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The total weighted average number of stock options excluded from the calculation of potentially dilutive securities either due to the exercise price exceeding the average market price or the inclusion of such securities in a calculation of net loss per share would have been anti-dilutive for the three months ended September 30, 2001 and 2000 were 588 and 23, respectively, and for the nine months ended September 30, 2001 and 2000 were 352 and 89, respectively.

Note 6 Comprehensive Income (Loss)

In addition to net income (loss), the only item that the Company currently records as comprehensive income or loss is the foreign currency translation adjustment resulting from changes in exchange rates and the effect of those changes upon translation of the financial statements of the Company s foreign operations. The following table presents information about the Company s comprehensive income (loss):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
Net income (loss)	$ (1,378)	$ 881	$ 388	$ 934
Other comprehensive income (loss):				
Foreign currency translation adjustment	5	-	(3)	-
Comprehensive income (loss)	$ (1,373)	$ 881	$ 385	$ 934

Note 7 New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141; *Business Combinations*, and SFAS No. 142; *Goodwill and Other Intangible Assets*, which change the accounting for business combinations and goodwill. SFAS No. 141 requires that the purchase method of accounting be used for business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is prohibited. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, will therefore cease upon adoption of the Statement, which for the Company will be January 1, 2002. The Company does not expect that SFAS No. 141 and SFAS No. 142 will have a material effect on its financial statements.

In August 2001, the FASB issued SFAS No. 144; *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121; *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. However, this statement retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale.

SFAS No. 144 also supersedes the accounting and reporting provisions of Accounting Principles Board Opinion (APB) No. 30; *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* for the disposal of a segment of a business. However, this Statement retains the requirement of APB No. 30 to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. The Company plans to adopt the provisions of SFAS No. 144 effective January 1, 2002. The Company does not expect that SFAS No. 144 will have a material effect on its financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

August Technology Corporation (the Company) is a worldwide leader in the research, design, development, manufacture, marketing, sales, distribution and service of automated micro defect inspection systems used in the manufacture of semiconductor devices as well as the emerging markets for microelectronic devices including optoelectronics, photonics, micro electro-mechanical structures (MEMS) or other micro machines, micro LCD s, printheads, data storage, disk drives and other similar devices. The Company s systems automate the inspection process, allowing manufacturers to inspect 100% of their wafers or die, while providing powerful information that manufacturers can use to increase yield and productivity. The Company has sold these systems worldwide to major semiconductor manufacturers, as well as manufacturing companies serving the microelectronic markets.

The following discussion of the Company s financial condition and results of operations should be read in conjunction with the audited financial statements of the Company and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2000, filed with the Securities and Exchange Commission on March 16, 2001.

Results of Operations

Three months ended September 30, 2001 compared to the three months ended September 30, 2000

Net Revenues. Net revenues for the three months ended September 30, 2001 decreased $5.7 million, or 63.8%, to $3.3 million, from $9.0 million for the same period in 2000. The decrease in net revenues was primarily due to a decline in capital spending by semiconductor and microelectronic device manufacturers. This decline is the result of the continued worldwide slowdown in demand for these products.

Gross Profit. Gross profit decreased to $1.8 million, or 54.1% of net revenues, for the three months ended September 30, 2001, from $5.5 million, or 60.9% of net revenues, for the same period in 2000. The decrease in gross margin percentage was primarily the result of the Company s fixed and variable manufacturing expenses not decreasing at the same rate as the decline in revenue.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of employee salaries and related benefits, occupancy related costs, travel and tradeshow expenses. Selling, general and administrative expenses decreased $154,000, or 5.4%, to $2.7 million, or 82.7% of net revenues, for the three months ended September 30, 2001, from $2.8 million, or 31.6% of net revenues, for the same period in 2000. The increase as a percentage of net revenues was due to the decrease in net revenues. The decrease in absolute dollars was primarily due to cost cutting initiatives that focused on reductions in discretionary and compensation expenditures (the Cost Cutting Initiatives), as well as, lower variable expenses due to the decrease in the number of shipments during the third quarter of 2001. These reductions were partially offset by salaries related to sales and customer service employees hired during the second half of 2000.

Research and Development Expenses. Research and development expenses consist primarily of employee salaries and related benefits, and consulting fees for individuals engaged in the research, design and development of new products. Research and development expenses decreased $67,000, or 3.6%, to $1.8 million, or 55.6% of net revenues, for the three months ended September 30, 2001, from $1.9 million, or 20.9% of net revenues, for the same period in 2000. The increase as a percentage of net revenues was due to the decrease in net revenues. The decrease in absolute dollars was primarily due to the Cost Cutting Initiatives, partially offset by the hiring of additional engineers subsequent to the beginning of the third quarter of 2000.

Interest Income. Interest income for the three months ended September 30, 2001 was $330,000, as compared to $527,000 for the same period in 2000. The decrease in interest income is due to lower rates of return earned on investment balances.

