COHERENT INC
Form 10-Q
May 10, 2017

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 April 1, 2017
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 x 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 x No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (do not check if a smaller reporting company)	Smaller reporting company ¨
Emerging growth company ¨	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

1

Table of Contents

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

The number of shares outstanding of registrant's common stock, par value $.01 per share, on May 8, 2017 was 24,625,124.

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,” "outlook," “forecast” or the negative of or other comparable terminology, including without limitation statements made under “Our Strategy,” 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.

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		Six Months Ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Net sales	$422,833	$199,882	$768,906	$390,157
Cost of sales	243,318	111,283	447,877	217,660
Gross profit	179,515	88,599	321,029	172,497
Operating expenses:				
Research and development	30,536	20,955	57,620	40,095
Selling, general and administrative	72,451	40,940	146,219	77,714
Gain from business combination	—	—	(5,416)	—
Amortization of intangible assets	5,439	700	9,317	1,401
Total operating expenses	108,426	62,595	207,740	119,210
Income from operations	71,089	26,004	113,289	53,287
Other income (expense):				
Interest income	135	263	278	503
Interest expense	(8,998)	(30)	(16,962)	(45)
Other—net	(1,392)	(2,013)	11,601	(2,460)
Total other income (expense), net	(10,255)	(1,780)	(5,083)	(2,002)
Income from continuing operations before income taxes	60,834	24,224	108,206	51,285
Provision for income taxes	18,646	6,443	35,320	13,218
Net income from continuing operations	42,188	17,781	72,886	38,067
Loss from discontinued operations, net of income taxes	(343)	—	(633)	—
Net income	$41,845	$17,781	$72,253	$38,067
Basic net income per share:				
Income per share from continuing operations	$1.72	$0.74	$2.98	$1.58
Loss per share from discontinued operations, net of income taxes	$(0.01)	$—	$(0.03)	$—
Net income per share	$1.71	$0.74	$2.96	$1.58
Diluted net income per share:				
Income per share from continuing operations	$1.70	$0.73	$2.95	$1.57
Loss per share from discontinued operations, net of income taxes	$(0.01)	$—	$(0.03)	$—
Net income per share	$1.69	$0.73	$2.93	$1.57
Shares used in computation:				
Basic	24,496	24,137	24,422	24,066
Diluted	24,757	24,362	24,700	24,299

See Accompanying Notes to Condensed Consolidated Financial Statements.

4

Table of Contents

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

	Three Months Ended		Six Months Ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Net income	$41,845	$17,781	$72,253	$38,067
Other comprehensive income (loss): (1)				
Translation adjustment, net of taxes (2)	1,417	13,568	(4,078)	5,062
Net gain (loss) on derivative instruments, net of taxes (3)	—	2	—	(28)
Changes in unrealized gains (losses) on available-for-sale securities, net of taxes (4)	—	2,325	(3,334)	2,463
Defined benefit pension plans, net of taxes (5)	158	—	534	—
Other comprehensive loss, net of tax	1,575	15,895	(6,878)	7,497
Comprehensive income	$43,420	$33,676	$65,375	$45,564

(1) Reclassification adjustments were not significant during the three and six months ended April 1, 2017 and April 2, 2016.

(2) Tax expenses (benefits) of $0 and $(326) were provided on translation adjustments during the three and six months ended April 1, 2017, respectively. Tax expenses of $465 and $119 were provided on translation adjustments during the three and six months ended April 2, 2016, respectively.

(3) Tax expenses (benefits) of $1 and $(17) were provided on net gain (loss) on derivative instruments during the three and six months ended and April 2, 2016, respectively.

(4) Tax expenses (benefits) of $0 and $(1,878) were provided on changes in unrealized gains (losses) on available-for-sale securities for the three and six months ended April 1, 2017, respectively. Tax expenses of $1,357 and $1,437 were provided on changes in unrealized gains (losses) on available-for-sale securities for the three and six months ended and April 2, 2016, respectively.

