COHU INC
Form 10-Q
October 24, 2008

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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 September 27, 2008

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 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 27, 2008 the Registrant had 23,255,700 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)

	September 27, 2008 (Unaudited)	December 29, 2007 *
ASSETS		
Current assets:		
Cash and cash equivalents	$ 71,170	$ 77,281
Short-term investments	100,009	92,837
Accounts receivable, less allowance for doubtful accounts of $1,803 in 2008 and $1,555 in 2007	34,464	45,491
Inventories:		
Raw materials and purchased parts	24,724	22,568
Work in process	11,954	9,810
Finished goods	11,659	9,787
	48,337	42,165
Deferred income taxes	15,890	18,832
Other current assets	6,094	7,120
Current assets of discontinued operations	5	28
Total current assets	275,969	283,754
Property, plant and equipment, at cost:		
Land and land improvements	7,052	7,015
Buildings and building improvements	23,756	23,538
Machinery and equipment	31,803	32,312
	62,611	62,865
Less accumulated depreciation and amortization	(33,516)	(33,047)
Net property, plant and equipment	29,095	29,818
Deferred income taxes	3,150	3,092
Goodwill	16,370	16,377
Intangible assets, net of accumulated amortization of $6,418 in 2008 and $4,684 in 2007 (Note 3)	4,954	6,695
Other assets	180	172
Noncurrent assets of discontinued operations held for sale	471	471
	$ 330,189	$ 340,379
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 9,738	$ 16,650
Accrued compensation and benefits	9,121	11,230
Accrued warranty	5,118	6,760

Customer advances		3,050		3,361
Deferred profit		4,784		4,868
Income taxes payable		894		2,058
Other accrued liabilities		5,036		4,324
Current liabilities of discontinued operations		144		158
Total current liabilities		37,885		49,409
Other accrued liabilities		3,011		3,023
Deferred income taxes		3,593		4,479
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, 23,256 shares issued and outstanding in 2008 and 23,045 shares in 2007		23,256		23,045
Paid-in capital		59,932		54,940
Retained earnings		202,988		204,997
Accumulated other comprehensive income (loss)		(476)		486
Total stockholders equity		285,700		283,468
	$	330,189	$	340,379

* Derived from December 29, 2007 audited financial statements.

The accompanying notes are an integral part of these statements.

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

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net sales	$ 48,016	$ 64,490	$ 158,258	$ 184,265
Cost and expenses:				
Cost of sales	30,458	43,885	101,453	124,691
Research and development	9,140	9,575	29,582	29,298
Selling, general and administrative	9,693	9,861	27,652	27,408
	49,291	63,321	158,687	181,397
Income (loss) from operations	(1,275)	1,169	(429)	2,868
Interest and other, net	1,391	2,106	4,282	6,286
Income from continuing operations before income taxes	116	3,275	3,853	9,154
Income tax provision	79	1,040	1,690	3,163
Income from continuing operations	37	2,235	2,163	5,991
Discontinued operations (Note 2):				
Loss from discontinued metal detection equipment operation				(66)
Income tax benefit				(23)
Loss from discontinued operations				(43)
Net income	$ 37	$ 2,235	$ 2,163	$ 5,948
Income (loss) per share:				
Basic:				
Income from continuing operations	$ 0.00	$ 0.10	$ 0.09	$ 0.26
Loss from discontinued operations				(0.00)
Net income	$ 0.00	$ 0.10	$ 0.09	$ 0.26
Diluted:				
Income from continuing operations	$ 0.00	$ 0.10	$ 0.09	$ 0.26
Loss from discontinued operations				(0.00)

Net income	$ 0.00	$ 0.10	$ 0.09	$ 0.26
Weighted average shares used in computing income (loss) per share:				
Basic	23,233	22,945	23,142	22,830
Diluted	23,477	23,433	23,380	23,282
Cash dividends declared per share	$ 0.06	$ 0.06	$ 0.18	$ 0.18

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)

	Nine Months Ended September 27, 2008	Nine Months Ended September 29, 2007
Cash flows from continuing operating activities:		
Net income	$ 2,163	$ 5,948
Loss from discontinued operations		43
Adjustments to reconcile net income to net cash provided from continuing operating activities:		
Depreciation and amortization	5,086	5,641
Share-based compensation expense	3,188	3,138
Deferred income taxes	2,028	2,096
Loss on short-term investment	350	
Increase in other accrued liabilities	25	85
Excess tax benefits from stock options exercised	(155)	(482)
Changes in current assets and liabilities, excluding effects from acquisitions and divestitures:		
Accounts receivable	11,027	2,612
Inventories	(6,598)	5,283
Other current assets	1,049	1,746
Accounts payable	(6,912)	4,597
Customer advances	(311)	691
Deferred profit	(84)	(5,271)
Income taxes payable, including excess stock option exercise benefit	(1,607)	(2,927)
Accrued compensation, warranty and other liabilities	(2,484)	(4,505)
Net cash provided from continuing operating activities	6,765	18,695
Cash flows from continuing investing activities, excluding effects from acquisitions and divestitures:		
Purchases of short-term investments	(122,517)	(122,891)
Sales and maturities of short-term investments	114,027	130,017
Purchases of property, plant and equipment	(2,088)	(1,848)
Payment for purchase of AVS, net of cash received		(8,169)
Cash advances to discontinued operations	(14)	(150)
Other assets	(8)	(10)
Net cash used for continuing investing activities	(10,600)	(3,051)
Cash flows from continuing financing activities:		
Issuance of stock, net	1,860	3,236
Excess tax benefits from stock options exercised	155	482
Cash dividends	(4,159)	(4,099)
Net cash used for continuing financing activities	(2,144)	(381)
Effect of exchange rate changes on cash	(132)	140

Net increase (decrease) in cash and cash equivalents from continuing operations	(6,111)	15,403
Cash and cash equivalents of continuing operations at beginning of period	77,281	24,829
Cash and cash equivalents of continuing operations at end of period	$ 71,170	$ 40,232

The accompanying notes are an integral part of these statements.

