

KEY TECHNOLOGY INC
Form 10-Q
August 05, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

✓ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended June 30, 2016

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 No. 0-21820

KEY TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

Oregon 93-0822509
(State or jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

150 Avery Street
Walla Walla, Washington 99362
(Address of principal executive offices and zip code)

(509) 529-2161
(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 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, 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. (Check one):

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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 outstanding of the registrant's common stock, no par value, on July 31, 2016 was 6,402,783 shares.

KEY TECHNOLOGY, INC.
FORM 10-Q FOR THE THREE MONTHS ENDED JUNE 30, 2016
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KEY TECHNOLOGY, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
 JUNE 30, 2016 AND SEPTEMBER 30, 2015

	June 30, September 30, 2016 2015	
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$4,771	\$ 7,726
Trade accounts receivable, net of allowance for doubtful accounts of \$249 and \$261, respectively	19,913	14,836
Inventories:		
Raw materials	11,181	14,291
Work-in-process and sub-assemblies	11,887	9,769
Finished goods	7,735	7,237
Total inventories	30,803	31,297
Deferred income taxes	3,904	3,972
Prepaid expenses and other assets	3,602	4,108
Total current assets	62,993	61,939
Property, plant and equipment, net	14,052	14,799
Deferred income taxes	3,548	2,917
Goodwill	10,131	10,223
Investment in Proditec	1,127	1,127
Intangibles and other assets, net	5,529	6,541
Total	\$97,380	\$ 97,546
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$9,319	\$ 10,800
Accrued payroll liabilities and commissions	5,400	5,452
Customers' deposits	6,902	4,712
Accrued customer support and warranty costs	2,293	2,618
Customer purchase plans	1,818	1,506
Income taxes payable	—	2
Short-term borrowings	1,000	—
Current portion of long-term debt	600	705
Other accrued liabilities	1,179	1,313
Total current liabilities	28,511	27,108
Long-term debt	4,711	5,149
Deferred income taxes	1,815	2,144
Other long-term liabilities	376	408
Shareholders' equity:		
Common stock	33,952	32,676
Warrants	—	665
Retained earnings and other shareholders' equity	28,015	29,396
Total shareholders' equity	61,967	62,737

Total

\$97,380 \$ 97,546

See notes to unaudited condensed consolidated financial statements.

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KEY TECHNOLOGY, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 FOR THE THREE MONTHS ENDED JUNE 30, 2016 AND 2015

	Three Months Ended June 30, 2016 2015 (in thousands, except per share data)	
Net sales	\$36,207	\$30,810
Cost of sales	25,553	21,573
Gross profit	10,654	9,237
Operating expenses:		
Sales and marketing	4,135	4,146
Research and development	2,719	2,296
General and administrative	1,781	1,844
Amortization of intangibles	235	356
Total operating expenses	8,870	8,642
Gain on disposition of assets	13	8
Earnings from operations	1,797	603
Other income (expense)	(228)	(156)
Earnings before income taxes	1,569	447
Income tax expense	534	152
Net earnings	\$1,035	\$295
Net earnings per share		
- basic	\$0.16	\$0.05
- diluted	\$0.16	\$0.05
Shares used in per share calculations - basic	6,369	6,280
Shares used in per share calculations - diluted	6,369	6,301
See notes to unaudited condensed consolidated financial statements.		

KEY TECHNOLOGY, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 FOR THE NINE MONTHS ENDED JUNE 30, 2016 AND 2015

	Nine Months Ended June 30, 2016 2015 (in thousands, except per share data)	
Net sales	\$89,520	\$72,482
Cost of sales	63,417	52,063
Gross profit	26,103	20,419
Operating expenses:		
Sales and marketing	12,293	12,342
Research and development	7,911	6,554
General and administrative	6,261	5,912
Amortization of intangibles	887	1,128
Total operating expenses	27,352	25,936
Gain on disposition of assets	10	10
Loss from operations	(1,239)	(5,507)
Other income (expense)	(758)	(228)
Loss before income taxes	(1,997)	(5,735)
Income tax benefit	(784)	(2,256)
Net loss	\$(1,213)	\$(3,479)
Net loss per share		
- basic	\$(0.19)	\$(0.55)
- diluted	\$(0.19)	\$(0.55)
Shares used in per share calculations - basic	6,309	6,274
Shares used in per share calculations - diluted	6,309	6,274
See notes to unaudited condensed consolidated financial statements.		

