COHERENT INC
Form 10-Q
February 10, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended January 2, 2010

or

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

For the transition period from to

Commission File Number: 001-33962

COHERENT, INC.

Delaware	**94-1622541**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	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 x No o

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 o No o

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 o	Accelerated filer x
Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares outstanding of registrant s common stock, par value $.01 per share, on January 29, 2010 was 24,646,738.

Table of Contents

COHERENT, INC.

INDEX

Table of Contents

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, forecast or other comparable terminology, including without limitation statements made under Future Trends , 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 Future Trends, 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.

Table of Contents

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 January 2, 2010	Three Months Ended December 27, 2008
Net sales	**$ 122,815**	$ 124,388
Cost of sales	**71,783**	73,999
Gross profit	**51,032**	50,389
Operating expenses:		
Research and development	**15,410**	14,778
Selling, general and administrative	**27,979**	23,628
Impairment of goodwill		19,286
Amortization of intangible assets	**1,961**	1,943
Total operating expenses	**45,350**	59,635
Income (loss) from operations	**5,682**	(9,246)
Other income (expense) (net)	**792**	(4,230)
Income (loss) before income taxes	**6,474**	(13,476)
Provision for income taxes	**2,295**	1,203
Net income (loss)	**$ 4,179**	$ (14,679)
Net income (loss) per share:		
Basic	**$ 0.17**	$ (0.61)
Diluted	**$ 0.17**	$ (0.61)
Shares used in computation:		
Basic	**24,469**	24,145
Diluted	**24,678**	24,145

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

COHERENT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited; in thousands, except par value)

	January 2, 2010	October 3, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 199,760**	$ 199,950
Short-term investments	**40,866**	43,685
Accounts receivable net of allowances of $2,150 and $2,147, respectively	**76,136**	74,235
Inventories	**98,924**	97,767
Prepaid expenses and other assets	**51,827**	38,969
Deferred tax assets	**18,948**	28,164
Total current assets	**486,461**	482,770
Property and equipment, net	**100,062**	98,792
Goodwill	**68,916**	66,967
Intangible assets, net	**23,064**	19,738
Other assets	**92,202**	85,337
Total assets	**$ 770,705**	$ 753,604
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term obligations	**$ 21**	$ 9
Accounts payable	**24,359**	21,639
Income taxes payable	**1,617**	1,953
Other current liabilities	**71,911**	62,741
Total current liabilities	**97,908**	86,342
Long-term obligations	**44**	6
Other long-term liabilities	**92,054**	91,685
Commitments and contingencies (Note 11)		
Stockholders equity:		
Common stock, par value $.01 per share:		
Authorized 500,000 shares		
Outstanding 24,644 shares and 24,455 shares, respectively	**246**	244
Additional paid-in capital	**193,096**	188,918
Accumulated other comprehensive income	**77,038**	80,269
Retained earnings	**310,319**	306,140
Total stockholders equity	**580,699**	575,571
Total liabilities and stockholders equity	**$ 770,705**	$ 753,604

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

COHERENT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

	Three Months Ended January 2, 2010	Three Months Ended December 27, 2008
Cash flows from operating activities:		
Net income (loss)	**$ 4,179**	$ (14,679)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	**5,752**	4,729
Amortization of intangible assets	**1,961**	1,943
Deferred income taxes	**6,921**	(4,859)
Loss on disposal of property and equipment	**100**	155
Stock-based compensation	**1,874**	1,753
Excess tax benefit from stock-based compensation arrangements	**(100)**	(8)
Impairment of goodwill		19,286
Non-cash restructuring and other charges (recoveries)	**230**	(244)
Other non-cash expense (income)	**(32)**	4
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	**(716)**	2,892
Inventories	**1,207**	(875)
Prepaid expenses and other assets	**(8,252)**	(3,482)
Other assets	**(1,089)**	6,722
Accounts payable	**1,752**	(4,826)
Income taxes payable/receivable	**(4,792)**	(4,252)
Other current liabilities	**7,409**	(7,057)
Other long-term liabilities	**1,196**	(6,600)
Net cash provided by (used in) operating activities	**17,600**	(9,398)
Cash flows from investing activities:		
Purchases of property and equipment	**(3,266)**	(8,911)
Proceeds from dispositions of property and equipment	**478**	826
Purchases of available-for-sale securities	**(19,632)**	(14,459)
Proceeds from sales and maturities of available-for-sale securities	**22,506**	4,112
Acquisition of a business	**(15,000)**	
Change in restricted cash		2,521
Net cash used in investing activities	**(14,914)**	(15,911)
Cash flows from financing activities:		
Repayment of capital lease obligations	**(6)**	(2)
Cash overdrafts decrease		(470)
Issuance of common stock under employee stock option and purchase plans	**2,833**	3,543
Net settlement of restricted common stock	**(519)**	
Excess tax benefits from stock-based compensation arrangements	**100**	8
Net cash provided by financing activities	**2,408**	3,079
Effect of exchange rate changes on cash and cash equivalents	**(5,284)**	(6,361)
Net decrease in cash and cash equivalents	**(190)**	(28,591)
Cash and cash equivalents, beginning of period	**199,950**	213,826
Cash and cash equivalents, end of period	**$ 199,760**	$ 185,235
Supplemental disclosure of cash flow information:		