(5) Tax expenses (benefits) of $0 and $21 were provided on changes in defined benefit pension plans for the three and six months ended April 1, 2017, respectively.

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)

	April 1, 2017	October 1, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$432,980	$354,347
Restricted cash	1,284	—
Short-term investments	125	45,606
Accounts receivable—net of allowances of $6,860 and $2,420, respectively	252,542	165,715
Inventories	388,242	212,898
Prepaid expenses and other assets	73,802	37,073
Assets held-for-sale	65,963	—
Total current assets	1,214,938	815,639
Property and equipment, net	256,024	127,443
Goodwill	360,576	101,458
Intangible assets, net	206,506	13,874
Non-current restricted cash	11,786	—
Other assets	125,510	102,734
Total assets	$2,175,340	$1,161,148
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings and current-portion of long-term obligations	$5,161	$20,000
Accounts payable	73,512	45,182
Income taxes payable	60,609	19,870
Other current liabilities	231,004	116,442
Total current liabilities	370,286	201,494
Long-term obligations	660,105	—
Other long-term liabilities	168,686	48,826
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, Authorized—500,000 shares, par value $.01 per share:		
Outstanding—24,578 shares and 24,324 shares, respectively	244	242
Additional paid-in capital	151,356	151,298
Accumulated other comprehensive loss	(12,178)	(5,300)
Retained earnings	836,841	764,588
Total stockholders' equity	976,263	910,828
Total liabilities and stockholders' equity	$2,175,340	$1,161,148

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	April 1, 2017	April 2, 2016
Cash flows from operating activities:		
Net income	$72,253	$38,067
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,958	12,883
Amortization of intangible assets	28,851	4,169
Gain on business combination	(5,416)	—
Deferred income taxes	(5,620)	(5,653)
Amortization of debt issuance cost	1,707	—
Stock-based compensation	12,186	9,132
Non-cash restructuring charges	4,313	—
Other non-cash (income) expenses	567	(12)
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(2,798)	(5,333)
Inventories	4,962	(21,063)
Prepaid expenses and other assets	(3,634)	(4,857)
Other long-term assets	(2,292)	1,984
Accounts payable	8,672	7,516
Income taxes payable/receivable	12,854	5,979
Other current liabilities	47,046	3,821
Other long-term liabilities	2,051	(1,079)
Cash flows from discontinued operations	(1,301)	—
Net cash provided by operating activities	194,359	45,554
Cash flows from investing activities:		
Purchases of property and equipment	(29,543)	(16,256)
Proceeds from dispositions of property and equipment	144	180
Purchases of available-for-sale securities	—	(84,629)
Proceeds from sales and maturities of available-for-sale securities	25,108	79,470
Acquisition of businesses, net of cash acquired	(740,481)	—
Cash flows from discontinued operations	(316)	—
Net cash used in investing activities	(745,088)	(21,235)
Cash flows from financing activities:		
Short-term borrowings	6,930	34,792
Repayments of short-term borrowings	(28,700)	(29,792)
Proceeds from long-term borrowings	740,685	—
Repayments of long-term borrowings	(36,349)	—
Cash paid to subsidiaries' minority shareholders	(816)	—
Issuance of common stock under employee stock option and purchase plans	3,866	3,686
Net settlement of restricted common stock	(15,675)	(5,344)
Debt issuance costs	(25,892)	(2,137)
Net cash provided by financing activities	644,049	1,205
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1,617)	1,045

Net increase in cash, cash equivalents and restricted cash	91,703	26,569
Cash, cash equivalents and restricted cash, beginning of period	354,347	130,607
Cash, cash equivalents and restricted cash, end of period	$446,050	$157,176
Noncash investing and financing activities:		
Unpaid property and equipment purchases	$2,722	$3,800
Use of previously owned equity shares in acquisition	$20,685	$—

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same amounts shown in the condensed consolidated statements of cash flows.

