COHERENT INC
Form 10-Q
February 06, 2014

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended December 28, 2013

or

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

For the transition period from to

Commission File Number: 001-33962

COHERENT, INC.

Delaware	94-1622541
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5100 Patrick Henry Drive, Santa Clara, California 95054
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (408) 764-4000

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 S No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes S No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer S	Accelerated filer £
Non-accelerated filer £ (do not check if a smaller reporting company)	Smaller reporting company £

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

The number of shares outstanding of registrant's common stock, par value $.01 per share, on February 4, 2014 was 24,839,166.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements included in or incorporated by reference in this quarterly report, other than statements of historical fact, are forward-looking statements. These statements are generally accompanied by words such as “trend,” “may,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “rely,” “believe,” “estimate,” “predict,” “intend,” “potential,” “continue,” "outlook," “forecast” or the negative of or other comparable terminology, including without limitation statements made under “Our Strategy,” discussions regarding our bookings and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Actual results of Coherent, Inc. (referred to herein as the Company, we, our or Coherent) may differ significantly from those anticipated in these forward-looking statements as a result of various factors, including those discussed in the sections captioned “Our Strategy,” “Risk Factors,” “Key Performance Indicators,” as well as any other cautionary language in this quarterly report. All forward-looking statements included in the document are based on information available to us on the date hereof. We undertake no obligation to update these forward-looking statements as a result of events or circumstances or to reflect the occurrence of unanticipated events or non-occurrence of anticipated events.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

COHERENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; in thousands, except per share data)

	Three Months Ended	
	December 28, 2013	December 29, 2012
Net sales	$193,556	$183,202
Cost of sales	116,010	105,567
Gross profit	77,546	77,635
Operating expenses:		
Research and development	20,937	19,301
Selling, general and administrative	39,891	36,982
Amortization of intangible assets	934	854
Total operating expenses	61,762	57,137
Income from operations	15,784	20,498
Other income (expense):		
Interest and dividend income	59	50
Interest expense	(23)	(12)
Other—net	(256)	(1,475)
Total other income (expense), net	(220)	(1,437)
Income before income taxes	15,564	19,061
Provision for income taxes	3,861	4,908
Net income	$11,703	$14,153
Net income per share:		
Basic	$0.48	$0.60
Diluted	$0.47	$0.58
Shares used in computation:		
Basic	24,542	23,770
Diluted	24,915	24,222

See Accompanying Notes to Condensed Consolidated Financial Statements.

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COHERENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited; in thousands)

	Three Months Ended	
	December 28, 2013	December 29, 2012
Net income	$11,703	$14,153
Other comprehensive income (loss): (1)		
Translation adjustment	1,148	4,120
Changes in unrealized gains (losses) on available-for-sale securities, net of taxes	(11)	1
Other comprehensive income (loss), net of tax (2)	1,137	4,121
Comprehensive income	$12,840	$18,274

(1) Reclassification adjustments were not significant during the three months ended December 28, 2013 and December 29, 2012.

(2) Tax expense (benefit) of $1,186 and $(19) was provided on translation adjustments during the three months ended December 28, 2013 and December 29, 2012, respectively. Tax expense (benefit) on changes in unrealized gains (losses) on available-for-sale securities was insignificant.

See Accompanying Notes to Condensed Consolidated Financial Statements.

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COHERENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited; in thousands, except par value)

