

COHU INC  
Form 10-Q  
November 03, 2014  
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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 September 27, 2014

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**  
*(State or other jurisdiction of  
incorporation or organization)*

**95-1934119**  
*(I.R.S. Employer Identification No.)*

**12367 Crosthwaite Circle, Poway, California**  
*(Address of principal executive offices)*

**92064-6817**  
*(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

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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 and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

As of September 27, 2014 the Registrant had 25,534,807 shares of its \$1.00 par value common stock outstanding.

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**Table of Contents****Item 1.****COHU, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except par value)

	September 27, 2014 (Unaudited)	December 28, 2013 *
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 60,578	\$ 51,668
Short-term investments	1,155	1,200
Accounts receivable, net	86,545	58,164
Inventories:		
Raw materials and purchased parts	28,824	27,668
Work in process	22,662	16,941
Finished goods	8,654	10,800
	60,140	55,409
Deferred income taxes	5,477	5,516
Other current assets	7,996	8,619
Current assets of discontinued video camera segment (Note 2)		6,272
Total current assets	221,891	186,848
Property, plant and equipment, at cost:		
Land and land improvements	11,932	12,285
Buildings and building improvements	31,301	31,731
Machinery and equipment	42,955	42,105
	86,188	86,121
Less accumulated depreciation and amortization	(52,827)	(50,325)
Net property, plant and equipment	33,361	35,796
Goodwill	67,865	71,313
Intangible assets, net	36,472	45,315
Other assets	5,783	5,720
Noncurrent assets of discontinued video camera segment (Note 2)		431
	\$ 365,372	\$ 345,423
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 34,426	\$ 25,292
Accrued compensation and benefits	20,364	14,271
Accrued warranty	4,963	5,155
Deferred profit	11,240	6,066
Income taxes payable	2,264	805
Other accrued liabilities	8,020	7,675
Current liabilities of discontinued video camera segment (Note 2)		1,747

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Total current liabilities	81,277	61,011
Accrued retirement benefits	10,470	10,841
Noncurrent income tax liabilities	7,289	7,463
Deferred income taxes	12,005	12,948
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, 25,535 shares issued and outstanding in 2014 and 25,080 shares in 2013	25,535	25,080
Paid-in capital	95,632	89,883
Retained earnings	135,317	131,546
Accumulated other comprehensive income (loss)	(2,153)	6,651
Total stockholders' equity	254,331	253,160
	\$ 365,372	\$ 345,423

\* Derived from December 28, 2013 audited financial statements  
*The accompanying notes are an integral part of these 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 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net sales	\$ 94,441	\$ 55,977	\$ 237,155	\$ 170,438
Cost and expenses:				
Cost of sales	61,265	43,293	156,295	124,298
Research and development	9,679	11,136	30,419	35,201
Selling, general and administrative	14,089	13,966	43,412	41,389
	85,033	68,395	230,126	200,888
Income (loss) from operations	9,408	(12,418)	7,029	(30,450)
Interest and other, net	6	16	25	42
Income (loss) from continuing operations before taxes	9,414	(12,402)	7,054	(30,408)
Income tax provision (benefit)	2,493	(1,289)	2,556	(2,726)
Income (loss) from continuing operations	6,921	(11,113)	4,498	(27,682)
Income from discontinued operations, net of tax	598	293	3,836	714
Net income (loss)	\$ 7,519	\$ (10,820)	\$ 8,334	\$ (26,968)
Income (loss) per share:				
Basic:				
Income (loss) from continuing operations	\$ 0.28	\$ (0.44)	\$ 0.18	\$ (1.12)
Income from discontinued operations, net of tax	0.02	0.01	0.15	0.03
Net income (loss)	\$ 0.30	\$ (0.43)	\$ 0.33	\$ (1.09)
Diluted:				
Income (loss) from continuing operations	\$ 0.27	\$ (0.44)	\$ 0.17	\$ (1.12)
Income from discontinued operations, net of tax	0.02	0.01	0.15	0.03
Net income (loss)	\$ 0.29	\$ (0.43)	\$ 0.32	\$ (1.09)
Weighted average shares used in computing income (loss) per share:				
Basic	25,481	24,929	25,309	24,801
Diluted	26,174	24,929	25,698	24,801
Cash dividends declared per share	\$ 0.06	\$ 0.06	\$ 0.18	\$ 0.18

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



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

(Unaudited)

(in thousands)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 27, 2014</b>	<b>September 28, 2013</b>	<b>September 27, 2014</b>	<b>September 28, 2013</b>
Net income (loss)	\$ 7,519	\$ (10,820)	\$ 8,334	\$ (26,968)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	(8,537)	4,635	(8,632)	1,763
Adjustments related to postretirement benefits	(92)	18	(172)	108
Change in unrealized gain/loss on investments		(3)		(10)
Other comprehensive income (loss), net of tax	(8,629)	4,650	(8,804)	1,861
Comprehensive loss	\$ (1,110)	\$ (6,170)	\$ (470)	\$ (25,107)

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



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

(Unaudited)

(in thousands)

	Nine Months Ended	
	September 27, 2014	September 28, 2013
Cash flows from operating activities:		
Net income (loss)	\$ 8,334	\$ (26,968)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain on disposal of video camera segment	(4,133)	
Operating cash flows of discontinued operations	(694)	1,958
Depreciation and amortization	10,229	9,968
Share-based compensation expense	4,790	3,872
Deferred income taxes	(1,306)	(1,090)
Other accrued liabilities	(356)	431
Changes in current assets and liabilities, excluding effects from acquisitions and divestitures:		
Accounts receivable	(28,383)	780
Inventories	(6,008)	10,225
Other current assets	774	1,525
Accounts payable	8,782	(806)
Deferred profit	5,174	3,249
Income taxes payable, including excess stock option exercise benefit	1,352	5
Accrued compensation, warranty and other liabilities	6,464	(1,271)
Net cash provided by operating activities	5,019	1,878
Cash flows from investing activities, excluding effects from acquisitions and divestitures:		
Cash received from sale of video camera segment	9,886	
Payment for purchase of Ismecca, net of cash received		(53,463)
Sales and maturities of short-term investments	45	812
Purchases of property, plant and equipment	(1,241)	(2,479)
Other assets	(62)	(151)
Investing cash flows of discontinued operations	(6)	(34)
Net cash provided by (used in) investing activities	8,622	(55,315)
Cash flows from financing activities:		
Cash dividends paid	(4,535)	(2,972)
Issuance of stock, net of repurchases	1,222	900
Net cash used in financing activities	(3,313)	(2,072)
Effect of exchange rate changes on cash and cash equivalents	(1,418)	(1,051)
Net increase (decrease) in cash and cash equivalents	8,910	(56,560)
Cash and cash equivalents at beginning of period	51,668	102,808
Cash and cash equivalents at end of period	\$ 60,578	\$ 46,248
Supplemental disclosure of cash flow information:		
Cash paid (refunded) for income taxes	\$ 976	\$ (1,135)

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Inventory capitalized as property, plant and equipment	\$ 1,059	\$ 572
Dividends declared but not yet paid	\$ 1,532	\$ 1,496

*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, 2014**

**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 28, 2013 has been derived from our audited financial statements at that date. The interim condensed consolidated financial statements as of September 27, 2014 (also referred to as the third quarter of fiscal 2014 and the first nine months of fiscal 2014) and September 28, 2013 (also referred to as the third quarter of fiscal 2013 and the first nine months of fiscal 2013) 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 nine-month periods ended September 27, 2014 and September 28, 2013 were each comprised of 13 and 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 28, 2013, which are included in our 2013 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-period amounts on our condensed consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications have no effect on previously reported net income.

**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. Understanding these risks and uncertainties is integral to the review of our interim condensed consolidated financial statements.

**Discontinued Operations**

On June 6, 2014 we completed the sale of substantially all of the assets of our video camera segment, Cohu Electronics Division (Cohu Electronics), and its operating results are being presented as discontinued operations and all prior period amounts have been reclassified accordingly. See Note 2, Disposal of Video Camera Segment for additional information. Unless otherwise indicated, all amounts herein relate to continuing operations.

**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 \$0.3 million and \$0.5 million at September 27, 2014 and December 28, 2013, 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 September 27, 2014, 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**

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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.

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We conduct our annual impairment test as of October 1<sup>st</sup> of each year. As a result of continued operating losses generated by our microwave communications equipment segment we completed our required annual impairment test, as of October 1, 2014, in connection with our third quarter ended September 27, 2014 and have determined there is no impairment as the estimated fair values of our semiconductor equipment and microwave communications reporting units exceeded their carrying values by approximately 35% and 17%, respectively.

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		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Cost of sales	\$ 85	\$ 50	\$ 350	\$ 250
Research and development	455	350	1,400	1,220
Selling, general and administrative	1,082	761	3,040	2,402
Total share-based compensation	1,622	1,161	4,790	3,872
Income tax benefit	(60)		(157)	
Total share-based compensation, net	\$ 1,562	\$ 1,161	\$ 4,633	\$ 3,872

**Income (Loss) Per Share**

Basic income (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 income (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 (loss) 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, 2014, options to issue approximately 1,346,000 and 1,953,000 shares of common stock were excluded from the computation, respectively.



**Table of Contents****Cohu, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****September 27, 2014**

The following table reconciles the denominators used in computing basic and diluted income (loss) per share (*in thousands*):

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Weighted average common shares	25,481	24,929	25,309	24,801
Effect of dilutive stock options	693		389	
	26,174	24,929	25,698	24,801

Cohu has utilized the control number concept in the computation of diluted earnings per share to determine whether potential common stock instruments are dilutive. The control number used is income/loss from continuing operations. The control number concept requires that the same number of potentially dilutive securities applied in computing diluted earnings per share from continuing operations be applied to all other categories of income or loss, regardless of their anti-dilutive effect on such categories. Therefore, no dilutive effect has been recognized in the calculation of income from discontinued operations per share for the three and nine months ended September 28, 2013.