Cash paid during the period for:				
Interest	**$**	**38**	$	75
Income taxes	**$**	**3,279**	$	10,443
Cash received during the period for:				
Income taxes	**$**	**812**	$	14
Non-cash investing and financing activities:				
Unpaid property and equipment	**$**	**654**	$	1,554

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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 October 3, 2009. 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 quarter includes 13 weeks of operations. Fiscal years 2010 and 2009 include 52 and 53 weeks, respectively.

2. RECENT ACCOUNTING STANDARDS

Adoption of New Accounting Pronouncements

In December 2007 the FASB revised the authoritative guidance for business combinations. The revised guidance retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations, however these rules, (including additional guidance issuance after December 2007), change certain elements of accounting for business combinations such as:

- The acquisition date is the date that the acquirer achieves control.
- Acquisition related costs are recognized separately from the acquisition and recorded as an expense.
- Assets acquired and liabilities assumed in a business combination that arise from contingencies are recognized at fair value if fair value can be reasonably estimated; if fair value cannot be reasonably estimated during the measurement period, the contingent asset or liability is recognized in accordance with the guidance on contingencies.

We adopted this guidance for acquisitions completed after October 4, 2009, the beginning of our fiscal year 2010. The impact of adoption will be largely dependent on the size and nature of the business combinations completed after the adoption of this statement.

In February 2008, the FASB issued guidance which delayed the effective date regarding fair value measurements and disclosures of nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. We adopted this update for our fiscal year beginning October 4, 2009. The adoption of this standard did not have a material impact on our consolidated financial position, results of operations and cash flows.

In 2008, the FASB issued new requirements regarding the determination of the useful lives of intangible assets and accounting for acquired defensive assets. This guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible; an entity needs to consider its own historical experience adjusted for entity specific factors. In the absence of that experience, an entity shall consider the assumptions that market participants would use about renewal or extension options. Defensive assets should be assigned useful lives based on the period during which the asset would diminish in value. We adopted this guidance for our fiscal year beginning October 4, 2009 and it will be applied prospectively to intangible assets acquired.

Recently Issued Accounting Pronouncements

In September 2009, the FASB amended revenue recognition guidance for arrangements with multiple deliverables. This standard modifies the revenue recognition guidance for arrangements that involve the delivery of multiple elements, such as product, software, services or support, to a customer at different times as part of a single revenue generating transaction and provides principles and application guidance to determine whether multiple deliverables exist, how the individual deliverables should be separated and how to allocate the revenue in the arrangement among those separate deliverables. The standard also expands the

Table of Contents

disclosure requirements for multiple deliverable revenue arrangements. This standard should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted. Alternatively, an entity can elect to adopt this standard on a retrospective basis. We are currently evaluating the potential impact and timing of the adoption of this update on our consolidated financial position and results of operations.

3. BUSINESS COMBINATION

On October 13, 2009, we acquired all the assets and certain liabilities of StockerYale, Inc. (StockerYale) s laser module product line in Montreal and its specialty fiber product line in Salem, New Hampshire for $15.0 million in cash. StockerYale designs, develops and manufactures low power laser modules, light emitting (LED) systems and specialty optical fiber products. These assets and liabilities have been included in our Commercial Lasers and Components segment.

We adopted the new authoritative guidance on business combinations during the first quarter of fiscal 2010 and the acquisition was accounted for in accordance with this guidance; therefore, the tangible and intangible assets acquired were recorded at fair value on the acquisition date.

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