	December 28, 2013	September 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$138,375	$110,444
Short-term investments	135,302	139,666
Accounts receivable—net of allowances of $1,561 and $1,386, respectively	115,680	136,759
Inventories	170,958	168,067
Prepaid expenses and other assets	51,529	52,577
Deferred tax assets	21,532	21,713
Total current assets	633,376	629,226
Property and equipment, net	114,405	114,333
Goodwill	114,638	113,408
Intangible assets, net	40,832	42,971
Other assets	68,769	66,540
Total assets	$972,020	$966,478
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	$—	$2
Accounts payable	30,689	36,565
Income taxes payable	10,364	24,695
Other current liabilities	90,248	84,566
Total current liabilities	131,301	145,828
Long-term obligations	—	—
Other long-term liabilities	65,211	62,132
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, par value $.01 per share:		
Authorized—500,000 shares		
Outstanding—24,839 shares and 24,464 shares, respectively	248	244
Additional paid-in capital	166,399	162,253
Accumulated other comprehensive income	55,587	54,450
Retained earnings	553,274	541,571
Total stockholders' equity	775,508	758,518
Total liabilities and stockholders' equity	$972,020	$966,478

See Accompanying Notes to Condensed Consolidated Financial Statements.

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COHERENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in thousands)

	Three Months Ended	
	December 28, 2013	December 29, 2012
Cash flows from operating activities:		
Net income	$11,703	$14,153
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,699	6,108
Amortization of intangible assets	2,445	1,181
Deferred income taxes	(1,621)	(275)
Stock-based compensation	4,868	4,994
Other non-cash (income) expense	(32)	522
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	19,754	19,452
Inventories	(2,297)	2,113
Prepaid expenses and other assets	(9,256)	(4,281)
Other assets	(2,118)	(666)
Accounts payable	(5,658)	(445)
Income taxes payable/receivable	(4,361)	(410)
Other current liabilities	5,250	4,056
Other long-term liabilities	3,301	821
Net cash provided by operating activities	28,677	47,323
Cash flows from investing activities:		
Purchases of property and equipment	(6,792)	(3,901)
Proceeds from dispositions of property and equipment	182	—
Purchases of available-for-sale securities	(47,224)	(63,630)
Proceeds from sales and maturities of available-for-sale securities	51,605	128,526
Acquisition of businesses, net of cash acquired	—	(67,289)
Net cash used in investing activities	(2,229)	(6,294)
Cash flows from financing activities:		
Short-term borrowings	21,154	—
Repayments of short-term borrowings	(21,154)	—
Net change in capital lease obligations	(2)	(4)
Issuance of common stock under employee stock option and purchase plans	6,810	4,712
Cash dividend paid on common stock	—	(24,040)
Net settlement of restricted common stock	(7,658)	(4,046)
Net cash used in financing activities	(850)	(23,378)
Effect of exchange rate changes on cash and cash equivalents	2,333	2,584
Net increase in cash and cash equivalents	27,931	20,235
Cash and cash equivalents, beginning of period	110,444	67,761
Cash and cash equivalents, end of period	$138,375	$87,996

See Accompanying Notes to Condensed Consolidated Financial Statements.

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COHERENT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes thereto should be read in conjunction with the Coherent, Inc. (referred to herein as the “Company,” “we,” “our,” “us” or “Coherent”) consolidated financial statements and notes thereto filed on Form 10-K for the fiscal year ended September 28, 2013. In the opinion of management, all adjustments necessary for a fair presentation of financial condition and results of operation as of and for the periods presented have been made and include only normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year or any other interim periods presented therein. Our fiscal year ends on the Saturday closest to September 30 and our first fiscal quarters include 13 weeks of operations in each fiscal year presented. Fiscal years 2014 and 2013 each include 52 weeks.

2. RECENT ACCOUNTING STANDARDS

Adoption of New Accounting Pronouncements

In February 2013, the FASB issued guidance which requires an entity to disclose additional information for items reclassified out of accumulated other comprehensive income ("AOCI"). For items reclassified out of AOCI and into net income in their entirety, entities are required to disclose the effect of the reclassification on each affected net income line item. For AOCI reclassification items that are not reclassified in their entirety into net income, a cross reference to other disclosures is required. This information may be provided either in the notes or parenthetically on the face of the statement that reports net income as long as all the information is disclosed in a single location. We adopted this authoritative guidance in the first quarter of fiscal 2014. The adoption of this accounting standard did not have an impact on our consolidated financial position, results of operations and cash flows.

