KEY TECHNOLOGY INC
Form 10-Q/A
February 08, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549-1004

FORM 10-Q/A
Amendment No. 1

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended March 31, 2005

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 (State or jurisdiction of incorporation or organization)	93-0822509 (I.R.S. Employer 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 Sections 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 ý No ¨

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

The number of shares outstanding of the Registrant's common stock, no par value, on April 29, 2005 was 5,032,008 shares.

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KEY TECHNOLOGY, INC. AND SUBSIDIARIES
FORM 10-Q FOR THE THREE MONTHS ENDED MARCH 31, 2005
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ExplanatoryNote

We are filing this Amendment No. 1 on Form 10-Q/A to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (the "March 31 Form 10-Q"), which was originally filed with the Securities and Exchange Commission ("the SEC") on May 13, 2005.

We reported the decision to restate this information in a Current Report on Form 8-K which was filed with the SEC on December 29, 2005. The decision to restate was made by the Audit Committee of the Board of Directors of the Company on December 21, 2005 based on the recommendation of the Company's management. Management determined that adjustments relating to lease accounting identified by the Company's independent registered public accounting firm in connection with completing audit procedures for the year ended September 30, 2005 also affected the Company's interim financial statements and other financial information for the quarters ended March 31, 2005 and June 30, 2005. Part I of this Form 10-Q/A contains more information about this restatement in "Note 2. Restatement of Financial Statements" which accompanies the restated condensed unaudited consolidated financial statements in Item 1.

We revised our disclosure controls and procedures reports contained in our March 31 Form 10-Q by removing any qualifying language to the effectiveness of such disclosure controls and procedures and by discussing the facts and circumstances surrounding the above-described restatements and amendments. We also disclose how such restatements and amendments affected our CEO's and CFO's original conclusions regarding the effectiveness of our disclosure controls and procedures and concluded that our disclosure controls and procedures were not effective at March 31, 2005.

Accordingly, this Form 10-Q/A includes our restated financial statements for the three-month and six-month periods ended March 31, 2005 with accompanying notes.

Except for the foregoing amended information in Note 2 of Notes to the restated condensed unaudited consolidated financial statements, this Form 10-Q/A continues to describe conditions as of the date of the original filing and we have not updated the disclosures contained herein to reflect events that occurred at a later date. Other events occurring after the original filing or other disclosures necessary to reflect subsequent events have been addressed in reports filed with the SEC subsequent to the date of the original filing.

This Form 10-Q/A sets forth the original filing in its entirety; however, as a result of the items noted above, this Form 10-Q/A only amends or restates the condensed unaudited consolidated financial statements and accompanying notes of Item 1, Item 2, and Item 4 of the original filing. In each case, the amendment or restatement was made solely as a result of the items discussed in Note 2 of Notes to the restated condensed unaudited consolidated financial statements, and no other information in the original filing is amended hereby. The foregoing items have not been updated to reflect other events occurring after the original filing or to modify or update those disclosures affected by subsequent events. In addition, pursuant to the rules of the SEC, the original filing has been amended to contain currently dated certifications for our Chairman of the Board of Directors and our Chief Financial Officer that are attached to this 2005 Form 10-Q/A, as Exhibits 31.1, 31.2, 32.1 and 32.2, respectively.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KEY TECHNOLOGY, INC. AND SUBSIDIARIES
CONDENSED UNAUDITED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2005 AND SEPTEMBER 30, 2004
(As restated, See Note 2)

	March 31, 2005	September 30, 2004
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 10,860	$ 8,817
Trade accounts receivable, net	8,211	9,336
Inventories:		
Raw materials	7,123	6,460
Work-in-process and sub-assemblies	6,261	4,749
Finished goods	2,643	2,424
Total inventories	16,027	13,633
Other current assets	3,861	3,216
Total current assets	38,959	35,002
Property, plant and equipment, net	4,778	5,046
Deferred income taxes	7	6
Investment in joint venture	1,544	1,914
Goodwill, net	2,524	2,524
Intangibles and other assets, net	7,452	8,022
Total	$ 55,264	$ 52,514
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 2,425	$ 1,599
Accrued payroll liabilities and commissions	3,849	3,781
Accrued customer support and warranty costs	1,323	1,283
Other accrued liabilities	3,086	2,007
Customers' deposits	3,837	2,536
Current portion of long-term debt and capital lease obligations	1,155	1,210
Current portion of mandatorily redeemable preferred stock	1,153	1,279
Current portion of warrants	304	316
Total current liabilities	17,132	14,011
Long-term debt and capital lease obligations	1,711	2,323
Deferred income taxes	207	136
Total shareholders' equity	36,214	36,044
Total	$ 55,264	$ 52,514

See notes to condensed unaudited consolidated financial statements.

