COHU INC
Form 10-Q
November 03, 2009

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 September 26, 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. (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 September 26, 2009 the Registrant had 23,445,170 shares of its $1.00 par value common stock outstanding.

COHU, INC.
INDEX
FORM 10-Q
September 26, 2009

Table of Contents

Item 1.

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

	September 26, 2009 (Unaudited)	December 27, 2008 *
ASSETS		
Current assets:		
Cash and cash equivalents	$ 39,024	$ 30,194
Short-term investments	48,249	58,191
Accounts receivable, less allowance for bad debts of $1,534 in 2009 and $1,610 in 2008	34,898	31,945
Inventories:		
Raw materials and purchased parts	26,135	27,557
Work in process	13,566	14,159
Finished goods	11,501	11,598
	51,202	53,314
Deferred income taxes	4,318	16,270
Other current assets	5,731	9,350
Total current assets	183,422	199,264
Property, plant and equipment, at cost:		
Land and land improvements	12,033	11,824
Buildings and building improvements	29,501	28,341
Machinery and equipment	36,460	33,522
	77,994	73,687
Less accumulated depreciation and amortization	(39,453)	(34,258)
Net property, plant and equipment	38,541	39,429
Deferred income taxes		2,307
Goodwill	62,492	60,820
Intangible assets, net of accumulated amortization of $10,146 in 2009 and $5,200 in 2008	37,776	40,993
Other assets	1,407	1,356
	$ 323,638	$ 344,169
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 16,482	$ 11,720
Accrued compensation and benefits	9,374	9,867
Accrued warranty	3,698	4,924
Customer advances	1,276	2,636
Deferred profit	5,134	4,434

Income taxes payable	1,859	1,282
Other accrued liabilities	9,435	8,812
Total current liabilities	47,258	43,675
Other accrued liabilities	3,501	3,499
Deferred income taxes	14,394	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, 23,445 shares issued and outstanding in 2009 and 23,344 shares in 2008	23,445	23,344
Paid-in capital	63,647	61,076
Retained earnings	160,835	193,985
Accumulated other comprehensive income	10,558	7,134
Total stockholders equity	258,485	285,539
	$ 323,638	$ 344,169

* Derived from December 27, 2008 audited financial statements.

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

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
Net sales	$ 44,062	$ 48,016	$ 119,068	$ 158,258
Cost and expenses:				
Cost of sales	27,845	30,458	83,128	101,453
Research and development	8,284	9,140	24,022	29,582
Selling, general and administrative	8,731	9,693	26,431	27,652
	44,860	49,291	133,581	158,687
Loss from operations	(798)	(1,275)	(14,513)	(429)
Interest and other, net	302	1,391	1,128	4,282
Income (loss) before income taxes	(496)	116	(13,385)	3,853
Income tax provision (benefit)	(425)	79	15,553	1,690
Net income (loss)	$ (71)	$ 37	$ (28,938)	$ 2,163
Income (loss) per share:				
Basic	$ (0.00)	$ 0.00	$ (1.24)	$ 0.09
Diluted	$ (0.00)	$ 0.00	$ (1.24)	$ 0.09
Weighted average shares used in computing income (loss) per share:				
Basic	23,429	23,233	23,384	23,142
Diluted	23,429	23,477	23,384	23,380
Cash dividends declared per share	$ 0.06	$ 0.06	$ 0.18	$ 0.18

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

Table of Contents

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

	Nine Months Ended	
	September 26, 2009	September 27, 2008
Cash flows from operating activities:		
Net income (loss)	$ (28,938)	$ 2,163
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	8,526	5,086
Share-based compensation expense	2,474	3,188
Deferred income taxes	16,118	2,028
Loss on short-term investment		350
Increase in other accrued liabilities	93	25
Excess tax deficiencies (benefits) from stock options exercised	103	(155)
Changes in current assets and liabilities, excluding effects from acquisitions and divestitures:		
Accounts receivable	(2,650)	11,027
Inventories	1,881	(6,598)
Other current assets	3,220	1,049
Accounts payable	4,628	(6,912)
Customer advances	(1,360)	(311)
Deferred profit	700	(84)
Income taxes payable, including excess stock option exercise benefit	474	(1,607)
Accrued compensation, warranty and other liabilities	(1,532)	(2,484)
Net cash provided by operating activities	3,737	6,765
Cash flows from investing activities, excluding effects from acquisitions and divestitures:		
Sales and maturities of short-term investments	45,273	114,027
Purchases of short-term investments	(34,871)	(122,517)
Purchases of property, plant and equipment	(1,503)	(2,088)
Other	(65)	(22)
Net cash provided by (used in) investing activities	8,834	(10,600)
Cash flows from financing activities:		
Cash dividends	(4,204)	(4,159)
Issuance of stock, net of repurchases	301	1,860
Excess tax (deficiencies) benefits from stock options exercised	(103)	155
Net cash used in financing activities	(4,006)	(2,144)
Effect of exchange rate changes on cash	265	(132)
Net increase (decrease) in cash and cash equivalents	8,830	(6,111)
Cash and cash equivalents at beginning of period	30,194	77,281

Cash and cash equivalents at end of period	$ 39,024	$ 71,170
Supplemental disclosure of cash flow information:		
Cash refunded during the period for:		
Income taxes	$ (4,115)	$ (316)
Inventory capitalized as capital assets	$ 518	$ 426
Dividends declared but not yet paid	$ 1,407	$ 1,396

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

5

Table of Contents

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2009

1. Summary of Significant Accounting Policies

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

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 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 September 26, 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.

