

COHU INC  
Form 10-Q  
August 07, 2018

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended June 30, 2018**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**Commission file number 001-04298**

**COHU, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware** **95-1934119**  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

**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 No

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 No

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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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As of July 30, 2018 the Registrant had 28,889,265 shares of its \$1.00 par value common stock outstanding.



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(in thousands, except par value)

	<b>June 30, 2018</b>	<b>December 30, 2017 *</b>
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 127,008	\$ 134,286
Short-term investments	23,865	21,329
Accounts receivable, net	91,451	71,125
Inventories	63,136	62,085
Other current assets	10,986	8,613
Total current assets	316,446	297,438
Property, plant and equipment, net	33,537	34,172
Goodwill	64,765	65,613
Intangible assets, net	14,499	16,748
Other assets	6,524	6,486
	<b>\$ 435,771</b>	<b>\$ 420,457</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term borrowings	\$ 3,160	\$ 3,108
Current installments of long-term debt	1,185	1,280
Accounts payable	41,373	37,556
Accrued compensation and benefits	16,272	20,178
Accrued warranty	4,402	4,280
Deferred profit	1,709	6,608
Income taxes payable	3,905	2,159
Other accrued liabilities	14,542	10,098
Total current liabilities	86,548	85,267
Accrued retirement benefits	18,581	18,544
Noncurrent deferred gain on sale of facility	9,504	10,233
Deferred income taxes	3,138	2,921
Noncurrent income tax liabilities	6,297	6,270
Long-term debt	4,094	4,575
Other accrued liabilities	3,146	3,556
Stockholders' equity:		
Preferred stock, \$1 par value; 1,000 shares authorized, none issued	-	-
	28,883	28,489

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Common stock, \$1 par value; 60,000 shares authorized, 28,883 shares issued and outstanding in 2018 and 28,489 shares in 2017

Paid-in capital	128,248	127,663
Retained earnings	168,040	150,726
Accumulated other comprehensive loss	(20,708 )	(17,787 )
Total stockholders' equity	304,463	289,091
	\$ 435,771	\$ 420,457

\* Derived from December 30, 2017 audited financial statements

*The accompanying notes are an integral part of these statements.*

Table of Contents**COHU, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(in thousands, except per share amounts)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2018</b>	<b>June 24, 2017</b>	<b>June 30, 2018</b>	<b>June 24, 2017</b>
Net sales	\$99,817	\$93,866	\$194,967	\$174,963
Cost and expenses:				
Cost of sales	58,316	56,736	113,915	105,577
Research and development	11,051	9,466	22,826	19,242
Selling, general and administrative	16,652	16,020	34,415	30,480
	86,019	82,222	171,156	155,299
Income from operations	13,798	11,644	23,811	19,664
Interest income	318	142	554	243
Income from continuing operations before taxes	14,116	11,786	24,365	19,907
Income tax provision	2,468	1,078	4,595	2,436
Income from continuing operations	11,648	10,708	19,770	17,471
Loss from discontinued operations	-	(278 )	-	(278 )
Net income	\$11,648	\$10,430	\$19,770	\$17,193
Income per share:				
Basic:				
Income from continuing operations	\$0.40	\$0.39	\$0.69	\$0.64
Loss from discontinued operations	-	(0.01 )	-	(0.01 )
Net income	\$0.40	\$0.38	\$0.69	\$0.63
Diluted:				
Income from continuing operations	\$0.39	\$0.37	\$0.67	\$0.61
Loss from discontinued operations	-	(0.01 )	-	(0.01 )
Net income	\$0.39	\$0.36	\$0.67	\$0.60
Weighted average shares used in computing income per share:				
Basic	28,893	27,708	28,747	27,343
Diluted	29,651	28,725	29,591	28,488
Cash dividends declared per share	\$0.06	\$0.06	\$0.12	\$0.12

*The accompanying notes are an integral part of these statements.*





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**COHU, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)  
(in thousands)

	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended</b>		<b>Ended</b>	
	<b>June</b>	<b>June</b>	<b>June</b>	<b>June</b>
	<b>30,</b>	<b>24,</b>	<b>30,</b>	<b>24,</b>
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net income	\$11,648	\$10,430	\$19,770	\$17,193
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(6,814 )	3,359	(2,960 )	7,405
Adjustments related to postretirement benefits	114	(59 )	41	(128 )
Change in unrealized gain/loss on investments	8	-	(2 )	1
Other comprehensive income (loss), net of tax	(6,692 )	3,300	(2,921 )	7,278
Comprehensive income	\$4,956	\$13,730	\$16,849	\$24,471

