

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2001

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.)

5755 Kearny Villa Road, San Diego, California

92123-1111

(Address of principal executive office)

(Zip Code)

Registrant's telephone number, including area code

858-541-5194

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

As of March 31, 2001 the Registrant had 20,355,609 shares of its \$1.00 par value common stock outstanding.

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COHU, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands)

ASSETS	March 31, 2001	December 31, 2000
Current assets:		
Cash and cash equivalents	\$ 79,958	\$ 79,119
Short-term investments	14,992	13,468
Accounts receivable, less allowance for doubtful accounts of \$1,890 in 2001 and \$2,227 in 2000	29,335	37,164
Inventories:		
Raw materials and purchased parts	20,271	22,120
Work in process	15,725	17,133
Finished goods	7,244	6,786
	43,240	46,039
Deferred income taxes	13,781	13,781
Other current assets	3,975	3,145
Total current assets	185,281	192,716
Property, plant and equipment, at cost:		
Land and land improvements	2,501	2,501
Buildings and building improvements	13,075	12,795
Machinery and equipment	22,571	22,138
Land and building to be acquired	21,288	21,288
	59,435	58,722
Less accumulated depreciation and amortization	21,546	20,605
Net property, plant and equipment	37,889	38,117
Goodwill, net of accumulated amortization of \$2,621 in 2001 and \$2,549 in 2000	506	578
Other assets	164	84
	<u>\$223,840</u>	<u>\$231,495</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,242	\$ 7,604
Accrued compensation and benefits	6,005	8,955
Accrued warranty	4,258	4,916
Customer advances	1,507	834
Deferred profit	3,479	5,960
Other accrued liabilities	3,924	3,864
Total current liabilities	26,415	32,133
Accrued retiree medical benefits	1,050	1,058

Deferred income taxes	464	464
Commitments		
Stockholders' equity:		
Preferred stock	—	—
Common stock	20,356	20,313
Paid in excess of par	9,344	8,957
Retained earnings	166,211	168,570
Total stockholders' equity	195,911	197,840
	\$223,840	\$231,495

See accompanying notes.

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

	Three Months Ended March 31,	
	2001	2000
		(restated)
Net sales	\$43,718	\$72,732
Cost and expenses:		
Cost of sales	32,233	44,202
Research and development	8,430	6,755
Selling, general and administrative	6,514	7,139
	47,177	58,096
Income (loss) from operations	(3,459)	14,636
Interest income	1,317	1,293
Income (loss) before income taxes	(2,142)	15,929
Provision (credit) for income taxes	(800)	5,476
Income (loss) before cumulative effect of change in accounting principle	(1,342)	10,453
Cumulative effect of change in accounting principle, net of \$1,700 tax benefit	—	(3,299)
Net income (loss)	\$ (1,342)	\$ 7,154
Basic earnings (loss) per share:		
Income (loss) before cumulative effect of change in accounting principle	\$ (.07)	\$.52
Cumulative effect of change in accounting principle	—	(.16)
Net income (loss)	\$ (.07)	\$.36
Weighted average shares used in basic per share calculation	20,341	20,051
Diluted earnings (loss) per share:		
Income (loss) before cumulative effect of change in accounting principle	\$ (.07)	\$.49
Cumulative effect of change in accounting principle	—	(.16)
Net income (loss)	\$ (.07)	\$.33
Weighted average shares used in diluted per share calculation	20,341	21,305

See accompanying notes.

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

	Three Months Ended March 31,	
	2001	2000 (restated)
Cash flows from operating activities:		
Net income (loss)	\$ (1,342)	\$ 7,154
Adjustments to reconcile net income (loss) to net cash provided from operating activities:		
Depreciation and amortization	1,033	759
Decrease in accrued retiree medical benefits	(8)	(7)
Changes in current assets and liabilities:		
Accounts receivable	7,829	3,960
Inventories	2,799	(4,783)
Other current assets	(830)	(339)
Accounts payable	(362)	1,026
Income taxes payable	—	569
Customer advances	673	(1,545)
Deferred profit	(2,481)	2,769
Accrued compensation, warranty and other liabilities	(3,548)	(2,413)
Net cash provided from operating activities	3,763	7,150
Cash flows from investing activities:		
Purchases of short-term investments	(5,025)	(3,985)
Maturities of short-term investments	3,501	2,686
Purchases of property, plant, equipment and other assets	(813)	(520)
Net cash used for investing activities	(2,337)	(1,819)
Cash flows from financing activities:		
Issuance of stock, net	430	2,033
Cash dividends	(1,017)	(1,008)
Net cash provided by (used for) financing activities	(587)	1,025
Net increase in cash and cash equivalents	839	6,356
Cash and cash equivalents at beginning of period	79,119	55,954
Cash and cash equivalents at end of period	\$79,958	\$62,310
Supplemental disclosure of cash flow information:		
Cash paid (refunded) during the period for:		
Income taxes	\$ (183)	\$ 4,631