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

	Nine Months Ended September 27, 2008	Nine Months Ended September 29, 2007
Cash flows from discontinued operations:		
Cash used for operating activities of discontinued operations	$ (14)	$ (150)
Cash used for investing activities of discontinued operations		
Cash advances from continuing operations, net	14	150
Decrease in cash and cash equivalents of discontinued operations		
Cash and cash equivalents of discontinued operations at beginning of period		
Cash and cash equivalents of discontinued operations at end of period	$	$
Supplemental disclosure of cash flow information:		
Cash paid (refunded) during the period for:		
Income taxes	$ (316)	$ 3,442
Inventory capitalized as capital assets	$ 426	$ 1,864
Dividends declared but not yet paid	$ 1,396	$ 1,380

The accompanying notes are an integral part of these statements.

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Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 27, 2008

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 29, 2007 has been derived from our audited financial statements at that date. The interim condensed consolidated financial statements as of September 27, 2008 (also referred to as the third quarter of fiscal 2008 and the first nine months of fiscal 2008) and September 29, 2007 (also referred to as the third quarter of fiscal 2007 and the first nine months of 2007) 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 third quarters of fiscal 2008 and 2007 were comprised of 13 weeks and the first nine months of fiscal 2008 and 2007 were comprised of 39 weeks, respectively.

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 29, 2007, which are included in our 2007 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 2007 Annual Report on Form 10-K. Understanding these risks and uncertainties is integral to the review of our interim condensed consolidated financial statements.

Discontinued Operations

On May 12, 2006, we sold our metal detection equipment business, FRL, Incorporated (FRL). Subsequent to the sale, the operating results of FRL are being presented as discontinued operations (Note 2) and all prior period financial statements have been reclassified accordingly.

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 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Cost of sales	$ 88	$ 119	$ 266	$ 347
Research and development	331	322	951	937
Selling, general and administrative	675	575	1,971	1,854
Total share-based compensation	1,094	1,016	3,188	3,138
Income tax benefit	(286)	(208)	(828)	(770)
Total share-based compensation, net of tax	$ 808	$ 808	$ 2,360	$ 2,368

Income Per Share

Income per share is computed in accordance with FASB Statement No. 128, *Earnings per Share*. Basic income per share is computed using the weighted average number of common shares outstanding during each period. Diluted income per share includes the dilutive effect of common shares potentially issuable upon the exercise of stock

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 27, 2008

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. These options could be included in the calculation in the future if the average market value of our common shares increases and is greater than the exercise price of these options. 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. For the three and nine months ended September 29, 2007, options to purchase approximately 143,000 and 426,000 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 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Weighted average common shares	23,233	22,945	23,142	22,830
Effect of dilutive stock options	244	488	238	452
	23,477	23,433	23,380	23,282

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 29, 2007. 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 27, 2008, we had deferred revenue totaling approximately $7.8 million and deferred profit of $4.8 million. At December 29, 2007, we had deferred revenue totaling approximately $9.2 million and deferred profit of $4.9 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 2008 and 2007 was not significant.

Recent 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 will become effective for our fiscal year beginning in 2009. We expect Statement No. 141R will have an impact on our consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions we consummate after the effective date 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 will also apply to all other fair value measurements. See Note 10, Fair Value Measurements, for additional information.

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In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (Statement No. 159). Statement No. 159 expands the use of fair value measurement by permitting entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement was effective for us on December 30, 2007, the first day of our 2008 fiscal year. We have not elected to measure any items at fair value under Statement No. 159 and, as a result, Statement No. 159 did not have any impact on our consolidated financial statements.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (Statement No. 160). Statement No. 160 requires that ownership interests in subsidiaries held by parties other than the parent, and the amount of consolidated net income, be clearly identified, labeled, and presented in the consolidated financial statements. It also requires, once a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value. Sufficient disclosures are required to clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. It is effective for fiscal years beginning on or after December 15, 2008 and requires retrospective adoption of the presentation and disclosure requirements for existing minority interests. All other requirements shall be applied prospectively. We are currently assessing the impact that Statement No. 160 may have on our consolidated financial statements upon adoption in fiscal year 2009.

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. We are currently assessing the impact that Statement No. 161 may have on our consolidated financial statements upon our adoption in fiscal year 2009.

2. Discontinued Operations

On May 12, 2006, we sold substantially all the assets of our metal detection equipment business, FRL. Our decision to sell FRL resulted from management s determination that this industry segment was no longer a strategic fit within our organization. We are currently attempting to sell our FRL facility in Los Banos, California and believe the current fair value of the property is in excess of its $0.5 million carrying value at September 27, 2008.

A summary of key financial information of our discontinued operations is as follows *(in thousands)*:

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net sales	$	$	$	$