COHU INC
Form 10-Q
August 07, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D. C. 20549**

# FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended June 29, 2013**

**OR**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**Commission file number 1-4298**

# COHU, INC.

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

| | |
|---|---|
| **Delaware** | **95-1934119** |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **12367 Crosthwaite Circle, Poway, California** | **92064-6817** |
| *(Address of principal executive offices)* | *(Zip Code)* |

**Registrant s telephone number, including area code (858) 848-8100**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ 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 þ 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 þ

As of June 29, 2013 the Registrant had 24,907,545 shares of its $1.00 par value common stock outstanding.

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**June 29, 2013**

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**Item 1.**

**COHU, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except par value)

| | June 29, 2013 (Unaudited) | December 29, 2012 * |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 47,440 | $ 102,808 |
| Short-term investments | 6,789 | 7,421 |
| Accounts receivable, net | 60,364 | 36,986 |
| Inventories: | | |
| Raw materials and purchased parts | 40,496 | 37,140 |
| Work in process | 18,618 | 14,958 |
| Finished goods | 8,552 | 10,234 |
| | 67,666 | 62,332 |
| Deferred income taxes | 5,896 | 4,746 |
| Other current assets | 6,914 | 6,790 |
| Total current assets | 195,069 | 221,083 |
| Property, plant and equipment, at cost: | | |
| Land and land improvements | 12,035 | 12,106 |
| Buildings and building improvements | 31,734 | 31,209 |
| Machinery and equipment | 41,877 | 40,108 |
| | 85,646 | 83,423 |
| Less accumulated depreciation and amortization | (50,045) | (47,959) |
| Net property, plant and equipment | 35,601 | 35,464 |
| Goodwill | 76,853 | 58,756 |
| Intangible assets, net | 39,838 | 18,977 |
| Other assets | 876 | 593 |
| | $ 348,237 | $ 334,873 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 21,594 | $ 13,217 |
| Accrued compensation and benefits | 13,714 | 10,271 |
| Accrued warranty | 5,811 | 4,692 |
| Deferred profit | 6,949 | 2,139 |
| Income taxes payable | 1,970 | 1,109 |
| Other accrued liabilities | 8,388 | 4,952 |
| Total current liabilities | 58,426 | 36,380 |
| Other accrued liabilities | 14,132 | 5,847 |
| Deferred income taxes | 13,223 | 11,747 |

| | | |
|---|---|---|
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Preferred stock, $1 par value; 1,000 shares authorized, none issued | | |
| Common stock, $1 par value; 60,000 shares authorized, 24,908 shares issued and outstanding in 2013 and 24,632 shares in 2012 | 24,908 | 24,632 |
| Paid-in capital | 86,738 | 83,547 |
| Retained earnings | 151,816 | 170,937 |
| Accumulated other comprehensive income (loss) | (1,006) | 1,783 |
| Total stockholders equity | 262,456 | 280,899 |
| | $ 348,237 | $ 334,873 |

* Derived from December 29, 2012 audited financial statements

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

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**COHU, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(in thousands, except per share amounts)

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2013 | June 30, 2012 | June 29, 2013 | June 30, 2012 |
| Net sales | $ 66,652 | $ 59,404 | $ 122,668 | $ 112,700 |
| Cost and expenses: | | | | |
| Cost of sales | 45,179 | 41,740 | 85,611 | 79,497 |
| Research and development | 11,718 | 8,688 | 25,178 | 17,058 |
| Selling, general and administrative | 14,200 | 11,041 | 29,253 | 21,917 |
| | 71,097 | 61,469 | 140,042 | 118,472 |
| Loss from operations | (4,445) | (2,065) | (17,374) | (5,772) |
| Interest and other, net | 16 | 89 | 26 | 181 |
| Loss before income taxes | (4,429) | (1,976) | (17,348) | (5,591) |
| Income tax provision (benefit) | (384) | 133 | (1,200) | (258) |
| Net loss | $ (4,045) | $ (2,109) | $ (16,148) | $ (5,333) |
| Loss per share: | | | | |
| Basic | $ (0.16) | $ (0.09) | $ (0.65) | $ (0.22) |
| Diluted | $ (0.16) | $ (0.09) | $ (0.65) | $ (0.22) |
| Weighted average shares used in computing loss per share: | | | | |
| Basic | 24,817 | 24,432 | 24,737 | 24,392 |
| Diluted | 24,817 | 24,432 | 24,737 | 24,392 |
| Cash dividends declared per share | $ 0.06 | $ 0.06 | $ 0.12 | $ 0.12 |

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

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**COHU, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(Unaudited)

(in thousands)

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **June 29, 2013** | **June 30, 2012** | **June 29, 2013** | **June 30, 2012** |
| Net loss | $ (4,045) | $ (2,109) | $ (16,148) | $ (5,333) |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | 1,130 | (4,995) | (2,872) | (2,412) |
| Adjustments related to postretirement benefits | 31 | 44 | 90 | 76 |
| Change in unrealized gain/loss on investments | (4) | (13) | (7) | (1) |
| Other comprehensive income (loss), net of tax | 1,157 | (4,964) | (2,789) | (2,337) |
| Comprehensive loss | $ (2,888) | $ (7,073) | $ (18,937) | $ (7,670) |

