



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 25, 2010**

**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**

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

**95-1934119**

*(I.R.S. Employer Identification No.)*

**12367 Crosthwaite Circle, Poway, California**

*(Address of principal executive offices)*

**92064-6817**

*(Zip Code)*

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

As of September 25, 2010 the Registrant had 23,869,784 shares of its \$1.00 par value common stock outstanding.

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**September 25, 2010**

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## Item 1.

**COHU, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except par value)

	September 25, 2010 (Unaudited)	December 26, 2009 *
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 32,845	\$ 38,247
Short-term investments	58,440	46,659
Accounts receivable, less allowance for bad debts of \$1,536 in 2010 and \$1,013 in 2009	67,161	43,389
Inventories:		
Raw materials and purchased parts	36,139	25,660
Work in process	17,681	16,148
Finished goods	12,200	10,620
	66,020	52,428
Deferred income taxes	5,429	3,703
Other current assets	4,904	9,124
Total current assets	234,799	193,550
Property, plant and equipment, at cost:		
Land and land improvements	11,616	11,938
Buildings and building improvements	30,685	29,538
Machinery and equipment	40,200	36,875
	82,501	78,351
Less accumulated depreciation and amortization	(43,526)	(40,345)
Net property, plant and equipment	38,975	38,006
Goodwill	59,272	61,764
Intangible assets, net of accumulated amortization of \$15,791 in 2010 and \$11,648 in 2009	28,649	35,483
Other assets	1,789	1,315
	<u>\$ 363,484</u>	<u>\$ 330,118</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 27,834	\$ 22,600
Accrued compensation and benefits	12,804	10,715
Accrued warranty	4,748	3,747
Customer advances	976	1,046
Deferred profit	13,599	5,322
Income taxes payable	8,493	1,486
Other accrued liabilities	7,046	9,037
Total current liabilities	75,500	53,953
Other accrued liabilities	4,778	4,725
Deferred income taxes	14,575	14,191
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$1 par value; 1,000 shares authorized, none issued	—	—
Common stock, \$1 par value; 60,000 shares authorized, 23,870 shares issued and outstanding in 2010 and 23,547 shares in 2009	23,870	23,547
Paid-in capital	70,118	64,847
Retained earnings	171,143	160,193
Accumulated other comprehensive income	3,500	8,662
Total stockholders' equity	268,631	257,249
	<u>\$ 363,484</u>	<u>\$ 330,118</u>

\* Derived from December 26, 2009 audited financial statements.

The accompanying notes are an integral part of these statements.

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

	Three Months Ended		Nine Months Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
Net sales	\$ 86,066	\$ 44,062	\$ 225,765	\$ 119,068
Cost and expenses:				
Cost of sales	55,989	27,845	148,261	83,128
Research and development	8,799	8,284	26,460	24,022
Selling, general and administrative	12,497	8,731	31,865	26,431
	<u>77,285</u>	<u>44,860</u>	<u>206,586</u>	<u>133,581</u>
Income (loss) from operations	8,781	(798)	19,179	(14,513)
Interest and other, net	127	302	439	1,128
Income (loss) before income taxes	8,908	(496)	19,618	(13,385)
Income tax provision (benefit)	1,297	(425)	4,402	15,553
Net income (loss)	<u>\$ 7,611</u>	<u>\$ (71)</u>	<u>\$ 15,216</u>	<u>\$ (28,938)</u>
Income (loss) per share:				
Basic	<u>\$ 0.32</u>	<u>\$ (0.00)</u>	<u>\$ 0.64</u>	<u>\$ (1.24)</u>
Diluted	<u>\$ 0.32</u>	<u>\$ (0.00)</u>	<u>\$ 0.63</u>	<u>\$ (1.24)</u>
Weighted average shares used in computing income (loss) per share:				
Basic	<u>23,802</u>	<u>23,429</u>	<u>23,669</u>	<u>23,384</u>
Diluted	<u>24,111</u>	<u>23,429</u>	<u>24,022</u>	<u>23,384</u>
Cash dividends declared per share	<u>\$ 0.06</u>	<u>\$ 0.06</u>	<u>\$ 0.18</u>	<u>\$ 0.18</u>

