

COHU INC
Form 10-Q
August 03, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 26, 2010

OR

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

**Commission file number 1-4298
COHU, INC.**

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

95-1934119

(I.R.S. Employer Identification No.)

12367 Crosthwaite Circle, Poway, California

(Address of principal executive offices)

92064-6817

(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 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 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

Non-accelerated filer

Smaller reporting
company

(Do not check if a 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
As of June 26, 2010 the Registrant had 23,706,609 shares of its \$1.00 par value common stock outstanding.

COHU, INC.
INDEX
FORM 10-Q
June 26, 2010

**Page
Number**

Part I Financial Information

Item 1. Financial Statements:

Condensed Consolidated Balance Sheets June 26, 2010 (unaudited) and December 26, 2009 3

Condensed Consolidated Statements of Operations (unaudited) Three and Six Months Ended June 26, 2010 and June 27, 2009 4

Condensed Consolidated Statements of Cash Flows (unaudited) Six Months Ended June 26, 2010 and June 27, 2009 5

Notes to Unaudited Condensed Consolidated Financial Statements 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 15

Item 3. Quantitative and Qualitative Disclosures About Market Risk 22

Item 4. Controls and Procedures 23

Part II Other Information

Item 1. Legal Proceedings 24

Item 1A. Risk Factors 24

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 24

Item 3. Defaults Upon Senior Securities 24

Item 4. (Removed and Reserved) 24

Item 5. Other Information 24

Item 6. Exhibits 25

Signatures 26

EX-31.1

EX-31.2

EX-32.1

EX-32.2

Table of Contents**Item 1.**

COHU, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

	June 26, 2010	December 26, 2009 *
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 41,130	\$ 38,247
Short-term investments	48,796	46,659
Accounts receivable, less allowance for bad debts of \$1,210 in 2010 and \$1,013 in 2009	55,114	43,389
Inventories:		
Raw materials and purchased parts	31,208	25,660
Work in process	18,036	16,148
Finished goods	12,616	10,620
	61,860	52,428
Deferred income taxes	4,355	3,703
Other current assets	5,370	9,124
Total current assets	216,625	193,550
Property, plant and equipment, at cost:		
Land and land improvements	11,247	11,938
Buildings and building improvements	29,826	29,538
Machinery and equipment	39,074	36,875
	80,147	78,351
Less accumulated depreciation and amortization	(42,481)	(40,345)
Net property, plant and equipment	37,666	38,006
Goodwill	56,461	61,764
Intangible assets, net of accumulated amortization of \$13,604 in 2010 and \$11,648 in 2009	27,793	35,483
Other assets	2,061	1,315
	\$ 340,606	\$ 330,118
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 26,320	\$ 22,600
Accrued compensation and benefits	11,758	10,715
Accrued warranty	4,279	3,747
Customer advances	1,191	1,046
Deferred profit	11,707	5,322
Income taxes payable	6,856	1,486

Edgar Filing: COHU INC - Form 10-Q

Other accrued liabilities	6,506	9,037
Total current liabilities	68,617	53,953
Other accrued liabilities	4,675	4,725
Deferred income taxes	14,003	14,191
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, 23,707 shares issued and outstanding in 2010 and 23,547 shares in 2009	23,707	23,547
Paid-in capital	67,788	64,847
Retained earnings	164,964	160,193
Accumulated other comprehensive (loss) income	(3,148)	8,662
Total stockholders' equity	253,311	257,249
	\$ 340,606	\$ 330,118

* Derived from
December 26,
2009 audited
financial
statements.

The accompanying notes are an integral part of these statements.

Table of Contents

COHU, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June		June 27,	
	26,	2009	26,	2009
	2010	2009	2010	2009
Net sales	\$ 74,869	\$ 38,424	\$ 139,699	\$ 75,006
Cost and expenses:				
Cost of sales	47,441	26,096	92,272	55,283
Research and development	9,012	7,773	17,661	15,738
Selling, general and administrative	9,489	8,655	19,368	17,700
	65,942	42,524	129,301	88,721
Income (loss) from operations	8,927	(4,100)	10,398	(13,715)
Interest and other, net	138	343	312	826
Income (loss) before income taxes	9,065	(3,757)	10,710	(12,889)
Income tax provision	2,367	18,848	3,105	15,978
Net income (loss)	\$ 6,698	\$ (22,605)	\$ 7,605	\$ (28,867)
Income (loss) per share:				
Basic	\$ 0.28	\$ (0.97)	\$ 0.32	\$ (1.24)
Diluted	\$ 0.28	\$ (0.97)	\$ 0.32	\$ (1.24)
Weighted average shares used in computing income (loss) per share:				
Basic	23,657	23,381	23,603	23,362
Diluted	24,086	23,381	23,978	23,362
Cash dividends declared per share	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.12

The accompanying notes are an integral part of these statements.