*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)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	<b>June 24,</b>
	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
Net income	\$19,770	\$17,193
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Loss on disposal of microwave communications equipment business	-	278
Depreciation and amortization	4,874	4,339
Share-based compensation expense	3,617	3,476
Deferred income taxes	486	(986 )
Adjustment to contingent consideration liability	428	-
Changes in other accrued liabilities	(294 )	308
Changes in other assets	(322 )	90
(Gain) loss on disposal of assets	40	(21 )
Changes in current assets and liabilities, excluding effects from acquisitions:		
Accounts receivable	(21,289 )	(23,106)
Inventories	(1,396 )	(9,557 )
Accounts payable	3,853	7,034
Other current assets	(2,432 )	(1,773 )
Income taxes payable	1,728	822
Deferred profit	(3,653 )	(610 )
Accrued compensation, warranty and other liabilities	505	(279 )
Net cash provided by (used in) operating activities	5,915	(2,792 )
Cash flows from investing activities, excluding effects from acquisitions:		
Purchases of short-term investments	(27,374 )	(20,477)
Sales and maturities of short-term investments	24,838	30,657
Cash paid for Kita, net of cash received	-	(11,716)
Purchases of property, plant and equipment	(1,860 )	(2,415 )
Cash received from sale of fixed assets	4	109
Net cash used in investing activities	(4,392 )	(3,842 )
Cash flows from financing activities:		
Issuance (repurchases) of common stock, net	(2,638 )	4,420
Cash dividends paid	(3,484 )	(3,221 )
Payment of contingent consideration for Kita	(823 )	-
Repayments of long-term debt	(686 )	(840 )
Net cash provided by (used in) financing activities	(7,631 )	359

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Effect of exchange rate changes on cash and cash equivalents	(1,170 )	2,702
Net decrease in cash and cash equivalents	(7,278 )	(3,573 )
Cash and cash equivalents at beginning of period	134,286	96,045
Cash and cash equivalents at end of period	\$127,008	\$92,472
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$2,608	\$3,761
Inventory capitalized as property, plant and equipment	\$149	\$122
Dividends declared but not yet paid	\$1,733	\$1,673
Property, plant and equipment purchases included in accounts payable	\$166	\$348

*The accompanying notes are an integral part of these statements.*

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**Cohu, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**June 30, 2018**

**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 30, 2017, has been derived from our audited financial statements at that date. The interim condensed consolidated financial statements as of June 30, 2018, (also referred to as “the second quarter of fiscal 2018” and “the first six months of fiscal 2018”) and June 24, 2017, (also referred to as “the second quarter of fiscal 2017” and “the first six months of fiscal 2017”) 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 three- and six-month periods ended June 30, 2018, were comprised of 13 and 26 weeks, respectively. The three- and six-month periods ended June 24, 2017, were comprised of 13 and 25 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 30, 2017, which are included in our 2017 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”.

**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 \$0.2 million at both June 30, 2018 and December 30, 2017. Our customers include semiconductor manufacturers and semiconductor test subcontractors throughout many areas of the world. While we believe that our allowance for doubtful accounts is adequate and represents our best estimate at June 30, 2018, we will continue to monitor customer liquidity and other economic conditions, which may result in changes to our estimates regarding collectability.

## Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or net realizable value. Cost includes labor, material and overhead costs. Determining market value of inventories involves numerous estimates and judgments including projecting average selling prices and sales volumes for future periods and costs to complete and dispose of inventory. As a result of these analyses, we record a charge to cost of sales in advance of the period when the inventory is sold when estimated net realizable values are below our costs.

Inventories by category were as follows (*in thousands*):

	June 30, 2018	December 30, 2017
Raw materials and purchased parts	\$28,810	\$ 27,918
Work in process	23,691	25,130
Finished goods	10,635	9,037
Total inventories	\$63,136	\$ 62,085

Table of Contents**Cohu, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****June 30, 2018****Property, Plant and Equipment**

Depreciation and amortization of property, plant and equipment is calculated principally on the straight-line method based on estimated useful lives of thirty to forty years for buildings, five to fifteen years for building improvements and three to ten years for machinery, equipment and software. Land is not depreciated.

