SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-30**
SEC Accession No. 0000950005-02-000571

(HTML Version on secdatabase.com)

FILER

ADEPT TECHNOLOGY INC
CIK:**865415**| IRS No.: **942900635** | State of Incorp.:**DE** | Fiscal Year End: **0630**
Type: **10-Q** | Act: **34** | File No.: **000-27122** | Film No.: **02645657**
SIC: **3559** Special industry machinery, nec

Business Address
150 ROSE ORCHARD WAY
SAN JOSE CA 95134
4084320888

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

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

FORM 10-Q

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

For the quarterly period ended March 30, 2002

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 No. 0-27122

ADEPT TECHNOLOGY, INC.
(Exact Name of Registrant as Specified in its Charter)

California	94-2900635
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

150 Rose Orchard Way, San Jose, California	95134
(Address of Principal executive offices)	(Zip Code)

(408) 432-0888
(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 [X] NO [ ]

The number of shares of the Registrant's common stock outstanding as of May 7, 2002 was 14,049,942.

ADEPT TECHNOLOGY, INC.

INDEX

	Page
PART I - FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Financial Statements	
Condensed Consolidated Balance Sheets March 30, 2002 and June 30, 2001	3
Condensed Consolidated Statements of Operations Three and nine months ended March 30, 2002 and March 31, 2001	4
Condensed Consolidated Statements of Cash Flows Nine months ended March 30, 2002 and March 31, 2001	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	15

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Item 3. Quantitative and Qualitative Disclosures About Market Risk........ 36

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.. 37

Item 6. Exhibits and Reports on Form 8-K................................. 37

Signatures... 38

ADEPT TECHNOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

<TABLE>
<CAPTION>

<S>	March 30, 2002 (unaudited) <C>	June 30, 2001 <C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,468	$ 18,700
Short-term investments	6,175	2,800
Accounts receivable, less allowance for doubtful accounts of $695 at March 30, 2002 and $742 at June 30, 2001	12,980	21,272
Inventories, net	13,000	17,750
Deferred tax and other current assets	3,947	2,069
Total current assets	52,570	62,591
Property and equipment at cost	11,938	34,520
Less accumulated depreciation and amortization	5,882	23,789
Property and equipment, net	6,056	10,731
Goodwill, net	13,227	14,596
Other intangibles, net	1,274	1,736
Other assets	2,969	5,919
Total assets	$ 76,096	$ 95,573
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,573	$ 10,369
Other accrued liabilities	10,559	12,438
Accrued restructuring charges	2,438	--
Total current liabilities	20,570	22,807
Long-term liabilities:		
Accrued restructuring charges	1,847	--
Deferred income tax and other long term liabilities	1,374	1,284
Redeemable convertible preferred stock, no par value: 5,000 shares authorized, 100 shares issued and outstanding at March 30, 2002; and none issued and outstanding at June 30, 2001 (liquidation preference - $25,000)	25,000	--
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value: 70,000 shares authorized, 13,826 and 13,165 shares issued and outstanding at March 30, 2002 and June 30, 2001, respectively	106,853	103,138
Accumulated deficit	(79,548)	(31,656)
Total shareholders' equity	27,305	71,482
Total liabilities, redeemable convertible preferred stock and shareholders' equity	$ 76,096	$ 95,573

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

=============   =============

</TABLE>

See accompanying notes.

<TABLE>
<CAPTION>

ADEPT TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share data)

<S>	Three months ended March 30, 2002 <C>	Three months ended March 31, 2001 <C>	Nine months ended March 30, 2002 <C>	Nine months ended March 31, 2001 <C>
Net revenues	$ 14,588	$ 23,913	$ 42,404	$ 79,568
Cost of revenues	9,856	14,393	27,765	44,458
Gross margin	4,732	9,520	14,639	35,110
Operating expenses:				
Research, development and engineering	5,008	5,182	15,432	15,056
Selling, general and administrative	7,192	9,297	22,025	25,504
Restructuring expenses	5,323	-	17,659	-
Amortization of goodwill and other intangibles	216	2,077	575	5,020
Total operating expenses	17,739	16,556	55,691	45,580
Operating loss	(13,007)	(7,036)	(41,052)	(10,470)
Interest income, net	123	165	344	420
Loss before income taxes and cumulative effect of change in accounting principle	(12,884)	(6,871)	(40,708)	(10,050)
Provision (benefit) for income taxes	(2,935)	4,828	(2,789)	4,828
Net loss before cumulative effect of change in accounting principle	(9,949)	(11,699)	(37,919)	(14,878)
Cumulative effect of change in accounting principle	(9,973)	-	(9,973)	-
Net loss	$ (19,922)	$ (11,699)	$ (47,892)	$ (14,878)
Basic and diluted net loss per share:				
Before cumulative effect of change in accounting principle	($ 0.72)	($ 0.99)	($ 2.78)	($ 1.33)
Cumulative effect of change in accounting principle	($ 0.72)	-	($ 0.73)	-
After cumulative effect of change in accounting principle	($ 1.44)	($ 0.99)	($ 3.5)	($ 1.33)
Number of shares used in computing per share amounts:				
Basic	13,829	11,795	13,648	11,147
Diluted	13,829	11,795	13,648	11,147

</TABLE>

See accompanying notes.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

ADEPT TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands)

<TABLE>
<CAPTION>

	Nine months ended	
	March 30, 2002	March 31, 2001
Operating activities		
Net loss	$ (47,892)	$ (14,878)
Adjustments to reconcile net loss to net cash used in operating activities:		
Cumulative effect of change in accounting principle	9,973	--
Depreciation	2,598	2,592
Amortization	575	5,114
Asset impairment charges	9,167	--
Loss on disposal of property and equipment	246	46
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	8,904	2,470
Inventories	777	(6,143)
Other current assets	(1,846)	4,259
Other assets	2,123	(402)
Accounts payable	(3,102)	375
Other accrued liabilities	(2,027)	(1,490)
Accrued restructuring charges	4,285	--
Deferred income tax and other long term liabilities	(106)	--
Net cash used in operating activities	(16,325)	(8,057)
Investing activities		
Business acquisitions, net of cash acquired	(9,907)	(7,050)
Purchase of property and equipment, net	(114)	(10,109)
Purchases of short-term available-for-sale investments	(20,950)	(16,261)
Sales of short-term available-for-sale investments	17,575	21,827
Net cash used in investing activities	(13,396)	(11,593)
Financing activities		
Proceeds from issuance of common stock	--	32,424
Proceeds from issuance of redeemable convertible preferred stock	25,000	--
Proceeds from employee stock incentive program and employee stock purchase plan, net of repurchases and cancellations	2,489	2,058
Net cash provided by financing activities	27,489	34,482
Increase (decrease) in cash and cash equivalents	(2,232)	14,832
Cash and cash equivalents, beginning of period	18,700	13,487
Cash and cash equivalents, end of period	$ 16,468	$ 28,319
Cash paid during the period for:		
Interest	$ 4	$ 10
Income taxes	$ 49	$ 428
Supplemental disclosure of non-cash financing activity:		
Issuance of common stock pursuant to terms of Hexavision acquisition Agreement	$ 1,226	$ --

</TABLE>

See accompanying note

ADEPT TECHNOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

1. General

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. However, certain information or footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished in this report reflects all adjustments, which, in the opinion of management, are necessary for a fair statement of the consolidated financial position, results of operations and cash flows as of and for the interim periods. Such adjustments consist of items of a normal recurring nature. The condensed consolidated financial statements included herein should be read in conjunction with the audited financial statements and notes thereto for the fiscal year ended June 30, 2001 included in Adept Technology, Inc.'s ("Adept" or "the Company") Form 10-K as filed with the Securities and Exchange Commission on September 21, 2001. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for the fiscal year ending June 30, 2002 or for any other future period.

Net Loss per Share

Basic net loss per share is based on the weighted average number of shares of common stock outstanding during the period, excluding restricted stock, while diluted net loss per share is based on the weighted average number of shares of common stock outstanding during the period and the dilutive effects of common stock equivalents (mainly stock options), determined using the treasury stock method, outstanding during the period, unless the effect of including the common stock equivalents is anti-dilutive. There were no differences between basic and diluted net loss per share for any periods presented.

Derivative Financial Instruments

Adept's product sales are predominantly denominated in U.S. dollars. However, certain international operating expenses are predominately paid in their respective local currency. During 2000, Adept began a foreign currency hedging program to hedge its exposure to foreign currency exchange risk on local international operational expenses and revenues. Realized and unrealized gains and losses on forward currency contracts that are effective as hedges of assets and liabilities, are recognized in income. Adept recognized a gain of $14,000 and a loss of $466,000 for the three months and nine months ended March 30, 2002 and losses of $457,000 and $14,000 for the three and nine months ended March 31, 2001, respectively.

Adept may enter into foreign exchange contracts as a hedge against foreign currency denominated receivables. Adept does not engage in currency speculation. Market value gains and losses on contracts are recognized currently, offsetting gains or losses on the associated receivables. Foreign currency transaction gains and losses are included in current earnings. Foreign exchange contracts totaled $1.8 million and $3.2 million at March 30, 2002 and March 31, 2001, respectively.

2. Financial Instruments

Adept considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Short-term investments consist principally of commercial paper and tax exempt municipal bonds with maturities between three and 12 months, market auction rate preferred stock and auction rate notes with maturities of 12 months or less. Investments are classified as held-to-maturity, trading, or available-for-sale at the time of purchase.

3. Mergers and Acquisitions

On October 9, 2001, Adept completed the acquisition of CHAD Industries, Inc. (CHAD), a design and manufacturing company specializing in precision assembly automation based in Orange, California. The

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

acquisition of CHAD is the latest step in Adept's ongoing photonics automation strategy. Adept is in the process of leveraging CHAD's expertise in small part feeding, precision tooling design, and the handling of odd-form components to add capacity in photonics automation. In addition, Adept plans to support and grow CHAD's line of odd-form component assembly machines. Adept acquired 100 percent of the outstanding common shares of CHAD. The results of CHAD's operations have been included in Adept's consolidated financial statements since October 9, 2001.

Under terms of the acquisition agreement, the purchase price of $10.1 million includes an aggregate of $8.4 million in cash, $150,000 in transaction costs and 200,000 shares of Adept common stock valued at $1.6 million. The value of the 200,000 shares issued was determined based on the average closing price of Adept's stock over the period of 5 trading days prior to June 27, 2001, the date of entry into the definitive agreement. Of the $8.4 million in cash, $4.2 million was paid as of the closing date on October 9, 2001, and $2.6 million and $1.6 million are to be paid on October 9, 2002, and 2003, respectively. These future payments are not contingent upon the fulfillment of any employment or other contingencies. In addition, Adept agreed to make payments and potential stock issuances over a period of three years after the closing date totaling approximately $0.7 million to certain specified employees of CHAD, which are contingent on the continued employment of such employees. As such, those amounts have been appropriately excluded from the purchase price and will be expensed as paid. This acquisition was accounted for under the purchase method of accounting.

