

AMERICAN TECHNOLOGY CORP /DE/  
Form 10-Q  
May 09, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark one)

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

For the quarterly period ended March 31, 2008

or

**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: 000-24248

**AMERICAN TECHNOLOGY CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**87-0361799**  
(I.R.S. Employer  
Identification Number)

**15378 Avenue of Science, Ste 100, San Diego,**

**California**  
(Address of principal executive offices)

**92128**  
(Zip Code)  
**(858) 676-1112**

(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 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 a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of Common Stock, \$0.00001 par value, outstanding on April 30, 2008 was 30,535,207.

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	<b>March 31, 2008 (Unaudited)</b>	<b>September 30, 2007</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 4,457,131	\$ 6,414,537
Accounts receivable, less allowance of \$222,864 and \$228,496 for doubtful accounts	1,677,402	938,229
Inventories, net	3,745,186	3,802,747
Prepaid expenses and other	316,703	259,566
<b>Total current assets</b>	<b>10,196,422</b>	<b>11,415,079</b>
<b>Property and equipment, net</b>	<b>376,134</b>	<b>422,027</b>
<b>Patents, net</b>	<b>1,213,420</b>	<b>1,363,595</b>
<b>Deposits</b>	<b>58,265</b>	<b>58,265</b>
<b>Total assets</b>	<b>\$ 11,844,241</b>	<b>\$ 13,258,966</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 1,448,428	\$ 771,642
Accrued liabilities	1,492,815	871,362
<b>Total current liabilities</b>	<b>2,941,243</b>	<b>1,643,004</b>
<b>Commitments and contingencies (Note 12)</b>		
<b>Stockholders equity</b>		
Preferred stock, \$0.00001 par value; 5,000,000 shares authorized: none issued and outstanding		
Common stock, \$0.00001 par value; 50,000,000 shares authorized; 30,535,207 shares issued and outstanding each period	305	305
Additional paid-in capital	80,261,196	79,116,792
Accumulated deficit	(71,358,503)	(67,501,135)
<b>Total stockholders equity</b>	<b>8,902,998</b>	<b>11,615,962</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 11,844,241</b>	<b>\$ 13,258,966</b>

See accompanying notes to interim consolidated financial statements

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## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the three months ended March 31,		For the six months ended March 31,	
	2008	2007	2008	2007
<b>Revenues:</b>				
Product sales	\$ 1,959,310	\$ 2,171,742	\$ 4,382,997	\$ 5,933,865
Contract, license and other	89,062	89,675	201,019	231,756
Total revenues	2,048,372	2,261,417	4,584,016	6,165,621
Cost of revenues	1,317,319	1,154,012	2,699,034	3,088,206
<b>Gross profit</b>	731,053	1,107,405	1,884,982	3,077,415
<b>Operating expenses:</b>				
Selling, general and administrative	1,753,881	1,684,945	3,783,234	3,729,025
Research and development	1,166,849	545,277	1,977,027	1,068,500
Total operating expenses	2,920,730	2,230,222	5,760,261	4,797,525
Loss from operations	(2,189,677)	(1,122,817)	(3,875,279)	(1,720,110)
<b>Other income (expense):</b>				
Interest income	56,302	89,908	126,732	206,304
Finance expense			(108,821)	(32,890)
Total other income	56,302	89,908	17,911	173,414
<b>Net loss</b>	\$ (2,133,375)	\$ (1,032,909)	\$ (3,857,368)	\$ (1,546,696)
<b>Net loss per share of common stock - basic and diluted</b>	\$ (0.07)	\$ (0.03)	\$ (0.13)	\$ (0.05)
<b>Average weighted number of common shares outstanding - basic and diluted</b>	30,535,207	30,142,426	30,535,207	30,115,565

See accompanying notes to interim consolidated financial statements

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the six months ended March 31,	
	2008	2007
<b>Increase (Decrease) in Cash</b>		
<b>Operating Activities:</b>		
Net loss	\$ (3,857,368)	\$ (1,546,696)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	198,005	250,833
Warranty provision	(25,705)	(93,921)
Loss on disposition of assets		659
Share-based compensation	1,144,404	413,339
Write-off (gain) on disposition of patents	205,521	(29,815)
Changes in assets and liabilities:		
Accounts receivable, net	(739,173)	220,200
Inventories, net	57,561	(457,641)
Prepaid expenses and other	(57,137)	87,936
Accounts payable	676,786	(692,681)
Warranty settlements	(21,498)	(471,370)
Accrued liabilities	668,656	(395,399)
Net cash used in operating activities	(1,749,948)	(2,714,556)
<b>Investing Activities:</b>		
Purchase of equipment	(89,692)	(29,510)
Proceeds from the sale of patents		35,000
Proceeds from the sale of assets		1,500
Patent costs paid	(117,766)	(37,066)
Net cash used in investing activities	(207,458)	(30,076)
<b>Financing Activities:</b>		
Proceeds from exercise of common stock warrants		817,662
Proceeds from exercise of stock options		42,600
Net cash provided by financing activities		860,262
Net decrease in cash and cash equivalents	(1,957,406)	(1,884,370)
Cash and cash equivalents, beginning of period	6,414,537	9,896,342
Cash and cash equivalents, end of period	\$ 4,457,131	\$ 8,011,972

See accompanying notes to interim consolidated financial statements

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**American Technology Corporation**

**Notes to Interim Consolidated Financial Statements (unaudited)**

**1. OPERATIONS**

American Technology Corporation, a Delaware corporation (the "Company"), is engaged in the design, development and commercialization of directed sound technologies and products. The principal markets for the Company's proprietary sound reproduction technologies and products are in North America, Europe and Asia. The Company operates its business in one operating segment.