See accompanying notes.

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001

1. Basis of Presentation

The accompanying interim financial statements are unaudited but include all adjustments (consisting of normal recurring adjustments) which Cohu, Inc. (the “Company” or “Cohu”) considers necessary for a fair statement of the results for the period. The operating results for the three months ended March 31, 2001 are not necessarily indicative of the operating results for the entire year or any future period. These financial statements should be read in conjunction with the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2000 and management’s discussion and analysis of financial condition and results of operations included elsewhere herein.

Cohu adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging*

Activities ("Statement No. 133"), on January 1, 2001. Statement No. 133 requires, among other things, that all derivatives be recognized in the balance sheet at fair value and special accounting for hedging activities that meet certain criteria. The Company generally does not hold derivative instruments or engage in hedging activities and as a result the adoption of Statement No. 133 has had no material effect on the Company's financial condition or results of operations.

2. Change in Accounting for Revenue Recognition

In the fourth quarter of 2000 the Company changed its method of revenue recognition for certain semiconductor equipment sales to comply with SEC Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* ("SAB 101"). SAB 101 sets forth guidelines on the timing of revenue recognition based on factors such as passage of title, installation, payment and customer acceptance. The cumulative effect adjustment of the change in accounting on prior years through December 31, 1999 was a reduction to income of \$3,299,000 (after credit for income taxes of \$1,700,000) and is included in income for the three months ended March 31, 2000. The change was effective January 1, 2000 and amounts previously reported for the three months ended March 31, 2000 have been restated to reflect the application of SAB 101. The effect of the change on the first quarter of 2000 was to increase net sales \$265,000 to \$72,732,000, increase income before cumulative effect of change in accounting principle \$530,000 (\$.02 per diluted share) to \$10,453,000 (\$.49 per diluted share) and decrease net income \$2,769,000 (\$.14 per diluted share) to \$7,154,000 (\$.33 per diluted share).

3. Earnings (Loss) Per Share

Earnings (loss) per share are computed in accordance with Financial Accounting Standards Board ("FASB") Statement No. 128, *Earnings per Share*. Basic earnings (loss) per share are computed using the weighted average number of common shares outstanding during each period. Diluted earnings per share include the dilutive effect of common shares potentially issuable upon the exercise of stock options. The impact of stock options is excluded for loss periods as they would be antidilutive. The following table reconciles the denominators used in computing basic and diluted earnings (loss) per share:

	2001	2000
	(in thousands)	
Weighted average common shares outstanding	20,341	20,051
Effect of dilutive stock options	—	1,254
	20,341	21,305

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COHU, INC. NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS March 31, 2001

4. Segment and Related Information

The following information is presented pursuant to FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*. Intersegment sales were not significant in either period. Amounts for the three months ended March 31, 2000 have been restated for the impact of SAB 101.

	Three months ended March 31,	
	2001	2000
	(in thousands)	
Net sales:		
Semiconductor equipment	\$35,224	\$63,061
Television cameras	5,869	6,492
Net sales for reportable segments	41,093	69,553
All other	2,625	3,179
Total consolidated net sales	\$43,718	\$72,732
Operating profit (loss):		
Semiconductor equipment	\$ (3,346)	\$14,638
Television cameras	411	406

Operating profit (loss) for reportable segments	(2,935)	15,044
All other	(74)	107
Total consolidated operating profit (loss)	(3,009)	15,151
Other unallocated amounts:		
Corporate expenses	(378)	(443)
Interest income	1,317	1,293
Goodwill amortization	(72)	(72)
Income (loss) before income taxes	<u>\$ (2,142)</u>	<u>\$15,929</u>

