COHU INC
Form 10-Q
August 07, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 28, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number 001-04298

COHU, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-1934119**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
12367 Crosthwaite Circle, Poway, California	**92064-6817**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code (858) 848-8100

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 þ 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 þ 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨ Smaller reporting company ¨

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

As of June 28, 2014 the Registrant had 25,398,173 shares of its $1.00 par value common stock outstanding.

Table of Contents

COHU, INC.

INDEX

FORM 10-Q

JUNE 28, 2014

Table of Contents

Item 1.

COHU, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

	June 28, 2014 (Unaudited)	December 28, 2013 *
ASSETS		
Current assets:		
Cash and cash equivalents	$ 57,969	$ 51,668
Short-term investments	200	1,200
Accounts receivable, net	69,561	58,164
Inventories:		
Raw materials and purchased parts	29,960	27,668
Work in process	23,642	16,941
Finished goods	7,862	10,800
	61,464	55,409
Deferred income taxes	5,249	5,516
Other current assets	9,367	8,619
Current assets of discontinued video camera segment (Note 2)		6,272
Total current assets	203,810	186,848
Property, plant and equipment, at cost:		
Land and land improvements	12,253	12,285
Buildings and building improvements	32,001	31,731
Machinery and equipment	42,684	42,105
	86,938	86,121
Less accumulated depreciation and amortization	(52,649)	(50,325)
Net property, plant and equipment	34,289	35,796
Goodwill	71,075	71,313
Intangible assets, net	41,101	45,315
Other assets	5,823	5,720
Noncurrent assets of discontinued video camera segment (Note 2)		431
	$ 356,098	$ 345,423
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 32,156	$ 25,292
Accrued compensation and benefits	16,931	14,271
Accrued warranty	4,582	5,155
Deferred profit	8,858	6,066
Income taxes payable	1,053	805
Other accrued liabilities	7,528	7,675
Current liabilities of discontinued video camera segment (Note 2)		1,747

Total current liabilities	71,108	61,011
Accrued retirement benefits	10,976	10,841
Noncurrent income tax liabilities	7,567	7,463
Deferred income taxes	12,179	12,948
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $1 par value; 1,000 shares authorized, none issued		
Common stock, $1 par value; 60,000 shares authorized, 25,398 shares issued and outstanding in 2014 and 25,080 shares in 2013	25,398	25,080
Paid-in capital	93,064	89,883
Retained earnings	129,330	131,546
Accumulated other comprehensive income	6,476	6,651
Total stockholders equity	254,268	253,160
	$ 356,098	$ 345,423

* Derived from December 28, 2013 audited financial statements

The accompanying notes are an integral part of these statements.

3

Table of Contents

COHU, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net sales	$ 77,850	$ 62,234	$ 142,714	$ 114,461
Cost and expenses:				
Cost of sales	52,366	42,720	95,030	81,005
Research and development	10,180	11,192	20,740	24,065
Selling, general and administrative	14,259	13,218	29,323	27,423
	76,805	67,130	145,093	132,493
Income (loss) from operations	1,045	(4,896)	(2,379)	(18,032)
Interest and other, net	5	16	19	26
Income (loss) from continuing operations before taxes	1,050	(4,880)	(2,360)	(18,006)
Income tax provision (benefit)	119	(546)	63	(1,437)
Income (loss) from continuing operations	931	(4,334)	(2,423)	(16,569)
Income from discontinued operations, net of tax (Note 2)	3,232	289	3,238	421
Net income (loss)	$ 4,163	$ (4,045)	$ 815	$ (16,148)
Income (loss) per share:				
Basic:				
Income (loss) from continuing operations	$ 0.04	$ (0.17)	$ (0.10)	$ (0.67)
Income from discontinued operations, net of tax	0.12	0.01	0.13	0.02
Net income (loss)	$ 0.16	$ (0.16)	$ 0.03	$ (0.65)
Diluted:				
Income (loss) from continuing operations	$ 0.04	$ (0.17)	$ (0.10)	$ (0.67)
Income from discontinued operations, net of tax	0.12	0.01	0.13	0.02
Net income (loss)	$ 0.16	$ (0.16)	$ 0.03	$ (0.65)
Weighted average shares used in computing Income (loss) per share:				
Basic	25,324	24,817	25,223	24,737
Diluted	25,797	24,817	25,223	24,737

Cash dividends declared per share	$ 0.06	$ 0.06	$ 0.12	$ 0.12

The accompanying notes are an integral part of these statements.