**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 28, 2013. 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, 2014, we had deferred revenue totaling approximately \$22.0 million and deferred profit of \$11.2 million. At December 28, 2013, we had deferred revenue totaling approximately \$7.4 million and deferred profit of \$6.1 million. The periodic increase is primarily a result of deferrals of revenue associated with shipments of semiconductor equipment.

**Comprehensive Income (Loss)**

Our accumulated other comprehensive loss balance totaled approximately \$2.2 million at September 27, 2014 compared to accumulated other comprehensive income of approximately \$6.7 million at December 28, 2013 and was attributed to all non-owner changes in stockholders' equity and consists of, on an after-tax basis where applicable, foreign currency adjustments resulting from the translation of certain accounts into U.S. dollars where the functional currency is the Euro or the Swiss Franc, unrealized gains and losses on investments and adjustments related to postretirement benefits. Reclassification adjustments to accumulated other comprehensive income during the first nine months of fiscal 2014 and 2013 were not significant.

**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 2014 and 2013 was not significant.

**Recent Accounting Pronouncements**

*Recently Adopted Accounting Pronouncements* In July 2013, the Financial Accounting Standards Board ( FASB ) issued guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This

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amendment to previous income tax guidance clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax benefit is disallowed. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be netted with the deferred tax asset. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this new guidance in the first quarter of fiscal 2014 did not have a material impact on our consolidated financial position, results of operations or cash flows.



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**Cohu, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**September 27, 2014**

In March 2013, the FASB issued guidance on a parent company's accounting for the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. This new guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The amendments will be effective for fiscal years and interim periods starting after December 15, 2013 with early adoption permitted. The adoption of this new guidance in the first quarter of fiscal 2014 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In April 2014, the FASB issued new guidance on reporting discontinued operations and disclosures of disposals of components of an entity, which amends the existing definition of a discontinued operation and requires entities to disclose additional information about disposal transactions that do not meet the discontinued operations criteria. The guidance redefines a discontinued operation as a component or group of components of an entity that has been disposed of by sale or other than by sale or is classified as held for sale and represents a strategic shift that has a major effect on an entity's operations and financial results. The guidance is effective prospectively for disposals or components classified as held for sale in periods on or after December 15, 2014 with early adoption permitted. Cohu elected to implement this new guidance in the second quarter of fiscal 2014 and the adoption did not have a material impact on our consolidated financial position, results of operations or cash flows.

*Recently Issued Accounting Pronouncements* In May 2014, the FASB issued new guidance on revenue from contracts with customers. The amended guidance outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities have the option of using either a full retrospective or modified approach to adopt the guidance. This guidance is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. Early adoption is not permitted. We are still evaluating the impact this new guidance might have on our consolidated financial position, results of operations or cash flows.

In August 2014, the FASB issued new guidance on going concern, which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. This guidance is effective for annual and interim periods beginning after December 15, 2016 with early adoption permitted. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

**2. Disposal of Video Camera Segment**

On June 6, 2014, Cohu announced the sale of substantially all the assets of our video camera segment, Cohu Electronics. Our decision to sell Cohu Electronics resulted from management's determination that this industry segment was no longer a strategic fit within our organization. The sales price was \$9.5 million in cash plus up to \$0.5 million in contingent consideration. The sales price is subject to a working capital adjustment and, as a result, adjustments to the gain on disposal noted below are possible.

**Table of Contents****Cohu, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****September 27, 2014**

Balance sheet information of our discontinued video camera segment is summarized as follows (*in thousands*):

	September 27, 2014	December 28, 2013
<b>Assets:</b>		
Accounts receivable, net	\$	\$ 2,597
Inventories		3,568
Other current assets		107
<b>Total current assets</b>		<b>6,272</b>
Property, plant and equipment, net		431
<b>Total assets</b>	<b>\$</b>	<b>\$ 6,703</b>
<b>Liabilities:</b>		
Accounts payable	\$	\$ 730
Other accrued current liabilities		1,017
<b>Total liabilities</b>	<b>\$</b>	<b>\$ 1,747</b>

Operating results of our discontinued video camera segment is summarized as follows (*in thousands*):

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net sales	\$	\$ 3,985	\$ 5,460	\$ 12,191
Operating income (loss) before income taxes	\$	\$ 458	\$ (242)	\$ 1,115
Gain on disposal of video camera segment			4,133	
Income tax provision	(598)	165	55	401
<b>Income from discontinued operations, net of taxes</b>	<b>\$ 598</b>	<b>\$ 293</b>	<b>\$ 3,836</b>	<b>\$ 714</b>

In connection with the sale of the assets of our video camera segment we incurred divestiture-related costs that would not have been incurred otherwise. These costs consist of legal advisory services, success based compensation arrangements and certain other items that are incremental to normal operating charges and were expensed as incurred. In the first six months of 2014 we incurred \$0.8 million of divestiture related costs; no costs were incurred in the third quarter of 2014. These costs have been netted against the gain on disposal presented above.

**3. Geographic Consolidation**

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In September 2014, our wholly owned subsidiary Broadcast Microwave Services, Inc. ( BMS ) substantially completed a geographic consolidation plan to relocate the manufacturing, engineering and administrative function of its German operation to its headquarters facility in Poway, California. For the three-month period ended September 27, 2014, BMS recorded charges to operations totaling \$30,000 for severance and one-time termination benefits. These charges are included in cost of sales \$8,000, research and development \$5,000 and selling, general and administrative expense \$17,000. For the nine-month period ended September 27, 2014, BMS recorded charges to operations totaling \$457,000 for severance and one-time termination benefits. These charges are included in cost of sales \$151,000, research and development \$175,000 and selling, general and administrative expense \$131,000.

The following table reconciles amounts accrued and paid under the consolidation plan (*in thousands*):

	Severance and Other Payroll
Balance, June 28, 2014	\$ 429
Costs accrued	30
Amounts paid or charged	(195)
Impact of currency exchange	(36)
Balance, September 27, 2014	\$ 228

**Table of Contents****Cohu, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****September 27, 2014****4. Goodwill and Other Purchased Intangible Assets**

Changes in the carrying value of goodwill by reportable segment during the year ended December 28, 2013 and the nine-month period ended September 27, 2014 were as follows (*in thousands*):

	Semiconductor Equipment	Microwave Communications	Total Goodwill
Balance, December 29, 2012	\$ 55,520	\$ 3,236	\$ 58,756
Additions net of adjustments	10,930		10,930
Impact of currency exchange	1,533	94	1,627
Balance, December 28, 2013	67,983	3,330	71,313
Impact of currency exchange	(3,257)	(191)	(3,448)
Balance, September 27, 2014	\$ 64,726	\$ 3,139	\$ 67,865

**Purchased Intangible Assets**

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

	September 27, 2014			December 28, 2013	
	Gross Carrying Amount	Accumulated Amortization	Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization
Rasco technology	\$ 31,084	\$ 22,614	2.3 years	\$ 33,689	\$ 21,319
Ismeca technology	28,031	6,245	6.3 years	29,915	3,809
Duma technology	864	624	0.9 years	864	408
	\$ 59,979	\$ 29,483		\$ 64,468	\$ 25,536

Amortization expense related to intangible assets was approximately \$2.0 million in the third quarter of fiscal 2014 and \$6.2 million in the first nine months of fiscal 2014. Amortization expense related to intangible assets was approximately \$2.6 million in the third quarter of fiscal 2013 and \$6.0 million in the first nine months of fiscal 2013. The amounts included in the table above for the periods ended September 27, 2014 and December 28, 2013 exclude approximately \$2.2 million and \$2.4 million related to the trade names of Rasco, respectively, and exclude approximately \$3.8 million and \$4.0 million related to the trade names of Ismecca, respectively. Changes in the carrying values of purchased intangible assets include the impact of fluctuations in currency exchange rates.

**5. Financial Instruments Measured at Fair Value**

Our cash, cash equivalents, and short-term investments consisted primarily of cash 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.

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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.

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

	Amortized Cost	September 27, 2014		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Municipal securities	\$ 155	\$	\$	\$ 155
Bank certificates of deposit	1,000			1,000
	\$ 1,155	\$	\$	\$ 1,155

	Amortized Cost	December 28, 2013		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Municipal securities	\$ 1,200	\$	\$	\$ 1,200

Effective maturities of short-term investments are as follows (*in thousands*):

	September 27, 2014		December 28, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 1,155	\$ 1,155	\$ 1,200	\$ 1,200

Our municipal securities include variable rate demand notes which can be put (sold at par) typically on a daily basis with settlement periods ranging from the same day to one week and have varying contractual maturities through 2034. These securities can be used for short-term liquidity needs and are held for limited periods of time. At September 27, 2014 and December 28, 2013 these securities had amortized cost and fair value of \$0.2 million and \$1.2 million, respectively, and are included in Due in one year or less in the table above.

Accounting standards pertaining to fair value measurements establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. When available, we use quoted market prices to determine the fair value of our investments, and they are included in Level 1. When quoted market prices are unobservable, we use quotes from independent pricing vendors based on recent trading activity and other relevant information, and they are included in Level 2.

The following table summarizes, by major security type, our assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (*in thousands*):

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Fair value measurements at September 27, 2014 using:

	Level 1	Level 2	Level 3	Total estimated fair value
Cash	\$ 56,156			\$ 56,156
Municipal securities		155		155
Money market funds		4,422		4,422
Bank certificates of deposit		1,000		1,000
	\$ 56,156	\$ 5,577		\$ 61,733

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	Fair value measurements at December 28, 2013 using:			Total estimated fair value
	Level 1	Level 2	Level 3	
Cash	\$ 44,165	\$	\$	\$ 44,165
Municipal securities		1,200		1,200
Money market funds		7,503		7,503
	\$ 44,165	\$ 8,703	\$	\$ 52,868

**6. Employee Stock Benefit Plans**

Our 2005 Equity Incentive Plan is a broad-based, long-term retention program intended to attract, motivate, and retain talented employees as well as align stockholder and employee interests. Awards that may be granted under the program include, but are not limited to, non-qualified and incentive stock options, restricted stock units, and performance-based stock units. We settle employee stock option exercises, ESPP purchases, and the vesting of restricted stock units, and performance-based stock units with newly issued common shares. At September 27, 2014, there were 792,955 shares available for future equity grants under the 2005 Equity Incentive Plan.