In February 2006, the Company incorporated a wholly owned subsidiary, American Technology Holdings, Inc. The Company plans for this subsidiary to conduct international marketing, sales and distribution activities. The consolidated financial statements include the accounts of this subsidiary after elimination of intercompany transactions and accounts.

**2. STATEMENT OF PRESENTATION AND MANAGEMENT'S PLAN**

The accompanying unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. In the opinion of management, the interim financial statements reflect all adjustments of a normal recurring nature necessary for a fair presentation of the results for interim periods. The consolidated balance sheet as of September 30, 2007 was derived from the Company's most recent audited financial statements. Operating results for the six month period are not necessarily indicative of the results that may be expected for the year. The interim financial statements and notes thereto should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended September 30, 2007 included in the Company's Annual Report on Form 10-K.

The Company incurred net losses of \$3,857,368 and \$1,546,696 in the six months ended March 31, 2008 and 2007, respectively. Management believes the Company has adequate financial resources to execute its fiscal 2008 operating plan and to sustain operations for the next twelve months. Management's operating plan includes (a) growing revenues by focusing on direct sales to larger commercial and defense related companies, (b) improving product margins by reducing unit product costs and monitoring manufacturing overhead, and (c) controlling research and development and selling, general and administrative costs. Nevertheless, the Company's operating results will depend on future product sales levels and other factors, some of which are beyond the Company's control. There can be no assurance the Company can achieve positive cash flow or profitability. If required, management has some flexibility to take remedial actions to adjust the level of research and development and selling, general and administrative expenses based on the availability of resources. However, the Company operates in a rapidly evolving and often unpredictable business environment that may change the timing or amount of expected future cash receipts and expenditures. Accordingly, there can be no assurance that the Company may not be required to raise additional funds through the sale of equity or debt securities or from credit facilities. Additional capital, if needed, may not be available on satisfactory terms, if at all.

**3. RECENT ACCOUNTING PRONOUNCEMENTS**

In March 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" - an amendment of FASB Statement No. 133 ("SFAS No. 161"). SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby seeks to improve the transparency of financial reporting. Under SFAS No. 161, entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 will be effective for the Company beginning January 4, 2009 (the first day of fiscal 2009). Early application is encouraged. SFAS No. 161 also encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently in the process of evaluating what impact SFAS No. 161 may have on the disclosures in its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141(R), "Business Combinations" ("SFAS No. 141R"). SFAS 141R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the "purchase method") be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R also establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; (b) improves the completeness of the information reported about a business combination by changing the requirements for recognizing assets acquired and liabilities assumed arising from contingencies; (c) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (d) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS

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No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (for acquisitions closed on or after October 1, 2009 for the Company). Early application is not permitted. The Company has not yet determined the impact, if any, SFAS No. 141R will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements ( SFAS No. 160 ). SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the non-controlling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 (as of October 1, 2009 for the Company). The Company has not yet determined the impact, if any, that SFAS No. 160 will have on its consolidated financial statements.



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In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS No. 157 ). This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosure about fair value measurements. In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 ( SFAS No. 159 ), which will permit the option of choosing to measure certain eligible items at fair value at specified election dates and report unrealized gains and losses in earnings. SFAS Nos. 157 and 159 will become effective for the Company for fiscal year 2009, and interim periods within the fiscal year. The Company is currently evaluating the requirements of SFAS Nos. 157 and 159, and has not yet determined the likely, if any, impact on future financial statements.

Effective October 1, 2007, the Company adopted FASB Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109. See Note 13 Income Taxes for further discussion.

**4. INVENTORIES**

Inventories are stated at the lower of cost, which approximates actual costs on a first in, first out cost basis, or market. Inventories consisted of the following:

	March 31, 2008	September 30, 2007
Finished goods	\$ 1,681,831	\$ 1,664,914
Work in process	97,447	
Raw materials	3,276,457	3,475,655
	5,055,735	5,140,569
Reserve for obsolescence	(1,310,549)	(1,337,822)
Total, net	\$ 3,745,186	\$ 3,802,747

**5. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

	March 31, 2008	September 30, 2007
Machinery and equipment	\$ 552,576	\$ 477,653
Office furniture and equipment	920,141	912,248
Leasehold improvements	260,591	260,591
	1,733,308	1,650,492
Accumulated depreciation	(1,357,174)	(1,228,465)
Property and equipment, net	\$ 376,134	\$