.3 million, respectively, which represented 7% of our total revenue in both periods. Periodically, sensor product arrangements with our original equipment manufacturers (OEMs) will create an asset with no alternative use and include an enforceable right to payment for cost plus margin. For these arrangements, control is transferred over the manufacturing process; therefore, revenue is recognized over time utilizing an input method based on actual costs incurred in the manufacturing process to date relative to total expected production costs. For certain longer duration 3D scanning service projects, we progress bill as the services are performed. These arrangements create an asset with no alternative use and include an enforceable right to payment. For these arrangements, control is transferred over the hours incurred to complete the scanning project; therefore, revenue is recognized over time utilizing an input method based on actual hours incurred relative to total projected project hours. For maintenance and extended warranty contracts, revenue is recognized over time on a straight-line basis over the term of the contract as the customer simultaneously receives and consumes the benefits of the coverage.

Contract Balances

Contract assets consist of unbilled amounts from sales where we recognize the revenue over time and the revenue recognized exceeds the amount billed to the customer at a point in time. Accounts receivable are recorded when the right to payment becomes unconditional. Contract liabilities consist of payments received in advance of performance under the contract. Contract liabilities are recognized as revenue when we perform under the contract. The following summarizes our contract assets and contract liabilities:

	September 30,	January 1,
(In thousands)	2018	2018
Contract assets, included in other current assets	\$ 170	\$ —
Contract liabilities, included in advance customer payments/other liabilities	\$ 918	\$ 443

Changes in contract assets in the nine months ended September 30, 2018 resulted from unbilled amounts under sensor product arrangements in which revenue is recognized over time. Changes in contract liabilities primarily resulted from reclassification of beginning contract liabilities to revenue as performance obligations were satisfied or for cash received in advance and not recognized as revenue. Amounts reclassified from beginning contract liabilities to revenue in the three and nine months ended September 30, 2018 totaled \$39,000 and \$262,000, respectively. See Note 7 for changes in contractual obligations related to deferred warranty revenue. Unsatisfied performance obligations are generally expected to be recognized as revenue over the next one to three years. There were no impairment losses for contract assets in the nine months ended September 30, 2018.

Practical Expedients

We generally expense the incremental costs of obtaining a contract when incurred because the amortization period for these costs would be less than one year. These costs primarily relate to sales commissions and are recorded in selling, general and administrative expense in our consolidated statements of operations.

We do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. We do not adjust the promised amount of consideration for the effects of a significant financing component if we expect, at contract inception, that the period between when we transfer a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

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3. MARKETABLE SECURITIES:

Our investments in marketable securities are classified as available-for-sale and consist of the following:

(In thousands)	September 30, 2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>Short-Term</u>				
U.S. government and agency obligations	\$ 3,611	\$ —	\$ (20)	\$ 3,591
Corporate debt securities and certificates of deposit	2,163	—	(8)	2,155
Asset backed securities	654	—	(4)	650
Marketable securities – short-term	\$ 6,428	\$ —	\$ (32)	\$ 6,396
<u>Long-Term</u>				
U.S. government and agency obligations	\$ 6,399	\$ —	\$ (55)	\$ 6,344
Corporate debt securities and certificates of deposit	230	—	(3)	227
Asset backed securities	3,184	—	(22)	3,162
Equity security	42	31	—	73
Marketable securities – long-term	\$ 9,855	\$ 31	\$ (80)	\$ 9,806

(In thousands)	December 31, 2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>Short-Term</u>				
U.S. government and agency obligations	\$ 4,381	\$ —	\$ (13)	\$ 4,368
Corporate debt securities and certificates of deposit	1,792	—	(4)	1,788
Asset backed securities	515	—	(1)	514
Marketable securities – short-term	\$ 6,688	\$ —	\$ (18)	\$ 6,670
<u>Long-Term</u>				
U.S. government and agency obligations	\$ 4,801	\$ —	\$ (33)	\$ 4,768
Corporate debt securities and certificates of deposit	1,189	—	(10)	1,179
Asset backed securities	3,045	—	(16)	3,029
Equity security	42	55	—	97
Marketable securities – long-term	\$ 9,077	\$ 55	\$ (59)	\$ 9,073

(In thousands)	In Unrealized Loss Position For Less Than 12 Months		In Unrealized Loss Position For Greater Than 12 Months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2018				
U.S. government and agency obligations	\$ 5,185	\$ (36)	\$ 4,327	\$ (39)

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Corporate debt securities and certificates of deposit	628	(3)	1,324	(8)
Asset backed securities	2,343	(14)	1,469	(12)
Marketable securities	\$ 8,156	\$ (53)	\$ 7,120	\$ (59)
December 31, 2017				
U.S. government and agency obligations	\$ 5,593	\$ (29)	\$ 3,543	\$ (17)
Corporate debt securities and certificates of deposit	478	(2)	1,991	(12)
Asset backed securities	2,312	(9)	1,232	(8)
Marketable securities	\$ 8,383	\$ (40)	\$ 6,766	\$ (37)