Property, plant and equipment, at cost, consisted of the following (*in thousands*):

	June 30, 2018	December 30, 2017
Land and land improvements	\$7,971	\$ 8,017
Buildings and building improvements	14,173	13,779
Machinery and equipment	45,990	45,333
	68,134	67,129
Less accumulated depreciation and amortization	(34,597)	(32,957 )
Property, plant and equipment, net	\$33,537	\$ 34,172

**Segment Information**

We applied the provisions of Accounting Standards Codification (ASC) Topic 280, *Segment Reporting*, (“ASC 280”), which sets forth a management approach to segment reporting and establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products, major customers and the geographies in which the entity holds material assets and reports revenue. An operating segment is defined as a component that engages in business activities whose operating results are reviewed by the chief operating decision maker and for which discrete financial information is available. Based on the provisions of ASC 280, we have determined that our identified operating segments, which are Digital Test Handlers (DTH), Analog Test Handlers (ATH) and Integrated Test Solutions (ITS), qualify for aggregation under ASC 280 due to similarities in their customers, their economic characteristics, and the nature of products and services provided. As a result, we report in one segment, semiconductor equipment.

## **Goodwill, Other Intangible Assets and Long-lived Assets**

We evaluate goodwill for impairment annually and when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimated the fair values of our reporting units primarily using the income approach valuation methodology that includes the discounted cash flow method, taking into consideration the market approach and certain market multiples as a validation of the values derived using the discounted cash flow methodology. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on customer forecasts, industry trade organization data and general economic conditions.

We conduct our annual impairment test as of October 1st of each year, and have determined there was no impairment as of October 1, 2017 as we determined that the estimated fair values of our reporting units exceeded their carrying values on that date. Other events and changes in circumstances may also require goodwill to be tested for impairment between annual measurement dates. As of June 30, 2018, we do not believe that circumstances have occurred that indicate impairment of our goodwill is more-likely-than-not. In the event we determine that an interim goodwill impairment review is required in a future period, the review may result in an impairment charge, which would have a negative impact on our results of operations.

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 carrying amount and estimated fair value.



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Cohu, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2018

**Foreign Remeasurement and Currency Translation**

Assets and liabilities of our wholly owned foreign subsidiaries that use the U.S. Dollar as their functional currency are re-measured using exchange rates in effect at the end of the period, except for nonmonetary assets, such as inventories and property, plant and equipment, which are re-measured using historical exchange rates. Revenues and costs are re-measured using average exchange rates for the period, except for costs related to those balance sheet items that are re-measured using historical exchange rates. Gains and losses on foreign currency transactions are recognized as incurred. During the three and six months ended June 30, 2018, we recognized foreign exchange gains of \$3.0 million and \$1.5 million, respectively, in our condensed consolidated statements of income. During the three and six months ended June 24, 2017, we recognized foreign exchange losses of \$1.2 million and \$2.5 million in our condensed consolidated statements of income, respectively. Certain of our foreign subsidiaries have designated the local currency as their functional currency and, as a result, their assets and liabilities are translated at the rate of exchange at the balance sheet date, while revenue and expenses are translated using the average exchange rate for the period. Cumulative translation adjustments resulting from the translation of the financial statements are included as a separate component of stockholders' equity.

**Share-Based Compensation**

We measure and recognize all share-based compensation under the fair value method. Our estimate of share-based compensation expense requires a number of complex and subjective assumptions including our stock price volatility, employee exercise patterns (expected life of the options) and related tax effects. The assumptions used in calculating the fair value of share-based awards represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment. Although we believe the assumptions and estimates we have made are reasonable and appropriate, changes in assumptions could materially impact our reported financial results.

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

Three Months Ended	Six Months Ended
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	June 30, 2018	June 24, 2017	June 30, 2018	June 24, 2017
Cost of sales	\$162	\$121	\$283	\$204
Research and development	395	262	744	578
Selling, general and administrative	1,391	1,376	2,590	2,694
Total share-based compensation	1,948	1,759	3,617	3,476
Income tax benefit	(126 )	(249 )		