4

Table of Contents

COHU, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands)

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net income (loss)	$ 4,163	$ (4,045)	$ 815	$ (16,148)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	(380)	1,130	(95)	(2,872)
Adjustments related to postretirement benefits	(124)	31	(80)	90
Change in unrealized gain/loss on investments		(4)		(7)
Other comprehensive income (loss), net of tax	(504)	1,157	(175)	(2,789)
Comprehensive Income (loss)	$ 3,659	$ (2,888)	$ 640	$ (18,937)

The accompanying notes are an integral part of these statements.

5

Table of Contents

COHU, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Six Months Ended	
	June 28, 2014	**June 29, 2013**
Cash flows from operating activities:		
Net income (loss)	$ 815	$ (16,148)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Gain on disposal of video camera segment	(4,133)	
Operating cash flows of discontinued operations	(694)	1,405
Depreciation and amortization	6,875	6,145
Share-based compensation expense	3,168	2,711
Deferred income taxes	(723)	(794)
Other accrued liabilities	45	394
Changes in current assets and liabilities, excluding effects from acquisitions and divestitures:		
Accounts receivable	(11,399)	(1,692)
Inventories	(6,218)	3,049
Other current assets	(554)	1,125
Accounts payable	6,512	2,140
Deferred profit	2,792	4,716
Income taxes payable, including excess stock option exercise benefit	324	861
Accrued compensation, warranty and other liabilities	2,166	(2,488)
Net cash provided by (used in) operating activities	(1,024)	1,424
Cash flows from investing activities, excluding effects from acquisitions and divestitures:		
Cash received from sale of video camera segment	9,886	
Payment for purchase of Ismeca, net of cash received		(53,463)
Sales and maturities of short-term investments	1,000	632
Purchases of property, plant and equipment	(1,106)	(1,223)
Other assets	(102)	(162)
Investing cash flows of discontinued operations	(6)	(30)
Net cash provided by (used in) investing activities	9,672	(54,246)
Cash flows from financing activities:		
Cash dividends paid	(3,011)	(1,478)
Issuance of stock, net of repurchases	139	691
Net cash used in financing activities	(2,872)	(787)
Effect of exchange rate changes on cash and cash equivalents	525	(1,759)
Net decrease in cash and cash equivalents	6,301	(55,368)
Cash and cash equivalents at beginning of period	51,668	102,808
Cash and cash equivalents at end of period	$ 57,969	$ 47,440
Supplemental disclosure of cash flow information:		
Cash paid (refunded) for income taxes	$ 591	$ (1,321)

Inventory capitalized as property, plant and equipment	$	142	$	572
Dividends declared but not yet paid	$	1,524	$	1,494

The accompanying notes are an integral part of these statements.

6

Table of Contents

Cohu, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

June 28, 2014

1. Summary of Significant Accounting Policies
Basis of Presentation

Our fiscal years are based on a 52- or 53-week period ending on the last Saturday in December. The condensed consolidated balance sheet at December 28, 2013 has been derived from our audited financial statements at that date. The interim condensed consolidated financial statements as of June 28, 2014 (also referred to as the second quarter of fiscal 2014 and the first six months of fiscal 2014) and June 29, 2013 (also referred to as the second quarter of fiscal 2013 and the first six months of fiscal 2013) are unaudited. However, in management s opinion, these financial statements reflect all adjustments (consisting only of normal, recurring items) necessary to provide a fair presentation of our financial position, results of operations and cash flows for the periods presented. The six-month periods ended June 28, 2014 and June 29, 2013 were each comprised of 13 and 26 weeks, respectively.