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

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**COHU, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(in thousands)

| | Six Months Ended June 29, 2013 | Six Months Ended June 30, 2012 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (16,148) | $ (5,333) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,219 | 4,876 |
| Share-based compensation expense | 2,776 | 2,295 |
| Deferred income taxes | (794) | (348) |
| Other accrued liabilities | 394 | 99 |
| Changes in current assets and liabilities, excluding effects from acquisitions: | | |
| Accounts receivable | (2,144) | (267) |
| Inventories | 4,290 | 9,288 |
| Other current assets | 1,181 | 593 |
| Accounts payable | 2,229 | (3,440) |
| Deferred profit | 4,716 | 1,338 |
| Income taxes payable, including excess stock option exercise benefit | 861 | 747 |
| Accrued compensation, warranty and other liabilities | (2,156) | (4,002) |
| Net cash provided by operating activities | 1,424 | 5,846 |
| Cash flows from investing activities, excluding effects from acquisitions: | | |
| Payment for purchase of Ismeca, net of cash received | (53,463) | |
| Purchases of short-term investments | | (35,312) |
| Sales and maturities of short-term investments | 632 | 39,623 |
| Purchases of property, plant and equipment | (1,253) | (1,289) |
| Other assets | (162) | (99) |
| Net cash provided by (used in) investing activities | (54,246) | 2,923 |
| Cash flows from financing activities: | | |
| Cash dividends | (1,478) | (2,920) |
| Issuance of stock, net of repurchases | 691 | 934 |
| Net cash used in financing activities | (787) | (1,986) |
| Effect of exchange rate changes on cash and cash equivalents | (1,759) | (852) |
| Net increase (decrease) in cash and cash equivalents | (55,368) | 5,931 |
| Cash and cash equivalents at beginning of period | 102,808 | 53,262 |
| Cash and cash equivalents at end of period | $ 47,440 | $ 59,193 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid (refunded) for income taxes | $ (1,321) | $ 234 |
| Inventory capitalized as property, plant and equipment | $ 572 | $ 415 |
| Dividends declared but not yet paid | $ 1,494 | $ 1,468 |

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

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**Cohu, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**June 29, 2013**

**1. Summary of Significant Accounting Policies**
**Basis of Presentation**

Our fiscal years are based on a 52- or 53-week period ending on the last Saturday in December. The condensed consolidated balance sheet at December 29, 2012 has been derived from our audited financial statements at that date. The interim condensed consolidated financial statements as of June 29, 2013 (also referred to as the second quarter of fiscal 2013 and the first six months of fiscal 2013 ) and June 30, 2012 (also referred to as the second quarter of fiscal 2012 and the first six months of fiscal 2012 ) are unaudited. However, in management s opinion, these financial statements reflect all adjustments (consisting only of normal, recurring items) necessary to provide a fair presentation of our financial position, results of operations and cash flows for the periods presented. The three- and six-month periods ended June 29, 2013 and June 30, 2012 were each comprised of 13 and 26 weeks, respectively.

Our interim results are not necessarily indicative of the results that should be expected for the full year. For a better understanding of Cohu, Inc. and our financial statements, we recommend reading these interim condensed consolidated financial statements in conjunction with our audited financial statements for the year ended December 29, 2012, which are included in our 2012 Annual Report on Form 10-K, filed with the U. S. Securities and Exchange Commission ( SEC ). In the following notes to our interim condensed consolidated financial statements, Cohu, Inc. is referred to as Cohu , we , our and us .

**Risks and Uncertainties**

We are subject to a number of risks and uncertainties that may significantly impact our future operating results. These risks and uncertainties are discussed under Item 1A. Risk Factors included in this Form 10-Q. Understanding these risks and uncertainties is integral to the review of our interim condensed consolidated financial statements.

**Concentration of Credit Risk**

Financial instruments that potentially subject us to significant credit risk consist principally of cash equivalents, short-term investments and trade accounts receivable. We invest in a variety of financial instruments and, by policy, limit the amount of credit exposure with any one issuer.

Trade accounts receivable are presented net of allowance for doubtful accounts of $0.8 million and $0.3 million at June 29, 2013 and December 29, 2012, 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 June 29, 2013, we will continue to monitor customer liquidity and other economic conditions, which may result in changes to our estimates regarding collectability.

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

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

We conduct our annual impairment test as of October 1st of each year. Other events and changes in circumstances may also require goodwill to be tested for impairment between annual measurement dates. As of June 29, 2013 we do not believe there have been any events or circumstances that would require us to perform an interim goodwill impairment review.