**Stock Options**

Stock options may be granted to employees, consultants and directors to purchase a fixed number of shares of our common stock. The exercise prices of options granted are at least equal to the fair market value of our common stock on the dates of grant and options generally vest and become exercisable after one year or in four annual increments beginning one year after the date of grant. Stock options granted under the program have a maximum contractual term of ten years.

At September 27, 2014, we had 2,673,461 stock options outstanding. These options had a weighted-average exercise price of \$11.86 per share, an aggregate intrinsic value of approximately \$5.0 million and the weighted average remaining contractual term was approximately 4.9 years.

At September 27, 2014, we had 2,060,774 stock options outstanding that were exercisable. These options had a weighted-average exercise price of \$12.24 per share, an aggregate intrinsic value of \$3.8 million and the weighted average remaining contractual term was approximately 4.0 years.

**Restricted Stock Units**

We issue restricted stock units to certain employees, consultants and directors. Restricted stock units vest over either a one-year or a four-year period from the date of grant. Prior to vesting, restricted stock units do not have dividend equivalent rights, do not have voting rights and the shares underlying the restricted stock units are not considered issued and outstanding.

Subsequent to December 28, 2013, we awarded restricted stock units covering 497,138 shares of our common stock to employees and at September 27, 2014, we had 1,101,218 restricted stock units outstanding with an aggregate intrinsic value of approximately \$13.5 million and the weighted average remaining vesting period was approximately 1.5 years.

**Equity-Based Performance Stock Units**

Starting in 2012, we began issuing equity-based performance stock units ( PSUs ) to certain employees to reward achievement of financial performance goals set by the Board of Directors. Equity-based performance stock units vest over a three-year period from the date of grant. Prior to vesting, equity-based performance stock units do not have dividend equivalent rights, do not have voting rights and the shares underlying the



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restricted stock units are not considered issued and outstanding. The number of shares of stock ultimately issued to participants will depend upon the extent to which certain performance goals are met. The award measurement period is one fiscal year and based upon the level of goal achievement, the number of shares we will issue can range from 0% up to 150% of the granted units and vest over three years from the date of initial grant and upon final Board of Directors approval.

Subsequent to December 28, 2013, we awarded 208,015 equity-based performance stock units to senior executives with vesting that is contingent on the level of achievement of certain performance goals, market return and continued service ( market-based PSUs ). The market-based PSUs issued in 2014 are subject to a one-year performance period after which the number of market-based PSUs earned will be determined and will then be subject to certain adjustments resulting from

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performance of Cohu's Relative Total Shareholder Return (TSR) to a selected peer group over a two year measurement period following the date of grant with the total adjustment ranging from 75% to 125% of the target amount based on the percentage by which our TSR exceeds or falls below the selected peer group. Market-based PSUs earned will vest at the rate of 50% on the second and third anniversary of their grant. We estimated the fair value of market-based PSUs using a Monte Carlo simulation model on the date of grant. The model incorporates assumptions for the risk-free interest rate, Cohu and the selected peer group price volatility, the correlation between Cohu and the selected index, and dividend yields. Compensation expense is recognized ratably over the measurement period.

At September 27, 2014, we had 333,875 PSUs and market based PSUs outstanding with an aggregate intrinsic value of approximately \$4.1 million and the weighted average remaining vesting period was approximately 1.5 years.

**Employee Stock Purchase Plan (ESPP)**

The Cohu, Inc. 1997 Employee Stock Purchase Plan (the Plan) provides for the issuance of shares of our common stock. Under the Plan, eligible employees may purchase shares of Cohu common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value of Cohu common stock at the beginning or end of each 6-month purchase period, subject to certain limits. During the three-month period ended September 27, 2014, we did not sell any shares to our employees under the Plan and we have 250,930 shares available for future issuance.

**7. Income Taxes**

Ordinarily, interim tax provisions are calculated using the estimated effective tax rate (ETR) expected to be applicable for the full fiscal year. However, when a reliable estimate of the annual ETR cannot be made, the actual ETR for the year-to-date period may be the best estimate of the annual ETR. For the three and nine months ended September 27, 2014 and September 28, 2013 we used the actual year-to-date ETR in computing our tax provision or benefit as a reliable estimate of the annual ETR cannot be made as relatively small changes in our projected income or loss produce a significant variation in our ETR. The actual year-to-date ETR on income or loss from continuing operations for the three months ended September 27, 2014 and September 28, 2013, was 26.5% and 10.4%, respectively, and for the nine months ended September 27, 2014 and September 28, 2013 was 36.2% and 9.0%, respectively. The tax provision or benefit on income or loss from continuing operations in 2014 and 2013 differs from the U.S. federal statutory rate primarily due to the inability to benefit our domestic losses other than to the extent we have a tax provision on income from items that are excluded from continuing operations, foreign income taxed at lower rates, changes in our deferred tax asset valuation allowance, state taxes and changes and interest related to unrecognized tax benefits.

There was no material change to our unrecognized tax benefits and interest accrued related to unrecognized tax benefits during the three and nine months ended September 27, 2014.

**8. Industry Segments**

Our reportable segments are business units that offer different products and are managed separately because each business requires different technology and marketing strategies. As discussed in Note 2, in June 2014, we sold substantially all the assets of Cohu Electronics, which comprised our video camera segment and have presented financial information for this segment as discontinued operations. Subsequent to this transaction Cohu's remaining reportable segments are semiconductor and microwave communications equipment.

We allocate resources and evaluate the performance of segments based on profit or loss from operations, excluding interest, corporate expenses and unusual gains or losses. Intersegment sales were not significant for any period.



**Table of Contents****Cohu, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****September 27, 2014**Financial information by industry segment is as follows (*in thousands*):

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
<i>Net sales by segment:</i>				
Semiconductor equipment	\$ 91,573	\$ 52,403	\$ 226,042	\$ 160,326
Microwave communications equipment	2,868	3,574	11,113	10,112
<b>Consolidated net sales for reportable segments</b>	<b>\$ 94,441</b>	<b>\$ 55,977</b>	<b>\$ 237,155</b>	<b>\$ 170,438</b>
<i>Segment profit (loss):</i>				
Semiconductor equipment	\$ 13,928	\$ (9,391)	\$ 17,583	\$ (18,857)
Microwave communications equipment	(2,536)	(1,511)	(4,873)	(6,524)
<b>Profit (loss) for reportable segments</b>	<b>11,392</b>	<b>(10,902)</b>	<b>12,710</b>	<b>(25,381)</b>
<i>Other unallocated amounts:</i>				
Corporate expenses	(1,984)	(1,516)	(5,681)	(5,069)
Interest and other, net	6	16	25	42
<b>Income (loss) from continuing operations before taxes</b>	<b>\$ 9,414</b>	<b>\$ (12,402)</b>	<b>\$ 7,054</b>	<b>\$ (30,408)</b>

A small number of customers of our semiconductor equipment segment historically have been responsible for a significant portion of our consolidated net sales. Significant customer concentration information is as follows (*in thousands*):

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
<b>Customers individually accounting for more than 10% of consolidated net sales</b>	<b>two</b>	<b>two</b>	<b>two</b>	<b>one</b>
Percentage of consolidated net sales	25%	28%	26%	19%

**9. Contingencies**

From time-to-time we are involved in various legal proceedings, examinations by various tax authorities and claims that have arisen in the ordinary course of our businesses. The outcome of any litigation is inherently uncertain. While there can be no assurance, we do not believe at the present time that the resolution of the matters described above will have a material adverse effect on our assets, financial position or results of operations.

**10. Guarantees**

Our products are generally sold with warranty periods that range from 12 to 36 months following sale or acceptance. Parts and labor are covered under the terms of the warranty agreement. The warranty provision is based on historical and projected experience by product and configuration.

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	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Balance at beginning of period	\$ 4,582	\$ 5,719	\$ 5,155	\$ 4,602
Warranty expense accruals	1,633	690	3,960	2,857
Warranty payments	(1,252)	(1,401)	(4,152)	(4,284)
Warranty liability assumed				1,833
Balance at end of period	\$ 4,963	\$ 5,008	\$ 4,963	\$ 5,008

From time-to-time, during the ordinary course of business, we provide standby letters of credit for certain contingent liabilities under contractual arrangements, including customer contracts. As of September 27, 2014, the maximum potential amount of future payments that Cohu could be required to make under these standby letters of credit was approximately \$0.5 million. We have not recorded any liability in connection with these guarantee arrangements beyond that required to appropriately account for the underlying transaction being guaranteed. We do not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these arrangements.

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*This Form 10-Q contains certain forward-looking statements including expectations of market conditions, challenges and plans, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the Safe Harbor provisions created by that statute. Such forward-looking statements are based on management's current expectations and beliefs, including estimates and projections about our industries and include, but are not limited to, statements concerning financial position, business strategy, and plans or objectives for future operations. Forward-looking statements are not guarantees of future performance, and are subject to certain risks, uncertainties, and assumptions that are difficult to predict and may cause actual results to differ materially from management's current expectations. Such risks and uncertainties include those set forth in this Quarterly Report on Form 10-Q and our 2013 Annual Report on Form 10-K under the heading Item 1A. Risk Factors. The forward-looking statements in this report speak only as of the time they are made, and do not necessarily reflect management's outlook at any other point in time. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or for any other reason, however, readers should carefully review the risk factors set forth in other reports or documents we file from time to time with the SEC after the date of this Quarterly Report.*

**OVERVIEW**

Cohu operates in two business segments. Our primary business is the development, manufacture, sale and servicing of test handling, burn-in, thermal sub-systems and MEMS test solutions for the global semiconductor industry through our wholly-owned subsidiaries, Delta Design, Inc., Rasco GmbH and Ismeca Semiconductor Holding SA. Our primary business is significantly dependent on capital expenditures by semiconductor manufacturers and test subcontractors, which in turn is dependent on the current and anticipated market demand for semiconductors that is subject to cyclical trends. We expect that the semiconductor equipment industry will continue to be cyclical and volatile in part because consumer electronics, the principal end market for integrated circuits, is a highly dynamic industry and demand is difficult to accurately predict.