The purchase price of CHAD was allocated, based on fair value, to tangible assets, goodwill and other intangible assets. Goodwill represents the excess of the purchase price of the net tangible and intangible assets acquired over their fair value.

For the CHAD acquisition, below is a table of the acquisition cost and purchase price allocation.

Acquisition Cost:	
Cash paid on closing	$ 4,150
Cash paid after one year	2,592
Cash paid after two years	1,615
Stock issued at closing	1,556
Transaction costs	150
Total acquisition cost	$ 10,063
Purchase Price Allocation:	
Net book value of assets acquired	$ 554
Identified intangible assets	430
Goodwill	9,079
Total	$ 10,063

4. Inventories

Inventories are stated at the lower of standard cost, which approximates actual (first-in, first-out method) or market (estimated net realizable value). The components of inventory are as follows:

(in thousands)	March 30, 2002	June 30, 2001
Raw materials	$ 5,282	$ 7,397
Work-in-process	3,820	4,908
Finished goods	3,898	5,445
	$ 13,000	$ 17,750

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

5. Property and Equipment

Property and equipment are recorded at cost.

The components of property and equipment are summarized as follows:

(in thousands)	March 30, 2002	June 30, 2001
Cost:		
Machinery and equipment....................	$ 3,217	$ 14,922
Computer equipment.........................	5,228	14,779
Office furniture and equipment.............	3,493	4,819
	11,938	34,520
Accumulated depreciation and amortization	5,882	23,789
Net property and equipment.................	$ 6,056	$ 10,731

In connection with a plan to restructure its operations (See Note 7), Adept recorded an impairment charge of $9.1 million representing the net book value of machinery, computer equipment and office furniture and improvements associated with certain non-strategic product lines to be eliminated and certain manufacturing and support facilities to be consolidated. Adept has fully disposed of these assets in the third quarter of fiscal 2002. These assets relate to all three of Adept's reportable business segments, and Adept's depreciation expense will be reduced by approximately $200,000 per quarter as a result of these asset write offs.

6. Credit Facility

On April 9, 2001, Adept entered into agreements establishing a revolving line of credit, consisting of two facilities with the CIT Group/Business Credit, Inc. to borrow up to the lesser of $25.0 million or the sum of 85% of Adept's eligible domestic accounts receivables, plus 90% of eligible foreign accounts receivables, less a dilution reserve equivalent to one percent of eligible domestic and foreign accounts receivables for every one percentage point in excess of a standard five percent dilution rate. The agreements have an initial term of three years with automatic renewals on identical terms thereafter unless terminated by either party within 60 days of the end of then current term. Adept is required to meet certain restrictive covenants, which require, among other things, Adept to maintain positive earnings before income taxes, depreciation and amortization on a trailing four-quarter basis. However, this financial covenant applies only if Adept's unrestricted cash and cash equivalents plus excess revolving loan availability under the revolving line of credit falls below $7.5 million at the end of any fiscal quarter. To date, Adept has had no outstanding borrowings under this revolving line of credit.

7. Restructuring Charges

During the nine months ended March 30, 2002, Adept implemented a plan to restructure certain of its operations across all three of its reportable business segments. Adept completed its restructuring plan during the third quarter of fiscal 2002, and has recorded restructuring charges of $17.7 million for the nine months ended March 30, 2002, related to the exiting of certain non-strategic product lines and the consolidation of certain manufacturing and support facilities. Of the $17.7 million restructuring charge, Adept recorded $5.3 million in the three months ended March 30, 2002 and $12.4 million in the three months ended September 30, 2001.

The restructuring charges include employee severance costs, lease termination costs and asset impairment charges (Note 4) and are as follows:

<TABLE>
<CAPTION>

Amounts Amounts Amounts

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(in thousands)	Charges	Utilized Q1 Fiscal 2002	Utilized Q2 Fiscal 2002	Utilized Q3 Fiscal 2002	Balance March 30, 2002
<S>	<C>	<C>	<C>	<C>	<C>
Employee severance costs..........	$ 1,692	$ 555	$ 370	$ 187	$ 580
Lease termination costs...........	6,800	186	94	2,909	3,611
Asset impairment charges..........	9,167	5,601	--	3,472	94
Total	$17,659	$ 6,342	$ 464	$ 6,568	$ 4,285

</TABLE>

Employee severance costs of $1.7 million represent a reduction of approximately 180 employees in most functional areas across all three of the reportable business segments. Lease termination costs of $6.8 million result from the consolidation of manufacturing facilities in San Jose and Livermore, California into Adept's technology center in Livermore, California, plus the consolidation of certain support facilities in Europe. Asset impairment charges of $9.2 million result from the exiting of certain non-strategic product lines of $6.6 million and goodwill write-off of $2.6 million related to the closing of the Adept's Tucson, Arizona manufacturing facility in March 2002. The restructuring charge recorded during the three months ended March 30, 2002 relates primarily to the closing of the Tucson, Arizona manufacturing facility and reduction of manufacturing capacity in Europe. On March 30, 2002, the long term accrued restructuring charges relate to future rent commitments on non-cancelable lease agreements.

8. Redeemable Convertible Preferred Stock

On October 29, 2001, Adept completed a private placement with an accredited investor of $25.0 million in Adept convertible preferred stock consisting of 78,000 shares of Series A Convertible Preferred Stock (the "Series A Preferred") and 22,000 shares of Series B Convertible Preferred Stock (the "Series B Preferred"), collectively (the "Preferred Stock"). Both the Series A Preferred and the Series B Preferred are entitled to dividends at a rate of $15 per share. Dividends are cumulative and are payable only in the event of certain liquidity events as defined in the designation of preferences of the Preferred Stock. The Preferred Stock may be converted into shares of Adept's Common Stock at any time after the earlier of the first anniversary of the original issue date, the public announcement of a liquidity event by Adept, or an event of default, such as bankruptcy, or the reporting of a cash balance of less than $15.0 million at the end of any fiscal quarter through September 30, 2002. The Preferred Stock may be converted into shares of Adept's Common Stock at a rate of the initial purchase price divided by a denominator equal to the lesser of $8.18, or 75% of the 30 day average closing price of Adept common stock immediately preceding the conversion date ("Conversion Date Price"), provided, however, that in no event shall the denominator for the determination of the conversion rate with respect to the Series B Preferred be less than $4.09 and with respect to the Series A Preferred be less than $2.05. The Series A Preferred and the Series B Preferred shall not be convertible, in the aggregate, into 20% or more of the outstanding voting securities of Adept.

Adept has the right, but not the obligation at any time, to redeem shares of Series A Preferred which, if converted, would result in the issuance of shares of common stock equal to 20% or more of the outstanding voting stock of Adept at a price equal to the sum of the initial Preferred Stock Price, plus all cumulated and unpaid dividends. The redemption shall be paid in the form of a senior unsecured promissory note bearing interest at a rate of 6% per annum, maturing in two years. In addition, the holders of the Preferred Stock are entitled to receive, upon liquidation, the amount equal to $250.00 per share (adjusted for any stock splits or stock dividends) plus any unpaid dividends. The liquidation preference may be triggered by several events, including a change in control of the Adept's common stock. Since such a change may be outside of management's control and would trigger the redemption of the preferred stock, the Preferred Stock are

classified outside of shareholders' equity as redeemable convertible preferred stock in the accompanying consolidated balance sheet.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

In the three months ended March 30, 2002, Adept committed to the first of five quarterly expenditures of $1.0 million, which are being made pursuant to the joint development agreement with the accredited investor.

9. Income Taxes

Adept typically provides for income taxes during interim reporting periods based upon an estimate of its annual effective tax rate. In the third quarter of fiscal 2002, Adept recorded a tax benefit of $3.0 million attributable to a tax refund from recent tax law changes allowing for the carry back of its net operating loss from the year ended June 30, 2001. Additionally, Adept recorded a provision of $0.2 million related to the operations of its French subsidiary, resulting in a net benefit of $2.8 million for the nine months ended March 30, 2002.

10. Goodwill and Intangible Assets

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, Business Combinations ("SFAS 141"), and No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Adept has adopted SFAS 141, and does not expect this Statement to have a material effect on Adept's financial position or results of operations.

Under SFAS 142, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets with finite lives will be amortized over those useful lives. Adept has implemented SFAS 142 during the first quarter of fiscal 2002. SFAS 142 requires that the first of two impairment tests be completed within six months of adoption and any impairment loss recognized when adopting SFAS 142 is to be reflected as the cumulative effect of a change in accounting principle. Adept completed the measurement of the impairment loss in the third quarter of fiscal 2002 and has determined the amount of the impairment loss to be $10.0 million. This impairment is the result of adopting a fair value approach using the discounted cash flow method. The transitional impairment loss is a one-time non-cash charge and will not have an effect on Adept's businesses.

Prior to the adoption of SFAS 142, amortization expense was recorded for goodwill and other intangible assets. The following sets forth a reconciliation of net income and earnings per share information for the three and nine months ended March 30, 2002 and March 31, 2001 adjusted for the non-amortization provisions of SFAS 142.

<TABLE>
<CAPTION>

(in thousands)	Three months ended		Nine months ended	
	March 30, 2002	March 31, 2001	March 30, 2002	March 31, 2001
<S>	<C>	<C>	<C>	<C>
Net loss before cumulative effect of change in accounting principle	$ (9,949)	$(11,699)	$(37,919)	$(14,878)
Add back goodwill amortization	--	1,684	--	4,856
Adjusted net income	$ (9,949)	$(10,015)	$(37,919)	$(10,022)
Cumulative effect of change in accounting principle	(9,973)	--	(9,973)	--
Net loss after cumulative effect of change in accounting principle	$(19,922)	$(10,015)	$(47,892)	$(10,022)
Weighted average shares outstanding:				
Basic	13,829	11,795	13,648	11,147

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Diluted	13,829	11,795	13,648	11,147
Basic and diluted earnings per common share:				
Reported loss before cumulative effect of change in accounting principle	$ (0.72)	$ (0.99)	$ (2.78)	$ (1.33
Add back goodwill amortization	--	0.14	--	0.43
Adjusted loss before cumulative effect of change in accounting principle	$ (0.72)	$ (0.85)	$ (2.78)	$ (0.90
Cumulative effect of change in accounting .. principle	(0.72)	--	(0.73)	--
Adjusted net loss	$ (1.44)	$ (0.85)	$ (3.51)	$ (0.90)

</TABLE>

In accordance with SFAS 142, the following is a summary of the gross carrying amount and accumulated amortization, aggregate amortization expense, and estimated amortization expense for the next five succeeding fiscal years related to our intangible assets subject to amortization.

