COHU INC
Form 10-Q
May 03, 2011

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 March 26, 2011

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. (Check one):

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 26, 2011 the Registrant had 24,042,152 shares of its $1.00 par value common stock outstanding.

COHU, INC.
INDEX
FORM 10-Q
March 26, 2011

Table of Contents

Item 1.

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

	March 26, 2011 (Unaudited)	December 25, 2010 *
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,809	$ 45,921
Short-term investments	57,895	52,254
Accounts receivable, net	57,757	66,801
Inventories:		
Raw materials and purchased parts	37,874	34,922
Work in process	18,454	17,470
Finished goods	11,705	10,832
	68,033	63,224
Deferred income taxes	6,056	5,991
Other current assets	5,848	6,026
Total current assets	244,398	240,217
Property, plant and equipment, at cost:		
Land and land improvements	12,406	12,057
Buildings and building improvements	31,496	31,117
Machinery and equipment	42,267	41,630
	86,169	84,804
Less accumulated depreciation and amortization	(46,582)	(45,000)
Net property, plant and equipment	39,587	39,804
Goodwill	61,155	58,498
Intangible assets, net	27,102	26,523
Other assets	1,046	1,001
	$ 373,288	$ 366,043
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 18,703	$ 18,198
Accrued compensation and benefits	12,158	16,944
Accrued warranty	6,303	5,016
Customer advances	786	767
Deferred profit	9,253	14,834
Income taxes payable	10,505	8,802
Other accrued liabilities	7,138	6,973

Total current liabilities	64,846	71,534
Other accrued liabilities	6,045	5,931
Deferred income taxes	14,014	13,853
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, 24,042 shares issued and outstanding in 2011 and 23,989 shares in 2010	24,042	23,989
Paid-in capital	73,385	71,799
Retained earnings	184,265	179,134
Accumulated other comprehensive income (loss)	6,691	(197)
Total stockholders equity	288,383	274,725
	$ 373,288	$ 366,043

* Derived from December 25, 2010 audited financial statements.

The accompanying notes are an integral part of these statements.

3

Table of Contents

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

	Three Months Ended March 26, 2011	March 27, 2010
Net sales	$ 89,700	$ 64,830
Cost and expenses:		
Cost of sales	60,885	44,831
Research and development	9,083	8,649
Selling, general and administrative	12,090	9,879
	82,058	63,359
Income from operations	7,642	1,471
Interest and other, net	110	174
Income before income taxes	7,752	1,645
Income tax provision	1,178	738
Net income	$ 6,574	$ 907
Income per share:		
Basic	$ 0.27	$ 0.04
Diluted	$ 0.27	$ 0.04
Weighted average shares used in computing income per share:		
Basic	24,018	23,549
Diluted	24,483	23,870
Cash dividends declared per share	$ 0.06	$ 0.06

The accompanying notes are an integral part of these statements.

Table of Contents

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

	Three Months Ended March 26, 2011	March 27, 2010
Cash flows from operating activities:		
Net income	$ 6,574	$ 907
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	2,769	2,766
Share-based compensation expense	1,048	835
Deferred income taxes	(431)	(262)
Other accrued liabilities	2	(12)
Excess tax benefits from stock options exercised	(29)	14
Changes in current assets and liabilities:		
Accounts receivable	9,039	(1,995)
Inventories	(4,973)	(8,832)
Other current assets	288	3,128
Accounts payable	505	2,947
Customer advances	19	191
Deferred profit	(5,581)	2,072
Income taxes payable, including excess stock option exercise benefit	1,732	2,108
Accrued compensation, warranty and other liabilities	(3,537)	(1,960)
Net cash provided from operating activities	7,425	1,907
Cash flows from investing activities:		
Purchases of short-term investments	(20,727)	(14,306)
Sales and maturities of short-term investments	15,003	16,351
Purchases of property, plant and equipment	(187)	(992)
Other assets	(50)	42
Net cash (used in) provided by investing activities	(5,961)	1,095
Cash flows from financing activities:		
Issuance of stock, net	562	95
Excess tax benefits from stock options exercised	29	(14)
Cash dividends paid	(1,436)	(1,411)
Net cash used for financing activities	(845)	(1,330)
Effect of exchange rate changes on cash and cash equivalents	2,269	121
Net increase in cash and cash equivalents	2,888	1,793
Cash and cash equivalents at beginning of period	45,921	38,247
Cash and cash equivalents at end of period	$ 48,809	$ 40,040

Supplemental disclosure of cash flow information:		
Cash paid (refunded) during the period for:		
Income taxes	$ 528	$ (3,888)
Inventory capitalized as capital assets	$ 299	$ 1,266
Dividends declared but not yet paid	$ 1,442	$ 1,413

The accompanying notes are an integral part of these statements.

Table of Contents

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
March 26, 2011

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 25, 2010 has been derived from our audited financial statements at that date. The interim condensed consolidated financial statements as of March 26, 2011 (also referred to as the first quarter of fiscal 2011 and the first three months of fiscal 2011) and March 27, 2010 (also referred to as the first quarter of fiscal 2010 and the first three months of fiscal 2010) 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 2011 and 2010 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 25, 2010, which are included in our 2010 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 2010 Annual Report on Form 10-K. Understanding these risks and uncertainties is integral to the review of our interim condensed consolidated financial statements.