Average orders for back-end semiconductor equipment, as reported by Semiconductor Equipment and Materials International (SEMI), decreased during the third quarter of 2014. Consistent with the broader market, the order momentum within our semiconductor equipment segment that started toward the end of fiscal 2013 and had continued on an upward trend through the first half of 2014 reached a peak in June and orders generated by our semiconductor equipment segment decreased approximately 13% in the third quarter of 2014. Despite the decrease, we continue to experience order demand across our product lines and customer base with our pick and place and gravity handlers benefiting in particular from continued demand from the automotive and industrial segments. Demand for our thermal subsystems is being driven by the continuing popularity of consumer products, including tablets and smartphones and the sustained improvement in the results within our turret business are being driven largely by the consumer, mobility and discrete markets and by increased demand from LED customers. We continue to be optimistic about the long-term prospects for the semiconductor equipment industry due to expanding applications, growing integrated circuit content in automotive, consumer and industrial applications, and the projected adoption of high brightness LEDs for the general lighting market.

Our mobile microwave communications equipment business (Broadcast Microwave Services, Inc.) comprised approximately 10% of our consolidated revenues during the three-year period ended December 28, 2013 and was approximately 3.0% for the quarter ended September 27, 2014. Our microwave communications equipment business develops, manufactures and sells mobile microwave communications equipment, antenna systems and associated equipment. These products are used in the transmission of video, audio and telemetry. Applications for these microwave data-links include unmanned aerial vehicles (UAVs), public safety, security, surveillance and electronic news gathering. Customers for these products include government agencies, public safety organizations, UAV program contractors, television broadcasters and other commercial entities.

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**Application of Critical Accounting Estimates and Policies**

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We base our estimates on historical experience, forecasts and on various other assumptions that are believed to be reasonable under the circumstances, however actual results may differ from those estimates under different assumptions or conditions. The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our financial statements. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Our critical accounting estimates that we believe are the most important to an investor's understanding of our financial results and condition and require complex management judgment include:

revenue recognition, including the deferral of revenue on sales to customers, which impacts our results of operations;

estimation of valuation allowances and accrued liabilities, specifically product warranty, inventory reserves and allowance for bad debts, which impact gross margin or operating expenses;

the recognition and measurement of current and deferred income tax assets and liabilities, unrecognized tax benefits and the valuation allowance on deferred tax assets, which impact our tax provision;

the assessment of recoverability of long-lived assets including goodwill and other intangible assets, which primarily impacts gross margin or operating expenses if we are required to record impairments of assets or accelerate their depreciation or amortization; and

the valuation and recognition of share-based compensation, which impacts gross margin, research and development expense, and selling, general and administrative expense.

Below, we discuss these policies further, as well as the estimates and judgments involved. We also have other policies that we consider key accounting policies; however, these policies typically do not require us to make estimates or judgments that are difficult or subjective.

**Revenue Recognition:** We generally recognize revenue upon shipment and title passage for established products (i.e., those that have previously satisfied customer acceptance requirements) that provide for full payment tied to shipment. Revenue for products that have not previously satisfied customer acceptance requirements or from sales where customer payment dates are not determinable is recognized upon customer acceptance. For arrangements containing multiple elements the revenue relating to the undelivered elements is deferred using the relative selling price method utilizing estimated sales prices until delivery of the deferred elements. We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or adjustment.

**Accounts Receivable:** We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.



**Warranty:** We provide for the estimated costs of product warranties in the period sales are recognized. Our warranty obligation estimates are affected by historical product shipment levels, product performance and material and labor costs incurred in correcting product performance problems. Should product performance, material usage or labor repair costs differ from our estimates, revisions to the estimated warranty liability would be required.

**Inventory:** The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The determination of obsolete or excess inventory requires us to estimate the future demand for our products. The demand forecast is a direct input in the development of our short-term manufacturing plans. We record valuation reserves on our inventory for estimated excess and obsolete inventory and lower of cost or market concerns equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future product demand, market conditions and product selling prices. If future product demand, market conditions or product selling prices are less than those projected by management or if continued modifications to products are required to meet specifications or other customer requirements, increases to inventory reserves may be required which would have a negative impact on our gross margin.

**Income Taxes:** We estimate our liability for income taxes based on the various jurisdictions where we conduct business. This requires us to estimate our (i) current taxes; (ii) temporary differences that result from differing treatment of certain items for tax and accounting purposes and (iii) unrecognized tax benefits. Temporary differences result in deferred tax assets and liabilities that are reflected in the consolidated balance sheet. The deferred tax assets are reduced by a valuation allowance if, based upon all available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Establishing, reducing or increasing a valuation allowance in an accounting period generally results in an increase or decrease in tax expense in the statement of operations. We must make significant judgments to determine the provision for income taxes, deferred tax assets and liabilities, unrecognized tax benefits and any valuation allowance to be recorded against deferred tax assets. Our gross deferred tax asset balance as of September 27, 2014 was approximately \$45.0 million, with a valuation allowance of approximately \$37.1 million. Our deferred tax assets consist primarily of reserves and accruals that are not yet deductible for tax and tax credit and net operating loss carryforwards.

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***Goodwill, Purchased Intangible Assets and Other 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.

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.

***Contingencies:*** We are subject to certain contingencies that arise in the ordinary course of our businesses which require us to assess the likelihood that future events will confirm the existence of a loss or an impairment of an asset. If a loss or asset impairment is probable and the amount of the loss or impairment is reasonably estimable, we accrue a charge to operations in the period such conditions become known.

***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.

**Recent Accounting Pronouncements**

For a description of accounting changes and recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see Note 1, "Recent Accounting Pronouncements" in Part I, Item 1 of this Form 10-Q.

**RESULTS OF OPERATIONS**

In June 2014, we sold our video camera segment, Cohu Electronics, and its operating results are being presented as discontinued operations. All prior period amounts have been reclassified and unless otherwise indicated the discussion below covers the comparative results from continuing operations.

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The following table summarizes certain operating data as a percentage of net sales:

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	(64.9)	(77.3)	(65.9)	(72.9)
Gross margin	35.1	22.7	34.1	27.1
Research and development	(10.2)	(19.9)	(12.8)	(20.7)
Selling, general and administrative	(14.9)	(24.9)	(18.3)	(24.3)
Income (loss) from operations	10.0%	(22.1)%	3.0%	(17.9)%

**Third Quarter of Fiscal 2014 Compared to Third Quarter of Fiscal 2013****Net Sales**

Our consolidated net sales increased 68.7% to \$94.4 million in 2014, compared to net sales of \$56.0 million in 2013. Sales of semiconductor equipment in the third quarter of fiscal 2014 were \$91.6 million, and increased \$39.2 million or 74.7% from 2013 and represented 97.0% of consolidated net sales in 2014 versus 93.6% in 2013. Sales generated by our semiconductor equipment segment, in the third fiscal quarter of 2014, benefitted from increased shipments of products used by automotive, consumer and industrial power customers and increased demand for equipment used for processing discrete components and LEDs.

Sales of mobile microwave communications equipment in the third quarter of fiscal 2014 were \$2.9 million, representing 3.0% of consolidated net sales and decreased \$0.7 million or 19.8% when compared to 2013. The decrease in business volume experienced by our microwave communication equipment segment during the third fiscal quarter of 2014 resulted from revenue deferrals made in accordance with our revenue recognition policy and delays in receiving customer orders.

**Gross Margin**

Gross margin consists of net sales less cost of sales. Cost of sales consists primarily of the materials, assembly and test labor and overhead from operations. Our gross margin can fluctuate due to a number of factors, including, but not limited to, the mix of products sold, product support costs, inventory reserve adjustments, and utilization of manufacturing capacity. Our gross margin, as a percentage of net sales, increased to 35.1% in 2014 from 22.7% in 2013. In the third fiscal quarter of 2014 the improvement in our gross margin, as compared to the prior year, was generated by our semiconductor equipment segment and resulted from better operating leverage as a result of increased business volume, the benefits from the transition of our supply chain and manufacturing activities to Asia, favorable product mix and lower charges to cost of sales related to excess, obsolete and lower of cost or market inventory adjustments.

Our gross margin is also impacted by charges to cost of sales related to excess, obsolete and lower of cost or market inventory adjustments. We compute the majority of our excess and obsolete inventory reserve requirements using a one-year inventory usage forecast. In the third quarter of 2014 we recorded charges to cost of sales of approximately \$1.9 million for excess and obsolete inventory. In the third quarter of fiscal 2013, we recorded charges to cost of sales of approximately \$4.7 million for excess and obsolete inventory, primarily semiconductor equipment related to weakness in the personal computer market. While we believe our reserves for excess and obsolete inventory and lower of cost or market concerns are adequate to cover known exposures at September 27, 2014, reductions in customer forecasts or continued modifications to

products, as a result of our failure to meet specifications or other customer requirements, may result in additional charges to operations that could negatively impact our gross margin in future periods.

***Research and Development Expense ( R&D Expense )***

R&D expense consists primarily of salaries and related costs of employees engaged in ongoing research, product design and development activities, costs of engineering materials and supplies and professional consulting expenses. R&D expense was \$9.7 million or 10.2% of net sales in 2014, compared to \$11.1 million or 19.9% in 2013, decreasing in dollars as a result of product development programs that have concluded or are nearing completion as planned, and cost control measures and headcount reductions which occurred throughout 2013 within both our semiconductor and microwave communications equipment segments.