Acquired Intangible Assets
<TABLE>
<CAPTION>

(in thousands)	As of March 30, 2002		
Amortized intangible assets	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<S>	<C>	<C>	<C>
Developed technology	$ 1,751	$ (683)	$ 1,068
Non-compete agreements	380	(174)	206
Total	$ 2,131	$ (857)	$ 1,274

</TABLE>

The aggregate amortization expense for the nine months ended March 30, 2002 totaled $575,000 and the estimated amortization expense for the next five years are as follows:

(in thousands)	Amount
Estimated amortization expense	
For fourth fiscal quarter ended 2002	$ 150
For fiscal year ended 2003	565
For fiscal year ended 2004	487
For fiscal year ended 2005	72
For fiscal year ended 2006	--

Goodwill

Consistent with the guidance of SFAS 142, Adept has chosen to apply the income approach as its primary indicator of value. Adept has also utilized the market approach to confirm the reasonableness of the value indicated by the income approach. The specific methodologies employed included the discounted cash flow method and the comparable company approach. Based on the two-step impairment analysis, the fair values of the goodwill of the Nanomotion and HexaVision reporting units, both of which fall in the AMH segment, are less than their respective carrying values. Accordingly, there is evidence of goodwill impairment in both reporting units. Additionally, the closing of the Tucson, Arizona manufacturing facility resulted in a goodwill write-off of $2.5 million for Pensar. The changes in the carrying amount of goodwill for the nine months ended March 30, 2002 are as follows:

<TABLE>
<CAPTION>

(in thousands)	Nanomotion	Hexavision	Pensar	CHAD	Totals

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

<S>	<C>	<C>	<C>	<C>	<C>
Balance at June 30, 2001	$ 8,542	$ 3,599	$ 2,455	$ --	$ 14,596
Changes in goodwill	125	1,854	--	9,080	11,059
Impairment losses	(8,667)	(1,306)	--	--	(9,973)
Goodwill write-off related to sale of business unit	--	--	(2,455)	--	(2,455)
Balance at March 30, 2002	$ --	$ (4,147)	$ --	9,080	$ 13,227

</TABLE>

11. Impact of Recently Issued Accounting Standards

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which is effective for fiscal periods beginning after December 15, 2001, or July 1, 2002 for Adept. SFAS 144 provides a single accounting model for, and supersedes previous guidance on, accounting and reporting for the impairment/disposal of long-lived assets. SFAS 144 sets new criteria for the classification of an asset held-for-sale and changes the reporting of discontinued operations. Adept does not believe that the adoption of SFAS 144 will have a significant impact on its financial statements.

12. Segment Information

Adept adopted Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosures about Segments of an Enterprise and Related Information," in 1999. SFAS 131 establishes standards for reporting information about operating segments and related disclosures about products, geographic information and major customers. Adept has three reportable business segments, the Assembly and Material Handling ("AMH") operations segment, the Semiconductor operations segment and the SILMA Software operations segment.

The AMH operations segment provides intelligent automation software and hardware products for assembly, material handling and packaging applications.

The Semiconductor operations segment provides semiconductor contamination control products, such as, standard and customized products for contamination control (mini and micro environments), Standard Mechanical Interfaces ("SMIF") wafer integration and front-end wafer handling solutions for semiconductor OEMs. In addition, the segment provides end users guidance and inspection vision products and robots to end users.

The SILMA Software ("SILMA") operations segment provides 3-D graphical simulation tools for assembly process design, simulation and analysis, and the core software that supports that process.

The reportable segments are each managed separately because they manufacture and distribute distinct products with different production processes.

Adept evaluates performance and allocates resources based on segment revenues and segment operating (loss) income. Segment operating (loss) income comprises income before unallocated research and development expenses, unallocated selling, general and administrative expenses, amortization of intangibles, interest income, interest and other expenses and income taxes.

Management does not fully allocate research and development expenses and selling, general and administrative expenses when making capital spending decisions, expense funding decisions or assessing segment performance. There were no intersegment sales or transfers between segments.

Segment information for total assets and capital expenditures is not presented as such information is not used in measuring segment performance or allocating resources among segments.
<TABLE>
<CAPTION>

	Three months ended	Nine months ended

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(in thousands)	March 30, 2002	March 31, 2001	March 30, 2002	March 31, 2001
Revenue:				
Assembly and Material Handling Operations	$ 12,633	$ 18,923	$ 36,008	$ 62,768
Semiconductor operations	502	3,454	2,391	12,396
SILMA Software operations	1,453	1,536	4,005	4,404
Total revenue	$ 14,588	$ 23,913	$ 42,404	$ 79,568
Operating income (loss):				
Assembly and Material Handling Operations	$ 744	$ 1,887	$ 2,281	$ 11,919
Semiconductor operations	(115)	305	(2,237)	2,419
SILMA Software operations	(904)	(129)	(507)	(434)
Segment profit	(275)	2,063	(463)	13,904
Unallocated research, development and engineering and selling, general and administrative	(7,193)	(7,022)	(22,351)	(19,354)
Amortization of goodwill and other Intangibles	(215)	(2,077)	(575)	(5,020)
Restructuring charges	(5,324)	--	(17,660)	--
Cumulative effect of change in accounting principle	(9,973)	--	(9,973)	--
Interest income	124	203	346	466
Interest expense	(1)	(38)	(4)	(46)
Loss before income taxes	$ (22,857)	$ (6,871)	$ (50,680)	$ (10,050)

</TABLE>

13. Comprehensive Loss

For the three and nine months ended March 30, 2002 and March 31, 2001, there were no significant differences between Adept's comprehensive loss and its net loss.

14. Subsequent Event

On May 9, 2002, Adept announced its completion of the sale of certain assets related to the Cimstation Inspection portion of its Silma business to a wholly owned subsidiary of Metrologic Group SA for the

purchase price of $2.0 million cash, payable at closing, and additional contingent consideration based upon future events and results of operations over the next 12 months. Adept has retained, and will continue to develop, market and utilize the products and intellectual property of the Silma business that apply to precision parts assembly and facilitate designing for automation, Adept Digital Workcell and Production Pilot.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to,

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

statements about:

- marketing and commercialization of our products under development;
- our estimates regarding our capital requirements and our needs for additional financing;
- plans for future products and services and for enhancements of existing products and services;
- our ability to attract customers and market our products;
- our intellectual property;
- our ability to establish relationships with suppliers, systems integrators and OEMs for the supply and distribution of our products;
- plans for future acquisitions and for the integration of recent acquisitions; and
- sources of revenues and anticipated revenues, including the contribution from the growth of new products and markets.

In some cases, forward-looking statements can be identified by terms such as "may," "intend," "might," "will," "should," "could," "would," "expect," "believe," "estimate," "predict," "potential," or the negative of these terms, and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions subject to risks and uncertainties. Given these uncertainties, undue reliance should not be placed on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report.

OVERVIEW

We provide intelligent production automation solutions to our customers in many industries including the semiconductor, wireless communications, photonics, food, automotive, life sciences and electronics industries. We utilize our comprehensive portfolio of high precision mechanical components and application development software to deliver automation solutions that meet our customer's increasingly complex manufacturing requirements. We offer our customers a comprehensive and tailored automation solution that we call Rapid Deployment Automation, or RDA, that reduces the time and cost to design, engineer and launch products into high-volume production. We market and sell our products worldwide through more than 300 system integrators, our direct sales force and OEMs.

This discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and cash flow during the quarter ended March 30, 2002. Unless otherwise indicated, references to any quarter in this Management's Discussion and Analysis of Financial Condition and Results of Operations refer to our fiscal quarter ended March 30, 2002. This discussion should be read with the consolidated financial statements and financial statement footnotes included in this Quarterly Report on Form 10-Q.

Critical Accounting Policies

In response to the SEC's Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," we have identified the accounting principles which we believe are most critical to our reported financial status by considering accounting policies that involve the most complex or subjective decisions or assessments. These accounting policies described below include:

- use of estimates;
- revenue recognition;
- allowance for doubtful accounts;
- inventories;
- warranty reserve;
- goodwill and other intangible assets;
- investments; and
- deferred tax valuation allowance.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Use of Estimates. Management's discussion and analysis of Adept's financial condition and results of operations are based upon Adept's consolidated financial statements which have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates, including those related to fixed price contracts, product returns, warranty obligations, bad debt, inventories, cancellation cost associated with long term commitments, investments, intangible assets, income taxes, restructuring, service contracts and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making estimates and judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on our consolidated financial statements and it is possible that such changes could occur in the near term.

Revenue Recognition. We recognize product revenue when persuasive evidence of an arrangement exists, delivery has occurred and/or services have been rendered, the price is fixed or determinable, collectibility is reasonably assured, legal title and economic risk is transferred to the customer, and when an economic exchange has taken place. If a significant portion of the price is due after our normal payment terms, which are 30 to 90 days from the invoice date, we account for the price as not being fixed and determinable. In these cases, we recognize the revenue as the invoice becomes due. In addition, any product shipped with a right of return for cash will be deferred until such time that the right of return has expired.

We recognize software revenue, primarily related to its simulation software products, in accordance with the American Institute of Certified Public Accountants' Statement of Position 97-2 ("SOP 97-2") on Software Revenue Recognition. License revenue is recognized on shipment of the product provided that no significant vendor or post-contract support obligations remain and that collection of the resulting receivable is deemed probable by management. Insignificant vendor and post-contract support obligations are accrued upon shipment. For software that is installed and integrated by the customer, revenue is recognized upon shipment assuming functionality has already been proven in prior sales and there are no customizations that would cause a substantial acceptance risk. For software that is installed and integrated by Adept, revenue is recognized upon customer signoff of a Final Product Acceptance (FPA) form.

Service revenue includes training, consulting and customer support. Revenues from training and consulting are recognized at the time the service is performed and the customer has accepted the work.

For long-term, fixed contracts, we recognize revenue and profit as work progresses using the percentage-of-completion method, which relies on estimates of total expected contract revenue and costs. We follow this method since reasonably dependable estimates of the revenue and costs applicable to various stages of a contract can be made. Recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to income in the period in which the facts that give rise to the revision become known.

Deferred revenue primarily relates to software support contracts sold. The term of the software support contract is generally one year, and Adept recognizes the associated revenue on a pro rata basis over the life of the contract, or if there are milestone payments, upon milestone achievement.

Allowance for Doubtful Accounts. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We assess the customer's ability to pay based on a number of factors, including past transaction history with the customer and credit worthiness of the customer. Management specifically analyzes accounts receivable and historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowances for doubtful accounts. We do not

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

generally request collateral for our customers. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventories. We perform a detailed assessment of inventory at each balance sheet date, which includes, among other factors, a review of demand requirements, product lifecycle and product development plans, and quality issues. We write down inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of the inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Warranty Reserve. We provide for the estimated cost of product warranties at the time revenue is recognized. While we engage in extensive product quality programs and processes, including activity monitoring and evaluating the quality of our components suppliers, our warranty obligation is affected by product failure rates, material usage and service labor and delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage, service labor or delivery costs differ from our estimates, revisions to the estimated warranty liability would be required.