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 $0.6 million at both March 26, 2011 and December 25, 2010, 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 March 26, 2011, 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
March 26, 2011

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	
	March 26, 2011	March 27, 2010
Cost of sales	$ 92	$ 81
Research and development	336	262
Selling, general and administrative	620	492
Total share-based compensation	1,048	835
Income tax benefit		
Total share-based compensation, net of tax	$ 1,048	$ 835

Earnings Per Share

Basic earnings per common share is computed by dividing net income 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 26, 2011 and March 27, 2010, options to issue approximately 1,572,000 and 1,824,000 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 March 26, 2011	March 27, 2010
Weighted average common shares	24,018	23,549
Effect of dilutive stock options	465	321
	24,483	23,870

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 25, 2010. 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.

Table of Contents

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
March 26, 2011

At March 26, 2011, we had deferred revenue totaling approximately $25.6 million and deferred profit of $9.3 million. At December 25, 2010, we had deferred revenue totaling approximately $36.9 million and deferred profit of $14.8 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 three months of fiscal 2011 and 2010 was not significant.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements **-** In January 2010, the FASB issued guidance to add additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, and the activity in Level 3 fair value measurements (as defined in Note 3 below). We adopted this guidance on December 26, 2010, the first day of our 2011 fiscal year. Adoption of this new guidance has not had a material impact on our financial statement disclosures.

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. 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. We adopted this guidance on December 26, 2010, the first day of our 2011 fiscal year. Adoption of this new guidance has not had 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 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We adopted this guidance on December 26, 2010, the first day of our 2011 fiscal year. Adoption of this new guidance has not had 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 25, 2010 and the three-month period ended March 26, 2011 were as follows (*in thousands*):

	Semiconductor Equipment	Microwave Communications	Total Goodwill
Balance, December 26, 2009	$ 58,318	$ 3,446	$ 61,764
Impact of currency exchange	(3,038)	(228)	(3,266)
Balance, December 25, 2010	55,280	3,218	58,498
Impact of currency exchange	2,472	185	2,657
Balance, March 26, 2011	$ 57,752	$ 3,403	$ 61,155

8

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
March 26, 2011

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

	March 26, 2011		December 25, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Rasco technology	$ 34,678	$ 10,024	$ 32,154	$ 8,290
Unigen technology	7,020	7,020	7,020	6,779
AVS technology	2,325	2,325	2,156	2,008
	$ 44,023	$ 19,369	$ 41,330	$ 17,077

Amortization expense related to intangible assets in the first quarter of fiscal 2011 and 2010 was approximately $1.4 million and $1.6 million, respectively. The amounts included in the table above for the periods ended March 26, 2011 and December 25, 2010 exclude approximately $2.4 million and $2.3 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, Cash Equivalents and Short-Term Investments

As of March 26, 2011, and December 25, 2010, our cash, cash equivalents, and short-term investments consisted primarily of cash, corporate debt securities, government and government agency securities, state and municipal securities, money market funds and other investment grade securities. We do not hold investment securities for trading purposes. All short-term investments are classified as available-for-sale and recorded at fair value. Investment securities are exposed to market risk due to changes in interest rates and credit risk and we monitor credit risk and attempt to mitigate exposure by making high-quality investments and through investment diversification.

Gains and losses on investments are calculated using the specific-identification method and are recognized during the period in which the investment is sold or when an investment experiences an other-than-temporary decline in value. Factors that could indicate an impairment exists include, but are not limited to: earnings performance, changes in credit rating or adverse changes in the regulatory or economic environment of the asset. Gross realized gains and losses on sales of short-term investments are included in interest income. Realized gains and losses for the periods presented were not significant.

Investments that we have classified as short-term, by security type, are as follows *(in thousands)*:

	March 26, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
U.S. Treasury securities	$ 6,773	$ 12	$	$ 6,785
Corporate debt securities(2)	27,159	21		27,180
Municipal securities	10,055			10,055
Government-sponsored enterprise securities	13,830	10	7	13,833
Asset-backed securities	42			42
	$ 57,859	$ 43	$ 7	$ 57,895

9

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
March 26, 2011

	December 25, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(1)	Estimated Fair Value
U.S. Treasury securities	$ 6,778	$ 9	$	$ 6,787
Corporate debt securities (2)	18,010	28	4	18,034
Municipal securities	11,102	1		11,103
Government-sponsored enterprise securities	15,105	8	20	15,093
Bank certificates of deposit	1,000			1,000
Asset-backed securities	236	1		237
	$ 52,231	$ 47	$ 24	$ 52,254

(1) As of March 26, 2011, and December 25, 2010, the cost and fair value of investments with loss positions was $16.3 million and $16.1 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.

Effective maturities of short-term investments at March 26, 2011 and December 25, 2010, were as follows *(in thousands)*:

March 26, 2011