Table of Contents

COHU, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Six Months Ended	
	June 26, 2010	June 27, 2009
Cash flows from operating activities:		
Net income (loss)	\$ 7,605	\$ (28,867)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:		
Depreciation and amortization	5,575	5,644
Share-based compensation expense	1,581	1,550
Deferred income taxes	(676)	17,636
Other accrued liabilities	40	112
Excess tax benefits from stock options exercised	(154)	33
Changes in current assets and liabilities, excluding effects from acquisitions and divestitures:		
Accounts receivable	(11,690)	6,272
Inventories	(11,224)	2,726
Other current assets	3,504	798
Accounts payable	3,720	295
Customer advances	145	(1,419)
Deferred profit	6,385	(667)
Income taxes payable, including excess stock option exercise benefit	6,620	2,884
Accrued compensation, warranty and other liabilities	(1,966)	(3,430)
Net cash provided from operating activities	9,465	3,567
Cash flows from investing activities, excluding effects from acquisitions and divestitures:		
Purchases of short-term investments	(29,349)	(24,985)
Sales and maturities of short-term investments	27,273	37,860
Purchases of property, plant and equipment	(1,991)	(680)
Other assets	83	(17)
Net cash (used in) provided by investing activities	(3,984)	12,178
Cash flows from financing activities:		
Issuance of stock, net of repurchases	1,366	504
Excess tax benefits from stock options exercised	154	(33)
Cash dividends	(2,824)	(2,799)
Net cash used in financing activities	(1,304)	(2,328)
Effect of exchange rate changes on cash	(1,294)	(366)
Net increase in cash and cash equivalents	2,883	13,051
Cash and cash equivalents at beginning of period	38,247	30,194
Cash and cash equivalents at end of period	\$ 41,130	\$ 43,245

Supplemental disclosure of cash flow information:

Cash refunded during the period for:

Income taxes	\$ (4,214)	\$ (4,059)
Inventory capitalized as capital assets	\$ 1,580	\$ 150
Dividends declared but not yet paid	\$ 1,422	\$ 1,405

The accompanying notes are an integral part of these statements.

5

Table of Contents

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
June 26, 2010

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 26, 2009 has been derived from our audited financial statements at that date. The interim condensed consolidated financial statements as of June 26, 2010 (also referred to as the second quarter of fiscal 2010 and the first six months of fiscal 2010) and June 27, 2009 (also referred to as the second quarter of fiscal 2009 and the first six months of fiscal 2009) 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 second quarters of fiscal 2010 and 2009 were comprised of 13 weeks and the first six months of fiscal 2010 and 2009 were comprised of 26 weeks.

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 26, 2009, which are included in our 2009 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 .

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. As our interim description of risks and uncertainties only includes any material changes to our annual description, we also recommend reading the description of the risk factors associated with our business previously disclosed in Item 1A. of our 2009 Annual Report on Form 10-K. Understanding these risks and uncertainties is integral to the review of our interim condensed consolidated financial statements.

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.

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 asset's 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.

Table of Contents

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
June 26, 2010

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

	Three Months Ended		Six Months Ended	
	June 26, 2010	June 27, 2009	June 26, 2010	June 27, 2009
Cost of sales	\$ 68	\$ 89	\$ 149	\$ 147
Research and development	204	270	466	474
Selling, general and administrative	474	483	966	929
Total share-based compensation	746	842	1,581	1,550
Income tax benefit				
Total share-based compensation, net of tax	\$ 746	\$ 842	\$ 1,581	\$ 1,550

Earnings (Loss) Per Share

Basic earnings (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 earnings 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 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 26, 2010, options to issue approximately 1,518,000 and 1,671,000 shares of common stock were excluded from the computation, respectively. The following table reconciles the denominators used in computing basic and diluted income per share (*in thousands*):

	Three Months Ended		Six Months Ended	
	June 26, 2010	June 27, 2009	June 26, 2010	June 27, 2009
Weighted average common shares	23,657	23,381	23,603	23,362
Effect of dilutive stock options	429		375	
	24,086	23,381	23,978	23,362

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 26, 2009. 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 26, 2010, we had deferred revenue totaling approximately \$28.1 million and deferred profit of \$11.7 million. At December 26, 2009, we had deferred revenue totaling approximately \$20.2 million and deferred profit of \$5.3 million.