Goodwill and Other Intangible Assets. The excess of the purchase price over the fair value of identifiable net assets of acquired companies is allocated to goodwill and amortized over three to four years. Other intangible assets primarily represent developed technology and covenants not to compete. The recoverability of goodwill and other intangible assets has been evaluated to determine whether current events or circumstances warrant adjustments to the carrying value.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). Under SFAS 142, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets with finite lives will be amortized over those useful lives. We implemented SFAS 142 during the first quarter of fiscal 2002. SFAS 142 requires that the first of two impairment tests be completed within six months of adoption and any impairment loss recognized when adopting SFAS 142 is to be reflected as the cumulative effect of a change in accounting principle. We completed the measurement of the impairment loss in the third quarter of fiscal 2002 and have determined the amount of the impairment loss to be $10.0 million. We will update our impairment as necessary during the quarter ended June 30, 2002.

Investments. We hold equity securities in companies having operations or technology in areas within our strategic focus. We generally maintain a less than 20% ownership in these investees and account for the investments on a cost basis. We record an investment impairment charge when we believe an investment has

experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in an inability to recover the value of the investments.

Deferred Tax Valuation Allowance. We record a valuation allowance to reduce deferred tax assets to the amount that is most likely to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset to increase the income in the period such determination would be made. Likewise, should we have a net deferred tax asset and determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax assets would be charged to income in the period that such determination was made.

Results of Operations

Three and Nine Month Periods Ended March 30, 2002 and March 31, 2001.

Net revenues. Our net revenues decreased by 39.0% to $14.6 million for the three months ended March 30, 2002 from $23.9 million for the three months ended March

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

31, 2001. Our net revenues decreased by 46.7% to $42.4 million for the nine months ended March 30, 2002 from $79.6 million for the nine months ended March 31, 2001. The overall market environment continues to be challenging and as a result our revenues are down from the same period a year ago. The decrease was primarily in the telecommunications, semiconductor and fiber optics markets.

Our domestic sales totaled $5.5 million and $18.0 million for the three and nine months ended March 30, 2002, compared with $19.2 million and $35.3 million for the three and nine months ended March 31, 2001, a decrease of 66.1% and 64.9%, respectively. The decline in domestic sales was attributable to an overall decrease across all of the markets we serve. Domestic revenues represented 38% of total revenues compared to historical levels of 50% to 60%.

Our international sales totaled $9.1 million and $15.4 million for the three and nine months ended March 30, 2002, compared with $8.8 million and $20.4 million for the three and nine months ended March 31, 2001, a decrease of 10.2% and 24.5%, respectively. Generally, sales to the European markets have not decreased as broadly as the domestic markets; however, we have experienced declining sales to the semiconductor and OEM markets as well as pricing pressures as competitors seek to maintain market share. International sales represented 62% of total revenue for the quarter ended March 30, 2002.

Gross margin. Gross margin as a percentage of net revenue was 32.4% for the three months ended March 30, 2002 compared to 39.8% for the three months ended March 31, 2001. Gross margin as a percentage of net revenue was 34.5% for the nine months ended March 30, 2002 compared to 44.1% for the nine months ended March 31, 2001. We continued to experience excess fixed capacity and lower margins from lower volumes. These factors combined to produce an unfavorable manufacturing variance resulting in lower margins as compared to the same quarter a year ago. In addition, during the quarter ended March 30, 2002, we experienced an uncharacteristic shift in product revenues from North America to Europe where we tend to have slightly lower margins.

Operating Expenses. Because of the rapid decline in purchases by the markets we serve, we have reduced our operating cost structure. As a result, our research and development and selling, general and administrative expenses for the quarter ended March 30, 2002 are 15.7% lower than the quarter ended March 31, 2001. Total operating expenses for the quarter were $17.7 million as compared to $16.6 million in the same quarter ended March 31, 2001. The March 30, 2002 operating expenses include the first of five quarterly expenditures of $1.0 million, which were made pursuant to the joint development agreement with JDS Uniphase Corporation, as well as $5.3 million of non-cash restructuring charges. Without the $1.0 million commitment to JDS Uniphase, research and development and selling, general and administrative expenses are 22.6% lower than the

same quarter a year ago. However, we have retained enough operational capacity to take advantage of any upward momentum in the markets we serve.

Research, Development and Engineering Expenses. Research, development and engineering expenses declined on an absolute basis, but increased as a percentage of net revenues. Research, development and engineering expenses decreased by 3.0% to $5.0 million, or 34.3% of net revenues, for the three months ended March 30, 2002 from $5.2 million, or 21.7% of net revenues, for the three months ended March 31, 2001. R&D increased by 2.5% to $15.4 million, or 36.4% of net revenues, for the nine months ended March 30, 2002 from $15.0 million, or 18.9% of net revenues, for the nine months ended March 31, 2001. The expense for the quarter ended March 30, 2002 includes the first of five quarterly expenditures of $1.0 million, which are part of joint development commitments with JDS Uniphase.

Selling, General and Administrative Expenses. Selling, general and administrative expenses declined on an absolute basis, but increased as a percentage of net revenues during the three and nine months ended March 30, 2002. Selling, general and administrative expenses decreased 22.6% to $7.2 million, or 49.3% of net revenues, for the three months ended March 30, 2002, as compared with $9.3 million, or 38.8% of net revenues, for the three months ended March 31, 2001. Selling, general and administrative expenses decreased 8.5% to $22.0 million, or 52.0% of net revenues, for the nine months ended March 30, 2002, as compared with $25.5 million, or 32.0% of net revenues, for the nine months ended March 31, 2001. The decrease in the nine months ended March 30, 2002 as compared to the same period a year ago, was primarily due to cost reductions implemented during the first six months of fiscal 2002. These

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

reductions included significant reductions in headcount, consolidation of facilities, elimination of some excess capacity and the sale of non-strategic assets.

Restructuring Charge. We recorded $5.3 million of non-cash restructuring charges for the three months ended March 30, 2002. The non-cash restructuring charges relate to excess capacity of manufacturing facilities including $3.0 million for U.S. operations and $2.3 million for Europe. The charges are part of management's continuing efforts to align capacity needs with the company's business outlook. For the nine months ended March 30, 2002 we recorded restructuring charges of $17.7 million. We completed our restructuring as planned during the third quarter of fiscal 2002.

Amortization of Goodwill and Other Intangibles. We incurred non-cash expenses of $0.2 million and $0.6 million in amortization of other intangibles for the three and nine months ended March 30, 2002, respectively, as compared to non-cash expenses of $2.1 million and $5.0 million due to the amortization of goodwill and other intangibles relating to the acquisitions of HexaVision Technologies, Nanomotion and Pensar-Tucson for the three and nine months ended March 31, 2001, respectively. Effective July 1, 2001, we no longer amortize goodwill in accordance with Statement of Financial Accounting Standards No. 142. Additionally, the acquisition of CHAD on October 9, 2001 was completed after our adoption of SFAS 142. As such, the goodwill recorded for the acquisition of CHAD is not amortized, but will be subject to annual impairment tests as required by SFAS 142.

Interest Income, Net. Interest income, net for the three and nine months ended March 30, 2002 was $124,000 and $346,000, respectively, as compared to $165,000 and $420,000 for the three and nine months ended March 31, 2001, respectively. The decrease was due to a combination of lower interest rates and a lower average cash balance attributable to our decreased revenues.

Provision for Income Taxes. Our effective tax rate was (0.13%) for the three months ended March 30, 2002 and (0.06%) for the nine months ended March 30, 2002. For the three months ended March 30, 2002, the tax benefit recorded was attributable to a $3.0 million tax refund resulting from the carry back of our net operating loss from the year ended June 30, 2001. This refund opportunity arose as a result of a recent change in applicable law enacted on March 9, 2002, which extended the carry back period from three to five tax years. We expect to be in a loss position for purposes of U.S. federal and state income taxes for the tax year ending June 30, 2002. Additionally, we recorded a foreign tax provision for our French subsidiary due to our estimate of their taxable income position. For the three months

ended March 30, 2002, the effective tax rate without regard to the tax benefit was based on the estimates of the annual effective tax rate. For the three months ended March 31, 2001, we recorded a provision for income taxes of $4.4 million to increase our valuation allowance to fully offset the net deferred tax assets. As a result, the tax provision for the nine months ended March 31, 2001 totaled $4.8 million.

Derivative Financial Instruments. Our product sales are predominantly denominated in U.S. dollars. However, certain international operating expenses are predominately paid in their respective local currency. During 2000, we began a foreign currency hedging program to hedge our exposure to foreign currency exchange risk on local international operational expenses and revenues. Realized and unrealized gains and losses on forward currency contracts that are effective as hedges of assets and liabilities are recognized in income. We recognized a gain of $14,000 and a loss of $466,000 for the three and nine months ended March 30, 2002, respectively, compared to losses of $457,000 and $14,000 for the three and nine months ended March 31, 2001, respectively.

Impact of Inflation

The effect of inflation on our business and financial position has not been significant to date.

Liquidity and Capital Resources

As of March 30, 2002, we had working capital of approximately $32.0 million, including $22.6 million in cash and cash equivalents.

Cash and cash equivalents decreased $2.2 million for the nine months ended March 30, 2002. Net cash used in operating activities of $16.3 million was primarily

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

attributable to the net loss adjusted by goodwill impairment charges, restructuring charges and decreased accounts receivable. A goodwill impairment charge of $10.0 million was assessed in accordance with the adoption of SFAS 142. The restructuring charges included $4.3 million in severance and lease termination accruals and $9.2 million in asset impairment charges. Additionally, increased collections resulted in a decrease of accounts receivable of $8.9 million, which was partially offset by decreased accounts payable of $3.1 million, decrease in other accrued liabilities of $2.0 million and decrease in other current assets of $1.8 million. Cash used in investing activities during the quarter was $13.4 million, of which $9.9 million was attributable to the purchase price of CHAD Industries. Additionally, an increase in purchases of short-term investments of $20.9 million was partially offset by sales of short-term investments of $17.6 million. Net cash provided by financing activities of $27.5 million is attributable to $25.0 million in proceeds received from the issuance of redeemable preferred stock (See Note 8 to condensed consolidated financial statements) and $2.5 million in proceeds from common stock issued related to the acquisition of CHAD Industries and from our employee stock incentive plan.

We currently anticipate net capital expenditures of approximately $100,000 for the remainder of fiscal 2002.

On April 9, 2001, we entered into agreements establishing a revolving line of credit, consisting of two facilities, with the CIT Group/Business Credit, Inc. to borrow up to the lesser of $25.0 million or the sum of 85% of our eligible domestic accounts receivables, plus 90% of eligible foreign accounts receivables, less a dilution reserve equivalent to one percent of eligible domestic and foreign accounts receivables for every one percentage point in excess of a standard five percent dilution rate. The agreements have an initial term of three years with automatic renewals on identical terms thereafter unless terminated by either party within 60 days of the end of then current term. We are required to meet certain restrictive covenants, which require, among other things, us to maintain positive earnings before income taxes, depreciation and amortization on a trailing four-quarter basis. However, this financial covenant applies only if Adept's unrestricted cash and cash equivalents plus excess revolving loan availability under the revolving line of credit falls below $7.5 million at the end of any fiscal quarter. To date, we have had no outstanding borrowings under this revolving line of credit.