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KEY TECHNOLOGY, INC. AND SUBSIDIARIES
CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(As restated, See Note 2)

	2005	2004
	(in thousands, except per share data)	
Net sales	$ 18,269	$ 20,761
Cost of sales	11,405	11,869
Gross profit	6,864	8,892
Operating expenses:		
Sales and marketing	3,106	3,333
Research and development	1,176	1,497
General and administrative	2,003	2,042
Amortization of intangibles	333	331
Total operating expenses	6,618	7,203
Gain on sale of assets	8	6
Earnings from operations	254	1,695
Other income (expense)	(201)	(39)
Earnings before income taxes	53	1,656
Income tax (benefit) expense	(9)	518
Net earnings	62	1,138
Assumed dividends on mandatorily redeemable preferred stock	(1)	(22)
Net earnings available to common shareholders	$ 61	$ 1,116
Earnings per share		
- basic	$ 0.01	$ 0.23
- diluted	$ 0.01	$ 0.22
Shares used in per share calculations - basic	5,009	4,897
Shares used in per share calculations - diluted	5,191	5,285

See notes to condensed unaudited consolidated financial statements.

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KEY TECHNOLOGY, INC. AND SUBSIDIARIES
CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED MARCH 31, 2005 AND 2004
(As restated, See Note 2)

	2005	2004
	(in thousands, except per share data)	
Net sales	$ 32,840	$ 39,504
Cost of sales	20,671	23,557
Gross profit	12,169	15,947
Operating expenses:		
Sales and marketing	6,137	6,654
Research and development	2,516	2,635
General and administrative	3,769	3,613
Amortization of intangibles	664	661
Total operating expenses	13,086	13,563
Gain on sale of assets	13	6
Earnings (loss) from operations	(904)	2,390
Other income	226	37
Earnings (loss) before income taxes	(678)	2,427
Income tax (benefit) expense	(298)	785
Net earnings (loss)	(380)	1,642
Assumed dividends on mandatorily redeemable preferred stock	-	(32)
Net earnings (loss) available to common shareholders	$ (380)	$ 1,610
Earnings (loss) per share		
- basic	$ (0.08)	$ 0.33
- diluted	$ (0.08)	$ 0.31
Shares used in per share calculations - basic	5,001	4,858
Shares used in per share calculations - diluted	5,001	5,227

See notes to condensed unaudited consolidated financial statements.

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KEY TECHNOLOGY, INC. AND SUBSIDIARIES
CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED MARCH 31, 2005 AND 2004
(As restated, See Note 2)

	2005	2004
	(in thousands)	
Net cash provided by operating activities	$ 3,267	$ 1,800
Cash flows from investing activities:		
Proceeds from sale of property	4	190
Additions to property, plant and equipment	(482)	(706)
Cash paid for acquired company, net of cash acquired	(332)	-
Net cash used in investing activities	(810)	(516)
Cash flows from financing activities:		
Repayment of long-term debt	(698)	(561)
Redemption of preferred stock	(126)	(57)
Redemption of warrants	(12)	(36)
Proceeds from issuance of common stock	324	1,145
Net cash provided by (used in) financing activities	(512)	491
Effect of exchange rates on cash	98	96
Net increase in cash and cash equivalents	2,043	1,871
Cash and cash equivalents, beginning of the period	8,817	6,442
Cash and cash equivalents, end of the period	$ 10,860	$ 8,313
Supplemental information:		
Cash paid during the period for interest	$ 91	$ 103
Cash paid (refunded) during the period for income taxes	$ (50)	$ 161
Equipment obtained through lease financing	$ -	$ 245

See notes to condensed unaudited consolidated financial statements.

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KEY TECHNOLOGY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED UNAUDITED CONSOLIDATED STATEMENTS

1. Condensed unaudited 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 condensed unaudited consolidated financial statements. These condensed unaudited 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, 2004. The results of operations for the three and six-month periods ended March 31, 2005 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.

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 March 31, 2005 and the results of its operations and its cash flows for the three and six-month periods ended March 31, 2005 and 2004.