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 2010 and 2009 was not significant.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements - In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements (Topic 820) Fair Value Measurements and Disclosures* to add additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2, and 3. Levels 1, 2 and 3 of

7

Table of Contents

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
June 26, 2010

fair value measurements are defined in Note 3 below. We adopted the accounting standards update on December 27, 2009, the first day of our 2010 fiscal year except for the provisions of this update that will not be effective until our fiscal 2011. The adoption of the accounting update did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued new accounting guidance on consolidation of variable interest entities, which include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. This new guidance was effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009, which for us was December 27, 2009, the first day of our 2010 fiscal year. The adoption of this new guidance did not impact our consolidated financial position or results of operations or cash flows as we do not have any variable interest entities.

Recently Issued Accounting Standards - In October 2009, the FASB amended the guidance for allocating revenue to multiple deliverables in a contract. This new guidance is effective as of the first day of our 2011 fiscal year, with early adoption permitted. In accordance with the amendment, companies can allocate consideration in a multiple element arrangement in a manner that better reflects the transaction economics. When vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, companies will now be allowed to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. Additionally, use of the residual method has been eliminated. Adoption of this new guidance is not expected to have a material impact on our consolidated financial position or results of operations.

In October 2009, the FASB issued new accounting guidance for the accounting for certain revenue arrangements that include software elements. The new guidance amends the scope of pre-existing software revenue guidance by removing from the guidance non-software components of tangible products and certain software components of tangible products. The new guidance will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, and will be effective for us in the first quarter of fiscal year 2011, however early adoption is permitted. Adoption of this new guidance is not expected to have a material impact on our consolidated financial position or results of operations.

2. Goodwill and Purchased Intangible Assets

Changes in the carrying value of goodwill by reportable segment during the year ended December 26, 2009 and the six-month period ended June 26, 2010 were as follows (*in thousands*):

	Semiconductor Equipment	Microwave Communications	Total Goodwill
Balance, December 27, 2008	\$ 57,435	\$ 3,385	\$ 60,820
Impact of currency exchange	883	61	944
Balance, December 26, 2009	58,318	3,446	61,764
Impact of currency exchange	(4,933)	(370)	(5,303)
Balance, June 26, 2010	\$ 53,385	\$ 3,076	\$ 56,461

Edgar Filing: COHU INC - Form 10-Q

Purchased intangible assets, subject to amortization are as follows (*in thousands*):

	June 26, 2010		December 26, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Unigen acquired technology	7,020	\$ 6,068	\$ 7,020	\$ 5,358
AVS acquired technology	2,026	1,634	2,365	1,611
Rasco acquired technology	30,218	5,902	35,257	4,679
	\$ 39,264	\$ 13,604	\$ 44,642	\$ 11,648

8

Table of Contents

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
June 26, 2010

Amortization expense related to intangible assets was approximately \$1.5 million in the second quarter of fiscal 2010 and \$3.1 million in the first six months of fiscal 2010. Amortization expense related to intangible assets was approximately \$1.5 million in the second quarter of fiscal 2009 and \$3.0 million in the first six months of fiscal 2009. The amounts included in the table above for the periods ended June 26, 2010 and December 26, 2009 exclude approximately \$2.1 million and \$2.5 million, respectively, related to the Rasco trade name which has an indefinite life and is not being amortized. Changes in the carrying values of AVS and Rasco intangible assets are a result of the impact of fluctuations in currency exchange rates.

3. Cash and Cash Equivalents and Short-Term Investments

As of June 26, 2010, and December 26, 2009, our cash, cash equivalents, and short-term investments consisted primarily of cash, corporate debt securities, government and government sponsored enterprise securities, money market funds and other investment grade securities. Such amounts are recorded at fair value. Investments that we have classified as short-term, by security type, are as follows (*in thousands*):

	June 26, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses ⁽¹⁾	Estimated Fair Value
Corporate debt securities ⁽²⁾	\$ 18,823	\$ 38	\$ 19	\$ 18,842
Municipal securities	10,892	11		10,903
U.S. Treasury securities	11,535	16		11,551
Government-sponsored enterprise securities	6,791	5		6,796
Asset-backed securities	696	8		704