Our interim results are not necessarily indicative of the results that should be expected for the full year. For a better understanding of Cohu, Inc. and our financial statements, we recommend reading these interim condensed consolidated financial statements in conjunction with our audited financial statements for the year ended December 28, 2013, which are included in our 2013 Annual Report on Form 10-K, filed with the U. S. Securities and Exchange Commission (SEC). In the following notes to our interim condensed consolidated financial statements, Cohu, Inc. is referred to as Cohu , we , our and us .

Certain prior-period amounts on our condensed consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications have no effect on previously reported net income.

Risks and Uncertainties

We are subject to a number of risks and uncertainties that may significantly impact our future operating results. These risks and uncertainties are discussed under Item 1A. Risk Factors included in this Form 10-Q. Understanding these risks and uncertainties is integral to the review of our interim condensed consolidated financial statements.

Discontinued Operations

On June 6, 2014 we completed the sale of substantially all of the assets of our video camera segment, Cohu Electronics Division (Cohu Electronics), and its operating results are being presented as discontinued operations and all prior period amounts have been reclassified accordingly. See Note 2, Disposal of Video Camera Segment for additional information. Unless otherwise indicated, all amounts herein relate to continuing operations.

Concentration of Credit Risk

Financial instruments that potentially subject us to significant credit risk consist principally of cash equivalents, short-term investments and trade accounts receivable. We invest in a variety of financial instruments and, by policy, limit the amount of credit exposure with any one issuer.

Trade accounts receivable are presented net of allowance for doubtful accounts of $0.3 million and $0.5 million at June 28, 2014 and December 28, 2013, respectively. Our customers include semiconductor manufacturers and semiconductor test subcontractors and other customers located throughout many areas of the world. While we believe that our allowance for doubtful accounts is adequate and represents our best estimate at June 28, 2014, we will continue to monitor customer liquidity and other economic conditions, which may result in changes to our estimates regarding collectability.

Goodwill, Other Intangible Assets and Long-lived Assets

We evaluate goodwill for impairment annually and when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimated the fair values of our reporting units primarily using the income approach valuation methodology that includes the discounted cash flow method, taking into consideration the market approach and certain market multiples as a validation of the values derived using the discounted cash flow methodology. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on customer forecasts, industry trade organization data and general economic conditions.

Table of Contents

Cohu, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

June 28, 2014

We conduct our annual impairment test as of October 1st of each year, and have determined there is no impairment as of October 1, 2013 as we determined that the estimated fair values of our semiconductor equipment and microwave communications reporting units exceeded their carrying values by approximately 31% and 11%, respectively, on that date. Other events and changes in circumstances may also require goodwill to be tested for impairment between annual measurement dates. While a decline in stock price and market capitalization is not specifically cited as a goodwill impairment indicator, a company s stock price and market capitalization should be considered in determining whether it is more likely than not that the fair value of a reporting unit is less that its carrying value. Additionally, a significant decline in a company s stock price may suggest that an adverse change in the business climate may have caused the fair value of one or more reporting units to fall below their carrying value. The financial and credit market volatility directly impacts our fair value measurement through our stock price that we use to determine our market capitalization. During times of volatility, significant judgment must be applied to determine whether credit or stock price changes are a short-term swing or a longer-term trend. As of June 28, 2014 we do not believe there have been any events or circumstances that would require us to perform an interim goodwill impairment review, however, a sustained decline in Cohu s market capitalization below its book value could lead us to determine, in a future period, that an interim goodwill impairment review is required and may result in an impairment charge which would have a negative impact on our results of operations.

Long-lived assets, other than goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or any other significant adverse change that would indicate that the carrying amount of an asset or group of assets may not be recoverable. For long-lived assets, impairment losses are only recorded if the asset s carrying amount is not recoverable through its undiscounted, probability-weighted future cash flows. We measure the impairment loss based on the difference between the assets carrying amount and estimated fair value.