KEY TECHNOLOGY, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2016 AND 2015

	Three Months Ended June 30, 2016		Nine Months Ended June 30, 2015	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Net earnings (loss)	\$1,035	\$295	\$(1,213)	\$(3,479)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(423)	455	(274)	(2,653)
Unrealized changes in fair value of derivatives	—	51	—	(14)
Reclassification adjustment for foreign currency translation included in net earnings (loss)	6	—	18	—
Income tax (expense) benefit related to items of comprehensive income (loss)	142	(172)	87	907
Total comprehensive income (loss)	\$760	\$629	\$(1,382)	\$(5,239)

See notes to unaudited condensed consolidated financial statements.

KEY TECHNOLOGY, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE NINE MONTHS ENDED JUNE 30, 2016 AND 2015

	Nine Months Ended June 30,	
	2016	2015
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(1,213)	\$ (3,479)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Gain on disposition of assets	(10)	(10)
Foreign currency exchange loss	227	11
Depreciation and amortization	3,763	3,920
Share based payments	860	1,000
Reclassification from other comprehensive income	18	—
Excess tax benefits from share based payments	(14)	(12)
Deferred income taxes	(779)	(1,759)
Deferred rent	6	9
Bad debt expense	(1)	(1)
Changes in assets and liabilities:		
Trade accounts receivable	(5,228)	(1,023)
Inventories	(80)	(5,746)
Prepaid expenses and other current assets	625	(875)
Income taxes receivable	3	2,767
Intangibles and other long term assets	(33)	(47)
Accounts payable	(1,410)	5,326
Accrued payroll liabilities and commissions	(70)	(550)
Customers' deposits	2,176	2,554
Accrued customer support and warranty costs	(307)	(165)
Income taxes payable	(43)	(7)
Other accrued liabilities	(31)	(49)
Other	4	(18)
Cash provided by (used in) operating activities	(1,537)	1,846
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property	32	12
Purchases of property, plant and equipment	(1,760)	(1,694)
Cash used in investing activities	(1,728)	(1,682)

See notes to unaudited condensed consolidated financial statements.

(Continued)

KEY TECHNOLOGY, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE NINE MONTHS ENDED JUNE 30, 2016 AND 2015

	Nine Months Ended June 30,	
	2016	2015
	(in thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to short-term borrowings	\$2,000	\$ —
Repayments of short-term borrowings	(1,000)	—
Payments on long-term debt	(534)	(559)
Excess tax benefits from share based payments	14	12
Proceeds from issuance of common stock	37	138
Exchange of shares for statutory withholding	(255)	(333)
Cash provided by (used in) financing activities	262	(742)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	48	(164)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,955)	(742)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	7,726	9,741
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	\$4,771	\$ 8,999
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$308	\$ 185
Cash paid (refunded) during the period for income taxes	\$26	\$ (3,237)
See notes to unaudited condensed consolidated financial statements.		(Concluded)

KEY TECHNOLOGY, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JUNE 30, 2016

1. Unaudited condensed consolidated financial statements

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted from these unaudited condensed consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015. The results of operations for the three- and nine-month periods ended June 30, 2016 are not necessarily indicative of the operating results for the full year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

In the opinion of management, all adjustments, consisting only of normal recurring accruals, have been made to present fairly the Company's financial position at June 30, 2016 and the results of its operations and its cash flows for the three- and nine-month periods ended June 30, 2016 and 2015.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). ASU 2014-09 supersedes nearly all existing revenue recognition guidance under GAAP. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company is evaluating its existing revenue recognition policies to determine whether any contracts in the scope of the guidance will be affected by the new requirements. ASU 2014-09, as amended by ASU 2015-14, is effective for annual reporting periods beginning after December 15, 2017, including interim periods therein.