On October 29, 2001, we completed a private placement with an accredited investor of $25.0 million in our convertible preferred stock consisting of 78,000 shares of Series A Convertible Preferred Stock (the "Series A Preferred") and 22,000 shares of Series B Convertible Preferred Stock (the "Series B Preferred"), collectively

(the "Preferred Stock"). Both the Series A Preferred and the Series B Preferred are entitled to dividends at a rate of $15 per share. Dividends are cumulative and are payable only in the event of certain liquidity events as defined in the designation of preferences of the Preferred Stock. The Preferred Stock may be converted into shares of our Common Stock at any time after the earlier of the first anniversary of the original issue date, the public announcement of a liquidity event by Adept, or an event of default, such as bankruptcy, or the reporting of a cash balance of less than $15.0 million at the end of any fiscal quarter through September 30, 2002. The Preferred Stock may be converted into shares of our Common Stock at a rate of the initial purchase price divided by a denominator equal to the lesser of $8.18, or 75% of the 30 day average closing price of our Common Stock immediately preceding the conversion date ("Conversion Date Price"), provided, however, that in no event shall the denominator for the determination of the conversion rate with respect to the Series B Preferred be less than $4.09 and with respect to the Series A Preferred be less than $2.05. The Preferred Stock shall not be convertible, in the aggregate, into 20% or more of our outstanding voting securities.

We have the right, but not the obligation at any time, to redeem shares of the Series A Preferred which, if converted, would result in the issuance of shares of common stock equal to 20% or more of the outstanding voting stock of Adept at a price equal to the sum of the initial Preferred Stock Price, plus all cumulated and unpaid dividends. The redemption shall be paid in the form of a senior unsecured promissory note bearing interest at a rate of 6% per annum, maturing in two years. In addition, the holders of the Preferred Stock are entitled to receive, upon liquidation, the amount equal to $250.00 per share (adjusted for any stock splits or stock dividends) plus any unpaid dividends. The liquidation preference may be triggered by several events, including a

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

change in control of our common stock. Since such a change may be outside of management's control and would trigger the redemption of the preferred stock, the Preferred Stock are classified outside of shareholders' equity as redeemable convertible preferred stock in the accompanying consolidated balance sheet

In the three months ended March 30, 2002, Adept committed to the first of five quarterly expenditures of $1.0 million, which are made pursuant to the joint development agreement with the accredited investor.

Acquisitions

On October 9, 2001, we completed the acquisition of CHAD Industries, Inc. (CHAD), a design and manufacturing company specializing in precision assembly automation based in Orange, California. The acquisition of CHAD is our latest step in our photonics automation strategy. We are in the process of leveraging CHAD's expertise in small part feeding, precision tooling design, and the handling of odd-form components to add capacity in phonics automation. In addition, we plan to support and grow CHAD's line of odd-form component assembly machines. We acquired 100 percent of the outstanding common shares of CHAD. The results of CHAD's operations have been included in our consolidated financial statements since October 9, 2001.

Under terms of the acquisition agreement, the purchase price of $10.1 million includes an aggregate of $8.4 million in cash, $0.2 million in transaction costs and 200,000 shares of Adept common stock valued at $1.6 million. The value of the 200,000 shares issued was determined based on the average closing price of Adept stock over the period of 5 trading days prior to June 27, 2001, the date of entry into the CHAD acquisition agreement. Of the $8.4 million in cash, $4.2 million was paid as of the closing date on October 9, 2001, and $2.6 million and $1.6 million are to be paid on October 9, 2002, and 2003, respectively. These future payments are not contingent upon the fulfillment of any employment or other contingencies. In addition, we agreed to make payments and potential stock issuances over a period of three years after the closing date, totaling approximately $0.7 million to certain specified employees of CHAD which are contingent on the continued employment of such employees. As such, those amounts have been appropriately excluded from the purchase price and will be expensed as paid. This acquisition was accounted for under the purchase method of accounting.

New Accounting Pronouncements.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting

standards No. 141, Business Combinations ("SFAS 141"), and No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. We have adopted SFAS 141, and this Statement did not have a material effect on our financial position or results of operations.

Under SFAS 142, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets with finite lives will be amortized over those useful lives. We have implemented SFAS 142 during the first quarter of fiscal 2002. Goodwill recorded from our acquisition of CHAD (see Note 3) will not be amortized, in accordance with Statement 142. We completed the measurement of the impairment loss in the third quarter of 2002 and have determined the amount of the impairment loss to be $10.0 million

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which is effective for fiscal periods beginning after December 15, 2001, or July 1, 2002 for Adept. SFAS 144 provides a single accounting model for, and supersedes previous guidance on accounting and reporting for the impairment/disposal of long-lived assets. SFAS 144 sets new criteria for the classification of an asset held-for-sale and changes the reporting of discontinued operations. We do not believe that the adoption of SFAS 144 will have a significant impact on our financial statements.

FACTORS AFFECTING FUTURE OPERATING RESULTS

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Risks Related to Our Business

You should not rely on our past results to predict our future performance because our operating results fluctuate due to factors which are difficult to forecast, and which can be extremely volatile.

Our past revenues and other operating results may not be accurate indicators of our future performance. Our operating results have been subject to significant fluctuations in the past, and we expect this to continue in the future. The factors that may contribute to these fluctuations include:

- fluctuations in aggregate capital spending, cyclicality and other economic conditions domestically and internationally in one or more industries in which we sell our products;

- changes in demand in the semiconductor and electronics industries;

- new product introductions by us or by our competitors;

- changes in product mix and pricing by us, our suppliers or our competitors;

- availability of components and raw materials for our products;

- our failure to manufacture a sufficient volume of products in a timely and cost-effective manner;

- our failure to anticipate the changing product requirements of our customers;

- a change in market acceptance of our products or a shift in demand for our products;

- changes in the mix of sales by distribution channels;

- exchange rate fluctuations;

- extraordinary events such as litigation or acquisitions; and

- slower than expected growth in the photonics industry.

Our gross margins may vary greatly depending on the mix of sales of lower margin hardware products, particularly mechanical subsystems purchased from third party vendors, and higher margin software products.

Our operating results may also be affected by general economic and other conditions affecting the timing of customer orders and capital spending. For example, our operations during the first three quarters of fiscal 1999, the first quarter of fiscal 2000, all of fiscal 2001, and the first three quarters of fiscal 2002 were adversely affected by a continuing downturn in hardware purchases by customers in the electronics industry, particularly disk-drive manufacturers and to a lesser extent communications manufacturers. In addition, we have experienced reduced demand during the last four quarters in our base industries, especially the semiconductor industry, as OEMs reduced inventories as they adjusted their businesses from a period of high growth to moderate growth. We cannot estimate when or if a sustained revival in these key hardware markets and the semiconductor industry will occur.

We generally recognize product revenue upon shipment or, for certain international sales, upon receipt by the customer. As a result, our net revenues and results of operations for a fiscal period will be affected by the timing of orders received and orders shipped during the period. A delay in shipments near the end of a fiscal period, for example, due to product development delays or delays in obtaining materials may cause sales to fall below expectations and harm our operating results for the period.

In addition, our continued investments in research and development, capital equipment and ongoing customer service and support capabilities result in significant fixed costs that we cannot reduce rapidly. As a result, if our sales for a particular fiscal period are below expected levels, our operating results for the period could be materially adversely affected.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

In the event that in some future fiscal quarter our net revenues or operating results fall below the expectations of public market analysts and investors, the price of our common stock may fall. We may not be able to increase or sustain our profitability on a quarterly or annual basis in the future.

Sales of our products depend on the capital spending patterns of our customers, which tend to be cyclical; we are currently experiencing reduced demand in the electronics and semiconductor industries, which may adversely affect our revenues.

Intelligent automation systems using our products can range in price from $75,000 to several million dollars. Accordingly, our success is directly dependent upon the capital expenditure budgets of our customers. Our future operations may be subject to substantial fluctuations as a consequence of domestic and foreign economic conditions, industry patterns and other factors affecting capital spending. Although the majority of our international customers are not in the Asia-Pacific region, we believe that any instability in the Asia-Pacific economies could also have a material adverse effect on the results of our operations as a result of a reduction in sales by our customers to those markets. Domestic or international recessions or a downturn in one or more of our major markets, such as the electronics, wireless communications, semiconductor, appliances, pharmaceutical, food processing or automotive components industries, and resulting cutbacks in capital spending would have a direct, negative impact on our business. We are currently experiencing reduced demand in most of the industries we serve, especially in the electronics and semiconductor industries. We expect this reduced demand to adversely affect our revenues for fiscal 2002. During the third and fourth quarter of fiscal 2001, and the first three quarters of fiscal 2002, Adept received fewer orders than expected, experienced delivery schedule postponements on several existing orders and had some order cancellations. Such changes in orders may adversely affect revenue for future quarters.

We sell some of our products to the semiconductor industry, which is subject to sudden, extreme, cyclical variations in product supply and demand. The timing, length and severity of these cycles are difficult to

predict. In some cases, these cycles have lasted more than a year. Semiconductor manufacturers may contribute to these cycles by misinterpreting the conditions in the industry and over- or under-investing in semiconductor manufacturing capacity and equipment. We may not be able to respond effectively to these industry cycles.

Downturns in the semiconductor industry often occur in connection with, or anticipation of, maturing product cycles for both semiconductor companies and their customers and declines in general economic conditions. Industry downturns have been characterized by reduced demand for semiconductor devices and equipment, production over-capacity and accelerated decline in average selling prices. During a period of declining demand, we must be able to quickly and effectively reduce expenses and motivate and retain key employees. Our ability to reduce expenses in response to any downturn in the semiconductor industry is limited by our need for continued investment in engineering and research and development and extensive ongoing customer service and support requirements. The long lead time for production and delivery of some of our products creates a risk that we may incur expenditures or purchase inventories for products which we cannot sell. A downturn in the semiconductor industry could therefore harm our revenues and gross margin if demand drops or average selling prices decline.

Industry upturns have been characterized by abrupt increases in demand for semiconductor devices and equipment and production under-capacity. During a period of increasing demand and rapid growth, we must be able to quickly increase manufacturing capacity to meet customer demand and hire and assimilate a sufficient number of qualified personnel. Our inability to ramp-up in times of increased demand could harm our reputation and cause some of our existing or potential customers to place orders with our competitors.

Many of the key components and materials of our products come from single source suppliers; their procurement requires lengthy lead times or supplies of such components are limited.

We obtain many key components and materials and some significant mechanical subsystems from sole or single source suppliers with whom we have no guaranteed supply arrangements. In addition, some of our sole or single sourced components

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

and mechanical subsystems incorporated into our products have long procurement lead times. Our reliance on sole or single source suppliers involves certain significant risks including:

- loss of control over the manufacturing process;
- potential absence of adequate supplier capacity;
- potential inability to obtain an adequate supply of required components, materials or mechanical subsystems; and
- reduced control over manufacturing yields, costs, timely delivery, reliability and quality of components, materials and mechanical subsystems.