**Cohu, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**June 29, 2013**

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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2013 | June 30, 2012 | June 29, 2013 | June 30, 2012 |
| Cost of sales | $ 132 | $ 125 | $ 200 | $ 230 |
| Research and development | 366 | 337 | 881 | 660 |
| Selling, general and administrative | 857 | 789 | 1,695 | 1,405 |
| Total share-based compensation | 1,355 | 1,251 | 2,776 | 2,295 |
| Income tax benefit | | | | |
| Total share-based compensation, net of tax | $ 1,355 | $ 1,251 | $ 2,776 | $ 2,295 |

**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 per share includes the dilutive effect of common shares potentially issuable upon the exercise of stock options, vesting of outstanding restricted stock units and issuance of stock under our employee stock purchase plan using the treasury stock method. In loss periods, potentially dilutive securities are excluded from the per share computations due to their anti-dilutive effect. For purposes of computing diluted income per share, stock options with exercise prices that exceed the average fair market value of our common stock for the period are excluded. The following table reconciles the denominators used in computing basic and diluted income (loss) per share *(in thousands)*:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2013 | June 30, 2012 | June 29, 2013 | June 30, 2012 |
| Weighted average common shares | 24,817 | 24,432 | 24,737 | 24,392 |
| Effect of dilutive stock options | | | | |

| | | | | |
|---|---|---|---|---|
| | 24,817 | 24,432 | 24,737 | 24,392 |

**Revenue Recognition**

Our revenue recognition policy is disclosed in Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 29, 2012. 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 June 29, 2013, we had deferred revenue totaling approximately $10.4 million and deferred profit of $6.9 million. At December 29, 2012, we had deferred revenue totaling approximately $3.6 million and deferred profit of $2.1 million.

**Cohu, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**June 29, 2013**

**Comprehensive Income (Loss)**

Our accumulated other comprehensive income (loss) balance totaled approximately $(1.0) million and $1.8 million at June 29, 2013 and December 29, 2012, respectively, 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 from accumulated other comprehensive income during the first six months of fiscal 2013 and 2012 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 six months of fiscal 2013 and 2012 was not significant.

**Recent Accounting Pronouncements**

***Recently Adopted Accounting Pronouncements*** In July 2012, the Financial Accounting Standards Board ( FASB ) issued guidance to simplify the testing for a drop in value of intangible assets such as trademarks, patents, and distribution rights. The amended standard reduces the cost of accounting for indefinite-lived intangible assets, especially in cases where the likelihood of impairment is low. The changes permit businesses and other organizations to first use subjective criteria to determine if an intangible asset has lost value. The amendments will be effective for fiscal years starting after September 15, 2012 with early adoption permitted. The adoption of this new guidance in the first quarter of fiscal 2013 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2013, FASB issued authoritative guidance that will require a public entity to present in its annual and interim financial statements information about reclassification adjustments from accumulated other comprehensive income in a single note or on the face of the financial statements. The adoption of this new guidance in the first quarter of fiscal 2013 did not have a material impact on our consolidated financial position, results of operations or cash flows.

***Recently Issued Accounting Pronouncements*** In July 2013, the 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 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. We are currently evaluating the impact our adoption of this new guidance in the first quarter of fiscal 2014 will have on our consolidated financial position, results of operations or cash flows.

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. We do not believe our adoption of the new guidance in the first quarter of fiscal 2014 will have an 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**

**June 29, 2013**

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

*Ismeca*

On December 31, 2012, we acquired all of the outstanding share capital of Ismeca Semiconductor Holding SA ( Ismeca ). Ismeca, headquartered in La Chaux-de-Fonds, Switzerland, and with major operations in Malacca, Malaysia and Suzhou, China, designs, manufactures and sells turret-based test handling and back-end finishing equipment for integrated circuits, light emitting diodes (LEDs) and discrete components.

The acquisition has been accounted for in conformity with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification 805, *Business Combinations* ( ASC 805 ). The preliminary purchase price of this acquisition was approximately $84.9 million, and was funded primarily by cash reserves ($57.1 million) and certain liabilities assumed ($27.7 million). Total consideration has been allocated to the assets acquired and liabilities assumed based on their estimated respective fair values as of the completion of the acquisition. The acquisition of Ismeca resulted in the recognition of a preliminary estimate of goodwill of approximately $19.3 million and has been assigned to our semiconductor equipment segment. Amounts allocated to intangible assets are being amortized on a straight-line basis over their useful lives of eight years.

The table below represents a preliminary allocation of purchase price based on management s internal evaluation to estimate their respective fair values *(in thousands)*:

| | |
|---|---|
| Current assets | $ 36,510 |
| Fixed assets | 1,314 |
| Other assets | 2,427 |
| Intangible assets | 25,365 |
| Goodwill | 19,273 |
| Total assets acquired | 84,889 |
| Liabilities assumed | (27,746) |
| Net assets acquired | $ 57,143 |

The preliminary allocation of the other intangible assets is as follows *(in thousands)*:

| Description | Estimated Fair Value | Estimated Average Remaining Useful Life |
|---|---|---|
| Unpatented complete technology | $ 16,827 | 8 years |
| Customer relationships | 3,631 | 8 years |
| Trade name | 4,907 | Indefinite |
| | $ 25,365 | |

The preliminary value assigned to Ismeca s unpatented complete technology was determined by discounting the estimated future cash flows associated with the existing developed and core technologies to their present value. Developed and core technology, which comprise products that have reached technological feasibility, includes the products in Ismeca s product line. The revenue estimates used to value the unpatented complete technology were based on estimates of relevant market sizes and growth factors, expected trends in technology and the nature and expected timing of new product introductions by Ismeca and its competitors. The rates utilized to discount the net cash flows of unpatented complete technology to their present value are based on the risks associated with the respective cash flows taking into consideration the weighted average cost of capital of Cohu s semiconductor equipment segment.