Share-Based Compensation

Share-based compensation expense related to stock options is recorded based on the fair value of the award on its grant date which we estimate using the Black-Scholes valuation model. Share-based compensation expense related to restricted stock unit awards is calculated based on the market price of our common stock on the grant date, reduced by the present value of dividends expected to be paid on our common stock prior to vesting of the restricted stock unit.

Reported share-based compensation is classified, in the condensed consolidated interim financial statements, as follows *(in thousands)*:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Cost of sales	$ 190	$ 132	$ 265	$ 200
Research and development	455	361	945	870
Selling, general and administrative	1,042	831	1,958	1,641
Total share-based compensation	1,687	1,324	3,168	2,711
Income tax benefit	(56)		(97)	
Total share-based compensation, net	$ 1,631	$ 1,324	$ 3,071	$ 2,711

Income (Loss) Per Share

Basic income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the reporting period. Diluted income (loss) per share includes the dilutive effect of common shares potentially issuable upon the exercise of stock options, vesting of outstanding restricted stock units and issuance of stock under our employee stock purchase plan using the treasury stock method. In loss periods, potentially dilutive securities are excluded from the per share computations due to their anti-dilutive effect. For purposes of computing diluted income (loss) per share, stock options with exercise prices that exceed the average fair market value of our common stock for the period are excluded. For the three and six months ended June 28, 2014, options to issue approximately 2,231,000 and 2,257,000 shares of common stock were excluded from the computation, respectively.

Table of Contents

Cohu, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

June 28, 2014

The following table reconciles the denominators used in computing basic and diluted income (loss) per share *(in thousands)*:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Weighted average common shares	25,324	24,817	25,223	24,737
Effect of dilutive stock options	473			
	25,797	24,817	25,223	24,737

Cohu has utilized the control number concept in the computation of diluted earnings per share to determine whether potential common stock instruments are dilutive. The control number used is income/loss from continuing operations. The control number concept requires that the same number of potentially dilutive securities applied in computing diluted earnings per share from continuing operations be applied to all other categories of income or loss, regardless of their anti-dilutive effect on such categories. Therefore, no dilutive effect has been recognized in the calculation of income from discontinued operations per share or net income per share for the six months ended June 28, 2014 and of income from discontinued operations per share for the three and six months ended June 29, 2013.

Revenue Recognition

Our revenue recognition policy is disclosed in Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 28, 2013. As more fully described in that policy, revenue from products that have not previously satisfied customer acceptance requirements is recognized upon customer acceptance. The gross profit on sales that are not recognized is generally recorded as deferred profit and reflected as a current liability in our consolidated balance sheet.

At June 28, 2014, we had deferred revenue totaling approximately $15.3 million and deferred profit of $8.9 million. At December 28, 2013, we had deferred revenue totaling approximately $7.4 million and deferred profit of $6.1 million. The periodic increase is primarily a result of deferrals of revenue associated with shipments of semiconductor equipment.

Comprehensive Income

Our accumulated other comprehensive income balance totaled approximately $6.5 million and $6.7 million at June 28, 2014 and December 28, 2013, respectively, and was attributed to all non-owner changes in stockholders equity and consists of, on an after-tax basis where applicable, foreign currency adjustments resulting from the translation of certain accounts into U.S. dollars where the functional currency is the Euro or the Swiss Franc, unrealized gains and losses on investments and adjustments related to postretirement benefits. Reclassification adjustments to accumulated other comprehensive income during the first six months of fiscal 2014 and 2013 were not significant.

Retiree Medical Benefits

We provide post-retirement health benefits to certain executives and directors under a noncontributory plan. The net periodic benefit cost incurred during the first six months of fiscal 2014 and 2013 was not significant.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements In July 2013, the Financial Accounting Standards Board (FASB) issued guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This amendment to previous income tax guidance clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax benefit is disallowed. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be netted with the deferred tax asset. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this new guidance in the first quarter of fiscal 2014 did not have a material impact on our consolidated financial position, results of operations or cash flows.

Table of Contents

Cohu, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

June 28, 2014

In March 2013, the FASB issued guidance on a parent company s accounting for the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. This new guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The amendments will be effective for fiscal years and interim periods starting after December 15, 2013 with early adoption permitted. The adoption of this new guidance in the first quarter of fiscal 2014 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In April 2014, the FASB issued new guidance on reporting discontinued operations and disclosures of disposals of components of an entity, which amends the existing definition of a discontinued operation and requires entities to disclose additional information about disposal transactions that do not meet the discontinued operations criteria. The guidance redefines a discontinued operation as a component or group of components of an entity that has been disposed of by sale or other than by sale or is classified as held for sale and represents a strategic shift that has a major effect on an entity s operations and financial results. The guidance is effective prospectively for disposals or components classified as held for sale in periods on or after December 15, 2014 with early adoption permitted. Cohu elected to implement this new guidance in the second quarter of fiscal 2014 and the adoption did not have a material impact on our consolidated financial position, results of operations or cash flows.

Recently Issued Accounting Pronouncements In May 2014, the FASB issued new guidance on revenue from contracts with customers. The amended guidance outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities have the option of using either a full retrospective or modified approach to adopt the guidance. This guidance is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. Early adoption is not permitted. We are still evaluating the impact this new guidance might have on our consolidated financial position, results of operations or cash flows.

2. Disposal of Video Camera Segment

On June 6, 2014, Cohu announced the sale of substantially all the assets of our video camera segment, Cohu Electronics. Our decision to sell Cohu Electronics resulted from management s determination that this industry segment was no longer a strategic fit within our organization. The sales price was $9.5 million in cash plus up to $0.5 million in contingent consideration. The sales price is subject to a working capital adjustment and, as a result, adjustments to the gain on disposal noted below are possible.

Balance sheet information of our discontinued video camera segment is summarized as follows *(in thousands)*:

	June 28, 2014	December 28, 2013
Assets:		
Accounts receivable, net	$	$ 2,597
Inventories		3,568
Other current assets		107
Total current assets		6,272
Property, plant and equipment, net		431

Total assets	$	$ 6,703
Liabilities:		
Accounts payable	$	$ 730
Other accrued current liabilities		1,017
Total liabilities	$	$ 1,747

10

Cohu, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

June 28, 2014

Operating results of our discontinued video camera segment is summarized as follows (*in thousands*):

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net sales	$ 1,907	$ 4,418	$ 5,460	$ 8,207
Operating income (loss) before income taxes	$ (363)	$ 451	$ (242)	$ 658
Gain on disposal of video camera segment	4,248		4,133	
Income tax provision	653	162	653	237
Income from discontinued operations, net of taxes	$ 3,232	$ 289	$ 3,238	$ 421

In connection with the sale of the assets of our video camera segment we incurred divestiture-related costs that would not have been incurred otherwise. These costs consist of legal advisory services, success based compensation arrangements and certain other items that are incremental to normal operating charges and were expensed as incurred. During the three and six months ended June 28, 2014 divestiture-related costs totaled $0.7 million and $0.8 million, respectively and have been netted against the gain on disposal presented above.

3. Geographic Consolidation

In May 2014, our wholly owned subsidiary Broadcast Microwave Services, Inc. (BMS) implemented a geographic consolidation plan to relocate the manufacturing, engineering and administrative function of its German operation to its headquarters facility in Poway, California. The consolidation is expected to be substantially complete in September 2014. For the three-month period ended June 28, 2014, BMS recorded charges to operations totaling $427,000 for severance and one-time termination benefits. These charges are included in cost of sales $143,000, research and development $170,000 and selling, general and administrative expense $114,000.

The following table reconciles amounts accrued and paid under the consolidation plan *(in thousands)*:

	Severance and Other Payroll
Balance, March 29, 2014	$
Costs accrued	427
Amounts paid or charged	
Impact of currency exchange	2
Balance, June 28, 2014	$ 429

4. Goodwill and Other Purchased Intangible Assets

Changes in the carrying value of goodwill by reportable segment during the year ended December 28, 2013 and the six-month period ended June 28, 2014 were as follows (*in thousands*):

&n