We depend on Sanmina Corporation for the supply of our circuit boards, NSK Corporation for the supply of our linear modules, which are mechanical devices powered by an electric motor that move in a straight line, and which can be combined as building blocks to form simple robotic systems, Yaskawa Electric Corp. for the supply of our 6-axis robots, Samsung Electronics Co., Ltd. for the supply of semiconductor robots, Hirata Corporation for the supply of our Adept Cobra 600 robot mechanism and Adept Cobra 800 robot mechanisms and we are transitioning from Imaging Technology Incorporated to Matrox Electronic Systems Ltd. for the supply of our computer vision processors, which are used to digitize images from a camera and perform measurements and analysis. If any one of these significant sole or single source supplier were unable or unwilling to manufacture the components, materials or mechanical subsystems we need in the volumes we require, we would have to identify and qualify acceptable replacements. The process of qualifying suppliers may be lengthy, and additional sources may not be available to us on a timely basis, on acceptable terms or at all. If supplies of these items were not available from our existing suppliers and a relationship with an

alternative vendor could not be developed in a timely manner, shipments of our products could be interrupted and reengineering of these products could be required. In the past, we have experienced quality control or specification problems with certain key components provided by sole source suppliers, and have had to design around the particular flawed item. We have also experienced delays in filling customer orders due to the failure of certain suppliers to meet our volume and schedule requirements. Some of our suppliers have also ceased manufacturing components that we require for our products, and we have been required to purchase sufficient supplies for the estimated life of its product line. Problems of this nature with our suppliers may occur in the future.

In addition, some of the components that we use in our products are in short supply. Many of our products have longer lives than those of the components and materials included in our products. As a result, supplies of components for our products may not be available throughout the life span of our products.

Disruption or termination of our supply sources could require us to seek alternative sources of supply, and could delay our product shipments and damage relationships with current and prospective customers, any of which could have a material adverse effect on our business. If we incorrectly forecast product mix for a particular period and we are unable to obtain sufficient supplies of any components or mechanical subsystems on a timely basis due to long procurement lead times, our business, financial condition and results of operations could be substantially impaired. Moreover, if demand for a product for which we have purchased a substantial amount of components fails to meet our expectations, we would be required to write off the excess inventory. A prolonged inability to obtain adequate timely deliveries of key components could have a material adverse effect on our business, financial condition and results of operations.

Because our product sales are seasonal, we may not be able to maintain a steady revenue stream.

Our product sales are seasonal. We have historically had higher bookings for our products during the June quarter of each fiscal year and lower bookings during the September quarter of each fiscal year, due primarily to the slowdown in sales to European markets and summer vacations. In the event bookings for our products in the June fiscal quarter are lower than anticipated and our backlog at the end of the June fiscal quarter is insufficient to compensate for lower bookings in the September fiscal quarter, our results of operations for the

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

September fiscal quarter and future quarters will suffer.

A significant percentage of our product shipments occur in the last month of each fiscal quarter. Historically, this has been due in part, at times, to our inability to forecast the level of demand for our products or of the product mix for a particular fiscal quarter. To address this problem we periodically stock inventory levels of completed robots, machine controllers and certain strategic components. If shipments of our products fail to meet forecasted levels, the increased inventory levels and increased operating expenses in anticipation of sales that do not materialize could adversely affect our business.

Orders constituting our backlog are subject to changes in delivery schedules and customer cancellations resulting in lower than expected revenues.

Backlog should not be relied on as a measure of anticipated activity or future revenues, because the orders constituting our backlog are subject to changes in delivery schedules and in certain instances are subject to cancellation without significant penalty to the customer. We have in the past experienced changes in delivery schedules and customer cancellations that resulted in our revenues in a given quarter being materially less than would have been anticipated based on backlog at the beginning of the quarter. We experienced greater customer delays and cancellations in the second half of fiscal 2001 and the first three quarters of fiscal 2002, compared to prior periods, and this increase may continue. Similar delivery schedule changes and order cancellations may adversely affect our operating results in the future.

Because we do not have long-term contracts with our customers, they may cease purchasing our products at any time.

We generally do not have long-term contracts with our customers and existing contracts may be cancelled. As a result, our agreements with our customers do not provide any assurance of future sales. Accordingly our customers are not required to make minimum purchases and may cease purchasing our products at any time without penalty. Because our customers are free to purchase products from our competitors, we are exposed to competitive price pressure on each order. Any reductions, cancellations or deferrals in customer orders could have a negative impact on our financial condition and results of operations.

We are expanding development of intelligent automation solutions for the photonics industry, and our entry into this industry will require us to develop significant new capabilities and may not be successful.

We are expanding development of our intelligent automation solutions targeted at the photonics industry. We expect to devote significant financial, engineering and management resources to expand our development and marketing of these solutions. Our success in the photonics industry depends upon our ability to, among other things:

- accurately determine the features and functionality that our photonics customers require or prefer;

- successfully design and implement intelligent automation solutions that include these features and functionality;

- enter into agreements with system integrators, manufacturers and distributors; and

- achieve market acceptance for our photonics solutions.

Our photonics solutions may not achieve broad market acceptance for a variety of reasons including:

- photonics companies may continue their current production methods and may not adopt our intelligent automation solutions;

- photonics companies may determine that the costs and resources required to switch to our intelligent automation solutions are unacceptable to them;

- system integrators, manufacturers, and OEMs may not enter into agreements with us; and

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

- competition from traditional, well-established photonics manufacturing methods.

We have limited experience in developing and marketing products for the photonics industry. If we do not successfully develop and achieve market acceptance of products for the photonics industry, our ability to increase our revenue may be limited and our business and our results of operations will suffer.

We charge a fixed price for certain products which may make us vulnerable to cost overruns.

Our operating results fluctuate when our gross margins vary. Our gross margins vary for a number of reasons, including:

- the mix of products we sell;
- the average selling prices of products we sell;
- the costs to manufacture, market, service and support our new products and enhancements;
- the costs to customize our systems; and
- our efforts to enter new markets.

We charge a fixed price for certain of our products, including the products that we added as a result of our acquisition of Pensar. If the costs we incur in completing a customer order for these products exceed our expectations, we generally cannot pass those costs on to our customer.

We have significant fixed costs which are not easily reduced during a downturn.

While we have reduced our absolute amount of expenses in several areas of our operations, we continue to invest in research and development, capital equipment and extensive ongoing customer service and support capability worldwide. These investments create significant fixed costs that we may be unable to reduce rapidly if we do not meet our sales goals. Moreover, if we fail to obtain a significant volume of customer orders for an extended period of time, we may have difficulty planning our future production and inventory levels, which could also cause fluctuations in our operating results.

If our targeted photonics market develops more slowly than we expect, our revenue will not grow as fast as anticipated, if at all.

Segments of the photonics market that we target as an element of our growth strategy are either emerging or rapidly changing and the potential size of these market segments and the timing of their development are difficult to predict. If our targeted segments of this market develop more slowly than we expect, our ability to increase our revenue may be limited. We depend, in part, upon the broad acceptance by photonics manufacturers of our material handling and component assembly solutions, as well as our simulation software and robot vision and motion control technology. Much of our acquisition and subsequent development efforts have been directed toward this market, and a delay in the evolution and growth of this market could significantly adversely impact the return on these investments, or even prevent the realization of a return on these investments.

We rely on systems integrators and OEMs to sell our products.

We believe that our ability to sell products to system integrators and OEMs will continue to be important to our success. Our relationships with system integrators and OEMs are generally not exclusive, and some of our system integrators and OEMs may expend a significant amount of effort or give higher priority to selling products of our competitors. In the future, any of our system integrators or our OEMs may discontinue their relationships with us or form additional competing arrangements with our competitors. The loss of, or a significant reduction in revenues from, system integrators or OEMs to which we sell a significant amount of our product could negatively impact our business, financial condition or results of operations.

As we enter new geographic and applications markets, we must locate system

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

integrators and OEMs to assist us in building sales in those markets. We may not be successful in obtaining effective new system integrators or OEMs or in maintaining sales relationships with them. In the event a number of our system integrators and/or OEMs experience financial problems, terminate their relationships with us or substantially reduce the amount of our products they sell, or in the event we fail to build an effective systems integrator or OEM channel in any new markets, our business, financial condition and results of operations could be adversely affected.

In addition, a substantial portion of our sales is to system integrators that specialize in designing and building production lines for manufacturers. Many of these companies are small operations with limited financial resources, and we have from time to time experienced difficulty in collecting payments from certain of these companies. As a result, we perform ongoing credit evaluations of our customers. To the extent we are unable to mitigate this risk of collections from system integrators, our results of operations may be harmed.

Our products generally have long sales cycles and implementation periods, which increase our costs in obtaining orders and reduces the predictability of our earnings.

Our products are technologically complex. Prospective customers generally must commit significant resources

to test and evaluate our products and to install and integrate them into larger systems. Orders expected in one quarter may shift to another quarter or be cancelled with little advance notice as a result of the customers' budgetary constraints, internal acceptance reviews, and other factors affecting the timing of customers' purchase decisions. In addition, customers often require a significant number of product presentations and demonstrations, in some instances evaluating equipment on site, before reaching a sufficient level of confidence in the product's performance and compatibility with the customer's requirements to place an order. As a result, our sales process is often subject to delays associated with lengthy approval processes that typically accompany the design and testing of new products. The sales cycles of our products often last for many months or even years. In addition, the time required for our customers to incorporate our products into their systems can vary significantly with the needs of our customers and generally exceeds several months, which further complicates our planning processes and reduces the predictability of our operating results. Longer sales cycles require us to invest significant resources in attempting to make sales, which may not be realized in the near term and therefore may delay the generation of revenue, or which may not be realized at all.

If we are unable to identify and make acquisitions, our ability to expand our operations and increase our revenue may suffer.

In the latter half of fiscal 2000, a significant portion of our growth was attributable to acquisitions of other businesses and technologies. In October 2001, we acquired CHAD Industries, Inc. We expect that acquisitions of complementary companies, products and technologies in the future will play an important role in our ability to expand our operations, hire additional personnel and increase our revenue. We are currently reviewing several possible acquisition candidates as part of our strategy to market intelligent automation solutions targeted at the photonics industry. If we are unable to identify suitable targets for acquisition or complete acquisitions on acceptable terms, our ability to expand our service offerings and increase our revenue may be impaired. Even if we are able to identify and acquire acquisition candidates, we may be unable to realize the benefits anticipated as a result of these acquisitions.

Any acquisitions we make could disrupt our business, increase our expenses and adversely affect our financial condition or operations.