In 2004, the Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force ("EITF") reached consensus on issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128*. Issue No. 03-6 determined that for participating securities, the two-class method of computing basic earnings per share is required. Dividends must be calculated for the participating security on undistributed earnings and are a reduction in the net income available to common shareholders. The Company's Series B mandatorily redeemable preferred stock is a participating security as it has the right to dividends should dividends be declared on common stock. Assumed dividends on undistributed earnings are allocated as if the entire net income were distributed and based on the relationship of the weighted average number of common shares outstanding and the weighted average number of common shares outstanding if the preferred stock were converted into common. As required by the consensus, prior periods have been restated.

2. Restatement of Financial Statements

In the course of completing audit procedures relating to the financial statements of the Company for the year ended September 30, 2005, the Company's independent registered public accounting firm, Grant Thornton LLP ("Grant Thornton"), identified certain proposed adjustments in the Company's financial statements for the year ended September 30, 2005. Upon considering this information, the Company's management determined that adjustments relating to lease accounting also affected the Company's interim financial statements and other financial information for the quarter ended March 31, 2005, and the Audit Committee of the Board of Directors of the Company authorized management on December 21, 2005 to amend and restate the financial statements and other financial information for this interim period.

The Company has agreements with the Port of Walla Walla, Washington to lease two operating facilities, the lease on one of which expires on December 31, 2005. The Company undertook in 2005 to consolidate its operations into one facility by the end of calendar 2005 and modified one of its leases to add additional leased space and to extend the lease term through 2020. As a result of the consolidation of facilities and expiration of the lease on one operating facility, the Company reduced deferred rent credits over the remaining term of the expiring lease beginning in the second quarter of fiscal 2005 and continuing through the end of fiscal 2005.

However, management has subsequently concluded that (a) the accounting treatment to be used for the deferred rent credits relating to the expiring lease is to amortize the credits over the remaining term of the continuing operating facility lease; and (b) the Company's quarterly report previously filed with respect to the fiscal quarter ended March 31, 2005 should be restated.

As a result of the restatement, net earnings for the three and six-month periods ended March 31, 2005 was reduced by $105,000 ($0.02 per share - diluted).

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The following table sets forth the effects of the Company's restatement:

Statement of Operations:	Three months ended March 31, 2005 As Reported	Three months ended March 31, 2005 As Restated	Six months ended March 31, 2005 As Reported	Six months ended March 31, 2005 As Restated
Cost of sales	$ 11,241	$ 11,405	$ 20,507	$ 20,671
Gross profit	7,028	6,864	12,333	12,169
Earnings (loss) from operations	418	254	(740)	(904)
Earnings (loss) before income taxes	217	53	(514)	(678)
Income tax (benefit) expense	50	(9)	(239)	(298)
Net earnings (loss)	167	62	(275)	(380)
Net earnings (loss) available to common shareholders	164	61	(275)	(380)
Earnings (loss) per share - basic	$ 0.03	$ 0.01	$ (0.06)	$ (0.08)
Earnings (loss) per share - diluted	$ 0.03	$ 0.01	$ (0.06)	$ (0.08)

Balance Sheet:	March 31, 2005 As Reported	March 31, 2005 As Restated
Liabilities and Shareholders' Equity		
Other accrued liabilities	$ 2,922	$ 3,086
Total current liabilities	16,968	17,132
Deferred income taxes	266	207
Total shareholders' equity	36,319	36,214

All other items on the Condensed Unaudited Consolidated Statement of Operations and Balance Sheet were unchanged.

There were no changes to the Condensed Unaudited Consolidated Statements of Cash Flows.

3. Acquisitions

Effective February 10, 2005, the Company acquired all the outstanding stock of Freshline Machines Pty. Ltd. ("Freshline"). The purchase price, including acquisition costs, was approximately $1,477,000. The purchase agreement also provides for contingent payments if Freshline's gross revenues in the twelve month period subsequent to acquisition exceed specific targets. The maximum contingent purchase price under these contingencies is $700,000. Of the original $1,477,000 purchase price, approximately $727,000 was paid subsequent to March 31, 2005 and is reflected in other current liabilities at the end of the second quarter. The Company paid the cash purchase price from cash on hand.