The preliminary value assigned to Ismeca s customer relationships was determined by discounting the estimated cash flows associated with the existing customers as of the acquisition date taking into consideration expected attrition of the existing customer base. The estimated cash flows were based on revenues for those existing customers net of operating expenses and net contributory asset charges associated with servicing those customers. The estimated revenues were based on revenue growth rates for the back-end semiconductor equipment industry. Operating expenses were estimated based on the supporting infrastructure expected to sustain the assumed revenue growth rates. Net contributory asset charges were based on the estimated fair value of those assets that contribute to the generation of the estimated cash flows.

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**Cohu, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**June 29, 2013**

The primary areas of the purchase price allocation that have not been finalized relate to certain tax issues, purchased intangible assets and residual goodwill that are pending the completion of the final valuation. Upon completion of the fair value assessment, Cohu anticipates that the ultimate purchase price allocation may differ from the preliminary assessment outlined above. Any changes to the initial estimates of the fair value of the assets and liabilities will be allocated primarily to intangible assets and related deferred taxes or residual goodwill.

*Duma*

In August 2012, our microwave communication equipment segment acquired the intellectual property and certain other assets of Duma Video, Inc. ( Duma ), a distributor of low latency compression video encoding and decoding devices. The purchase price of these assets was approximately $1.0 million and the amount allocated to intangible assets is being amortized on a straight-line basis over three years. Under the terms of the purchase agreement, in addition to the up-front cash payment, we may be required to make future payments to the seller totaling a maximum of approximately $0.5 million, contingent upon the completion of certain milestone events.

*Goodwill*

Changes in the carrying value of goodwill by reportable segment during the year ended December 29, 2012 and the six-month period ended June 29, 2013 were as follows (*in thousands*):

| | Semiconductor Equipment | Microwave Communications | Total Goodwill |
|---|---|---|---|
| Balance, December 31, 2011 | $ 54,872 | $ 3,188 | $ 58,060 |
| Impact of currency exchange | 648 | 48 | 696 |
| Balance, December 29, 2012 | 55,520 | 3,236 | 58,756 |
| Additions | 19,273 | | 19,273 |
| Impact of currency exchange | (1,145) | (31) | (1,176) |
| Balance, June 29, 2013 | $ 73,648 | $ 3,205 | $ 76,853 |

*Purchased Intangible Assets*

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

| | June 29, 2013 | | December 29, 2012 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Rasco technology | $ 31,883 | $ 18,183 | $ 32,399 | $ 16,452 |
| Ismeca technology | 19,780 | 1,236 | | |
| Duma technology | 864 | 264 | 864 | 120 |

| | | | | |
|---|---|---|---|---|
| | $ 52,527 | $ 19,683 | $ 33,263 | $ 16,572 |

Amortization expense related to intangible assets was approximately $1.7 million in the second quarter of fiscal 2013 and $3.4 million in the first six months of fiscal 2013. Amortization expense related to intangible assets was approximately $1.0 million in the second quarter of fiscal 2012 and $2.0 million in the first six months of fiscal 2012. The amounts included in the table above for the period ended June 29, 2013 exclude approximately $2.3 million and $4.7 million, related to the trade names of Rasco and Ismeca, respectively, and for the period ended December 29, 2012 exclude approximately $2.3 million related to the Rasco trade name which have indefinite lives and are not being amortized. Changes in the carrying values of these intangible assets are a result of the impact of fluctuations in currency exchange rates.

**Cohu, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**June 29, 2013**

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

Our financial instruments measured at fair value consisted primarily of cash, government and government agency securities, state and municipal securities, money market funds, forward exchange contracts and structured option transactions. We do not hold investment securities for trading purposes. All short-term investments are classified as available-for-sale and recorded at fair value. Investment securities are exposed to market risk due to changes in interest rates and credit risk and we monitor credit risk and attempt to mitigate exposure by making high-quality investments and through investment diversification.

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

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

| | June 29, 2013 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses (1) | Estimated Fair Value |
| Municipal securities | $ 1,370 | $ | $ | $ 1,370 |
| Government-sponsored enterprise securities | 5,412 | 7 | | 5,419 |
| | $ 6,782 | $ 7 | $ | $ 6,789 |

| | December 29, 2012 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses (1) | Estimated Fair Value |
| Municipal securities | $ 1,470 | $ | $ | $ 1,470 |
| Government-sponsored enterprise securities | 5,937 | 14 | | 5,951 |
| | $ 7,407 | $ 14 | $ | $ 7,421 |

(1) As of June 29, 2013 and December 29, 2012 there were no investments in our portfolio in a loss position.

Effective maturities of short-term investments at June 29, 2013 and December 29, 2012, were as follows *(in thousands)*:

| | June 29, 2013 | | December 29, 2012 | |
| --- | --- | --- | --- | --- |
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due in one year or less | $ 6,782 | $ 6,789 | $ 7,407 | $ 7,421 |

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 2037. These securities can be used for short-term liquidity needs and are held for limited periods of time. At June 29, 2013 and December 29, 2012 these securities had amortized cost and fair value of $1.4 million and $1.5 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