During fiscal 2000, we acquired Pensar, NanoMotion and BYE/Oasis. In July 2000, we acquired HexaVision and in October 2001, we acquired Chad Industries, Inc. These acquisitions introduced us to industries and technologies in which we have limited previous experience. In the future we may make material acquisitions of, or large investments in, other businesses that offer products, services, and technologies that management believes will further our strategic objectives. We cannot be certain that we would successfully integrate any businesses, technologies or personnel that we might acquire, and any acquisitions might divert our management's attention away from our core business. Any future acquisitions or investments we might make would present risks commonly

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

associated with these types of transactions, including:

- difficulty in combining the product offerings, operations, or work force of an acquired business;

- potential loss of key personnel of an acquired business;

- adverse effects on existing relationships with suppliers and customers;

- disruptions of our on-going businesses;

- difficulties in realizing our potential financial and strategic position through the successful integration of the acquired business;

- difficulty in maintaining uniform standards, controls, procedures and policies;

- potential negative impact on results of operations due to potential impairment of goodwill and amortization of other intangible assets acquired or assumption of anticipated liabilities;

- risks associated with entering markets in which we have limited previous experience; and

- the diversion of management attention.

The risks described above, either individually or in the aggregate, could significantly harm our business, financial condition and results of operations. We expect that future acquisitions, if any, could provide for consideration to be paid in cash, shares of our common stock, or a combination of cash and common stock. In addition, we may issue additional equity in connection with future acquisitions, which could result in dilution of our shareholders' equity interest. Fluctuations in our stock price may make acquisitions more expensive or prevent us from being able to complete acquisitions on terms that are acceptable to us.

Our international operations may subject us to divergent regulatory requirements and other risks that may harm our operating results.

International sales were $9.1 million and $24.4 million for the three and nine months ended March 30, 2002, $36.4 million for the fiscal year ended June 30, 2001, and $44.9 million for the fiscal year ended June 30, 2000. . This represented 48.5%, 57.6%, 36.3%, and 45.2% of net revenues for the respective periods. We also purchase some components and mechanical subsystems from foreign suppliers. As a result, our operating results are subject to the risks inherent in international sales and purchases, which include the following:

- unexpected changes in regulatory requirements;

- political, military and economic changes and disruptions;

- transportation costs and delays;

- foreign currency fluctuations;

- export/import controls;

- tariff regulations and other trade barriers;

- higher freight rates;

- difficulties in staffing and managing foreign sales operations;

- greater difficulty in accounts receivable collection in foreign jurisdictions; and

- potentially adverse tax consequences.

Foreign exchange fluctuations may render our products less competitive relative

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

to locally manufactured product offerings, or could result in foreign exchange losses. In calendar year 2001, the value of major European currencies dropped against the U.S. dollar. To date, we have not reflected that change in currency value in our selling prices. In order to maintain a competitive price for our products in Europe, we may have to provide discounts or otherwise effectively reduce our prices, resulting in a lower margin on products sold in Europe. Continued change in the values of European currencies or changes in the values of other foreign currencies could have a negative impact on our business, financial condition and results of operations.

In addition, duty, tariff and freight costs can materially increase the cost of crucial components for our products. We anticipate that past turmoil in Asian financial markets and the deterioration of the underlying economic conditions in certain Asian countries may continue to have an impact on our sales to customers located in or whose projects are based in those countries due to the impact of restrictions on government spending imposed by the International Monetary Fund on those countries receiving the International Monetary

Fund's assistance. In addition, customers in those countries may face reduced access to working capital to fund component purchases, such as our products, due to higher interest rates, reduced bank lending due to contractions in the money supply or the deterioration in the customer's or our bank's financial condition or the inability to access local equity financing.

Maintaining operations in different countries requires us to expend significant resources to keep our operations coordinated and subjects us to differing laws and regulatory regimes that may affect our service offerings and revenue.

We may incur currency exchange-related losses in connection with our reliance on our single or sole source foreign suppliers.

We make yen-denominated purchases of certain components and mechanical subsystems from certain of our sole or single source Japanese suppliers. Depending on the amount of yen-denominated purchases, we may engage in hedging transactions in the future. However, notwithstanding these precautions, we remain subject to the transaction exposures that arise from foreign exchange movements between the dates foreign currency export sales or purchase transactions are recorded and the dates cash is received or payments are made in foreign currencies. Our current or any future currency exchange strategy may not be successful in avoiding exchange-related losses. Any exchange-related losses or exposure may negatively affect our business, financial condition or results of operations.

If our hardware products do not comply with standards set forth by the European Union, we will not be able to sell them in Europe.

Our hardware products are required to comply with European Union Low Voltage, Electro-Magnetic Compatibility, and Machinery Safety Directives. The European Union mandates that our products carry the CE mark denoting that these products are manufactured in strict accordance to design guidelines in support of these directives. These guidelines are subject to change and to varying interpretation. New guidelines impacting machinery design go into effect each year. To date, we have retained TUV Rheinland to help certify that our controller-based products, including some of our robots, meet applicable European Union directives and guidelines. Although our existing certified products meet the requirements of the applicable European Union directives, we cannot provide any assurance that future products can be designed, within market window constraints, to meet the future requirements. If any of our robot products or any other major hardware products do not meet the requirements of the European Union directives, we would be unable to legally sell these products in Europe. Thus, our business, financial condition and results of operations could be harmed. Such directives and guidelines could change in the future, forcing us to redesign or withdraw from the market one or more of our existing products that may have been originally approved for sale.

Our hardware and software products may contain defects that could increase our expenses exposure to liabilities and harm our reputation and future business prospects.

Our hardware and software products are complex and, despite extensive testing, our new or existing products or enhancements may contain defects, errors or performance problems when first introduced, when new versions or enhancements

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

are released or even after these products or enhancements have been used in the marketplace for a period of time. We may discover product defects only after a product has been installed and used by customers. We may discover defects, errors or performance problems in future shipments of our products. These problems could result in expensive and time consuming design modifications or large warranty charges, expose us to liability for damages, damage customer relationships and result in loss of market share, any of which could harm our reputation and future business prospects. In addition, increased development and warranty costs could reduce our operating profits and could result in losses.

The existence of any defects, errors or failures in our products could also lead to product liability claims or lawsuits against us or against our customers. A successful product liability claim could result in substantial cost and divert management's attention and resources, which could have a negative impact on our business,

financial condition and results of operations. Although we are not aware of any product liability claims to date, the sale and support of our products entail the risk of these claims.

The success of our business depends on our key employees.

We are highly dependent upon the continuing contributions of our key management, sales, and product development personnel. In particular, we would be adversely affected if we were to lose the services of Brian Carlisle, Chief Executive Officer and Chairman of the Board of Directors, who has provided significant leadership to us since our inception, or Bruce Shimano, Vice President, Research and Development and a Director, who has guided our research and development programs since inception. In addition, the loss of the services of any of our senior managerial, technical or sales personnel could impair our business, financial condition, and results of operations. We do not have employment contracts with any of our executive officers and do not maintain key man life insurance on the lives of any of our key personnel.

Our future success depends on our continuing ability to attract, retain and motivate highly-qualified managerial, technical and sales personnel.

Competition for qualified technical personnel in the intelligent automation industry is intense. Our inability to recruit and train adequate numbers of qualified personnel on a timely basis would adversely affect our ability to design, manufacture, market and support our products.

In addition, our success will depend on our ability to hire and retain experienced engineers, senior management and sales and marketing personnel. Competition for these personnel is intense, particularly in geographic areas recognized as high technology centers such as the Silicon Valley area, where our principal offices are located, and other locations where we maintain design sites. To attract and retain individuals with the requisite expertise, we may be required to grant large option or other stock-based incentive awards, which may be dilutive to shareholders. We may also be required to pay significant base salaries and cash bonuses, which could harm our operating results. If we do not succeed in hiring and retaining candidates with appropriate qualifications, we will not be able to grow our business and our operating results will be harmed.

If we become subject to unfair hiring claims, we could be prevented from hiring needed personnel, incur liability for damages and incur substantial costs in defending ourselves.

Companies in our industry whose employees accept positions with competitors frequently claim that these competitors have engaged in unfair hiring practices or that the employment of these persons would involve the disclosure or use of trade secrets. These claims could prevent us from hiring personnel or cause us to incur liability for damages. We could also incur substantial costs in defending ourselves or our employees against these claims, regardless of their merits. Defending ourselves from these claims could divert the attention of our management away from our operations.

Our failure to protect our intellectual property and proprietary technology may significantly impair our competitive advantage.

Our success and ability to compete depend in large part upon protecting our proprietary technology. We rely on a combination of patent, trademark and trade

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

secret protection and nondisclosure agreements to protect our proprietary rights. The steps we have taken may not be sufficient to prevent the misappropriation of our intellectual property, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. The patent and trademark law and trade secret protection may not be adequate to deter third party infringement or misappropriation of our patents, trademarks and similar proprietary rights. In addition, patents issued to Adept may be challenged, invalidated or circumvented. Our rights granted under those patents may not provide competitive advantages to us, and the claims under our patent applications may not be allowed. We may be subject to or may initiate interference proceedings in the United States Patent and Trademark Office, which can demand significant financial and management resources. The process of seeking patent protection can be time consuming and expensive and patents may not be issued from currently pending

or future applications. Moreover, our existing patents or any new patents that may be issued may not be sufficient in scope or strength to provide meaningful protection or any commercial advantage to us.

We may in the future initiate claims or litigation against third parties for infringement of our proprietary rights in order to determine the scope and validity of our proprietary rights or the proprietary rights of our competitors. These claims could result in costly litigation and the diversion of our technical and management personnel.

We may face costly intellectual property infringement claims.

We have from time to time received communications from third parties asserting that we are infringing certain patents and other intellectual property rights of others or seeking indemnification against such alleged infringement. For example, some end users of our products have notified us that they have received a claim of patent infringement from the Jerome H. Lemelson Foundation, alleging that their use of our machine vision products infringes certain patents issued to Mr. Lemelson. In addition, we have been notified that other end users of our AdeptVision VME line and the predecessor line of Multibus machine vision products have received letters from the Lemelson Foundation which refer to Mr. Lemelson's patent portfolio and offer the end user a license to the particular patents. As claims arise, we evaluate their merits. Any claims of infringement brought by third parties could result in protracted and costly litigation, that damages for infringement, and the necessity of obtaining a license relating to one or more of our products or current or future technologies, which may not be available on commercially reasonable terms or at all. Litigation, which could result in substantial cost to us, and diversion of our resources, may be necessary to enforce our patents or other intellectual property rights or to defend us against claimed infringement of the rights of others. Any intellectual property litigation and the failure to obtain necessary licenses or other rights could have a material adverse effect on our business, financial condition and results of operations. Some of our end users have notified us that they may seek indemnification from us for damages or expenses resulting from any claims made by the Jerome H. Lemelson Foundation. We cannot predict the outcome of this or any similar litigation which may arise in the future. Litigation of this kind may have a material adverse effect on our business, financial condition or results of operations.

Risks Related to Our Industry

We face intense competition in the market for intelligent automation products.