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***Selling, General and Administrative Expense ( SG&A Expense )***

SG&A expense consists primarily of salaries and benefit costs of employees, commission expense for independent sales representatives, product promotion and costs of professional services. SG&A expense was \$14.1 million or 14.9% in 2014, compared to \$14.0 million or 24.9% in 2013, increasing in absolute dollars as a result of higher business volume within our semiconductor equipment segment. SG&A expense in the third fiscal quarter of 2014 benefitted from the strengthening of the U.S. Dollar against the Euro and Swiss Franc which resulted in a foreign currency translation gain of \$1.0 million.

***Income Taxes***

Ordinarily, interim tax provisions are calculated using the estimated effective tax rate ( ETR ) expected to be applicable for the full fiscal year. However, when a reliable estimate of the annual ETR cannot be made, the actual ETR for the year-to-date period may be the best estimate of the annual ETR. For the three months ended September 27, 2014 and September 28, 2013 we used the actual year-to-date ETR in computing our tax provision or benefit as a reliable estimate of the annual ETR cannot be made as relatively small changes in our projected income or loss produce a significant variation in our ETR. The actual year-to-date ETR on income or loss from continuing operations for the three months ended September 27, 2014 and September 28, 2013, was 26.5% and 10.4%, respectively. The tax provision or benefit on income or loss from continuing operations in 2014 and 2013 differs from the U.S. federal statutory rate primarily due to the inability to benefit our domestic losses other than to the extent we have a tax provision on income from items that are excluded from continuing operations, foreign income taxed at lower rates, changes in our deferred tax asset valuation allowance, state taxes and changes and interest related to unrecognized tax benefits.

There was no material change to our unrecognized tax benefits and interest accrued related to unrecognized tax benefits during the three months ended September 27, 2014.

***Income from Continuing Operations and Net Income***

As a result of the factors set forth above, our income from continuing operations was \$6.9 million in 2014, compared to a loss from continuing operations of \$11.1 million in 2013. Including the results of our discontinued video segment, our net income in 2014 was \$7.5 million compared to a net loss of \$10.8 million in the corresponding period of 2013.

**First Nine Months of Fiscal 2014 Compared to First Nine Months of Fiscal 2013**

***Net Sales***

Our consolidated net sales increased 39.1% to \$237.2 million in 2014, compared to net sales of \$170.4 million in 2013. Sales of semiconductor equipment in the first nine months of fiscal 2014 were \$226.0 million, and increased \$65.7 million or 41.0% from 2013 and represented 95.3% of consolidated net sales in 2014 versus 94.1% in 2013. The increase in sales within our semiconductor equipment business in the first nine months of fiscal 2014 was a result of increased shipments of products used by automotive, consumer and industrial power customers and increased demand for equipment used for processing discrete components and LEDs.

Sales of mobile microwave communications equipment in the first nine months of fiscal 2014 were \$11.1 million, representing 4.7% of consolidated net sales, and increased \$1.0 million or 9.9% when compared to the same period of fiscal 2013. The increase in sales of our microwave communications business during the first nine months of fiscal 2014 resulted from higher product shipments made to government agencies and state and local law enforcement groups for use in security and surveillance infrastructure projects.

***Gross Margin***

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Our gross margin, as a percentage of net sales, increased to 34.1% in 2014 from 27.1% in 2013. Gross margin in the first nine months of fiscal 2014 improved as compared to the prior year as a result of increased business volume within our semiconductor equipment segment which generated better operating leverage, the benefits from the transition of our supply chain and manufacturing activities to Asia and favorable product mix. Gross margin in the first nine months of fiscal 2013 was negatively impacted by the deferral of certain revenue with bifurcated payment terms in accordance with our revenue recognition policy, and the amortization of \$1.0 million of a purchase accounting inventory step-up adjustment recorded as a result of our acquisition of Ismeca. During the first nine months of fiscal 2014 and 2013 we recorded net charges to cost of sales of approximately \$4.7 million and \$6.7 million for excess and obsolete inventory, respectively.

### ***R&D Expense***

R&D expense was \$30.4 million or 12.8% of net sales in 2014, compared to \$35.2 million or 20.7% in 2013. The decrease in

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R&D spending during the first nine months of 2014 resulted from product development programs that have concluded or are nearing completion, as planned, and cost control measures and headcount reductions which occurred throughout 2013 within both our semiconductor and microwave communications equipment segments.

***SG&A Expense***

SG&A expense was \$43.4 million or 18.3% of net sales in 2014, compared to \$41.4 million or 24.3% in 2013. The increase in SG&A expense in the first nine months of fiscal 2014, in absolute dollars, was a result of increased business volume within our semiconductor equipment segment. SG&A expense in 2014 included \$1.7 million of manufacturing transition and employee severance costs and was also impacted by a \$0.6 million increase in employee share based compensation expense. The first nine months of fiscal 2013 included \$1.1 million of costs incurred in connection with transitioning our semiconductor equipment manufacturing to Asia and \$0.4 million of acquisition related costs incurred in connection with completing the purchase of Ismecca.

***Income Taxes***

For the nine months ended September 27, 2014 and September 28, 2013 we used the actual year-to-date ETR in computing our tax provision or benefit as a reliable estimate of the annual ETR cannot be made as relatively small changes in our projected income or loss produce a significant variation in our ETR. The actual year-to-date ETR on income or loss from continuing operations for the nine months ended September 27, 2014 and September 28, 2013, was 36.2% and 9.0%, respectively. The tax provision or benefit on income or loss from continuing operations in 2014 and 2013 differs from the U.S. federal statutory rate primarily due to the inability to benefit our domestic losses other than to the extent we have a tax provision on income from items that are excluded from continuing operations, foreign income taxed at lower rates, changes in our deferred tax asset valuation allowance, state taxes and changes and interest related to unrecognized tax benefits.

There was no material change to our unrecognized tax benefits and interest accrued related to unrecognized tax benefits during the nine months ended September 27, 2014.

***Income from Continuing Operations and Net Income***

As a result of the factors set forth above, our income from continuing operations was \$4.5 million in 2014 compared to a loss from continuing operations of \$27.7 million in 2013. Including the results of our discontinued video segment, which included a gain on disposal of \$4.1 million, our net income in 2014 was \$8.3 million compared to a net loss of \$27.0 million in the corresponding period of 2013.

**LIQUIDITY AND CAPITAL RESOURCES**

Our primary business is dependent on capital expenditures by semiconductor manufacturers and test subcontractors that are, in turn, dependent on the current and anticipated market demand for semiconductors. The cyclical and volatile nature of demand for semiconductor equipment, our primary industry, makes estimates of future revenues, results of operations and net cash flows difficult.

Our primary historical source of liquidity and capital resources has been cash flow generated by our operations and we manage our businesses to maximize operating cash flows as our primary source of liquidity. We use cash to fund growth in our operating assets and to fund new products and product enhancements primarily through research and development. As of September 27, 2014, \$40.0 million of our cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we may be required to accrue and pay U.S. taxes if we repatriate these funds. Our intent is to indefinitely reinvest these funds in our foreign operations and we have no current plans that would require us to repatriate these funds to the U.S.

**Liquidity**

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**Working Capital:** The following summarizes our cash, cash equivalents, short-term investments and working capital:

<i>(in thousands)</i>	September 27, 2014	December 28, 2013	Increase	Percentage Change
Cash, cash equivalents and short-term investments	\$ 61,733	\$ 52,868	\$ 8,865	16.8%
Working capital	\$ 140,614	\$ 125,837	\$ 14,777	11.7%



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**Cash Flows**

**Operating Activities:** Operating cash flows consist of our net income, adjusted for non-cash expenses and changes in operating assets and liabilities. Non-cash items include depreciation and amortization, non-cash share-based compensation expense and deferred income taxes. Our net cash provided by operating activities in the first nine months of fiscal 2014 totaled \$5.0 million. Cash provided by operating activities was impacted by changes in current assets and liabilities and, excluding the impact of the sale of Cohu Electronics, included increases in accounts receivables of \$28.4 million; inventory of \$6.0 million; deferred profit of \$5.2 million; accounts payable of \$8.8 million; accrued compensation, warranty and other liabilities of \$6.5 million and income taxes payable of \$1.4 million. The increase in accounts receivables resulted from a sequential increase in product shipments made by our semiconductor equipment segment during the second and third quarters of 2014 and the timing of the resulting cash conversion cycle. Material purchases made by our semiconductor equipment segment to fulfill orders for semiconductor equipment led to an increase in our inventory balance and deferred profit increased due to revenue deferrals of semiconductor equipment shipments made in accordance with our revenue recognition policy. The increases in accounts payable and accrued compensation, warranty and other liabilities resulted from higher business volume, the timing of cash payments made to vendors and our employees and the accrual of employee severance by our microwave communication equipment segment related to its geographic consolidation plan. The increase in income taxes payable is a result of an increase in taxable income generated in fiscal 2014.

**Investing Activities:** Investing cash flows consist primarily of cash used for capital expenditures in support of our businesses, proceeds from investment maturities, asset disposals and divestitures and cash used for purchases of investments and business acquisitions. Our net cash provided by investing activities in the first nine months of fiscal 2014 totaled \$8.6 million and was primarily the result of the sale of Cohu Electronics on June 6, 2014 for \$9.9 million. The decision to sell Cohu Electronics resulted from Cohu management's determination that this industry segment was no longer a strategic fit within our organization. Additions to property, plant and equipment in the first nine months of fiscal 2014 were \$1.2 million and were made to support the operating and development activities of our semiconductor equipment and microwave communication businesses.

**Financing Activities:** Cash flows from financing activities consist primarily of net proceeds from the issuance of common stock under our stock option and employee stock purchase plans and cash used to pay dividends to our stockholders. We issue stock options and maintain an employee stock purchase plan as components of our overall employee compensation. In the first nine months of fiscal 2014, we generated \$1.2 million issuing common stock under our employee stock plans and we paid dividends totaling \$4.5 million, or \$0.18 per common share. Future quarterly dividends are subject to our cash liquidity, capital availability and periodic determinations by our Board of Directors that cash dividends are in the best interests of our stockholders.