In July 2015, FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory" ("ASU 2015-11"). The previous standard required entities to measure inventory at the lower of cost or market, with market defined as net realizable value or replacement cost. ASU 2015-11 requires entities to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for annual reporting periods beginning after December 15, 2016, including interim periods therein. The Company is evaluating the impact of this update, but does not anticipate that it will have a material effect on its financial statements.

In November 2015, FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes," which eliminates the current requirement to present deferred tax liabilities and assets as current and non-current in a classified balance sheet. Instead, entities will be required to classify all deferred tax assets and liabilities as non-current. This ASU will be effective for the Company beginning in its first quarter of fiscal year 2018 and may be adopted prospectively or retrospectively. Early adoption is permitted. The Company is evaluating the timing of its adoption of this ASU. The Company does not expect its adoption to have a material effect on its financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases" ("ASU 2016-02"), which is intended to improve financial reporting about leasing transactions. ASU 2016-02 will require lessees to recognize the assets and liabilities for the rights and obligations created by those leases on their balance sheet. Lessees will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. ASU 2016-02 is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, or October 1, 2019 for the Company. Early adoption is permitted. The Company has not yet determined the effect of the adoption of ASU 2016-02 will have on its consolidated financial position, consolidated results of operations, and consolidated statement of cash flows.

In March 2016, the FASB issued ASU 2016-09, "Stock Compensation," which is intended to simplify several aspects of the accounting for share-based payment award transactions, including adjustments to the timing of when excess tax benefits should be recorded and classification in the statement of cash flows. The guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within those years. The Company is in the process of evaluating the impact of the adoption of this ASU.

2. Share-based compensation

During the nine months ended June 30, 2016, the Company granted 117,104 shares of service-based stock awards. The fair value of these grants ranged between \$7.12 and \$11.76 per share based on the fair market value at the grant date. The restrictions on these shares lapse at the end of the required service periods ranging from October 2016 through December 2018. During the nine months ended June 30, 2016, the Company also granted 63,257 shares of performance-based stock awards. The fair value of these grants ranged between \$9.01 and \$11.76 per share based on the fair market value at the grant date. The restrictions on the shares granted lapse upon achievement of performance-based objectives for the three-year period ending September 30, 2018 and continued employment through September 30, 2018. The Company estimates that it is less than probable that the performance-based objectives on any of the performance-based awards granted in fiscal 2016 will be achieved and, therefore, has not recorded any share-based compensation expense in fiscal 2016 related to these awards.

Share-based compensation expense included in the Company's results was as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Cost of goods sold	\$84	\$33	\$122	\$120
Operating expenses	227	292	738	880
Total share-based compensation expense	\$311	\$325	\$860	\$1,000

Share-based compensation expense remaining capitalized in inventory at June 30, 2016 and 2015 was \$22,000 and \$1,000, respectively.

3. Earnings (loss) per share

The calculation of the basic and diluted earnings (loss) per share ("EPS") is as follows (in thousands, except per-share data):

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Earnings	Shares	Per-Share Amount	Earnings	Shares	Per-Share Amount
Basic EPS:						
Net earnings	\$1,035	6,369	\$ 0.16	\$295	6,280	\$ 0.05
Effect of dilutive securities:						
Common stock options	—	—		—	—	
Warrants	—	—		—	21	
Diluted EPS:						
Net earnings plus assumed conversions	\$1,035	6,369	\$ 0.16	\$295	6,301	\$ 0.05

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Nine Months Ended June 30, 2016		Nine Months Ended June 30, 2015	
LossShares	Per-Share Amount	LossShares	Per-Share Amount

Basic EPS: