

NEXTEST SYSTEMS CORP  
Form 10-Q  
November 07, 2006  
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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM 10-Q

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

For the quarterly period ended September 23, 2006.

.. **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: 000-51851

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## Nextest Systems Corporation

(Exact name of Registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

incorporation or organization)

**1901 Monterey Road, San Jose, California 95112**

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(408) 817-7200**

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**77-0470150**  
(IRS Employer

Identification No.)

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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  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer as defined in Rule 12B-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company, as defined in Rule 12b-2 of the Exchange Act. Yes  No

As of November 3, 2006, there were 17,592,053 shares of the Registrant's Common Stock outstanding, par value \$0.001.

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**NEXTEST SYSTEMS CORPORATION**

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1.****NEXTEST SYSTEMS CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except share and per share data)****(unaudited)**

	<b>September 23, 2006</b>	<b>June 24, 2006</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 53,041	\$ 68,667
Short-term investments	15,540	
Accounts receivable, net of allowances of \$90 at September 23, 2006 and at June 24, 2006	20,184	16,518
Inventory	26,706	26,099
Deferred tax assets	3,006	2,976
Prepaid expenses and other current assets	1,020	1,118
<b>Total current assets</b>	<b>119,497</b>	<b>115,378</b>
Property and equipment, net	3,786	3,868
Restricted cash	317	317
Deferred tax assets	855	1,067
Other assets	478	466
<b>Total assets</b>	<b>\$ 124,933</b>	<b>\$ 121,096</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,529	\$ 2,585
Accrued liabilities	4,399	5,946
Deferred income	2,125	4,890
Customer deposits	9	
Income tax payable	3,020	1,163
<b>Total current liabilities</b>	<b>13,082</b>	<b>14,584</b>
Deferred income	336	458
Other liabilities	189	202
<b>Total liabilities</b>	<b>13,607</b>	<b>15,244</b>
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred Stock: no par value, 10,000,000 shares authorized, none issued and outstanding		
Common Stock: \$0.001 par value; 140,000,000 shares authorized 17,558,003 and 17,512,278 shares issued and outstanding at September 23, 2006 and June 24, 2006, respectively	18	18
Additional paid-in capital	102,215	101,597
Deferred stock-based compensation	(287)	(359)
Retained earnings	9,380	4,596

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Total stockholders' equity	111,326	105,852
Total liabilities and stockholders' equity	\$ 124,933	\$ 121,096

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**NEXTEST SYSTEMS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended	
	September 23, 2006	September 24, 2005
Net revenue	\$ 26,859	\$ 17,205
Cost of revenue	12,358	8,421
<b>Gross profit</b>	<b>14,501</b>	<b>8,784</b>
Operating expenses:		
Research and development	2,162	1,733
Selling, general and administrative	5,670	4,633
<b>Total operating expenses</b>	<b>7,832</b>	<b>6,366</b>
Income from operations	6,669	2,418
Interest and other income, net	837	74
Income before income taxes	7,506	2,492
Income tax provision	2,722	873
Net income	4,784	1,619
Accretion of Series B preferred stock redemption value		(1,224)
Amount allocated to Series A preferred stockholders		(45)
<b>Net income available to common stockholders</b>	<b>\$ 4,784</b>	<b>\$ 350</b>
Basic and diluted net income per share available to common stockholders:		
Net income per common share, basic	\$ 0.27	\$ 0.04
Net income per common share, diluted	\$ 0.25	\$ 0.04
Weighted average number of shares used in per share calculation, basic	17,508,192	8,721,902
Weighted average number of shares used in per share calculation, diluted	18,768,888	9,492,432

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents****NEXTEST SYSTEMS CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	<b>Three Months Ended</b>	
	<b>September 23, 2006</b>	<b>September 24, 2005</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 4,784	\$ 1,619
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	364	317
Provision for inventory write-downs	244	28
Stock-based compensation	360	142
Deferred tax provision (benefit)	182	(371)
Interest on notes receivable from stockholders		(10)
Interest on short-term investments	(46)	
Tax benefits from stock-based compensation plans	186	
Excess tax benefits from stock-based compensation plans	(178)	
Changes in current assets and liabilities:		
Accounts receivable	(3,666)	7,632
Inventory	(1,041)	(2,995)
Prepaid expenses and other current assets	98	31
Other assets	(12)	10
Accounts payable	944	(994)
Accrued liabilities	(1,560)	(45)
Income tax payable	1,849	1,233
Deferred income	(2,887)	(2,624)
Customer deposits	9	1,382
Net cash provided by (used in) operating activities	(370)	5,355
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(92)	(65)
Purchases of available-for-sale securities	(15,580)	
Maturities of available-for-sale securities	86	
Net cash used in investing activities	(15,586)	(65)
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	152	19
Excess tax benefits from stock-based compensation plans	178	
Repayment of principal and interest on notes receivable from stockholders		33
Net cash provided by financing activities	330	52
Net increase (decrease) in cash and cash equivalents	(15,626)	5,342
Cash and cash equivalents at beginning of period	68,667	10,474
Cash and cash equivalents at end of period	\$ 53,041	\$ 15,816

**Non-cash financing activities:**

Extinguishment of principal on notes receivable from stockholders	\$	\$	1,005
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The accompanying notes are an integral part of these condensed consolidated financial statements.



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**NEXTEST SYSTEMS CORPORATION**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**Note 1 The Company**

Nextest Systems Corporation (the Company) was incorporated in California in November 1997 and reincorporated in Delaware in March 2006. The Company is engaged in the design, development, manufacturing, sale and service of automatic test equipment (ATE) for the semiconductor industry.

On March 21, 2006, the Company sold 4,600,000 shares of its common stock at an offering price of \$14.00 per share in its initial public offering resulting in net proceeds to the Company of \$58.6 million after both underwriters' commissions and approximately \$1.3 million in issuance costs.

The Company's fiscal year is the 52 or 53 weeks ending on the last Saturday in June. Fiscal 2007 and fiscal 2006 are 53 and 52 week fiscal years, respectively. The periods for the three months ended September 23, 2006 and September 24, 2005 included 13 weeks each.

**Note 2 Basis of Presentation**

The accompanying condensed consolidated financial statements have been prepared by the Company 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 generally accepted accounting principles in the United States (US GAAP) have been condensed or omitted pursuant to such rules and regulations. The June 24, 2006 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 24, 2006.

In the opinion of management, the accompanying condensed consolidated financial statements contain all normal and recurring adjustments necessary for a fair statement of financial position, results of operations and cash flows for the periods indicated.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (including inventory valuation, accounts receivable valuation, accrued warranty and estimated fair values of stock options and redeemable preferred stock) and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of net revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Note 3 Recent Accounting Pronouncements**

In July 2006, the FASB issued FASB Interpretation 48, Accounting for Income Tax Uncertainties (FIN 48). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as more-likely-than-not to be sustained by the taxing authority. The recently issued literature also provides guidance on the recognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 is effective for fiscal years beginning after December 15, 2006. The differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The Company is currently evaluating the impact, if any, of adopting the provisions of FIN 48 on its financial position and results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS No. 157), Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of our 2009 fiscal year. The Company is currently evaluating the impact, if any, of adopting SFAS No. 157 on its financial statements.



**Table of Contents****NEXTEST SYSTEMS CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108), to address diversity in practice in quantifying financial statement misstatements. SAB 108 requires that the Company quantify misstatements based on their impact on each of our financial statements and related disclosures. SAB 108 is effective as of the end of our 2007 fiscal year, allowing a one-time transitional cumulative effect adjustment to retained earnings as of June 24, 2006 for errors that were not previously deemed material, but are material under the guidance in SAB 108. Adoption of SAB 108 is not expected to have an impact on the Company's financial statements.

**Note 4 Short-term Investments**

The Company considers marketable securities with remaining maturities at the time of purchase greater than three months and that are expected to be realized within one year from the balance sheet date as short-term investments. Marketable securities consist of debt securities that are classified as available-for-sale and are reported at fair value in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" with net unrealized gains and losses reported within shareholders' equity. There were no significant unrealized gains and losses reported in the three months ended September 23, 2006. Short-term investments at September 23, 2006 consisted entirely of auction rate securities which when purchased had auction-rate reset dates within 90 days of the purchase date.

**Note 5 Balance Sheet Components (in thousands)**

	September 23, 2006	June 24, 2006
<b>Inventory:</b>		
Raw materials	\$ 16,633	\$ 16,971
Work-in-progress	5,487	2,753
Inventory held at customers	1,574	2,258
Field service inventory	1,905	1,787
Finished goods	1,107	2,330
	\$ 26,706	\$ 26,099

Inventory provisions for the three months ended September 23, 2006 and September 24, 2005 were \$244,000 and \$28,000, respectively. Recoveries resulting from sales of previously written-down inventory for the three months ended September 23, 2006 and September 24, 2005 were \$38,000 and \$172,000, respectively.

	September 23, 2006	June 24, 2006
<b>Accrued liabilities:</b>		
Payroll and related expenses	\$ 1,443	\$ 2,967
Accrued warranty	726	635
Accrued commissions	589	1,013
Accrued liability for inventory in-transit	399	173
Professional fees	350	398
Other accrued expenses	892	760
	\$ 4,399	\$ 5,946



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**NEXTEST SYSTEMS CORPORATION**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(unaudited)**

**Note 6 Net Income Per Share**

Basic net income available to common stockholders per share is computed by dividing the net income available to common stockholders by the weighted-average common shares outstanding for the period. The net income available to common stockholders is calculated by deducting the accretion of the estimated redemption fair value of shares of the Series B Preferred and dividends allocable to shares of the Series A Preferred from net income to determine the net income available to common stockholders.

Diluted net income available to common stockholders per share is computed giving effect to all potentially dilutive common stock, including stock options and common stock subject to repurchase using the treasury stock method and all convertible securities using the if-converted method to the extent it is dilutive.

The following table sets forth the computation of basic and diluted net income attributable to common stockholders per share (in thousands, except share and per share data):

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<b>Three Months Ended</b>	
<b>September 23,</b>	<b>September 24,</b>
<b>2006</b>	<b>2005</b>