**Capital Resources**

We have a secured letter of credit facility (the "Secured Facility") under which Bank of America, N.A., has agreed to administer the issuance of letters of credit on behalf of Cohu and our subsidiaries. The Secured Facility requires us to maintain deposits of cash or other approved investments, which serve as collateral, in amounts that approximate our outstanding letters of credit. As of September 27, 2014, we had approximately \$0.5 million of standby letters of credit outstanding under the Secured Facility. We also have credit agreements with multiple financial institutions under which they administer lines of credit on behalf of our wholly owned Ismecca subsidiary. The agreements provide Ismecca with 2.5 million Swiss Francs of available credit and at September 27, 2014 no amounts were outstanding. We expect that we will continue to make capital expenditures to support our business and we anticipate that present working capital will be sufficient to meet our operating requirements for at least the next twelve months.

**Contractual Obligations and Off-Balance Sheet Arrangements**

**Contractual Obligations:** Our significant contractual obligations consist of operating leases that have not changed materially from those disclosed in our Annual Report on Form 10-K for the year ended December 28, 2013.

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**Purchase Commitments:** From time to time, we enter into commitments with our vendors and outsourcing partners to purchase inventory at fixed prices or in guaranteed quantities. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. Our purchase orders are based on our current manufacturing needs and are fulfilled by our vendors within relatively short time horizons. We typically do not have significant agreements for the purchase of raw materials or other goods specifying minimum quantities or set prices that exceed our expected requirements for the next three months.

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***Off-Balance Sheet Arrangements:*** During the ordinary course of business, we provide standby letters of credit instruments to certain parties as required. As of September 27, 2014, the maximum potential amount of future payments that we could be required to make under these standby letters of credit was approximately \$0.5 million. No liability has been recorded in connection with these arrangements beyond those required to appropriately account for the underlying transaction being guaranteed. We do not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these arrangements.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

**Investment and Interest Rate Risk.**

At September 27, 2014, our investment portfolio included short-term, fixed-income investment securities with a fair value of approximately \$1.2 million. These securities are subject to interest rate risk and will likely decline in value if interest rates increase. Our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. As we classify our short-term securities as available-for-sale, no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary. Due to the relatively short duration of our investment portfolio, an immediate ten percent change in interest rates would have no material impact on our financial condition or results of operations.

We evaluate our investments periodically for possible other-than-temporary impairment by reviewing factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and our ability and intent to hold the investment for a period of time sufficient for anticipated recovery of market value. As of September 27, 2014, we had no investments with loss positions.

**Foreign Currency Exchange Risk.**

We conduct business on a global basis in a number of major international currencies. As such, we are exposed to adverse as well as beneficial movements in foreign currency exchange rates. The majority of our sales are denominated in U.S. dollars except for certain of our revenues that are denominated in Euros and Swiss Francs. Certain expenses incurred by our non-U.S. operations, such as employee payroll and benefits as well as some raw materials purchases and other expenses are denominated and paid in local currency.

We considered a hypothetical ten percent adverse movement in foreign exchange rates to the underlying exposures described above and believe that such a market movement would not have a material effect on our consolidated financial position, results of operations or cash flows.

**Item 4. Controls and Procedures.**

**(a) Evaluation of Disclosure Controls and Procedures.** Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

**(b) Changes in Internal Controls.** There have been no changes in our internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect our internal control over financial reporting.

On May 14, 2013, the committee of Sponsoring Organizations of the Treadway Commission (COSO) issued an updated version of its Internal Control Integrated Framework (2013 Framework). Originally issued in 1992 (1992 Framework), the framework helps organizations design, implement and evaluate the effectiveness of internal control concepts and simplify their use and application. The 1992 Framework remains available during the transition period, which extends to December 15, 2014, after which time COSO will consider it as superseded by the 2013 Framework. As of September 27, 2014, Cohu continues to utilize the 1992 Framework and will transition to the 2013 Framework by the end of 2014.

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**Part II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

The information set forth above under Note 9 contained in the Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q is incorporated herein by reference.

**Item 1A. Risk Factors.**

*The risks described below may not be the only risks we face. Additional risks that we do not currently believe are material may also impair our business operations. The risk factors set forth below with an asterisk (\*) next to the title contain changes to the description of the risk factors associated with our business as previously disclosed in Item 1A to our 2013 Annual Report on Form 10-K. If any of the events or circumstances described in the following risks occur, our business, financial condition, results of operations or cash flows could suffer, and the trading price of our common stock and our market capitalization could decline.*

***We are exposed to risks associated with acquisitions, investments and divestitures.***

We have made, and may in the future make, acquisitions of, or significant investments in, businesses with complementary products, services and/or technologies such as our acquisition of Ismecca, which was completed on December 31, 2012. Acquisitions and investments involve numerous risks, including, but not limited to:

difficulties and increased costs in connection with integration of the personnel, operations, technologies and products of acquired businesses;

increasing the scope, geographic diversity and complexity of our business;

diversion of management's attention from other operational matters;

the potential loss of key employees or customers of Cohu or acquired businesses;

lack of synergy, or the inability to realize expected synergies, resulting from the acquisition;

failure to commercialize purchased technology; and

the impairment of acquired intangible assets and goodwill that could result in significant charges to operating results in future periods. We may be required to finance future acquisitions and investments through a combination of borrowings, proceeds from equity or debt offerings and the use of cash, cash equivalents and short-term investments.

With respect to divestitures, we may divest businesses that do not meet our strategic objectives, or do not meet our growth or profitability targets and may not be able to complete proposed divestitures on terms commercially favorable to us.

Mergers, acquisitions and investments are inherently risky and the inability to effectively manage these risks could materially and adversely affect our business, financial condition and results of operations. At September 27, 2014 we had goodwill and net purchased intangible assets balances of \$67.9 million and \$36.5 million, respectively.

*We are exposed to the risks of operating a global business.*

We are a global corporation with offices and subsidiaries in certain foreign locations to support our sales and services to the global semiconductor industry and, as such, we face risks in doing business abroad that we do not face domestically. Certain aspects inherent in transacting business internationally could negatively impact our operating results, including:

costs and difficulties in staffing and managing international operations;

unexpected changes in regulatory requirements;

difficulties in enforcing contractual and intellectual property rights;

longer payment cycles;

local political and economic conditions;

potentially adverse tax consequences, including restrictions on repatriating earnings and the threat of double taxation ; and

fluctuations in currency exchange rates, which can affect demand and increase our costs.

Additionally, managing geographically dispersed operations presents difficult challenges associated with organizational alignment and infrastructure, communications and information technology, inventory control, customer relationship management, terrorist threats and related security matters and cultural diversities. If we are unsuccessful in managing such operations effectively, our business and results of operations will be adversely affected.

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*The implementation of our Enterprise Resource Planning software could disrupt our business which could decrease our sales, earnings and liquidity.*

We are in the process of finalizing the implementation of an Enterprise Resource Planning (ERP) software system which may not result in improvements that outweigh its costs and may disrupt our operations. Our inability to mitigate existing and future disruptions could decrease our sales, earnings and liquidity. The ERP system implementation subjects us to substantial costs and inherent risks associated with migrating from our legacy systems. These costs and risks could include, but are not limited to:

significant operating expenditures;

disruptions to our domestic and international supply chains;

inability to fill customer orders accurately and on a timely basis, or at all;

inability to process payments to suppliers, vendors and associates accurately and in a timely manner;

disruptions to or the ineffectiveness of our internal control environment;

inability to fulfill our SEC or other governmental reporting requirements in a timely or accurate manner;

inability to fulfill federal, state and local tax filing requirements in a timely or accurate manner; and

increased demands on management and staff time to the detriment of other corporate initiatives.

*The semiconductor industry we serve is highly volatile and unpredictable.*

Visibility into our markets is limited. Our operating results are substantially dependent on our semiconductor equipment business. This capital equipment business is in turn highly dependent on the overall strength of the semiconductor industry. Historically, the semiconductor industry has been highly cyclical with recurring periods of oversupply and excess capacity, which often have had a significant effect on the semiconductor industry's demand for capital equipment, including equipment of the type we manufacture and market. We anticipate that the markets for newer generations of semiconductors and semiconductor equipment may also be subject to similar cycles and severe downturns. Any significant reductions in capital equipment investment by semiconductor integrated device manufacturers and test subcontractors will materially and adversely affect our business, financial position and results of operations. In addition, the volatile and unpredictable nature of semiconductor equipment demand has in the past and may in the future expose us to significant excess and obsolete and lower of cost or market inventory write-offs and reserve requirements. In 2013, 2012 and 2011, we recorded pre-tax inventory-related charges of approximately \$8.1 million, \$8.9 million, and \$5.8 million, respectively, primarily as a result of changes in customer forecasts.

*\* Due to the nature of our business, we need continued access to capital, which if not available to us or if not available on favorable terms, could harm our ability to operate or expand our business.*

Our business requires capital to finance accounts receivable and product inventory that is not financed by trade creditors when our business is expanding. If cash from available sources is insufficient or cash is used for unanticipated needs, we may require additional capital sooner than anticipated.

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We believe that our existing sources of liquidity, including cash resources and cash provided by operating activities will provide sufficient resources to meet our working capital and cash requirements for at least the next twelve months. In the event we are required, or elect, to raise additional funds, we may be unable to do so on favorable terms, or at all, and may incur expenses in raising the additional funds and future indebtedness could adversely affect our operating results and severely limit our ability to plan for, or react to, changes in our business or industry. We could also be limited by financial and other restrictive covenants in credit arrangements, including limitations on our borrowing of additional funds and issuing dividends. If we choose to issue new equity securities, existing stockholders may experience dilution, or the new equity securities may have rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise funds on acceptable terms, we may not be able to take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. Any inability to raise additional capital when required could have an adverse effect on our business and operating results.