	March 31, 2001	December 31, 2000
	(in thousands)	
Total assets by segment:		
Semiconductor equipment	\$ 99,577	\$ 110,612
Television cameras	9,907	10,951
Total assets for reportable segments	109,484	121,563
All other operating segments	6,578	6,477
Corporate	107,778	103,455
Total consolidated assets	<u>\$223,840</u>	<u>\$231,495</u>

5. Real Estate Transactions

On April 16, 2001 the Company sold its land and buildings in San Diego, California to TC Kearny Villa, L.P., an unrelated party, for \$12.5 million, excluding commissions and other related expenses. The \$12.5 million purchase price included a cash payment of \$3.1 million and a \$9.4 million, 8% non-recourse note secured by a deed of trust on the property due in six months. The note also provides for a 180-day extension option. The Company entered into a two-month (three-months if a one-month extension option is exercised) leaseback of the property with the buyer. The Company expects to record a pretax gain on the transaction of approximately \$7 million in the second or third quarter of 2001, upon the expiration of the leaseback.

On April 23, 2001 the Company completed the acquisition of real property in Poway, California consisting of a 338,000 square-foot office/industrial building and approximately twenty acres of land ("the Poway Facility"). The purchase price of the Poway Facility was approximately \$21.3 million and was funded from the Company's cash reserves in October 2000. The Company is currently remodeling the Poway Facility at an estimated cost of \$4 million and plans on moving its corporate headquarters and the San Diego operations of its Delta Design subsidiary to the Poway Facility in mid 2001.

COHU, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS March 31, 2001

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. The words "anticipate", "expect", "believe", "plan" and similar expressions are intended to identify such statements. Such statements are subject to various risks and uncertainties, including but not limited to those discussed herein and, in particular, under the caption "Trends, Risks and Uncertainties" that could cause actual results to differ materially from those projected.

RESULTS OF OPERATIONS

Cohu's primary business activity involves the development, manufacture, marketing and servicing of test handling equipment for the global semiconductor industry. Demand for Cohu's products can change significantly from period to period as a result of numerous factors including, but not limited to, changes in global economic conditions, supply and demand for semiconductors, changes in semiconductor manufacturing capacity and processes and competitive product offerings. Due to these and other factors, Cohu's historical results of operations including the periods described herein may not be indicative of future operating results.

First Quarter 2001 Compared to First Quarter 2000

In the fourth quarter of 2000, Cohu changed its method of accounting for revenue recognition to comply with SEC Staff Accounting Bulletin No. 101 ("SAB 101"). In accordance with SAB 101, the new method of accounting has been applied retroactively to transactions that occurred prior to 2000. The cumulative effect adjustment of the change in accounting on prior years through December 31, 1999 was a reduction to income of \$3.3 million (after credit for income taxes of \$1.7 million) and is included in income for the three months ended March 31, 2000.

Cohu was impacted by the downturn in the semiconductor equipment industry that began in late 2000 and as a result our net sales decreased 40% to \$43.7 million in 2001 compared to net sales of \$72.7 million in 2000. Sales of semiconductor test handling equipment in 2001 decreased 44% from the 2000 period and accounted for 81% of consolidated net sales in 2001 versus 87% in 2000. Sales of television cameras and other equipment accounted for 13% of net sales in 2001 and decreased 10% while the combined sales of metal detection and microwave equipment decreased 17%.

Gross margin as a percentage of net sales decreased to 26.3% in 2001 from 39.2% in 2000 primarily as a result of lower margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins decreased in 2001 primarily as a result of decreased business volume and increased provisions for excess and obsolete inventory. In the quarter ended March 31, 2001, the Company recorded a charge for excess and obsolete inventory of \$4.2 million primarily as a result of changes in customer forecasts. Continued changes to customer forecasts may require additional provisions for excess and obsolete inventories that may negatively impact gross margin in future periods. Research and development expense as a percentage of net sales was 19.3% in 2001, compared to 9.3% in 2000, increasing in absolute dollars from \$6.8 million in 2000 to \$8.4 million in 2001 as a result of new product development programs in the semiconductor equipment business. Selling, general and administrative expense as a percentage of net sales increased to 14.9% in 2001 from 9.8% in 2000

