COHU INC
Form 10-Q
July 31, 2009

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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 June 27, 2009

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 June 27, 2009 the Registrant had 23,414,883 shares of its $1.00 par value common stock outstanding.

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EX-32.2

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Item 1.

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

	June 27, 2009 (Unaudited)	December 27, 2008 *
ASSETS		
Current assets:		
Cash and cash equivalents	$ 43,245	$ 30,194
Short-term investments	45,784	58,191
Accounts receivable, less allowance for bad debts of $1,544 in 2009 and $1,610 in 2008	25,673	31,945
Inventories:		
Raw materials and purchased parts	24,558	27,557
Work in process	14,199	14,159
Finished goods	11,681	11,598
	50,438	53,314
Deferred income taxes	4,009	16,270
Other current assets	5,709	9,350
Total current assets	174,858	199,264
Property, plant and equipment, at cost:		
Land and land improvements	11,795	11,824
Buildings and building improvements	29,157	28,341
Machinery and equipment	35,649	33,522
	76,601	73,687
Less accumulated depreciation and amortization	(38,432)	(34,258)
Net property, plant and equipment	38,169	39,429
Deferred income taxes	828	2,307
Goodwill	60,681	60,820
Intangible assets, net of accumulated amortization of $8,335 in 2009 and $5,200 in 2008 (Note 2)	37,623	40,993
Other assets	1,364	1,356
	$ 313,523	$ 344,169
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 12,015	$ 11,720
Accrued compensation and benefits	8,539	9,867
Accrued warranty	3,777	4,924
Customer advances	1,217	2,636

Deferred profit	3,767	4,434
Income taxes payable	1,103	1,282
Other accrued liabilities	8,491	8,812
Total current liabilities	38,909	43,675
Other accrued liabilities	3,611	3,499
Deferred income taxes	15,463	11,456
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, 23,415 shares issued and outstanding in 2009 and 23,344 shares in 2008	23,415	23,344
Paid-in capital	63,026	61,076
Retained earnings	162,312	193,985
Accumulated other comprehensive income	6,787	7,134
Total stockholders equity	255,540	285,539
	$ 313,523	$ 344,169

* Derived from December 27, 2008 audited financial statements.

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

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

	Three Months Ended		Six Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
Net sales	$ 38,424	$ 51,833	$ 75,006	$ 110,242
Cost and expenses:				
Cost of sales	26,096	33,393	55,283	70,995
Research and development	7,773	10,441	15,738	20,442
Selling, general and administrative	8,655	8,968	17,700	17,959
	42,524	52,802	88,721	109,396
Income (loss) from operations	(4,100)	(969)	(13,715)	846
Interest and other, net	343	1,443	826	2,891
Income (loss) before income taxes	(3,757)	474	(12,889)	3,737
Income tax provision	18,848	300	15,978	1,611
Net income (loss)	$ (22,605)	$ 174	$ (28,867)	$ 2,126
Income (loss) per share:				
Basic	$ (0.97)	$ 0.01	$ (1.24)	$ 0.09
Diluted	$ (0.97)	$ 0.01	$ (1.24)	$ 0.09
Weighted average shares used in computing income (loss) per share:				
Basic	23,381	23,140	23,362	23,097
Diluted	23,381	23,429	23,362	23,332
Cash dividends declared per share	$ 0.06	$ 0.06	$ 0.12	$ 0.12

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

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

	Six Months Ended	
	June 27, 2009	**June 28, 2008**
Cash flows from operating activities:		
Net income (loss)	$ (28,867)	$ 2,126
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,644	3,542
Share-based compensation expense	1,550	2,094
Deferred income taxes	17,636	948
Loss on short-term investment		350
Increase in other accrued liabilities	112	67
Excess tax deficiencies (benefits) from stock options exercised	33	(121)
Changes in current assets and liabilities, excluding effects from acquisitions and divestitures:		
Accounts receivable	6,272	9,162
Inventories	2,726	(1,829)
Other current assets	798	976
Accounts payable	295	(8,231)
Customer advances	(1,419)	(811)
Deferred profit	(667)	1,086
Income taxes payable, including excess stock option exercise benefit	2,884	896
Accrued compensation, warranty and other liabilities	(3,430)	(2,639)
Net cash provided by operating activities	3,567	7,616
Cash flows from investing activities, excluding effects from acquisitions and divestitures:		
Sales and maturities of short-term investments	37,860	67,753
Purchases of short-term investments	(24,985)	(68,906)
Purchases of property, plant and equipment	(680)	(1,261)
Other	(17)	(16)
Net cash provided by (used in) investing activities	12,178	(2,430)
Cash flows from financing activities:		
Cash dividends	(2,799)	(2,766)
Issuance of stock, net of repurchases	504	2,164
Excess tax deficiencies (benefits) from stock options exercised	(33)	121
Net cash used in financing activities	(2,328)	(481)
Effect of exchange rate changes on cash	(366)	143
Net increase in cash and cash equivalents	13,051	4,848
Cash and cash equivalents at beginning of period	30,194	77,281