The acquisition was accounted for as a purchase and Freshline's results of operation for the period subsequent to the acquisition have been included in the Company's Consolidated Statements of Operations for the periods ending March 31, 2005. The purchase price has been allocated to the assets and liabilities of Freshline based on their estimated fair values. Based on the estimates, the Company recorded approximately $152,000 of Patents / developed technologies, which is being amortized on a straight-line basis over 10 years, as the product lines associated with these assets are expected to continue to generate revenues for an extended period of time. Assets and liabilities acquired were as follows (in thousands):

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Fair value of assets acquired		
Tangible assets	$	1,041
Note receivable from previous owner		672
Patents / developed technologies		152
Liabilities assumed		(806)
Cash paid for common stock, less cash acquired of $418		(332)
Accrued purchase price	$	727

The note receivable from the previous owner of Freshline was re-paid prior to March 31, 2005. In addition, the Company entered into the following two agreements with the previous owner: (1) A one year rental, with a one-year renewal option, of the building where Freshline is currently operating. The building is approximately 14,500 square feet of combined manufacturing and office space; (2) A two-year consulting agreement.

4. Stock Compensation

The Company has elected to account for its stock-based compensation plans under Accounting Principles Board Opinion No. 25 ("APB 25"). If the Company had accounted for its stock-based compensation plans under Statement of Financial Accounting Standards ("SFAS") No. 123, the Company's net earnings and earnings per share would approximate the pro forma disclosures below (in thousands, except per share amounts):

	Three months ended March 31,				Six months ended March 31,			
	2005		2004		2005		2004	
	(As Restated)				(As Restated)			
Net earnings (loss), as reported	$	62	$	1,138	$	(380)	$	1,642
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(80)	$	(163)		(154)	$	(297)
Pro forma net earnings (loss)	$	(18)	$	975	$	(534)	$	1,345
Earnings (loss) per share:								
Basic - as reported	$	0.01	$	0.23	$	(0.08)	$	0.33
Basic - pro forma	$	0.00	$	0.20	$	(0.11)	$	0.27
Diluted - as reported	$	0.01	$	0.22	$	(0.08)	$	0.31
Diluted - pro forma	$	0.00	$	0.19	$	(0.11)	$	0.26

During the six-month period ending March 31, 2005, the Company granted 25,000 options. The weighted average fair value of the options granted, using the Black-Scholes methodology, was $5.43 per share. The total value of these options was $136,000, which will be amortized over the one-year vesting period. These options expire in February 2015.

5. Earnings per share

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

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	For the three months ended March 31, 2005			For the three months ended March 31, 2004		
	Earnings	**Shares (As Restated)**	**Per-Share Amount**	**Earnings**	**Shares**	**Per-Share Amount**
Net earnings from continuing operations	$ 62			$ 1,138		
Less: Assumed dividends on mandatorily redeemable preferred stock	(1)			(22)		
Basic EPS:						
Net earnings available to common shareholders	61	5,009	$ 0.01	1,116	4,897	$ 0.23
Effect of dilutive securities:						
Common stock options		101			293	
Mandatorily redeemable preferred stock	1	81		22	95	
Diluted EPS:						
Earnings available to common shareholders plus assumed conversions	$ 62	5,191	$ 0.01	$ 1,138	5,285	$ 0.22

	For the six months ended March 31, 2005			For the six months ended March 31, 2004		
	Earnings	**Shares (As Restated)**	**Per-Share Amount**	**Earnings**	**Shares**	**Per-Share Amount**
Net earnings (loss) from continuing operations	$ (380)			$ 1,642		
Less: Assumed dividends on mandatorily redeemable preferred stock	-			(32)		
Basic EPS:						
Net earnings (loss) available to common shareholders	(380)	5,001	$ (0.08)	1,610	4,858	$ 0.33
Effect of dilutive securities:						
Common stock options		-		-	271	
Mandatorily redeemable preferred stock	-	-		32	98	
Diluted EPS:						
Earnings (loss) available to common shareholders plus assumed conversions	$ (380)	5,001	$ (0.08)	$ 1,642	5,227	$ 0.31

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The weighted average number of diluted shares includes only potential common shares that are not anti-dilutive to reported EPS. The following potential common shares were not included in the EPS calculations as they were anti-dilutive:

	Three months ended March 31,		Six months ended March 31,	
	2005	2004	2005	2004
Common shares from:				
Assumed exercise of stock options	288,300	160,300	715,126	185,300
Assumed conversion of preferred stock	-	-	76,891	-
Assumed conversion of warrants	30,351	31,985	30,351	31,985

6. Income taxes

The provision (benefit) for income taxes is based on the estimated effective income tax rate for the year.

7. Comprehensive income (loss)

The calculation of comprehensive income (loss) is as follows (in thousands):

	Three months ended	
	March 31, 2005 (As Restated)	March 31, 2004
Components of comprehensive income (loss):		
Net earnings	$ 62	