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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)*:

| | Fair value measurements at June 29, 2013 using: | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total estimated fair value |
| Cash | $ 45,982 | $ | $ | $ 45,982 |
| Municipal securities | | 1,370 | | 1,370 |
| Government-sponsored enterprise securities | | 5,419 | | 5,419 |
| Money market funds | | 1,458 | | 1,458 |
| | $ 45,982 | $ 8,247 | $ | $ 54,229 |

| | Fair value measurements at December 29, 2012 using: | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total estimated fair value |
| Cash | $ 101,054 | $ | $ | $ 101,054 |
| Municipal securities | | 1,470 | | 1,470 |
| Government-sponsored enterprise securities | | 5,951 | | 5,951 |
| Money market funds | | 1,754 | | 1,754 |
| | $ 101,054 | $ 9,175 | $ | $ 110,229 |

In connection with our purchase of Ismeca on December 31, 2012, we acquired forward exchange contracts and currency option contracts which are used to hedge forecasted foreign currency balances and to mitigate the effect of exchange rate fluctuations of the Swiss Franc. The maturity of the option contracts range from one week to eight months. We do not use these instruments for trading or speculative purposes and have determined these contracts fall within Level 2 of the fair value hierarchy. During the six-month period ended June 29, 2013, there were no transfers between Level 1 and Level 2 or into or out of Level 3 related to these instruments.

We have recorded these derivative instruments on the balance sheet at their fair value with all realized and unrealized losses recognized in the statement of operations. Total realized and unrealized losses was approximately $40,000 in the second quarter of fiscal 2013 and $0.3 million in first six months of fiscal 2013.

**4. Employee Stock Benefit Plans**

**Employee Stock Purchase Plan**

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. A total of 81,230 shares were issued under the Plan during the six-month period ended June 29, 2013 and there were 404,312 shares available for future issuance.

**Stock Options**

Under our equity incentive plans, stock options may be granted to employees, consultants and directors to purchase a fixed number of shares of our common stock. The exercise prices of options granted are at least equal to the fair market value of our common stock on the dates of grant. Options generally vest and become exercisable after one year

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or in four annual increments beginning one year after the grant date and expire ten years from the grant date. At June 29, 2013, there were 977,720 shares available for future equity grants under the 2005 Equity Plan. We have historically issued new shares of our common stock upon share option exercise.

Subsequent to December 29, 2012, we awarded stock options covering 445,346 shares of our common stock to employees and at June 29, 2013, we had 3,335,712 stock options outstanding. These options had a weighted-average exercise price of $12.28 per share, an aggregate intrinsic value of approximately $6.3 million and the weighted average remaining contractual term was approximately 5.6 years.

At June 29, 2013, we had 2,368,833 stock options outstanding that were exercisable. These options had a weighted-average exercise price of $12.86 per share, an aggregate intrinsic value of $4.5 million and the weighted average remaining contractual term was approximately 4.2 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. Shares of our common stock will be issued on the date the restricted stock units vest.

Subsequent to December 29, 2012, we awarded restricted stock units covering 511,813 shares of our common stock to employees and at June 29, 2013, we had 978,409 restricted stock units outstanding with an aggregate intrinsic value of approximately $12.2 million and the weighted average remaining vesting period was approximately 1.8 years.

**Equity-Based Performance Stock Units**

We issue equity-based performance stock units 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 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 goals are met. The award measurement period is one fiscal year. 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. These outstanding units will vest over three years from the date of initial grant and upon final Board of Directors approval, shares of our common stock will be considered issued as of that date.

In March 2013, we awarded equity-based performance units covering 158,365 shares of our common stock to certain employees.

**5. 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 six months ended June 29, 2013 and June 30, 2012 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 variance in our ETR. The actual year-to-date ETR for the three months ended June 29, 2013 and June 30, 2012, was 8.7% and 6.7%, respectively, and for the six months ended June 29, 2013 and June 30, 2012 was 6.9% and 4.6%, respectively. The tax provision or benefit in 2013 and 2012 differs from the U.S. federal statutory rate primarily due to the inability to benefit our domestic losses, 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 six months ended June, 2013.

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## 6. 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. Our reportable segments are: semiconductor equipment, microwave communications and video cameras. As discussed in Note 2, on December 31, 2012 we purchased Ismeca, which is included in our semiconductor equipment segment.

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.

Financial information by industry segment is as follows *(in thousands)*:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2013 | June 30, 2012 | June 29, 2013 | June 30, 2012 |
| *Net sales by segment:* | | | | |
| Semiconductor equipment | $ 59,339 | $ 48,604 | $ 107,923 | $ 92,277 |
| Microwave communications | 2,895 | 5,834 | 6,538 | 12,612 |
| Video cameras | 4,418 | 4,966 | 8,207 | 7,811 |
| Total consolidated net sales and net sales for reportable segments | $ 66,652 | $ 59,404 | $ 122,668 | $ 112,700 |
| *Segment profit (loss):* | | | | |
| Semiconductor equipment | $ (605) | $ 368 | $ (9,466) | $ (1,339) |
| Microwave communications | (2,641) | (988) | (5,013) | (863) |
| Video cameras | 451 | 454 | 658 | (182) |
| Loss for reportable segments | (2,795) | (166) | (13,821) | (2,384) |
| *Other unallocated amounts:* | | | | |
| Corporate expenses | (1,650) | (1,899) | (3,553) | (3,388) |
| Interest and other, net | 16 | 89 | 26 | 181 |
| Loss before income taxes | $ (4,429) | $ (1,976) | $ (17,348) | $ (5,591) |

A small number of customers historically have been responsible for a significant portion of our total consolidated net sales. During the second quarter of fiscal 2013 two customers and during the first six months of fiscal 2013 one customer of the semiconductor equipment segment each represented more than 10% of our total consolidated net sales and combined they accounted for 27% and 18% of our total consolidated net sales in such respective periods. During the second quarter and the first six months of fiscal 2012, one customer of the semiconductor equipment segment represented more than 10% of our total consolidated net sales and, accounted for 38% and 42% of our total consolidated net sales in such respective periods.