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

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

	Nine Months Ended September 25, 2010	September 26, 2009
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 15,216	\$ (28,938)
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>		
Depreciation and amortization	8,136	8,526
Share-based compensation expense	2,543	2,474
Deferred income taxes	(1,305)	16,118
Other accrued liabilities	166	93
Excess tax (benefits) deficiencies from stock options exercised	(155)	103
<b>Changes in current assets and liabilities, excluding effects from acquisitions and divestitures:</b>		
Accounts receivable	(23,754)	(2,650)
Inventories	(15,499)	1,881
Other current assets	4,106	3,220
Accounts payable	5,234	4,628
Customer advances	(70)	(1,360)
Deferred profit	8,277	700
Income taxes payable, including excess stock option exercise benefit	7,162	474
Accrued compensation, warranty and other liabilities	1,045	(1,532)
Net cash provided by operating activities	11,102	3,737
<b>Cash flows from investing activities, excluding effects from acquisitions and divestitures:</b>		
Purchases of short-term investments	(42,903)	(34,871)
Sales and maturities of short-term investments	31,158	45,273
Purchases of property, plant and equipment	(3,386)	(1,503)
Other assets	232	(65)
Net cash (used in) provided by investing activities	(14,899)	8,834
<b>Cash flows from financing activities:</b>		
Cash dividends	(4,247)	(4,204)
Issuance of stock, net of repurchases	2,896	301
Excess tax benefits (deficiencies) from stock options exercised	155	(103)
Net cash used in financing activities	(1,196)	(4,006)
Effect of exchange rate changes on cash	(409)	265
Net (decrease) increase in cash and cash equivalents	(5,402)	8,830
Cash and cash equivalents at beginning of period	38,247	30,194
Cash and cash equivalents at end of period	<u>\$ 32,845</u>	<u>\$ 39,024</u>
<b>Supplemental disclosure of cash flow information:</b>		
<b>Cash refunded during the period for:</b>		
Income taxes	\$ (3,321)	\$ (4,115)
Inventory capitalized as capital assets	\$ 1,827	\$ 518
Dividends declared but not yet paid	\$ 1,432	\$ 1,407

The accompanying notes are an integral part of these statements.

**Cohu, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**September 25, 2010**

**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 26, 2009 has been derived from our audited financial statements at that date. The interim condensed consolidated financial statements as of September 25, 2010 (also referred to as “the third quarter of fiscal 2010” and “the first nine months of fiscal 2010”) and September 26, 2009 (also referred to as “the third quarter of fiscal 2009” and “the first nine months of fiscal 2009”) are unaudited. However, in management’s opinion, these financial statements reflect all adjustments (consisting only of normal, recurring items) necessary to provide a fair presentation of our financial position, results of operations and cash flows for the periods presented. The third quarters of fiscal 2010 and 2009 were comprised of 13 weeks and the first nine months of fiscal 2010 and 2009 were comprised of 39 weeks.

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 26, 2009, which are included in our 2009 Annual Report on Form 10-K, filed with the U. S. Securities and Exchange Commission (“SEC”). In the following notes to our interim condensed consolidated financial statements, Cohu, Inc. is referred to as “Cohu”, “we”, “our” and “us”.

**Risks and Uncertainties**

We are subject to a number of risks and uncertainties that may significantly impact our future operating results. These risks and uncertainties are discussed under Item 1A. “Risk Factors” included in this Form 10-Q. As our interim description of risks and uncertainties only includes any material changes to our annual description, we also recommend reading the description of the risk factors associated with our business previously disclosed in Item 1A. of our 2009 Annual Report on Form 10-K. Understanding these risks and uncertainties is integral to the review of our interim condensed consolidated financial statements.

**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.

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.

**Cohu, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**September 25, 2010**

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

	Three Months Ended		Nine Months Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
Cost of sales	\$ 84	\$ 94	\$ 233	\$ 241
Research and development	321	351	787	825
Selling, general and administrative	557	479	1,523	1,408
Total share-based compensation	962	924	2,543	2,474
Income tax benefit	—	—	—	—
Total share-based compensation, net of tax	<u>\$ 962</u>	<u>\$ 924</u>	<u>\$ 2,543</u>	<u>\$ 2,474</u>

#### Earnings (Loss) Per Share

Basic earnings (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 earnings 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. For the three and nine months ended September 25, 2010, options to issue approximately 1,794,000 and 1,712,000 shares of common stock were excluded from the computation, respectively. The following table reconciles the denominators used in computing basic and diluted income per share (*in thousands*):

	Three Months Ended		Nine Months Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
Weighted average common shares	23,802	23,429	23,669	23,384
Effect of dilutive stock options	309	—	353	—
	<u>24,111</u>	<u>23,429</u>	<u>24,022</u>	<u>23,384</u>

#### 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 26, 2009. As more fully described in that policy, revenue from products that have not previously satisfied customer acceptance requirements is recognized upon customer acceptance. The gross profit on sales that are not recognized is generally recorded as deferred profit and reflected as a current liability in our consolidated balance sheet.