Table of Contents

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 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		Nine Months Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
Cost of sales	$ 94	$ 88	$ 241	$ 266
Research and development	351	331	825	951
Selling, general and administrative	479	675	1,408	1,971
Total share-based compensation	924	1,094	2,474	3,188
Income tax benefit		(286)		(828)
Total share-based compensation, net of tax	$ 924	$ 808	$ 2,474	$ 2,360

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 (loss) 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 nine months ended September 27, 2008, options to purchase approximately 1,276,000 and 1,339,000 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		Nine Months Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
Weighted average common shares	23,429	23,233	23,384	23,142
Effect of dilutive stock options		244		238
	23,429	23,477	23,384	23,380

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 September 26, 2009, we had deferred revenue totaling approximately $12.9 million and deferred profit of $5.1 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 nine months of fiscal 2009 and 2008 was not significant.

Table of Contents

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2009

Recently Adopted Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued new accounting guidance entitled, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* , which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP). This new guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this guidance has changed how we reference various elements of GAAP when preparing our financial statement disclosures, but did not have an impact on our financial position, results of operations or cash flows.

In May 2009, the FASB issued new accounting guidance on subsequent events. The objective of this guidance is to establish general standards of 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. This new accounting guidance was effective for interim and annual periods ending after June 15, 2009. The impact of adopting this new guidance had no effect on the accompanying condensed consolidated financial statements. See Basis of Presentation above for the related disclosures.

In December 2007, the FASB issued new accounting guidance on business combinations 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 guidance also establishes disclosure requirements to enable financial statement users to evaluate the nature and financial effects of the business combination. These changes are effective on a prospective basis for all 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. This guidance was effective for our fiscal year beginning in 2009 and we expect that it 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 new guidance.

In February 2008, the FASB issued new accounting guidance on fair value measurements and disclosures for nonfinancial assets and nonfinancial liabilities disclosed at fair value in the financial statements on a recurring basis. We applied the provisions of this new guidance to our financial statement disclosures beginning in the first quarter of 2009. See Note 9, Cash and Cash Equivalents and Short-Term Investments, for additional information.

Recently Issued Accounting Standards

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 is 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 new guidance is not expected to have a material impact on our consolidated financial position or results of operations.

2. **Strategic Technology Transactions, Goodwill and Other Intangible Assets**

<u>Rasco</u>

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.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 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 and the total cost of the acquisition was allocated to the assets acquired and liabilities assumed based on their estimated respective fair values. 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 will differ from the amounts presented. Intangible assets, subject to amortization are as follows:

	September 26, 2009		December 27, 2008	
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Unigen technology	$ 7,020	$ 5,003	$ 7,020	$ 3,935
AVS technology	2,411	1,492	2,309	996
Rasco Technology	35,949	3,651	34,433	269
	$ 45,380	$ 10,146	$ 43,762	$ 5,200

Amortization expense related to intangible assets was approximately $1.6 million in the third quarter of fiscal 2009 and $4.6 million in the first nine months of fiscal 2009. Amortization expense related to intangible assets was approximately $0.5 million in the third quarter of fiscal 2008 and $1.8 million in the first nine months of fiscal 2008. The amounts included in the table above for the periods ended September 26, 2009 and December 27, 2008 exclude approximately $2.5 million and $2.4 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. Employee Stock Benefit Plans

Employee Stock Purchase Plan

The Cohu, Inc. 1997 Employee Stock Purchase Plan (the Plan) provides for the issuance of a maximum of 1,400,000 shares of our common stock. Under the Plan, eligible employees may purchase shares of common stock through payroll deductions. The price paid for the common stock is equal to 85% of the fair market value of our common stock on specified dates. At September 26, 2009, there were 444,730 shares available for issuance under the Plan.

Table of Contents

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2009

Stock Options

Under our equity incentive plans, stock options may be granted to employees, consultants and directors to purchase a fixed number of shares of our common stock at prices not less than 100% of the fair market value at the date of grant. Options generally vest and become exercisable after one year or in four annual increments beginning one year after the grant date and expire five to ten years from the grant date. At September 26, 2009, 1,841,657 shares were available for future equity grants under the 2005 Equity Plan. We have historically issued new shares of our common stock upon share option exercise.

At September 26, 2009 we had 3,213,126 stock options outstanding. These options had a weighted-average exercise price of $12.88 per share, an aggregate intrinsic value of approximately $8.1 million and the weighted average remaining contractual term was approximately 6.6 years.