COHU INC
Form 10-Q
May 04, 2010

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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 March 27, 2010

OR

o **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	**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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of March 27, 2010 the Registrant had 23,560,667 shares of its $1.00 par value common stock outstanding.

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Item 1.

COHU, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)

	March 27, 2010 (Unaudited)	December 26, 2009 *
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40,040	$ 38,247
Short-term investments	44,639	46,659
Accounts receivable, less allowance for bad debts of $1,170 in 2010 and $1,013 in 2009	44,885	43,389
Inventories:		
Raw materials and purchased parts	27,271	25,660
Work in process	18,944	16,148
Finished goods	13,232	10,620
	59,447	52,428
Deferred income taxes	3,688	3,703
Other current assets	5,927	9,124
Total current assets	198,626	193,550
Property, plant and equipment, at cost:		
Land and land improvements	11,600	11,938
Buildings and building improvements	29,512	29,538
Machinery and equipment	38,710	36,875
	79,822	78,351
Less accumulated depreciation and amortization	(41,466)	(40,345)
Net property, plant and equipment	38,356	38,006
Goodwill	59,169	61,764
Intangible assets, net of accumulated amortization of $12,729 in 2010 and $11,648 in 2009	31,600	35,483
Other assets	2,523	1,315
	$ 330,274	$ 330,118
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 25,267	$ 22,600
Accrued compensation and benefits	9,737	10,715
Accrued warranty	3,987	3,747
Customer advances	1,237	1,046
Deferred profit	7,394	5,322

Income taxes payable	3,580	1,486
Other accrued liabilities	7,351	9,037
Total current liabilities	58,553	53,953
Other accrued liabilities	4,696	4,725
Deferred income taxes	15,093	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, 23,561 shares issued and outstanding in 2010 and 23,547 shares in 2009	23,561	23,547
Paid-in capital	65,777	64,847
Retained earnings	159,687	160,193
Accumulated other comprehensive income	2,907	8,662
Total stockholders equity	251,932	257,249
	$ 330,274	$ 330,118

* Derived from December 26, 2009 audited financial statements.

The accompanying notes are an integral part of these statements.

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COHU, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share amounts)

	Three Months Ended March 27, 2010	March 28, 2009
Net sales	$ 64,830	$ 36,582
Cost and expenses:		
Cost of sales	44,831	29,187
Research and development	8,649	7,965
Selling, general and administrative	9,879	9,045
	63,359	46,197
Income (loss) from operations	1,471	(9,615)
Interest and other, net	174	483
Income (loss) before income taxes	1,645	(9,132)
Income tax provision (benefit)	738	(2,870)
Net income (loss)	$ 907	$ (6,262)
Income (loss) per share:		
Basic	$ 0.04	$ (0.27)
Diluted	$ 0.04	$ (0.27)
Weighted average shares used in computing income (loss) per share:		
Basic	23,549	23,344
Diluted	23,870	23,344
Cash dividends declared per share	$ 0.06	$ 0.06

The accompanying notes are an integral part of these statements.

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

	Three Months Ended March 27, 2010	March 28, 2009
Cash flows from operating activities:		
Net income (loss)	$ 907	$ (6,262)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,766	2,640
Share-based compensation expense	835	708
Deferred income taxes	(262)	(1,769)
Other accrued liabilities	(12)	16
Excess tax benefits from stock options exercised	14	
Changes in current assets and liabilities, excluding effects from acquisitions and divestitures:		
Accounts receivable	(1,995)	5,217
Inventories	(8,832)	2,653
Other current assets	3,128	176
Accounts payable	2,947	(1,526)
Customer advances	191	(712)
Deferred profit	2,072	(1,014)
Income taxes payable, including excess stock option exercise benefit	2,108	(1,378)
Accrued compensation, warranty and other liabilities	(1,960)	(2,939)
Net cash provided from (used in) operating activities	1,907	(4,190)
Cash flows from investing activities, excluding effects from acquisitions and divestitures:		
Purchases of short-term investments	(14,306)	(12,292)
Sales and maturities of short-term investments	16,351	25,209
Purchases of property, plant and equipment	(992)	(152)
Other assets	42	118
Net cash provided by investing activities	1,095	12,883
Cash flows from financing activities:		
Issuance of stock, net of repurchases	95	(3)
Excess tax benefits from stock options exercised	(14)	
Cash dividends	(1,411)	(1,398)
Net cash used in financing activities	(1,330)	(1,401)
Effect of exchange rate changes on cash	121	(137)
Net increase in cash and cash equivalents	1,793	7,155
Cash and cash equivalents at beginning of period	38,247	30,194