	April 1, 2017	April 2, 2016
Cash and cash equivalents	$432,980	$157,176
Restricted cash, current	1,284	—
Restricted cash, non-current	11,786	—
Total Cash, Cash equivalents, and restricted cash shown in the condensed consolidated statement of cash flows	$446,050	$157,176

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 condensed consolidated financial statements and notes thereto filed by Coherent, Inc. on Form 10-K for the fiscal year ended October 1, 2016. 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. Our fiscal year ends on the Saturday closest to September 30 and our second fiscal quarters include 13 weeks of operations in each fiscal year presented. Fiscal year 2017 and 2016 both include 52 weeks.

The consolidated financial statements include the accounts of Coherent, Inc. and its direct and indirect subsidiaries (collectively, the "Company", "we", "our", "us" or "Coherent"). Intercompany balances and transactions have been eliminated.

On November 7, 2016, we acquired Rofin-Sinar Technologies, Inc. and its direct and indirect subsidiaries ("Rofin"). The significant accounting policies of Rofin have been aligned to conform to those of Coherent, and the consolidated financial statements include the results of Rofin as of the acquisition date.

The preparation of consolidated financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

As a result of the acquisition of Rofin in the first quarter of fiscal 2017, we reorganized our prior two reporting segments (Specialty Laser Systems and Commercial Lasers and Components) into two new reporting segments for the combined company based upon the organizational structure of the combined company and how the chief operating decision maker ("CODM") receives and utilizes information provided to allocate resources and make decisions: OEM Laser Sources (“OLS”) and Industrial Lasers & Systems (“ILS”). Accordingly, our segment information was restated retroactively in the first quarter of fiscal 2017. Rofin's operating results have primarily been included in our Industrial Lasers & Systems segment.

2. RECENT ACCOUNTING STANDARDS

Adoption of New Accounting Pronouncement

In November 2016, the FASB issued amended guidance that require a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard will become effective for our fiscal year beginning September 30, 2018. We elected to early adopt the standard in the first quarter of fiscal 2017 on a retrospective basis with no impact on our condensed consolidated financial statements and disclosures.

In April 2015, the FASB issued amended guidance that simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amended guidance. The new standard became effective for our fiscal year beginning October 2, 2016. We elected to early adopt the standard in the second quarter of fiscal 2016 and had recorded debt issuance costs of $5.2 million in other assets for the debt commitment we entered into in the second quarter of fiscal 2016 because

Table of Contents

the debt was not outstanding as of October 1, 2016. The debt issuance costs related to the term loan facility were reclassified to debt in the first quarter of fiscal 2017 when we drew down the debt.

Recently Issued Accounting Pronouncements

In January 2017, the FASB issued amended guidance that simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the existing guidance, when computing the implied fair value of goodwill under Step 2, an entity is required to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under the amendments in this update, an entity should simply perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The new standard will become effective for our fiscal year beginning October 2, 2021. We are currently assessing the impact of this amended guidance and the timing of adoption.

In October 2016, the FASB issued amended guidance that improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Under the new guidance, an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The new standard will become effective for our fiscal year beginning September 30, 2018. We are currently assessing the impact of this amended guidance and the timing of adoption.

In March 2016, the FASB issued amended guidance that simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. Under the new guidance, an entity recognizes all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. This change eliminates the notion of the APIC pool and significantly reduces the complexity and cost of accounting for excess tax benefits and tax deficiencies. The new standard will become effective for our fiscal year beginning October 1, 2017. We are currently assessing the impact of this amended guidance.