Income Taxes. The benefit from income taxes for the three months ended September 30, 2001 was $1.0 million, or an effective tax rate of 42.9%, as compared to a provision for income taxes of $396,000, or an effective tax rate of 31.0%, for the same period in 2000. The high effective rate during the third quarter of 2001, as compared to the federal statutory rate of 34% plus state and local taxes, is due to the relative size of certain tax credits that will be earned during 2001 in proportion to the expected level of income before taxes in 2001.

Nine months ended September 30, 2001 compared to the nine months ended September 30, 2000

Net Revenues. Net revenues increased $3.1 million, or 14.7%, to $24.3 million for the nine months ended September 30, 2001, from $21.2 million for the same period in 2000. The increase in net revenues was primarily due to growth in sales of systems within the NSX series during the first half of 2001, partially offset by lower net revenues during the third quarter of 2001 as compared to the same period in 2000.

Gross Profit. Gross profit increased to $14.6 million, or 60.2% of net revenues, for the nine months ended September 30, 2001, from $12.7 million, or 59.9% of net revenues, for the same period in 2000. The increase in gross margin percentage was due to growth in sales of NSX systems during the first half of 2001 and the introduction of YieldPilot, both of which have a higher gross margin than the Company s other products, and a stronger mix of higher margin system sales within the NSX series, partially offset by the lower gross margins in the third quarter of 2001 due to the Company s fixed and variable manufacturing expenses not decreasing at the same rate as the decline in revenue during this period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $2.0 million, or 29.4%, to $8.9 million, or 36.8% of net revenues, for the nine months ended September 30, 2001, from $6.9 million, or 32.6% of net revenues, for the same period in 2000. The increase was primarily due to the hiring of additional sales, field service and administrative personnel to support our domestic and international growth in 2000 and the first half of 2001, partially offset by the decrease in expenses realized from the Cost Cutting Initiatives.

Research and Development Expenses. Research and development expenses increased $1.2 million, or 25.0%, to $6.1 million, or 25.3% of net revenues, for the nine months ended September 30, 2001, from $4.9 million, or 23.2% of net revenues, for the same period in 2000. The increase in research and development expenses was primarily due to the hiring of additional engineers during the last three quarters of 2000 and the use of outside contractors to advance the development of new products. The increase in expenses was partially offset by a decrease in costs related to recruiting and hiring new employees, due to a reduction in hiring in 2001, and a reduction in expenses realized from the Cost Cutting Initiatives.

Non-recurring Expenses. Non-recurring expenses of $432,000 includes $84,000 of employee severance costs related to a reduction in work force implemented in late April and $348,000 of expenses related to the termination of the Company s distributor agreement in Taiwan, as a result of the Company s decision to sell directly to customers in Taiwan.

Interest Income. Interest income for the nine months ended September 30, 2001 was $1.2 million, as compared to $591,000 for the same period in 2000. The interest income earned during the nine months ended September 30, 2001 and 2000 was the result of investing the net proceeds received from the Company s initial public offering (the IPO) in June 2000.

Income Taxes. The benefit from income taxes for the nine months ended September 30, 2001 was $124,000, or an effective tax rate of 47.0%, as compared to a provision for income taxes of $422,000, or an effective tax rate of 31.1%, for the same period in 2000. The high effective rate in 2001, as compared to the federal statutory rate of 34% plus state and local taxes, is due to the relative size of certain tax credits that will be earned during 2001 in proportion to the expected level of income before taxes in 2001.

Liquidity and Capital Resources

As of September 30, 2001 the Company had cash and cash equivalents of $1.1 million, as compared to $3.1 million at December 31, 2000.

Net cash provided by operating activities for the nine months ended September 30, 2001 was $774,000, which resulted primarily from decreased accounts receivable, partially offset by increased prepaid expenses and other current assets and inventories, and decreased accounts payable and accrued income taxes. Net cash used in investing activities was $3.2 million, due to $1.0 million of net purchases of investments and $2.2 million of purchases of property and equipment. Net cash provided by financing activities was $451,000 from the proceeds received from issuances of common stock.

Net cash used in operating activities for the nine months ended September 30, 2000 was $4.0 million, which resulted primarily from increased accounts receivable and inventories, partially offset by increased accounts payable and accrued liabilities. Net cash used in investing activities was $24.0 million, including $22.5 million of net purchases of investments and $1.3 million used for additions to property and equipment. Net cash provided by financing activities was $34.5 million, including $35.9 million of net proceeds received from the sale of 3,300,000 shares of common stock in the IPO, partially offset by the re-payment of $1.2 million of debt.

Working capital increased to $39.2 million as of September 30, 2001, from $36.9 million at December 31, 2000. The Company believes that existing working capital, anticipated cash flows from operations and its line of credit will be adequate to satisfy projected operating and capital requirements through the foreseeable future. However, to the extent the current slowdown in the microelectronics industries and global economy continue for an extended period of time or the Company grows more rapidly than expected, the Company may need additional cash to finance its operating and investing activities.