## 7. 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.

During the period from February through May 2013, Cohu s subsidiary Delta Design, Inc. ( Delta ) made several inquiries of Essai, Inc. ( Essai ) asking it to confirm that it had not incorporated any of the technology covered by Delta s patents in its current product offerings. On May 23, 2013 Essai filed a complaint against Delta in the U.S. District Court for the Northern District of California (the Court ) seeking a declaratory judgment of non-infringement and invalidity of one Delta U. S. patent that issued in 1998. On July 19, 2013 Delta filed a motion with the Court to dismiss Essai s complaint. Delta intends to vigorously defend its intellectual property rights.

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.

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**8. 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.

Changes in accrued warranty were as follows (*in thousands*):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2013 | June 30, 2012 | June 29, 2013 | June 30, 2012 |
| Balance at beginning of period | $ 5,340 | $ 6,727 | $ 4,692 | $ 6,801 |
| Warranty expense accruals | 1,928 | 1,148 | 2,168 | 2,813 |
| Warranty payments | (1,457) | (1,741) | (2,866) | (3,480) |
| Warranty liability assumed | | | 1,817 | |
| Balance at end of period | $ 5,811 | $ 6,134 | $ 5,811 | $ 6,134 |

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 June 29, 2013, the maximum potential amount of future payments that Cohu could be required to make under these standby letters of credit was approximately $0.8 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 2012 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 three 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 ( Ismeca ), which was acquired on December 31, 2012. Ismeca designs, manufactures and sells turret-based test handling and back-end finishing equipment for integrated circuits, LEDs and discrete components. With the acquisition of Ismeca we expanded our served market, increased our market share in the semiconductor test handling market and expanded our portfolio of test handling solutions providing us with an entry into the LED equipment market, which is forecasted to grow as LED technology is adopted for general lighting. 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.

Following several months of sequential decline, orders for back-end semiconductor equipment, as reported by Semiconductor Equipment and Materials International (SEMI), increased sequentially each month during the second quarter of 2013. Sales of semiconductor equipment were on plan and as the quarter progressed, we saw signs of improving business conditions with semiconductor sales increasing in some market segments leading to higher equipment utilization on customers test floors. Orders reported by our semiconductor equipment segment increased 44% sequentially in the second quarter of 2013. We continue to be optimistic about the long-term prospects for the semiconductor equipment industry due to expanding applications, growing integrated circuit content in consumer, industrial and automotive applications, and the projected adoption of high brightness LEDs for the general lighting market.

Our non-semiconductor businesses produce mobile microwave communications equipment (Broadcast Microwave Services, Inc.) and video cameras and accessories (Cohu Electronics Division) and comprised approximately 16% of our consolidated revenues during the three-year period ended December 29, 2012 and were approximately 11% for the quarter ended June 29, 2013. 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 are government agencies, public safety organizations, UAV program contractors, television broadcasters and other commercial entities.

Our video camera segment develops, manufactures and sells a wide variety of video cameras and related products, specializing in video solutions for traffic control and management, security/surveillance, military, scientific imaging and machine vision. Customers for these products are distributed among corporate end-users, state and federal government agencies, original equipment manufacturers, system integrators and value-added resellers.

**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

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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; 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 initiated prior to December 26, 2010 the revenue relating to the undelivered elements is deferred at their estimated relative fair values until delivery of the deferred elements. For arrangements initiated or materially modified subsequent to December 26, 2010 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

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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 June 29, 2013 was approximately $40.2 million, with a valuation allowance of approximately $33.2 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.

***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. Other events and changes in circumstances may also require goodwill to be tested for impairment between annual measurement dates. As of June 29, 2013 we do not believe there have been any events or circumstances that would require us to perform an interim goodwill impairment review.

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.

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**RESULTS OF OPERATIONS**

On December 31, 2012 we completed the acquisition of Ismeca and the results of its operations have been included in our consolidated financial statements since that date. The following table summarizes certain operating data as a percentage of net sales:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2013 | June 30, 2012 | June 29, 2013 | June 30, 2012 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | (67.8) | (70.3) | (69.8) | (70.5) |
| Gross margin | 32.2 | 29.7 | 30.2 | 29.5 |
| Research and development | (17.6) | (14.6) | (20.5) | (15.1) |
| Selling, general and administrative | (21.3) | (18.6) | (23.8) | (19.5) |
| Loss from operations | (6.7)% | (3.5)% | (14.1)% | (5.1)% |

**Second Quarter of Fiscal 2013 Compared to Second Quarter of Fiscal 2012**

***Net Sales***

Our consolidated net sales increased 12.2% to $66.7 million in 2013, compared to net sales of $59.4 million in 2012. Sales of semiconductor equipment in the second quarter of fiscal 2013 were $59.3 million, and increased $10.7 million or 22.1% from 2012 and represented 89.0% of consolidated net sales in 2013 versus 81.8% in 2012. The increase in sales within our semiconductor equipment business in the second quarter of 2013 compared to the prior year was primarily a result of the acquisition of Ismeca on December 31, 2012.