In May 2014, the FASB amended the Accounting Standards Codification and created a new Topic 606, "Revenue from Contracts with Customers". In May 2016, accounting guidance was issued to clarify the not yet effective revenue recognition guidance issued in May 2014. This additional guidance does not change the core principle of the revenue recognition guidance issued in May 2014, rather, it provides clarification of accounting for collections of sales taxes as well as recognition of revenue (i) associated with contract modifications, (ii) for noncash consideration, and (iii) based on the collectability of the consideration from the customer. The guidance also specifies when a contract should be considered “completed” for purposes of applying the transition guidance. The effective date and transition requirements for this guidance are the same as the effective date and transition requirements for the guidance previously issued in 2014, which is effective for our fiscal year beginning September 30, 2018. We are currently evaluating the new guidance and do not expect the guidance to have a material impact on our financial statements. We have not decided upon the method of adoption.

3. BUSINESS COMBINATIONS

Fiscal 2017 Acquisitions

Rofin

On November 7, 2016, we completed our previously announced acquisition of Rofin pursuant to the Merger Agreement dated March 16, 2016. Rofin is one of the world's leading developers and manufacturers of high-performance industrial laser sources and laser-based solutions and components. Rofin has primarily been included in our Industrial Lasers & Systems segment.

As a condition of the acquisition, we are required to divest ourselves of Rofin's low power CO2 laser business based in Hull, United Kingdom, and will report this business separately as a discontinued operation until it is divested (See Note 18).

Due to the timing of the acquisition, the total purchase consideration has been allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on a preliminary valuation analysis. These preliminary values may change in future reporting periods upon finalization of the valuation, which will occur no later than the third quarter of fiscal 2017.

Table of Contents

The total preliminary purchase consideration allocated to net assets acquired was approximately $936.3 million and consisted of the following (in thousands):

Cash consideration to Rofin's shareholders	$904,491
Cash settlement paid for Rofin employee stock options	15,290
Total cash payments to Rofin shareholders and option holders	919,781
Add: fair value of previously owned Rofin shares	20,685
Less: post-merger stock compensation expense	(4,152)
Total purchase price to allocate	$936,314

The acquisition was an all-cash transaction at a price of $32.50 per share of Rofin common stock. We funded the payment of the aggregate consideration with a combination of our available cash on hand and the proceeds from the Euro Term Loan described in Note 9. The total payment of $15.3 million due to the cancellation of options held by employees of Rofin was allocated between total estimated merger consideration of $11.1 million and post-merger stock-based compensation expense of $4.2 million based on the portion of the total service period of the underlying options that have not been completed by the merger date.

We recognized a gain of $5.4 million in the first quarter of fiscal 2017 on the increase in fair value from the date of purchase for the shares we already owned.

Under the acquisition method of accounting, the total estimated acquisition consideration is allocated to the acquired tangible and intangible assets and assumed liabilities of Rofin based on their fair values as of the acquisition date. Any excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed is allocated to goodwill. We expect that all such goodwill will not be deductible for tax purposes.

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

Cash, cash equivalents and short-term investments	$163,425
Accounts receivable	90,877
Inventory	191,159
Prepaid expenses and other assets	20,473
Assets held-for-sale, current	63,666
Property and equipment	126,507
Other assets	28,556
Intangible assets:	
Existing technology	169,029
In-process research and development	6,000
Backlog	5,600
Customer relationships	39,209
Trademarks	5,699
Patents	300
Goodwill	265,609
Current portion of long-term obligations	(3,633)
Current liabilities held for sale	(7,186)
Accounts payable	(21,603)
Other current liabilities	(70,193)
Long-term debt	(11,641)
Other long-term liabilities	(125,539)
Total	$936,314

The fair value write-up of acquired finished goods and work-in-process inventory was $26.8 million, which will be

10

Table of Contents

amortized over the expected period during which the acquired inventory is sold, or 6 months. Accordingly, for the three and six months ended April 1, 2017, we recorded $13.0 million and $21.9 million, respectively, of incremental cost of sales associated with the fair value write-up of inventory acquired in the merger with Rofin.

The fair value write-up of acquired property, plant and equipment of $36.8 million will be amortized over the useful lives of the assets. Property, plant and equipment is valued at its value-in-use, unless there was a known plan to dispose of the asset.