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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March 31, 2001

primarily as a result of the decrease in business volume. Interest income was \$1.3 million in 2001 and 2000. The provision (credit) for income taxes expressed as a percentage of pre-tax income was (37.3)% in the first quarter of 2001 and 34.4% in 2000. As a result of the factors set forth above, net income was \$7.2 million in 2000 compared to a net loss of \$1.3 million in 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company's net cash flows generated from operating activities in the first three months of 2001 totaled \$3.8 million. The major components of cash flows from operating activities were a net loss of \$1.3 million, decreases in accounts receivable of \$7.8 million and inventories of \$2.8 million and decreases in other accrued liabilities and deferred profit of \$3.5 million and \$2.5 million, respectively. Net cash used for investing activities included \$1.5 million for the purchase of short-term investments, less maturities, and purchases of property, plant and equipment and other assets of \$.8 million. Net cash used for financing activities was \$.6 million. Cash used for financing activities included \$.4 million received from the issuance of stock upon the exercise of stock options offset by \$1.0 million for the payment of dividends. The Company had \$10 million available under its bank line of credit and working capital of \$158.9 million at March 31, 2001. It is anticipated that present working capital and available borrowings under the line of credit will be sufficient to meet the Company's 2001 operating requirements including any capital asset additions.

TRENDS, RISKS AND UNCERTAINTIES

The semiconductor industry we serve is highly volatile and unpredictable.

Cohu's 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 manufactured and marketed by Cohu. We anticipate that the markets for newer generations of semiconductors and semiconductor equipment may also be subject to similar cycles and severe downturns, such as those experienced in 1996, 1998 and late 2000, continuing into 2001. Reductions in capital equipment investment by semiconductor manufacturers and semiconductor 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 inventory write-offs. In the quarter ended March 31, 2001, the Company recorded a charge for excess and obsolete inventory of \$4.2 million primarily as a result of changes in customer forecasts.

We have experienced significant increases in our electricity costs and we may be exposed to power shortages.

Cohu is a significant user of electricity. The state of California has deregulated the price of electricity. Deregulation combined with increases in the cost of generating electricity have resulted in a significant rise in Cohu's electricity costs during the past year.

Market forecasts predict significant increases in electricity prices in the future that will result in increased costs to Cohu that could have an adverse impact on our results of operations. In addition, we expect our electricity costs to increase as a result of

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TRENDS, RISKS AND UNCERTAINTIES (cont.)

moving certain of our San Diego operations to a significantly larger facility in nearby Poway, California in mid 2001.

Power shortages have caused "blackouts" throughout California and San Diego County. In March 2001, Cohu's operations were temporarily suspended as a result of a blackout. Blackouts may become more prevalent as electricity demands increase in the peak summer months. We currently do not have back-up generators or alternate sources of power in the event of a blackout. Further blackouts could result in our failure to meet customer delivery requirements damaging our reputation and resulting in lost revenue that would have a material adverse impact on our business, results of operations and financial condition.

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 could adversely impact sales or margins of existing products. In addition, the introduction of new products, by Cohu or by our competitors, the concentration of our revenues in a limited number of large customers, the migration to new IC test handling methodologies and the custom nature of our inventory parts increases the risk that our established products and related inventory may become obsolete resulting in greater excess and obsolete inventory exposure. This increased exposure resulted in increased excess inventory reserve requirements during the third and fourth quarter of 2000 and the first quarter of 2001. Future inventory write-offs and increased 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 test handling equipment is an inherently complex process that involves a number of risks and uncertainties. These risks include potential problems in meeting customer performance requirements, integration of the test handler 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 test handling equipment is heavily influenced by changes in integrated circuit (IC) back-end manufacturing processes and IC package design changes. We believe that the rate of change in such processes and IC packages is accelerating. As a result of these changes and other factors, assessing the market potential and commercial viability of new test handling equipment is extremely difficult and subject to a great deal of risk. In addition, not all IC manufacturers employ the same manufacturing processes. Differences in such processes make it difficult to design standard semiconductor test handler products that are capable of achieving broad market acceptance. As a result we might not accurately assess the semiconductor industry's future test handler requirements and fail

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TRENDS, RISKS AND UNCERTAINTIES (cont.)

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 handler 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 test handlers. In addition, our after sale support and warranty costs have been significantly higher with new test handlers 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.