Sales of mobile microwave communications equipment in the second quarter of fiscal 2013 were $2.9 million, representing 4.3% of consolidated net sales and decreased $2.9 million or 50.4% when compared to 2012. Decreased business volume within our microwave equipment segment during the second quarter of 2013 resulted from customer order delays for equipment to be used in government agency related security and surveillance infrastructure projects.

Sales of video cameras in the second quarter of fiscal 2013 were $4.4 million representing 6.7% of consolidated net sales and decreased $0.5 million or 11.0% when compared to the same period of fiscal 2012.

***Gross Margin***

Gross margin consists of net sales less cost of sales. Cost of sales consists primarily of the cost of 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 32.2% in 2013 from 29.7% in 2012.

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 second quarter of 2013 we recorded charges to cost of sales of approximately $0.4 million for excess and obsolete inventory. During the second quarter of 2013 we also sold certain inventory which had been previously reserved and gross margin benefitted by $0.6 million. During the second quarter of fiscal 2012, we recorded net charges to cost of sales of approximately $1.5 million for excess and obsolete inventory. The charges recorded in the second quarter of 2012 were due to weak conditions in the back-end semiconductor equipment industry at that time. While we believe our reserves for excess and obsolete inventory and lower of cost or market concerns are adequate to cover known exposures at June 29, 2013, 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 $11.7 million or 17.6% of net sales in 2013, compared to $8.7 million or 14.6% in 2012, increasing as a result of incremental costs generated by Ismeca.

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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 $14.2 million or 21.3% in 2013, compared to $11.0 million or 18.6% in 2012, increasing as a result of the incremental costs generated by Ismeca, and $0.1 million of acquisition related costs incurred in connection with completing the purchase of Ismeca.

*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 June 29, 2013 and June 30, 2012 we used the actual year-to-date ETR in computing our tax 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 variance in our ETR. The actual year-to-date ETR for the three months ended June 29, 2013 and June 30, 2012, was 8.7% and 6.7%, respectively. The tax benefit or provision in 2013 and 2012 differs from the U.S. federal statutory rate primarily due to the inability to benefit our domestic losses, 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 June 29, 2013.

As a result of the factors set forth above, our net loss was $4.0 million in 2013, compared to $2.1 million in 2012.

**First Six Months of Fiscal 2013 Compared to First Six Months of Fiscal 2012**

*Net Sales*

Our consolidated net sales increased 8.8% to $122.7 million in 2013, compared to net sales of $112.7 million in 2012. Sales of semiconductor equipment in the first six months of fiscal 2013 were $107.9 million, and increased $15.6 million or 17.0% from 2012 and represented 88.0% of consolidated net sales in 2013 versus 81.9% in 2012. The increase in sales within our semiconductor equipment business in the first six months of fiscal 2013 compared to the prior year was primarily a result of the acquisition of Ismeca on December 31, 2012.

Sales of mobile microwave communications equipment in the first six months of fiscal 2013 were $6.5 million, representing 5.3% of consolidated net sales, and decreased $6.1 million or 48.2% when compared to the same period of fiscal 2012. The decrease in sales of our microwave communications business during the first six months of fiscal 2013 resulted from customer order delays for equipment to be used in government agency related security and surveillance infrastructure projects.

Sales of video cameras in the first six months of fiscal 2013 were $8.2 million, representing 6.7% of consolidated net sales, an increase of $0.4 million or 5.1% when compared to the same period of fiscal 2012.

*Gross Margin*

Our gross margin, as a percentage of net sales, increased to 30.2% in 2013 from 29.5% in 2012. Gross margin in the first six months of fiscal 2013 was in-line with our expectations and was impacted by the deferral of certain revenue with bifurcated payment terms in accordance with our revenue policy, and the amortization of a purchase accounting inventory step-up adjustment recorded as a result of our acquisition of Ismeca.

During the first six months of fiscal 2013 we recorded net charges to cost of sales of approximately $1.6 million for excess and obsolete inventory. During the first six months of fiscal 2012 we recorded charges to cost of sales of approximately $2.8 million for excess and obsolete inventory.

***R&D Expense***

R&D expense was $25.2 million or 20.5% in of net sales 2013, compared to $17.1 million or 15.1% in 2012, increasing as a result of incremental costs generated by Ismeca and higher labor and material costs for new product development within our semiconductor and microwave communication equipment segments.

**Cohu, Inc.**

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***SG&A Expense***

SG&A expense was $29.3 million or 23.8% of net sales in 2013, compared to $21.9 million or 19.5% in 2012. SG&A expense increased due to incremental costs generated by Ismeca, $0.5 million costs incurred in connection with transitioning our semiconductor equipment manufacturing to Asia and $0.4 million of acquisition related costs incurred in the first six months of fiscal 2013.

***Income Taxes***

For the six months ended June 29, 2013 and June 30, 2012 we used the actual year-to-date ETR in computing our tax provision as a reliable estimate of the annual ETR cannot be made as relatively small changes in our projected income or loss produce a significant variance in our ETR. The actual year-to-date ETR for the six months ended June 29, 2013 and June 30, 2012, was 6.9% and 4.6%. The tax benefit in 2013 and 2012 differs from the U.S. federal statutory rate primarily due to the inability to benefit our domestic losses, 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 six months ended June 29, 2013.