The acquired existing technology, backlog, trademarks and patents are being amortized on a straight-line basis, which approximates the economic use of the asset, over their estimated useful lives of 3 to 5 years, 6 months, 3 years, and 5 years, respectively. Customer relationships are being amortized on an accelerated basis utilizing free cash flows over periods ranging from 5 to 10 years. The useful lives of in-process research and development will be defined in the future upon further evaluation of the status of these applications. The fair value of the acquired intangibles was determined using the income approach. In performing these valuations, the key underlying probability-adjusted assumptions of the discounted cash flows were projected revenues, gross margin expectations and operating cost estimates. The valuations were based on the information that was available as of the acquisition date and the expectations and assumptions that have been deemed reasonable by our management. There are inherent uncertainties and management judgment required in these determinations. This acquisition resulted in a purchase price that exceeded the estimated fair value of tangible and intangible assets, which was allocated to goodwill.

We believe the amount of goodwill relative to identifiable intangible assets relates to several factors including: (1) potential buyer-specific synergies related to market opportunities for a combined product offering and (2) potential to leverage our sales force to attract new customers and revenue and cross sell to existing customers.

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. The projects have not been completed as of April 1, 2017.

We expensed $2.9 million and $17.2 million of acquisition-related costs as selling, general and administrative expenses in our consolidated statements of operations in the three and six months ended April 1, 2017, respectively.

The results of this acquisition were included in our consolidated operations beginning on November 7, 2016. The amount of continuing Rofin net sales and net loss from continuing operations included in our condensed consolidated statements of operations for the three months ended April 1, 2017 was approximately $110.7 million and $17.9 million, respectively. The amount of continuing Rofin net sales and net loss from continuing operations included in our condensed consolidated statements of operations for the six months ended April 1, 2017 was approximately $185.1 million and $29.9 million, respectively.

Unaudited Pro Forma Information

The following unaudited pro forma financial information presents our combined results of operations as if the acquisition of Rofin and the related issuance of our Euro Term Loan had occurred on October 4, 2015. The unaudited pro forma financial information is not necessarily indicative of what our condensed consolidated results of operations actually would have been had the acquisition been completed on October 4, 2015. In addition, the unaudited pro forma financial information does not attempt to project the future results of operations of the combined company. The actual results may differ significantly from the pro forma results presented here due to many factors.

Table of Contents

	Three Months Ended		Six Months Ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Total net sales	$432,998	$308,898	$822,814	$609,337
Net income (loss)	$55,519	$(6,511)	$94,702	$(38,558)
Net income (loss) per share:				
Basic	$2.27	$(0.27)	$3.88	$(1.60)
Diluted	$2.24	$(0.27)	$3.83	$(1.59)

The unaudited pro forma financial information above includes the net income of Rofin’s low power CO2 laser business based in Hull, United Kingdom, which is recorded as a discontinued operation in the three and six months ended April 1, 2017.

The unaudited pro forma financial information above reflects the following material adjustments:

- Incremental amortization and depreciation expense related to the estimated fair value of identifiable intangible assets and property, plant and equipment from the purchase price allocation.
- The exclusion of amortization of inventory step-up to its estimated fair value from the three and six months ended April 1, 2017 and the addition of the amortization to the three and six months ended April 2, 2016.
- The exclusion of revenue adjustments as a result of the reduction in customer deposits and deferred revenue related to its estimated fair value from the three and six months ended April 1, 2017 and the addition of these adjustments to the three and six months ended April 2, 2016.
- Incremental interest expense and amortization of debt issuance costs related to our Euro Term Loan and Revolving Credit Agreement.
- The exclusion of acquisition costs incurred by both Coherent and Rofin from the three and six months ended April 1, 2017 and the addition of these costs to the three and six months ended April 2, 2016.
- The exclusion of a stock-based compensation charge related to the acceleration of Rofin options from the six months ended April 1, 2017 and the addition of this charge to the six months ended April 2, 2016.
- The exclusion of a gain on business combination for our previously owned shares of Rofin from the six months ended April 1, 2017 and the addition of this gain to the six months ended April 2, 2016.
- The exclusion of a foreign exchange gain on forward contracts related to our debt commitment and debt issuance from the six months ended April 1, 2017 and the addition of this gain to the six months ended April 2, 2016.
- The estimated tax impact of the above adjustments.