***The semiconductor equipment industry in general and the test handler market in particular, is highly competitive.***

The semiconductor test handler industry is intensely competitive and we face substantial competition from numerous companies throughout the world. The test handler industry, while relatively small in terms of



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worldwide market size compared to other segments of the semiconductor equipment industry, has several participants resulting in intense competitive pricing pressures. Future competition may include companies that do not currently supply test handlers. Some of our competitors are part of larger corporations that have substantially greater financial, engineering, manufacturing and customer support capabilities and provide more extensive product offerings. In addition, there are emerging semiconductor equipment companies that provide or may provide innovative technology incorporated in products that may compete successfully against our products. We expect our competitors to continue to improve the design and performance of their current products and introduce new products with improved performance capabilities. Our failure to introduce new products in a timely manner, the introduction by our competitors of products with perceived or actual advantages, or disputes over rights to use certain intellectual property or technology could result in a loss of our competitive position and reduced sales of, or margins on our existing products. We believe that competitive conditions in the semiconductor test handler market have intensified over the last several years. This intense competition has adversely impacted our product average selling prices and gross margins on certain products. If we are unable to reduce the cost of our existing products and successfully introduce new lower cost products we expect these competitive conditions to negatively impact our gross margin and operating results in the foreseeable future.

***Semiconductor equipment is subject to rapid technological change, product introductions and transitions may result in inventory write-offs and our new product development involves numerous risks and uncertainties.***

Semiconductor equipment and processes are subject to rapid technological change. We believe that our future success will depend in part on our ability to enhance existing products and develop new products with improved performance capabilities. We expect to continue to invest heavily in research and development and must manage product transitions successfully, as introductions of new products, including the products obtained in our acquisitions, may adversely impact sales and/or margins of existing products. In addition, the introduction of new products by us or by our competitors, the concentration of our revenues in a limited number of large customers, the migration to new semiconductor testing methodologies and the custom nature of our inventory parts increases the risk that our established products and related inventory may become obsolete, resulting in significant excess and obsolete inventory exposure. This increased exposure resulted in significant charges to operations during each of the years in the three-year period ended December 28, 2013. Future inventory write-offs and increased inventory reserve requirements could have a material adverse impact on our results of operations and financial condition.

The design, development, commercial introduction and manufacture of new semiconductor equipment is an inherently complex process that involves a number of risks and uncertainties. These risks include potential problems in meeting customer acceptance and performance requirements, integration of the equipment with other suppliers' equipment and the customers' manufacturing processes, transitioning from product development to volume manufacturing and the ability of the equipment to satisfy the semiconductor industry's constantly evolving needs and achieve commercial acceptance at prices that produce satisfactory profit margins. The design and development of new semiconductor equipment is heavily influenced by changes in integrated circuit assembly, test and final manufacturing processes and integrated circuit package design changes. We believe that the rate of change in such processes and integrated circuit packages is accelerating. As a result of these changes and other factors, assessing the market potential and commercial viability of handling, MEMS, system-level and burn-in test equipment is extremely difficult and subject to a great deal of risk. In addition, not all integrated circuit manufacturers employ the same manufacturing processes. Differences in such processes make it difficult to design standard test products that are capable of achieving broad market acceptance. As a result, we might not accurately assess the semiconductor industry's future equipment requirements and fail to design and develop products that meet such requirements and achieve market acceptance. Failure to accurately assess customer requirements and market trends for new semiconductor test products may have a material adverse impact on our operations, financial condition and results of operations.

The transition from product development to the manufacture of new semiconductor equipment is a difficult process and delays in product introductions and problems in manufacturing such equipment are common. We have in the past and may in the future experience difficulties in manufacturing and volume production of our new equipment. In addition, as is common with semiconductor equipment, our after sale support and warranty costs have typically been significantly higher with new products than with our established products. Future technologies, processes and product developments may render our current or future product offerings obsolete and we might not be able to develop, introduce and successfully manufacture new products or make enhancements to our existing products in a timely manner to satisfy customer requirements or achieve market acceptance. Furthermore, we might not realize acceptable profit margins on such products.

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***Global economic conditions may have an impact on our business and financial condition in ways that we currently cannot predict.***

Our operations and financial results depend on worldwide economic conditions and their impact on levels of business spending, which have deteriorated significantly in many countries and regions and may remain depressed for the foreseeable future. Continued uncertainties may reduce future sales of our products and services. While we believe we have a strong customer base and have experienced strong collections in the past, if the current market conditions deteriorate, we may experience increased collection times and greater write-offs, either of which could have a material adverse effect on our cash flow.

In addition, the tightening of credit markets and concerns regarding the availability of credit may make it more difficult for our customers to raise capital, whether debt or equity, to finance their purchases of capital equipment, including the products we sell. Delays in our customers ability to obtain such financing, or the unavailability of such financing would adversely affect our product sales and revenues and therefore harm our business and operating results. We cannot predict the timing, duration of or effect on our business of the economic slowdown or the timing or strength of a subsequent recovery.

***A limited number of customers account for a substantial percentage of our net sales.***

A small number of customers of our semiconductor equipment segment have been responsible for a significant portion of our net sales. During the past five years, the percentage of our sales derived from these significant customers has varied greatly. Such variations are due to changes in the customers business and their purchase of products from our competitors. It is common in the semiconductor test handler industry for customers to purchase equipment from more than one equipment supplier, increasing the risk that our competitive position with a specific customer may deteriorate. No assurance can be given that we will continue to maintain our competitive position with these or other significant customers. Furthermore, we expect the percentage of our revenues derived from significant customers will vary greatly in future periods. The loss of, or a significant reduction in, orders by these or other significant customers as a result of competitive products, market conditions including end market demand for our customers products, outsourcing final semiconductor test to test subcontractors that are not our customers or other factors, would have a material adverse impact on our business, financial condition and results of operations. Furthermore, the concentration of our revenues in a limited number of large customers is likely to cause significant fluctuations in our future annual and quarterly operating results.

***We do not currently participate in the memory test handler market.***

Pick-and-place handlers used in memory test applications account for a significant portion of the worldwide test handler market. We do not currently participate in the memory market segment; therefore our total available sales market is limited.

***If we cannot continue to develop, manufacture and market products and services that meet customer requirements for innovation and quality, our revenue and gross margin may suffer.***

The process of developing new high technology products and services and enhancing existing products and services is complex, costly and uncertain, and any failure by us to anticipate customers changing needs and emerging technological trends accurately could significantly harm our market share and results of operations. In addition, in the course of conducting our business, we must adequately address quality issues associated with our products and services, including defects in our engineering, design and manufacturing processes, as well as defects in third-party components included in our products. In order to address quality issues, we work extensively with our customers and suppliers and engage in product testing to determine the cause of quality problems and to determine appropriate solutions. Finding solutions to quality issues can be expensive and may result in additional warranty, replacement and other costs, adversely affecting our profits. In addition, quality issues can impair our relationships with new or existing customers and adversely affect our reputation, which could lead to a material adverse effect on our operating results.

***The cyclical nature of the semiconductor equipment industry places enormous demands on our employees, operations and infrastructure.***

The semiconductor equipment industry is characterized by dramatic and sometimes volatile changes in demand for its products. Changes in product demand result from a number of factors including the semiconductor industry s continually changing and unpredictable capacity requirements and changes in integrated circuit design and packaging. Sudden changes in demand for semiconductor equipment have a significant impact on our operations. Typically, we reduce and increase our workforce, particularly in manufacturing, based on

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customer demand for our products. These changes in workforce levels place enormous demands on our employees, operations and infrastructure since newly hired personnel rarely possess the expertise and level of experience of current employees. Additionally, these transitions divert management time and attention from other activities and adversely impact employee morale. We have in the past and may in the future experience difficulties, particularly in manufacturing, in training and recruiting the large number of additions to our workforce. The volatility in headcount and business levels, combined with the cyclical nature of the semiconductor industry, may require that we invest substantial amounts in new operational and financial systems, procedures and controls. We may not be able to successfully adjust our systems, facilities and production capacity to meet our customers' changing requirements. The inability to meet such requirements will have an adverse impact on our business, financial position and results of operations.

***\* We are in the process of transitioning our manufacturing to Asia. Our inability to manage multiple manufacturing sites during this transition and secure raw materials meeting our quality, cost and other requirements, or failures by our suppliers to perform, could harm our sales, service levels and reputation.***

Our reliance on overseas manufacturers exposes us to significant risks including complex management, foreign currency, legal, tax and economic risks, which we may not be able to address quickly and adequately. In addition, it is time consuming and costly to qualify overseas supplier relationships. Therefore, if we should fail to effectively manage overseas manufacturing operations or if one or more of them should experience delays, disruptions or quality control problems, or if we had to change or add additional manufacturing sites, our ability to ship products to our customers could be delayed. Also, the addition of overseas manufacturing locations increases the demands on our administrative and operations infrastructure and the complexity of our supply chain management. If our overseas manufacturing locations are unable to meet our manufacturing requirements in a timely manner, our ability to ship products and to realize the related revenues when anticipated could be materially affected.

Our suppliers are subject to the fluctuations in general economic cycles, and the global economic conditions may impact their ability to operate their business. They may also be impacted by the increasing costs of raw materials, labor and distribution, resulting in demands for less attractive contract terms or an inability for them to meet our requirements or conduct their own businesses. The performance and financial condition of a supplier may cause us to alter our business terms or to cease doing business with a particular supplier, or change our sourcing practices generally, which could in turn adversely affect our own business and financial condition.

***The loss of key personnel could adversely impact our business.***

Certain key personnel are critical to our business. Our future operating results depend substantially upon the continued service of our key personnel, many of whom are not bound by employment or non-competition agreements. Our future operating results also depend in significant part upon our ability to attract and retain qualified management, manufacturing, technical, engineering, marketing, sales and support personnel. Competition for qualified personnel, particularly those with technical skills, is intense, and we cannot ensure success in attracting or retaining qualified personnel. In addition, the cost of living in the San Diego, California, Kolbermoor, Germany and La Chaux-de-Fonds, Switzerland areas, where the majority of our development personnel are located, is high and we have had difficulty in recruiting prospective employees from other locations. There may be only a limited number of persons with the requisite skills and relevant industry experience to serve in these positions and it may become increasingly difficult for us to hire personnel over time. Our business, financial condition and results of operations could be materially adversely affected by the loss of any of our key employees, by the failure of any key employee to perform in his or her current position, or by our inability to attract and retain skilled employees.