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. Future competition may include companies that do not currently supply test handlers. The Japanese and Korean markets for test handling equipment are large and represent a significant percentage of the worldwide market. During the last five years we have had limited sales to Japanese and Korean customers who have historically purchased test handling equipment from Asian suppliers. Some of our competitors have substantially greater financial, engineering, manufacturing and customer support capabilities and offer more extensive product offerings than Cohu. In addition, there are smaller, emerging semiconductor equipment companies that provide or may provide innovative technology incorporated in products that may compete favorably against those of Cohu. We expect our competitors to continue to improve the design and performance of their current products and to 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 of Cohu or our competitors 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.

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

We rely on a limited number of customers for a substantial percentage of our net sales. In 2000, four customers of the semiconductor equipment segment accounted for 50% (46% in 1999 and 60% in 1998) of our net sales. The loss of or a significant reduction in orders by these or other significant customers as a result of competitive products, market conditions, outsourcing final IC test to test subcontractors that are not our customers or other factors, would adversely impact our financial condition and results of operations. Furthermore, the concentration of our revenues in a limited number of large customers may cause significant fluctuations in our future annual and quarterly operating results.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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TRENDS, RISKS AND UNCERTAINTIES (cont.)

Our backlog is limited and may not accurately reflect future business activity.

Our order backlog has historically represented approximately three months of revenue and as a result our visibility over future business activity is limited. Due to the possibility of customer changes in delivery schedules, cancellation of orders, potential delays in product shipments, difficulties in obtaining inventory parts from suppliers, failure to satisfy customer acceptance requirements and the inability to recognize revenue under new accounting requirements, our backlog as of any point in time may not be representative of actual sales in any future period. Furthermore, all orders are subject to cancellation or rescheduling by the customer with limited penalty. A reduction in backlog during any particular period, such as occurred in the first quarter of 2001 where the Company's backlog declined to \$41.5 million at March 31, 2001, could have a material adverse effect on our business, financial condition and results of operations.

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 ever changing and unpredictable capacity requirements and changes in IC design and packaging. Sudden changes in demand for semiconductor equipment have a significant impact on our operations. In response to a severe industry downturn in 1998, we reduced our total workforce by approximately 40%. During 1999, we increased our workforce by more than 50% as business conditions in the semiconductor equipment industry and our order backlog improved. In the first quarter of 2001, we reduced our workforce approximately 20% as a result of a downturn in the semiconductor equipment industry. If the current industry downturn continues, further workforce reductions will be required. Such radical 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. We have in the past and may in the future experience difficulties, particularly in manufacturing, in training the large number of additions to our workforce. In

addition, competition for the employment services of certain personnel, particularly those with technical skills, is intense. 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 and in improved and expanded facilities. 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 have experienced a significant decline in gravity-feed test handler sales to DRAM customers.

Sales of IC test handlers used in DRAM testing represented a significant percentage of Cohu's total semiconductor equipment related revenue during the period 1994 through 1998. Due to changes in IC package technology, gravity-feed handlers are no longer suitable for handling many types of DRAMs. As a result, we have seen a significant decline in sales of our gravity-feed test handler products. IC handlers used in DRAM applications account for a significant portion of the worldwide IC handler market.

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TRENDS, RISKS AND UNCERTAINTIES (cont.)

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

Cohu has operations located in various parts of the world to support our sales and services to the global semiconductor industry. Managing geographically dispersed operations presents difficult challenges associated with, among other things, organizational alignment and infrastructure, communications and information technology, inventory control, customer relationship management and cultural diversities. In addition, maintaining these geographically dispersed locations is expensive. We may not be able to manage our multiple operations in a cost effective and efficient manner. If we are unsuccessful in managing such operations effectively, our business and results of operations will be adversely affected.

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, Cohu has 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.

We are exposed to the risk that third parties may violate our proprietary rights or accuse us of infringing upon their proprietary rights.

Cohu relies 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 be challenged, invalidated or circumvented, and these rights may not provide significant competitive advantages. 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 Cohu to incur significant expenses. In the event of a successful claim of infringement against Cohu 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.

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TRENDS, RISKS AND UNCERTAINTIES (cont.)