4. FAIR VALUES

We have not changed our valuation techniques in measuring the fair value of any financial assets and liabilities during the period. We recognize transfers between levels within the fair value hierarchy, if any, at the end of each quarter. There were no transfers between levels during the periods presented. As of April 1, 2017 and October 1, 2016, we did not have any assets or liabilities valued based on Level 3 valuations.

Financial assets and liabilities measured at fair value as of April 1, 2017 and October 1, 2016 are summarized below (in thousands):

Table of Contents

	Aggregate Fair Value	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Aggregate Fair Value	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
	April 1, 2017			October 1, 2016		
		(Level 1)	(Level 2)		(Level 1)	(Level 2)
Assets:						
Cash equivalents:						
Money market fund deposits	$63,258	$ 63,258	$ —	$237,142	$ 237,142	$ —
Short-term investments:						
U.S. Treasury and agency obligations (2)	125	—	125	125	—	125
Commercial paper (2)	—	—	—	24,999	—	24,999
Equity securities (1)	—	—	—	20,482	20,482	—
Prepaid and other assets:						
Foreign currency contracts (3)	790	—	790	889	—	889
Mutual funds — Deferred comp and supplemental plan (4)	14,953	14,953	—	14,399	14,399	—
Total	$79,126	$ 78,211	$ 915	$298,036	$ 272,023	$ 26,013
Liabilities:						
Other current liabilities:						
Foreign currency contracts (3)	(787)	—	(787)	(3,100)	—	(3,100)
Total	$78,339	$ 78,211	$ 128	$294,936	$ 272,023	$ 22,913

---

(1) Valuations are based upon quoted market prices.

(2) Valuations are based upon quoted market prices in active markets involving similar assets. The market inputs used to value these instruments generally consist of market yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. Pricing sources include industry standard data providers, security master files from large financial institutions, and other third party sources which are input into a distribution-curve-based algorithm to determine a daily market value. This creates a “consensus price” or a weighted average price for each security.

(3) The principal market in which we execute our foreign currency contracts is the institutional market in an over-the-counter environment with a relatively high level of price transparency. The market participants usually are large commercial banks. Our foreign currency contracts’ valuation inputs are based on quoted prices and quoted pricing intervals from public data sources and do not involve management judgment. At April 1, 2017, prepaid expenses and other assets include $790 non-designated forward contracts; other current liabilities include $787 non-designated forward contracts. At October 1, 2016, prepaid expenses and other assets include $889 non-designated forward contracts; other current liabilities include $3,100 non-designated forward contracts. See Note 6, "Derivative Instruments and Hedging Activities".

(4) The fair value of mutual funds is determined based on quoted market prices. Securities traded on a national exchange are stated at the last reported sales price on the day of valuation; other securities traded in over-the-counter markets and listed securities for which no sale was reported on that date are stated as the last quoted bid price.

5. SHORT-TERM INVESTMENTS

We consider all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Investments classified as available-for-sale are reported at fair value with unrealized gains and losses, net of related income taxes, recorded as a separate component of other comprehensive income ("OCI") in stockholders' equity until realized. Interest and amortization of premiums and discounts for debt securities are included in interest income.

Table of Contents

Gains and losses on securities sold are determined based on the specific identification method and are included in other income (expense).

Cash, cash equivalents and short-term investments consist of the following (in thousands):

	April 1, 2017			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$432,980	$ —	$ —	$432,980
Short-term investments:				
Available-for-sale securities:				
U.S. Treasury and agency obligations	$125	$ —	$ —	$125
Total short-term investments	$125	$ —	$	