Cash and cash equivalents at end of period	$ 43,245	$ 82,129
Supplemental disclosure of cash flow information:		
Cash refunded during the period for:		
Income taxes	$ (4,059)	$ (571)
Inventory capitalized as capital assets	$ 150	$ 195
Dividends declared but not yet paid	$ 1,405	$ 1,393

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

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
June 27, 2009

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 27, 2008 has been derived from our audited financial statements at that date. The interim condensed consolidated financial statements as of June 27, 2009 (also referred to as the second quarter of fiscal 2009 and the first six months of fiscal 2009) and June 28, 2008 (also referred to as the second quarter of fiscal 2008 and the first six months of 2008) 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 2009 and 2008 were comprised of 13 weeks and the first six months of fiscal 2009 and 2008 were comprised of 26 weeks, respectively. We have evaluated all subsequent events, for any financial statement accounting or disclosure impact, through July 31, 2009, the date our financial statements were issued.

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 27, 2008, which are included in our 2008 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 year balances related to our discontinued metal detection equipment segment have been reclassified for consistency with the current year presentation. These reclassifications had no effect on reported results of operations.

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 2008 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

Under FASB Statement No. 142, *Goodwill and Other Intangible Assets* (Statement No. 142), goodwill and other intangible assets with indefinite useful lives are not amortized, but are reviewed annually for impairment. Our annual testing date is October 1 and we did not recognize any goodwill impairment as a result of performing this annual test in 2008. 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 in Statement No. 142 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 than its book 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 stock price changes are a short-term swing or a longer-term trend. As of June 27, 2009, 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 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 could have a significant negative impact on our results of operations.

Separable long-lived assets that have finite lives are amortized over their useful lives and 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.

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June 27, 2009

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 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
Cost of sales	$ 89	$ 93	$ 147	$ 178
Research and development	270	320	474	620
Selling, general and administrative	483	656	929	1,296
Total share-based compensation	842	1,069	1,550	2,094
Income tax benefit		(276)		(542)
Total share-based compensation, net of tax	$ 842	$ 793	$ 1,550	$ 1,552

Income (Loss) Per Share

Income (loss) per share is computed in accordance with FASB Statement No. 128, *Earnings per Share*. Basic income (loss) per share is computed using the weighted average number of common shares outstanding during each period. In loss periods, potentially dilutive securities are excluded from the per share computations due to their anti-dilutive effect. Diluted income 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. 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 28, 2008, options to purchase approximately 1,131,000 and 1,371,000 shares of common stock, respectively, 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		Six Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
Weighted average common shares	23,381	23,140	23,362	23,097
Effect of dilutive stock options		289		235
	23,381	23,429	23,362	23,332

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 27, 2008. 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 27, 2009, we had deferred revenue totaling approximately $6.7 million and deferred profit of $3.8 million. At December 27, 2008, we had deferred revenue totaling approximately $6.7 million and deferred profit of $4.4 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 2009 and 2008 was not significant.

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Recently Adopted Accounting Pronouncements

In December 2007, the FASB issued Statement No. 141(Revised 2007), *Business Combinations* (Statement No. 141R), which establishes principles and requirements for the reporting entity in a business combination, including recognition and measurement in the financial statements of the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. This statement also establishes disclosure requirements to enable financial statement users to evaluate the nature and financial effects of the business combination. Statement No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and interim periods within those fiscal years. Statement No. 141R became effective for our fiscal year beginning in 2009. We expect Statement No. 141R will have an impact on our consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions we consummate subsequent to our adoption of the revised standard.

We adopted FASB Statement No. 157, *Fair Value Measurements* (Statement No. 157) on December 30, 2007, the first day of fiscal year 2008. Statement No. 157 defines fair value, establishes a methodology for measuring fair value, and expands the required disclosure for fair value measurements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which amends Statement No. 157 by delaying its effective date by one year for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Therefore, beginning on December 30, 2007, this standard applies prospectively to new fair value measurements of financial instruments and recurring fair value measurements of non-financial assets and non-financial liabilities. On December 28, 2008, the beginning of our 2009 fiscal year, the standard also applied to all other fair value measurements. See Note 9, Cash and Cash Equivalents and Short Term Investments, for additional information.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133* (Statement No. 161). Statement No. 161 expands the current disclosure requirements of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and requires that companies must now provide enhanced disclosures on a quarterly basis regarding how and why the entity uses derivatives, how derivatives and related hedged items are accounted for under FASB Statement No. 133 and how derivatives and related hedged items affect the company s financial position, performance and cash flows. Statement No. 161 is effective prospectively for periods beginning after November 15, 2008. As we do not currently enter into derivative or hedging agreements Statement No. 161 did not have an impact on our consolidated financial position or results of operations.

In April 2008, the FASB issued Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement No. 142. The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under Statement No. 142 and the period of expected cash flows used to measure the fair value of the asset under Statement No. 141R, and other U.S. generally accepted accounting principles. FSP FAS 142-3 became effective for our fiscal year beginning in 2009. FSP FAS 142-3 could have an impact on our consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions we consummate subsequent to our adoption of this standard.