The market for intelligent automation products is highly competitive. We believe that the principal competitive factors affecting the market for our products are:

- product functionality and reliability;
- customer service;
- price;
- delivery; and
- product features such as flexibility, programmability and ease of use.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

We compete with a number of robot companies, motion control companies, machine vision companies, simulation software companies and other photonics companies. Many of our competitors have substantially greater financial, technical and marketing resources than us. In addition, we may in the future face competition from new entrants in one or more of our markets.

Many of our competitors in the robot market are integrated manufacturers of products that produce robotics equipment internally for their own use and may also compete with our products for sales to other customers.

Some of these large manufacturing companies have greater flexibility in pricing because they generate substantial unit volumes of robots for internal demand and may have access through their parent companies to large amounts of capital. Any of our competitors may seek to expand their presence in other markets in which we compete.

Our current or potential competitors may develop products comparable or superior in terms of price and performance features to those developed by us or adapt more quickly than we can to new or emerging technologies and changes in customer requirements. We may be required to make substantial additional investments in connection with our research, development, engineering, marketing and customer service efforts in order to meet any competitive threat, so that we will be able to compete successfully in the future. We expect that in the event the intelligent automation market expands, competition in the industry will intensify, as additional competitors enter our markets and current competitors expand their product lines. Increased competitive pressure could result in a loss of sales or market share, or cause us to lower prices for our products, any of which could harm our business.

We offer products for multiple industries and must face the challenges of supporting the distinct needs of each of our markets.

We market products for the semiconductor, wireless communications, photonics, food processing, automotive, life sciences and electronics industries. Because we operate in multiple industries, we must work constantly to understand the needs, standards and technical requirements of several different industries and must devote significant resources to developing different products for these industries. Product development is costly and time consuming. Many of our products are used by our customers to develop, manufacture and test their own products. As a result, we must anticipate trends in our customers' industries and develop products before our customers' products are commercialized. If we do not accurately predict our customers' needs and future activities, we may invest substantial resources in developing products that do not achieve broad market acceptance. Our decision to continue to offer products to a given market or to penetrate new markets is based in part on our judgment of the size, growth rate and other factors that contribute to the attractiveness of a particular market. If our product offerings in any particular market are not competitive or our analyses of a market are incorrect, our business and results of operations could be harmed.

We may not be able to keep up with the rapid pace of technological change and new product development that characterize the intelligent automation industry.

The intelligent automation industry is characterized by rapid technological change and new product introductions and enhancements. Our ability to remain competitive depends greatly upon the technological quality of our products and processes compared to those of our competitors and our ability both to continue to develop new and enhanced products and to introduce those products at competitive prices and on a timely and cost-effective basis. We may not be successful in selecting, developing and manufacturing new products or in enhancing our existing products on a timely basis or at all. Our new or enhanced products may not achieve market acceptance. Our failure to successfully select, develop and manufacture new products, or to timely enhance existing technologies and meet customers' technical specifications for any new products or enhancements on a timely basis, or to successfully market new products, could harm our business. If we cannot successfully develop and manufacture new products or meet specifications, our products could lose market share, our revenues and profits could decline, or we could experience operating losses. New technology or product introductions by our competitors could also cause a decline in sales or loss of market acceptance for our existing products or force us to significantly reduce the prices of our existing products.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

From time to time we have experienced delays in the introduction of, and certain technical and manufacturing difficulties with, some of our products, and we may experience technical and manufacturing difficulties and delays in future introductions of new products and enhancements. Our failure to develop, manufacture and sell new products in quantities sufficient to offset a decline in revenues from existing products or to successfully manage product and related inventory transitions could harm our business.

Our success in developing, introducing, selling and supporting new and enhanced products depends upon a variety of factors, including timely and efficient completion of hardware and software design and development, implementation of manufacturing processes and effective sales, marketing and customer service. Because of the complexity of our products, significant delays may occur between a product's initial introduction and commencement of volume production.

The development and commercialization of new products involve many difficulties, including:

- the identification of new product opportunities;
- the retention and hiring of appropriate research and development personnel;
- the determination of the product's technical specifications;
- the successful completion of the development process;
- the successful marketing of the product and the risk of having customers embrace new technological advances; and
- additional customer service costs associated with supporting new product introductions and/or effecting subsequent potential field upgrades.

For example, we have recently released our new micro and nano positioning mechanisms, NanoMotion process modules, SmartModules, Standard Platforms and Semiconductor front-ends. These products include significant new networking, hardware and software technology. The development of these products may not be completed in a timely manner, and these products may not achieve acceptance in the market. The development of these products has required, and will require, that we expend significant financial and management resources. If we are unable to continue to successfully develop these or other new products in response to customer requirements or technological changes, our business may be harmed.

If we fail to adequately invest in research and development, we may be unable to compete effectively.

We have limited resources to allocate to research and development and must allocate our resources among a wide variety of projects. Because of intense competition in our industry, the cost of failing to invest in strategic products is high. If we fail to adequately invest in research and development, we may be unable to compete effectively in the intelligent automation markets in which we operate.

If we do not comply with environmental regulations, our business may be harmed.

We are subject to a variety of environmental regulations relating to the use, storage, handling, and disposal of certain hazardous substances used in the manufacturing and assembly of our products. We believe that we are currently in compliance with all material environmental regulations in connection with our manufacturing operations, and that we have obtained all necessary environmental permits to conduct our business. However, our failure to comply with present or future regulations could subject us to a variety of consequences that could harm our business, including:

- the imposition of substantial fines;
- suspension of production; and
- alteration of manufacturing processes or cessation of operations.

Compliance with environmental regulations could require us to acquire expensive

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

remediation equipment or to incur substantial expenses. Our failure to control the use, disposal, removal, storage, or to adequately restrict the discharge of, or assist in the cleanup of, hazardous or toxic substances, could subject us to significant

liabilities, including joint and several liability under certain statutes. The imposition of liabilities of this kind could harm our financial condition.

Failure to obtain export licenses could harm our business.

We must comply with U.S. Department of Commerce regulations in shipping our software products and other technologies outside the United States. Any significant future difficulty in complying, or failure to comply, with these regulations could harm our business, financial condition and results of operations.

Risks Related to our Stock

Our stock price has fluctuated and may continue to fluctuate widely.

The market price of our common stock has fluctuated substantially in the past. Between March 31, 2001 and March 30, 2002, the sales price of our common shares, as reported on the Nasdaq National Market, has ranged from a low of $2.18 to a high of $13.35. The market price of our common stock will continue to be subject to significant fluctuations in the future in response to a variety of factors, including:

- future announcements concerning our business or that of our competitors or customers;
- the introduction of new products or changes in product pricing policies by us or our competitors;
- litigation regarding proprietary rights or other matters;
- change in analysts' earnings estimates;
- developments in the financial markets;
- quarterly fluctuations in operating results; and
- general conditions in the intelligent automation industry.

Furthermore, stock prices for many companies, and high technology companies in particular, fluctuate widely for reasons that may be unrelated to their operating results. Those fluctuations and general economic, political and market conditions, such as recessions, damage caused by terrorist acts or other military actions, or international currency fluctuations, may adversely affect the market price of our common stock.

We may be subject to securities class action litigation if our stock price is volatile, which could result in substantial costs, distract management and damage our reputation.

In the past, securities class action litigation has often been brought against companies following periods of volatility in the market price of their securities. Companies, like us, that are involved in rapidly changing technology markets are particularly subject to this risk. We may be the target of litigation of this kind in the future. Any securities litigation could result in substantial costs, divert management's attention and resources from our operations and negatively affect our public image and reputation.

We may need to raise additional capital in the future, and if we are unable to secure adequate funds on acceptable terms, we may be unable to execute our business plan or make future acquisitions deemed essential to our long term strategy.

If our capital requirements vary significantly from those currently planned, we may require additional financing sooner than anticipated. If our existing cash balances and cash flow expected from future operations are not sufficient to meet our liquidity needs, we will need to raise additional funds. If adequate funds are not available on acceptable terms or at all, we may not be able to

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

take advantage of market opportunities, develop

or enhance new products, pursue acquisitions that would complement our existing product offerings or enhance our technical capabilities, execute our business plan or otherwise respond to competitive pressures or unanticipated requirements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We maintain an investment policy designed to ensure the safety and preservation of our invested funds by limiting default risk, market risk and reinvestment risk. The table below presents principal amounts and related weighted-average interest rates by year of maturity for our investment portfolio.
<TABLE>
<CAPTION>

(in thousands)	2002	2003	2004	Total	Fair Value
Cash equivalents					
Fixed rate......................	$ 16,468	--	--	$ 16,468	$ 16,468
Average rate....................	1.82%	--	--	1.82%	
Auction rate securities					
Fixed rate......................	$ 6,175	--	--	$ 6,175	$ 6,175
Average rate....................	2.01%	--	--	2.01%	
Total Investment Securities.	$ 22,643	--	--	$ 22,643	$ 22,463
Average rate....................	1.87%	--	--	1.87%	

</TABLE>

We mitigate default risk by investing in high credit quality securities and by positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. Our portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity and maintains a prudent amount of diversification. We conduct business on a global basis. Consequently, we are exposed to adverse or beneficial movements in foreign currency exchange rates. We enter into foreign currency forward contracts to minimize the impact of exchange rate fluctuations on certain foreign currency commitments and balance sheet positions and may enter into foreign exchange forward contracts in the future. The realized gains and losses on these contracts are deferred and offset against realized and unrealized gains and losses when the transaction occurs.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are party to various legal proceedings or claims, either asserted or unasserted, which arise in the ordinary course of our business. Management has reviewed pending legal matters and believes that the resolution of these matters will not have a material adverse effect on our business, financial condition or results of operations.

Some end users of our products have notified us that they have received a claim of patent infringement from the Jerome H. Lemelson Foundation, alleging that their use of our machine vision products infringes certain patents issued to Mr. Lemelson. In addition, we have been notified that other end users of our AdeptVision VME line and the predecessor line of Multibus machine vision products have received letters from Mr. Lemelson which refer to Mr. Lemelson's

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

patent portfolio and offer the end user a license to the particular patents. Some of these end users have notified us that they might seek indemnification from us for any damages or expenses resulting from this matter.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

a) The following exhibits are filed as part of this report.

None.

b) Reports on Form 8-K.

On January 25, 2002, a Form 8-K was filed by Adept announcing its financial results for its second fiscal quarter ended December 29, 2001.

On March 15, 2002, a Form 8-K was filed by Adept to reaffirm guidance regarding its business outlook for the third quarter of fiscal 2002 and to announce further cost cutting measures

On April 26, 2002, a Form 8-K was filed by Adept announcing its financial results for its third fiscal quarter ended March 30, 2002.

On May 9, 2002, a Form 8-K was filed by Adept announcing its completion of the sale of its assets of the Cimstation Inspection business.

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.

Date: May 13, 2002

ADEPT TECHNOLOGY, INC.

By: /s/ Michael W. Overby

Michael W. Overby
Vice President, Finance and
Chief Financial Officer

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document