As a result of the factors set forth above, our net loss was $16.1 million in 2013, and $5.3 million in 2012.

**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 June 29, 2013, $38.3 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**

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

| *(in thousands)* | June 29, 2013 | December 29, 2012 | Decrease | Percentage Change |
|---|---|---|---|---|
| Cash, cash equivalents and short-term investments | $ 54,229 | $ 110,229 | $ (56,000) | (50.8)% |
| Working capital | $ 136,643 | $ 184,703 | $ (48,060) | (26.0)% |

**Cash Flows**

***Operating Activities:*** Operating cash flows consist of our net loss, 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 six months of fiscal 2013 totaled $1.4 million. Cash provided by operating activities was impacted by changes in current assets and liabilities and, excluding the impact of the acquisition of Ismeca, included decreases in inventory of $4.3 million, other current assets of $1.2 million and accrued compensation, warranty and other liabilities of $2.2 million and increases in accounts receivable of $2.1 million, accounts payable of $2.2 million and deferred profit of $4.7 million. The increases in accounts receivable and accounts payable and the decrease in inventory resulted from higher end of quarter sequential shipments within our semiconductor equipment segment. The increase in deferred profit resulted from deferrals of semiconductor equipment made in accordance with our revenue recognition policy. The decrease in accrued compensation, warranty and other liabilities was a result of expenditures made in connection with product support and certain foreign tax items primarily within our semiconductor equipment segment and other current assets decreased as a result of an income tax refund received.

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***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 used in investing activities in the first six months of fiscal 2013 totaled $54.2 million and was primarily the result of the purchase of Ismeca for $53.5 million, net of cash received. The acquisition of Ismeca was a strategic transaction to expand our semiconductor total available market, extend our market leadership, expand our customer base, and broaden our product and technology offerings. Additions to property, plant and equipment in the first six months of fiscal 2013 were $1.3 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 six months of fiscal 2013, we generated $0.7 million issuing common stock under our employee stock plans and we paid dividends totaling $1.5 million, or $0.06 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 June 29, 2013, we had approximately $0.8 million of standby letters of credit outstanding under the Secured Facility. As a result of the acquisition of Ismeca, we have an agreement with Credit Suisse (the Ismeca Facility ) under which it administers a line of credit on behalf of Ismeca. Total borrowings available under the Ismeca Facility is 0.5 million Swiss Francs and at June 29, 2013 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. 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:*** As a result of the acquisition of Ismeca on December 31, 2012, our contractual obligations for operating leases increased approximately $4.4 million, of which approximately $0.6 million will be due in 2013, $0.5 million will be due in years 2014 and 2015, $0.4 million will be due in years 2016 and 2017 and $2.0 million thereafter.

***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.

***Off-Balance Sheet Arrangements:*** During the ordinary course of business, we provide standby letters of credit instruments to certain parties as required. As of June 29, 2013, the maximum potential amount of future payments that we could be required to make under these standby letters of credit was approximately $0.8 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 June 29, 2013, our investment portfolio included short-term, fixed-income investment securities with a fair value of approximately $6.8 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 June 29, 2013, 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.** During the last fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Part II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

The information set forth above under Note 7 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 2012 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 Ismeca, 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 June 29, 2013 we had goodwill and net purchased intangible assets balances of $76.9 million and $39.8 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.

**** 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 implementing 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;
- disruption of our internal control structure;
- 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 2012, 2011 and 2010, we recorded pre-tax inventory-related charges of approximately $8.9 million, $5.8 million, and $1.7 million, respectively, primarily as a result of changes in customer forecasts.

***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 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.

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***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 29, 2012. 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.

***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

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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 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 utilize contract manufacturers and changes to those relationships, expected or unexpected, may result in delays or disruptions that could cause us to lose revenue and damage our customer relationships.***

Our reliance on contract manufacturers gives us less control over the manufacturing process and exposes us to significant risks, including limited control over capacity, late delivery, quality and costs. In addition, it is time consuming and costly to qualify and implement additional contract manufacturer relationships. Therefore, if we should fail to effectively manage our contract manufacturer relationships or if one or more of them should experience delays, disruptions or quality control problems, or if we had to change or add additional contract manufacturers or contract manufacturing sites, our ability to ship products to our customers could be delayed. Also, the addition of manufacturing locations or contract manufacturers may increase the complexity of our supply chain management. We cannot be certain that existing or future contract manufacturers will be able to manufacture our products on a timely and cost-effective basis, or to our quality and performance specifications. If our contract manufacturers 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.

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***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.

***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.

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**** 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 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 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 $17.35. 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 | Form of restricted stock unit agreement for use with restricted stock units granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan incorporated by reference from the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 1, 2013* |
| 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 Definition Linkbase Document |
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* 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: August 7, 2013 | /s/ James A. Donahue<br>James A. Donahue<br>President & Chief Executive Officer |
| Date: August 7, 2013 | /s/ Jeffrey D. Jones<br>Jeffrey D. Jones<br>Vice President, Finance & Chief Financial Officer<br>(Principal Financial & Accounting Officer) |

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