Fluctuations in Quarterly Results of Operations

The Company s operating results have historically been subject to significant quarterly and annual fluctuations. The Company anticipates that factors affecting future operating results will include the timing of significant orders, the timing of new product announcements and releases by the Company or its competitors, patterns of capital spending by customers, market acceptance of new or enhanced versions of products and pricing changes. In addition, the timing and level of the Company s research and development expenditures could cause quarterly results to fluctuate. A substantial portion of the Company s annual revenues comes from sales to a relatively small number of customers. The Company s revenues and operating results for a period may be affected by the timing of orders received or orders shipped during a period.

Impact of Accounting Standards

In July 2001, the FASB issued SFAS No. 141; *Business Combinations*, and SFAS No. 142; *Goodwill and Other Intangible Assets*, which change the accounting for business combinations and goodwill. SFAS No. 141 requires that the purchase method of accounting be used for business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is prohibited. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, will therefore cease upon adoption of the Statement, which for the Company will be January 1, 2002. The Company does not expect that SFAS No. 141 and SFAS No. 142 will have a material effect on its financial statements.

In August 2001, the FASB issued SFAS No. 144; *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121; *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. However, this statement retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale.

SFAS No. 144 also supersedes the accounting and reporting provisions of APB No. 30; *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for the disposal of a segment of a business. However, this Statement retains the requirement of APB No. 30 to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. The Company plans to adopt the provisions of SFAS No. 144 effective January 1, 2002. The Company does not expect that SFAS No. 144 will have a material effect on its financial statements.

Cautionary Factors That May Affect Future Results

Certain statements made in this Quarterly Report on Form 10-Q, as well as oral statements made by the Company from time to time, which are prefaced with words such as expects , anticipates , believes , projects , intends , plans and similar words and other statements of si sense, are forward-looking statements. The Company s forward-looking statements generally relate to its growth strategies, financial results, product development activities and sales efforts. These forward-looking statements, like any other forward-looking statements, involve risks and uncertainties known and unknown, and may be affected by inaccurate assumptions, including, among others, those discussed in the Cautionary Statements section of the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Securities and Exchange Commission on March 16, 2001. The Company s forward-looking statements are also subject to potential risks of acts or threats of terrorism both domestically and internationally. The terrorist attack on September 11, 2001 adversely affected Company operations primarily by preventing or delaying travel plans. Additional acts of terrorism, or military or political responses to terrorism, in the U.S. and internationally could cause further travel disruption or political or economic instability that could materially alter or affect sales, orders, or other financial results of the Company in the upcoming months. These risks to sales, orders, and other financial results are potentially increased due to the current conditions of the microelectronics industries and related markets. The risks and uncertainties described here and in the Company s Form 10-K could cause actual results to differ materially from those projected or anticipated. The Company disclaims any obligation to subsequently revise forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Item 3. Qualitative and Quantitative Disclosures about Market Risk

Market Risk

The Company is exposed to market risk primarily from changes in interest rates and credit risk. The Company does not have material exposure to market risk from fluctuations in foreign currency exchange rates because all sales are made in U.S. dollars.

Interest Rate Risk

The Company is exposed to interest rate risk primarily from investments in cash equivalents and short-term and long-term marketable debt securities (the Investment Portfolio). The entire Investment Portfolio is classified as held to maturity and, accordingly, is recorded on the balance sheet at cost, with the amortization of any purchase discounts or premiums recorded in interest income. The entire Investment Portfolio is denominated in U.S. dollars. The Company does not use derivative financial instruments in the Investment Portfolio.

Credit Risk

Financial instruments, which potentially subject the Company to credit risk, consist principally of securities in the Investment Portfolio and trade receivables. The Company limits credit risk related to the Investment Portfolio by placing all investments with high credit quality issuers and limit the amount of investment with any one issuer. As of September 30, 2001, 98% of the Investment Portfolio consisted of government securities and corporate commercial paper and bonds with maturities of one year or less. The Company limits credit risk associated with trade receivables by performing ongoing credit evaluations and believes that there is no additional risk beyond amounts provided for collection losses to be inherent in trade receivables.

PART II -- OTHER INFORMATION

Item 5. Other Information

Item 5 of the Company s Form 10-Q for the quarter ended March 31, 2001 stated that Thomas Verburgt, Chief Technology Officer and a director and founder of the Company, had adopted a trading plan under Rule 10b5-1 which provides for the sale of up to 120,000 shares over a one-year term, subject to certain price limits. The March 31, 2001 Form 10-Q incorrectly reported that Mr. Verburgt s plan provided for sales of up to 30,000 shares per quarter. The plan actually provides for sales of up to 30,000 shares per month, provided certain price requirements are satisfied.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

None.

(b) Reports on Form 8-K:

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AUGUST TECHNOLOGY CORPORATION

Date: November 6, 2001	By:	/s/ JEFF L. O DELL
	Jeff L. O Dell	
	Chief Executive Officer	

(Principal Executive Officer)

Date: November 6, 2001	By: /s/ THOMAS C. VELIN
	Thomas C. Velin
	Chief Financial Officer

(Principal Financial and Accounting Officer)