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

During 2000, 63% of our total net sales were exported to foreign countries, including 71% of the sales in the semiconductor equipment segment. The majority of our export sales are made to destinations in Asia. Instability in global economic markets, particularly in Asia, may adversely impact the demand for capital equipment, including equipment of the type manufactured and marketed by Cohu. In addition, we face intense competition from a number of Asian suppliers that have certain advantages over U.S. suppliers, including Cohu. 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.

Our non semiconductor equipment businesses have experienced little or no growth over the last five years.

We develop, manufacture and sell products used in closed circuit television, metal detection and microwave radio applications. These products are sold in highly competitive markets and many competitors are segments of large, diversified companies with substantially greater financial, engineering, marketing, manufacturing and customer support capabilities than Cohu. In addition, there are smaller companies that provide or may provide innovative technology incorporated in products that may compete favorably against those of Cohu. We have seen a decline in the operating results of some of these businesses over the last several years and the future prospects for certain of these businesses remain uncertain. We may not be able to continue to compete successfully in these businesses.

New accounting rules may impact the timing of revenue recognition and operating results.

In December 1999, the staff of the Securities and Exchange Commission issued SAB 101, *Revenue Recognition in Financial Statements*. Cohu adopted SAB 101 in the fourth quarter of 2000 and, as required, changed its method of revenue recognition in certain instances. As a result of this change, a cumulative effect adjustment was recorded in Cohu's statement of income for the quarter ended March 31, 2000. Further changes in revenue recognition practices resulting from initiatives by the FASB are possible. Such changes could result in additional adjustments to our results of operations that may be reflected in future periods.

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COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
March 31, 2001

Quantitative and qualitative disclosures about market risk.

Interest rate risk.

At March 31, 2001, our investment portfolio includes fixed-income securities with a fair value of approximately \$83.9 million. These securities are subject to interest rate risk and will decline in value if interest rates increase. Due to the relatively short duration of our investment portfolio, an immediate one percent change in interest rates would have no material impact on our financial condition or results of operations.

Foreign currency exchange risk.

We generally conduct business, including sales to foreign customers, in U.S. dollars and as a result we have limited foreign currency exchange rate risk. Monetary assets and liabilities of Cohu's foreign operations are not significant. The effect of an immediate ten percent change in foreign exchange rates would not have a material impact on our financial condition or results of operations.

Due to all the above and other factors, historical results may not be indicative of results of operations for any future period. In addition, certain matters discussed above are forward-looking statements that are subject to the risks and uncertainties noted herein and the other risks and uncertainties listed from time to time in our filings with the Securities and Exchange Commission, including but not limited to the 2000 Annual Report on Form 10-K, that could cause actual results to differ materially from those projected or forecasted. Cohu undertakes no obligation to update the information, including the forward-looking statements, in this Form 10-Q.

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Part II OTHER INFORMATION

Item 5. Other Information

On April 16, 2001 the Company sold its land and buildings in San Diego, California to TC Kearny Villa, L.P., an unrelated party, for \$12.5 million, excluding commissions and other related expenses. The \$12.5 million purchase price included a cash payment of \$3.1 million and a \$9.4 million, 8% non-recourse note secured by a deed of trust on the property due in six months. The note also provides for a 180-day extension option. The Company entered into a two-month (three months if a one-month extension option is exercised) leaseback of the property with the buyer. The Company expects to record a pretax gain on the transaction of approximately \$7 million in the second or third quarter of 2001, upon the expiration of the leaseback.

On April 23, 2001 the Company completed the acquisition of real property in Poway, California consisting of a 338,000 square-foot office/industrial building and approximately twenty acres of land ("the Poway Facility"). The purchase price of the Poway Facility was approximately \$21.3 million and was funded from the Company's cash reserves in October 2000. The Company is currently remodeling the Poway Facility at an estimated cost of \$4 million and plans on moving its corporate headquarters and the San Diego operations of its Delta Design subsidiary to the Poway Facility in mid 2001.

Item 6. Exhibits and Reports on Form 8-K.

- (a) Exhibits: None.
- (b) Reports on Form 8-K: The Company did not file any reports on Form 8-K during the quarter ended March 31, 2001.

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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: April 27, 2001

/s/ James A. Donahue

James A. Donahue
President & Chief Executive Officer

Date: April 27, 2001

/s/ John H. Allen

John H. Allen
Vice President, Finance & Chief Financial Officer

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