***Failure of critical suppliers to deliver sufficient quantities of parts in a timely and cost-effective manner could adversely impact our operations.***

We use numerous vendors to supply parts, components and subassemblies for the manufacture of our products. It is not always possible to maintain multiple qualified suppliers for all of our parts, components and subassemblies. As a result, certain key parts may be available only from a single supplier or a limited number of suppliers. In addition, suppliers may cease manufacturing certain components that are difficult to replace without significant reengineering of our products. On occasion, we have experienced problems in obtaining adequate and reliable quantities of various parts and components from certain key suppliers. Our results of operations may be materially and adversely impacted if we do not receive sufficient parts to meet our requirements in a timely and cost effective manner.

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***Third parties may violate our proprietary rights or accuse us of infringing upon their proprietary rights.***

We rely on patent, copyright, trademark and trade secret laws to establish and maintain proprietary rights in our technology and products. Any of our proprietary rights may expire due to patent life, or be challenged, invalidated or circumvented. In addition, from time to time, we receive notices from third parties regarding patent or copyright claims. Any such claims, with or without merit, could be time-consuming to defend, result in costly litigation, divert management's attention and resources and cause us to incur significant expenses. In the event of a successful claim of infringement against us and our failure or inability to license the infringed technology or to substitute similar non-infringing technology, our business, financial condition and results of operations could be adversely affected.

***A majority of our revenues are generated from exports to foreign countries, primarily in Asia, that are subject to economic and political instability and we compete against a number of Asian test handling equipment suppliers.***

The majority of our export sales are made to destinations in Asia. Political or economic instability, particularly in Asia, may adversely impact the demand for capital equipment, including equipment of the type we manufacture and market. In addition, we face intense competition from a number of Asian suppliers that have certain advantages over U.S. suppliers, including us. These advantages include, among other things, proximity to customers, favorable tariffs and affiliation with significantly larger organizations. In addition, changes in the amount or price of semiconductors produced in Asia could impact the profitability or capital equipment spending programs of our foreign and domestic customers.

***The occurrence of natural disasters and geopolitical instability caused by terrorist attacks and other threats may adversely impact our operations and sales.***

Our Asian sales and service headquarters is located in Singapore and the majority of our sales are made to destinations in Asia. In addition, we have manufacturing plants in the Philippines, Malaysia and China. These regions are known for being vulnerable to natural disasters and other risks, such as earthquakes, tsunamis, fires, and floods, which at times have disrupted the local economies. A significant earthquake or tsunami could materially affect operating results. We are not insured for most losses and business interruptions of this kind, and do not presently have redundant, multiple site capacity in the event of a natural disaster. In the event of such disaster, our business would suffer. Furthermore, we have customers throughout the Middle East and terrorist attacks, protests or other threats in this region may cause geopolitical instability, which may have an adverse impact on our business, results of operations and financial condition.

***Unanticipated changes in our tax provisions or exposure to additional income tax liabilities could affect our profitability.***

We are subject to income and other taxes in the U.S. and numerous foreign jurisdictions. Our tax liabilities are affected by, among other things, the amounts our affiliated entities charge each other for intercompany transactions. We may be subject to ongoing tax examinations in various jurisdictions. Tax authorities may disagree with our intercompany charges or other matters and assess additional taxes. While we regularly assess the likely outcomes of these examinations in order to determine the appropriateness of our tax provision, tax audits are inherently uncertain and an unfavorable outcome could occur. An unanticipated, unfavorable outcome in any specific period could harm our operating results for that period or future periods. The financial cost and management attention and time devoted to defending income tax positions may divert resources from our business operations, which could harm our business and profitability. Tax examinations may also impact the timing and/or amount of our refund claims. In addition, our effective tax rate in the future could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of our deferred tax assets and liabilities, changes in tax laws and the discovery of new information in the course of our tax return preparation process. In particular, the carrying value of our deferred tax assets and the utilization of our net operating loss and credit carryforwards are dependent on our ability to generate future taxable income in the U.S and other countries. Furthermore, these carryforwards may be subject to annual limitations as a result of changes in Cohu's ownership.

***Compliance with regulations may impact sales to foreign customers and impose costs.***

Certain products and services that we offer require compliance with United States and other foreign country export and other regulations. Compliance with complex U.S. and other foreign country laws and regulations that apply to our international sales activities increases our cost of doing business in international jurisdictions and could expose us or our employees to fines and penalties. These laws and regulations include import and export requirements, the U.S. State Department International Traffic in Arms Regulations (ITAR) and U.S. and other foreign country laws

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such as the Foreign Corrupt Practices Act (FCPA), and local laws prohibiting corrupt payments to governmental officials. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business and damage to our reputation. Although we have implemented policies and procedures designed to ensure compliance with these laws, there can be no assurance that our employees, contractors or agents will not violate our policies, or that our policies will be effective in preventing all potential violations. Any such violations could include prohibitions on our ability to offer our products and services to one or more countries, and could also materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Further, defending against claims of violations of these laws and regulations, even if we are successful, could be time-consuming, result in costly litigation, divert management's attention and resources and cause us to incur significant expenses.

In addition to government regulations regarding sale and export, we are subject to other regulations regarding our products. For example, the U.S. Securities and Exchange Commission has recently adopted disclosure rules for companies that use conflict minerals in their products, with substantial supply chain verification requirements in the event that the materials come from, or could have come from, the Democratic Republic of the Congo or adjoining countries. These new rules and verification requirements will impose additional costs on us and on our suppliers, and may limit the sources or increase the prices of materials used in our products. Further, if we are unable to certify that our products are conflict free, we may face challenges with our customers, which could place us at a competitive disadvantage, and our reputation may be harmed.

***Our microwave communications equipment segment depends on governments for a significant portion of its sales, creating uncertainty in the timing of and funding for projected contracts.***

A significant portion of the sales of BMS, Inc. are made to federal, state, local and foreign government agencies as a prime or sub-contractor. Government spending has historically been cyclical. A decrease in government spending or changes in spending allocation could result in one or more of the programs being reduced, delayed or terminated. Reductions or delays in the funding process or changes in funding caused by automatic budget cuts ( sequestration ) or unforeseen world events can impact the timing of available funds or can lead to changes in program content or termination. The loss of anticipated funding or the termination of multiple or large programs could have an adverse effect on our future sales and earnings.

***Our business and operations could suffer in the event of security breaches.***

Attempts by others to gain unauthorized access to information technology systems are becoming more sophisticated and are sometimes successful. These attempts, which might be related to industrial or other espionage, include covertly introducing malware to our computers and networks and impersonating authorized users, among others. We seek to detect and investigate all security incidents and to prevent their recurrence, but in some cases, we might be unaware of an incident or its magnitude and effects. The theft, unauthorized use or publication of our intellectual property and/or confidential business information could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. To the extent that any security breach results in inappropriate disclosure of our customers' or licensees' confidential information, we may incur liability as a result. In addition, we may be required to devote additional resources to the security of our information technology systems.

***Our financial and operating results may vary and may fall below analysts' estimates, which may cause the price of our common stock to decline.***

Our operating results may fluctuate from quarter to quarter due to a variety of factors including, but not limited to:

cyclical nature of the semiconductor equipment industry;

timing and amount of orders from customers and shipments to customers;

inability to recognize revenue due to accounting requirements;

inventory writedowns;

inability to deliver solutions as expected by our customers; and

intangible and deferred tax asset writedowns.

Due to these factors or other unanticipated events, quarter-to-quarter comparisons of our operating results may not be reliable indicators of our future performance. In addition, from time to time our quarterly financial results may fall below the expectations of the securities and industry analysts who publish reports on our company or of investors in general. This could cause the market price of our stock to decline, perhaps significantly.

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*We have experienced significant volatility in our stock price.*

A variety of factors may cause the price of our stock to be volatile. In recent years, the stock market in general, and the market for shares of high-technology companies in particular, including ours, have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. During the last three years the price of our common stock has ranged from \$7.96 to \$17.18. The price of our stock may be more volatile than the stock of other companies due to, among other factors, the unpredictable and cyclical nature of the semiconductor industry, our significant customer concentration, intense competition in the test handler industry, our limited backlog and our relatively low daily stock trading volume. The market price of our common stock is likely to continue to fluctuate significantly in the future, including fluctuations related and unrelated to our performance.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

*Recent Sales of Unregistered Securities*

None.

*Issuer Purchases of Equity Securities*

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information.**

None.

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**Item 6. Exhibits.**

3(i).1	Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference to Exhibit 3.1(a) from the Cohu, Inc. Form 10-Q for the quarterly period ended June 30, 1999
3(i).2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference to Exhibit 4.1(a) from the Cohu, Inc. Form S-8 filed with the Securities and Exchange Commission on June 30, 2000
3(ii)	Amended and Restated Bylaws of Cohu, Inc. incorporated herein by reference to Exhibit 3.2 from the Cohu, Inc. Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 1996
4.1	Amended and Restated Rights Agreement dated November 10, 2006, between Cohu, Inc. and Mellon Investor Services LLC, as Rights Agent, incorporated herein by reference to Exhibit 99.1 from the Cohu, Inc. Report on Form 8-K filed with the Securities and Exchange Commission on November 13, 2006
10.1	Executive Employment Agreement, dated October 7, 2014, by and between Cohu, Inc. and Luis A. Müller, incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on October 8, 2014, Exhibit 10.1 *
31.1	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Management contract or compensatory plan or arrangement



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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COHU, INC.  
(Registrant)

Date: November 3, 2014

/s/ James A. Donahue  
James A. Donahue  
President & Chief Executive Officer

Date: November 3, 2014

/s/ Jeffrey D. Jones  
Jeffrey D. Jones  
Vice President, Finance & Chief Financial Officer  
(Principal Financial & Accounting Officer)

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