Recently Issued Accounting Pronouncement

In July 2013, the Financial Accounting Standards Board (“FASB”) issued amended guidance that resolves the diversity in practice for the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This new accounting guidance requires the netting of unrecognized tax benefits ("UTBs") against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. Under the new standard, UTBs will be netted against all available same-jurisdiction losses or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the UTBs. The new standard requires prospective adoption but allows retrospective adoption for all periods presented. We will consider the FASB’s amended guidance for our fiscal year beginning September 28, 2014. We do not expect the amended guidance to have a significant impact on our consolidated financial position, results of operations and cash flows.

In March 2013, the FASB issued guidance regarding the treatment of cumulative translation adjustment ("CTA") by a parent company upon de-recognition of a subsidiary or group of assets within a foreign entity. The objective is to resolve the diversity in practice regarding the release into net income of such CTA. The guidance is effective for us beginning in the second quarter of fiscal 2014. We are currently evaluating the potential impact, if any, of the adoption of this guidance on our consolidated financial position, results of operations and cash flows.

3. BUSINESS COMBINATIONS

Fiscal 2013 Acquisitions

Lumera Laser GmbH

On December 20, 2012, we acquired privately held Lumera Laser GmbH (Kaiserslautern, Germany) ("Lumera") for approximately $51.5 million, excluding transaction costs. Lumera manufactures ultrafast solid state lasers for

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microelectronics, OEM medical and materials processing applications. Lumera has been included in our Specialty Lasers and Systems segment.

Our allocation of the purchase price is as follows (in thousands):

Tangible assets:	
Inventories	7,364
Accounts receivable	2,770
Other tangible assets	4,380
Goodwill	24,640
Intangible assets:	
Existing technology	21,000
In-process R&D	1,800
Trade name	200
Customer lists	6,500
Backlog	900
Deferred tax liabilities	(9,300)
Liabilities assumed	(8,793)
Total	$51,461

Results of operations for the business have been included in our condensed consolidated financial statements subsequent to the date of acquisition and pro forma results of operations in accordance with authoritative guidance for prior periods have not been presented because the effect of the acquisition was not material to our prior period consolidated financial results.

None of the goodwill from this purchase is deductible for tax purposes.

The identifiable intangible assets are being amortized over their respective useful lives of less than one to six years.

In-process research and development (“IPR&D”) consists of two projects that have not yet reached technological feasibility. Acquired IPR&D assets are initially recognized at fair value and are classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. The value assigned to IPR&D was determined by considering the value of the products under development to the overall development plan, estimating the resulting net cash flows from the projects when completed and discounting the net cash flows to their present value. During the development period, these assets will not be amortized as charges to earnings; instead these assets will be subject to periodic impairment testing. Upon successful completion of the development process for the acquired IPR&D projects, the assets would then be considered finite-lived intangible assets and amortization of the assets will commence. None of the projects have been completed as of December 28, 2013.

We expensed $0.6 million of acquisition-related costs as selling, general and administrative expenses in our consolidated statements of operations in fiscal 2013.

Innolight Innovative Laser and Systemtechnik GmbH

On October 30, 2012, we acquired all of the outstanding shares of Innolight Innovative Laser and Systemtechnik GmbH ("Innolight") for approximately $18.3 million, excluding transaction costs. Innolight provides a core technology building block for an emerging class of commercial, sub-nanosecond lasers for microelectronics manufacturing. Its semiconductor-based architecture delivers pulsed output that can be amplified by conventional or fiber amplifiers to ultimately deliver infrared, green or ultraviolet light capable of processing a range of materials. Innolight has been included in our Specialty Lasers and Systems segment.

Our allocation of the purchase price is as follows (in thousands):

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Tangible assets	$2,510
Goodwill	8,312
Intangible assets:	
Existing technology	8,500
In-process R&D	430
Trade name	100
Customer lists	2,800
Deferred tax liabilities	(3,836