In June 2009, the FASB issued Statement No. 165, *Subsequent Events* (Statement No. 165). Statement No. 165 establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. We adopted Statement No. 165 in the second quarter of 2009 and it did not have a material impact on our financial statements. See Footnote No. 1, Basis of Presentation for the related disclosures.

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Recently Issued Accounting Standards

In June 2009, the FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140* (Statement No. 166). Statement No. 166 amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, by: eliminating the concept of a qualifying special-purpose entity (QSPE); clarifying and amending the derecognition criteria for a transfer to be accounted for as a sale; amending and clarifying the unit of account eligible for sale accounting; and requiring that a transferor initially measure at fair value and recognize all assets obtained (for example beneficial interests) and liabilities incurred as a result of a transfer of an entire financial asset or group of financial assets accounted for as a sale. Additionally, on and after the effective date, existing QSPEs (as defined under previous accounting standards) must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance. Statement No. 166 requires enhanced disclosures about, among other things, a transferor s continuing involvement with transfers of financial assets accounted for as sales, the risks inherent in the transferred financial assets that have been retained, and the nature and financial effect of restrictions on the transferor s assets that continue to be reported in the statement of financial position.

Statement No. 166 will be effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009, which for us would be December 27, 2009, the first day of our 2010 fiscal year and adoption of this standard is not expected to have a material impact on our consolidated financial position or results of operations.

In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R) (Statement No. 167). Statement* No. 167 amends FIN 46(R), *Consolidation of Variable Interest Entities*, and changes the consolidation guidance applicable to a variable interest entity (VIE). It also amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity s economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE. Previously, FIN 46(R) required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. QSPEs, which were previously exempt from the application of this standard, will be subject to the provisions of this standard when it becomes effective. Statement No. 167 also requires enhanced disclosures about an enterprise s involvement with a VIE.

Statement No. 167 will be effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009, which for us would be December 27, 2009, the first day of our 2010 fiscal year and adoption of this standard is not expected to have a material impact on our consolidated financial position or results of operations.

In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles-a replacement of FASB Statement No. 162* . The FASB Accounting Standards Codification is intended to be the source of authoritative U.S. generally accepted accounting principles (GAAP) and reporting standards as issued by the

Financial Accounting Standards Board. Its primary purpose is to improve clarity and use of existing standards by grouping authoritative literature under common topics. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification does not change or alter existing GAAP and there is no expected impact on our consolidated financial position or results of operations.

2. Strategic Technology Transactions, Goodwill and Other Intangible Assets

Rasco

On December 9, 2008, our wholly owned semiconductor equipment subsidiary, Delta Design, Inc., and certain subsidiaries of Delta acquired all of the outstanding share capital of Rasco GmbH, Rosenheim Automation Systems Corporation, and certain assets of Rasco Automation Asia (collectively Rasco). The results of Rasco s operations have been included in our consolidated financial statements since that date. Rasco, headquartered near Munich, Germany, designs, manufactures and sells gravity-feed and strip semiconductor test handlers used in final test operations by semiconductor manufacturers and test subcontractors.

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June 27, 2009

The purchase price of this acquisition was approximately $81.6 million, and was funded primarily by cash reserves ($80.0 million), other acquisition costs ($1.6 million) and certain liabilities assumed ($18.6 million, which includes approximately $8.2 million of deferred tax liabilities and $3.7 million of contractual obligations to purchase inventory). The acquisition was considered a business in accordance with EITF 98-3, *Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business* and the total cost of the acquisition was allocated to the assets acquired and liabilities assumed based on their estimated respective fair values, in accordance with Financial Accounting Standards Board (FASB) Statement No. 141, *Business Combinations*, (Statement No. 141). The Rasco acquisition resulted in the recognition of goodwill of approximately $41.3 million. The acquisition was nontaxable and certain of the assets acquired, including goodwill and intangibles, will generally not be deductible for tax purposes. The goodwill has been assigned to our semiconductor equipment segment.

During the first quarter of fiscal 2009 we finalized the purchase price allocation with no adjustments to previously disclosed amounts. The allocation of purchase price to the acquired assets and assumed liabilities was as follows *(in thousands)*:

Current assets	$ 14,173
Fixed assets	8,375
Other assets	636
Intangible assets	33,360
In-process research and development (IPR&D)	2,400
Goodwill	41,336
Total assets acquired	100,280
Liabilities assumed	(18,643)
Net assets acquired	$ 81,637

Amounts allocated to intangible assets are being amortized on a straight-line basis over their useful lives of eight years. Fluctuations in the exchange rate of the Euro, the functional currency of Rasco, impact the U.S. dollar value of the goodwill and intangible assets in our consolidated financial statements and, as a result, the future gross carrying value and amortization of the acquired intangible assets may differ from the amounts presented.

Intangible assets, subject to amortization are as follows:

	June 27, 2009		December 27, 2008	
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Unigen technology	$ 7,020	$ 4,648	$ 7,020	$ 3,935
AVS technology	2,309	1,283	2,309	996
Rasco Technology	34,213	2,404	34,433	269
	$ 43,542 &nb			