Cash and cash equivalents at end of period	$ 40,040	$ 37,349
Supplemental disclosure of cash flow information:		
Cash paid (refunded) during the period for:		
Income taxes	$ (3,888)	$ 36
Inventory capitalized as capital assets	$ 1,266	$ 201
Dividends declared but not yet paid	$ 1,413	$ 1,401

The accompanying notes are an integral part of these statements.

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Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
March 27, 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 March 27, 2010 (also referred to as the first quarter of fiscal 2010) and March 28, 2009 (also referred to as the first quarter 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 first quarters of fiscal 2010 and 2009 were comprised of 13 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.

We conduct our annual impairment test as of October 1 of each year, and have determined there to be no impairment for any of the periods presented. There were no events or circumstances from the date of our most recent assessment through March 27, 2010 that would impact this conclusion.

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.

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

	Three Months Ended	
	March 27, 2010	March 28, 2009
Cost of sales	$ 81	$ 58
Research and development	262	204
Selling, general and administrative	492	446
Total share-based compensation	835	708
Income tax benefit		(200)
Total share-based compensation, net of tax	$ 835	$ 508

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 months ended March 27, 2010, options to issue approximately 1,824,000 shares of common stock were excluded from the computation. The following table reconciles the denominators used in computing basic and diluted income per share *(in thousands)*:

	Three Months Ended	
	March 27, 2010	March 28, 2009
Weighted average common shares	23,549	23,344
Effect of dilutive stock options	321	
	23,870	23,344

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 March 27, 2010, we had deferred revenue totaling approximately $20.8 million and deferred profit of $7.4 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 three 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

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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 three-month period ended March 27, 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	(2,414)	(181)	(2,595)
Balance, March 27, 2010	$ 55,904	$ 3,265	$ 59,169

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

	March 27, 2010		December 26, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Unigen acquired technology	$ 7,020	$ 5,713	$ 7,020	$ 5,358
AVS acquired technology	2,199	1,636	2,365	1,611
Rasco acquired technology	32,791	5,380	35,257	4,679
	$ 42,010	$ 12,729	$ 44,642	$ 11,648

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Amortization expense related to intangible assets in the first quarter of fiscal 2010 and 2009 was approximately $1.6 million and $1.5 million, respectively. The amounts included in the table above for the periods ended March 27, 2010 and December 26, 2009 exclude approximately $2.3 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 March 27, 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*):

	March 27, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses [1]	Estimated Fair Value
Corporate debt securities [2]	$ 22,959	$ 77	$ 9	$ 23,027
Municipal securities	10,400	17		10,417
U.S. Treasury securities	5,495	12		5,507
Government-sponsored enterprise securities	3,512	4		3,516
Asset-backed securities	1,404	18		1,422
Bank certificates of deposit	750			750
	$ 44,520	$ 128	$ 9	$ 44,639

	December 26, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses [1]	Estimated Fair Value
U.S. Treasury securities	$ 5,492	$ 12	$	$ 5,504
Corporate debt securities [2]	24,055	102	7	24,150
Municipal securities	9,045	15	8	9,052
Government-sponsored enterprise securities	4,262	13		4,275
Bank certificates of deposit	1,500			1,500
Asset-backed securities	2,147	31		2,178
	$ 46,501	$ 173	$ 15	$ 46,659

(1) As of March 27, 2010, and December 26, 2009, the cost and fair value

of investments with loss positions was $7.7 million and $4.1 million, respectively. We evaluated the nature of these investments, credit worthiness of the issuer and the duration of these impairments to determine if an other-than-temporary decline in fair value had occurred and concluded that these losses were temporary.

(2) Corporate debt securities include investments in financial, insurance, and corporate institutions. No single issuer represents a significant portion of the total corporate debt securities portfolio.

Accounting standards pertaining to fair value measurements establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. When available, we use quoted market prices to determine the fair value of our investments, and they are included in Level 1. When quoted market prices are

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unobservable, we use quotes from independent pricing vendors based on recent trading activity and other relevant information.

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