At September 25, 2010, we had deferred revenue totaling approximately \$32.8 million and deferred profit of \$13.6 million. At December 26, 2009, we had deferred revenue totaling approximately \$20.2 million and deferred profit of \$5.3 million.

#### Retiree Medical Benefits

We provide post-retirement health benefits to certain executives and directors under a noncontributory plan. The net periodic benefit cost incurred during the first nine months of fiscal 2010 and 2009 was not significant.

#### Recent Accounting Pronouncements

**Recently Adopted Accounting Pronouncements** - In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2010-06, "Improving Disclosures about Fair Value Measurements (Topic 820)—Fair Value Measurements and Disclosures" to add additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2, and 3. Levels 1, 2 and 3 of fair value measurements are defined in Note 3 below. We adopted the accounting standards update on



**Cohu, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**September 25, 2010**

December 27, 2009, the first day of our 2010 fiscal year except for the provisions of this update that will not be effective until our fiscal 2011. The adoption of the accounting update did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued new accounting guidance on consolidation of variable interest entities, which include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. This new guidance was effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009, which for us was December 27, 2009, the first day of our 2010 fiscal year. The adoption of this new guidance did not impact our consolidated financial position or results of operations or cash flows as we do not have any variable interest entities.

**Recently Issued Accounting Standards** - In October 2009, the FASB amended the guidance for allocating revenue to multiple deliverables in a contract. This new guidance is effective as of the first day of our 2011 fiscal year, with early adoption permitted. In accordance with the amendment, companies can allocate consideration in a multiple element arrangement in a manner that better reflects the transaction economics. When vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, companies will now be allowed to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. Additionally, use of the residual method has been eliminated. Adoption of this new guidance is not expected to have a material impact on our consolidated financial position or results of operations.

In October 2009, the FASB issued new accounting guidance for the accounting for certain revenue arrangements that include software elements. The new guidance amends the scope of pre-existing software revenue guidance by removing from the guidance non-software components of tangible products and certain software components of tangible products. The new guidance will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, and will be effective for us in the first quarter of fiscal year 2011, however early adoption is permitted. Adoption of this new guidance is not expected to have a material impact on our consolidated financial position or results of operations.

**2. Goodwill and Purchased Intangible Assets**

Changes in the carrying value of goodwill by reportable segment during the year ended December 26, 2009 and the nine-month period ended September 25, 2010 were as follows (*in thousands*):

	Semiconductor Equipment	Microwave Communications	Total Goodwill
Balance, December 27, 2008	\$ 57,435	\$ 3,385	\$ 60,820
Impact of currency exchange	883	61	944
Balance, December 26, 2009	58,318	3,446	61,764
Impact of currency exchange	(2,318)	(174)	(2,492)
Balance, September 25, 2010	<u>\$ 56,000</u>	<u>\$ 3,272</u>	<u>\$ 59,272</u>

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

	September 25, 2010		December 26, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Unigen acquired technology	\$ 7,020	\$ 6,424	\$ 7,020	\$ 5,358
AVS acquired technology	2,205	1,916	2,365	1,611
Rasco acquired technology	32,889	7,451	35,257	4,679
	<u>\$ 42,114</u>	<u>\$ 15,791</u>	<u>\$ 44,642</u>	<u>\$ 11,648</u>

**Cohu, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**September 25, 2010**

Amortization expense related to intangible assets was approximately \$1.5 million in the third quarter of fiscal 2010 and \$4.5 million in the first nine months of fiscal 2010. Amortization expense related to intangible assets was approximately \$1.6 million in the third quarter of fiscal 2009 and \$4.6 million in the first nine months of fiscal 2009. The amounts included in the table above for the periods ended September 25, 2010 and December 26, 2009 exclude approximately \$2.3 million and \$2.5 million, respectively, related to the Rasco trade name which has an indefinite life and is not being amortized. Changes in the carrying values of AVS and Rasco intangible assets are a result of the impact of fluctuations in currency exchange rates.

**3. Cash and Cash Equivalents and Short-Term Investments**

As of September 25, 2010, and December 26, 2009, our cash, cash equivalents, and short-term investments consisted primarily of cash, corporate debt securities, government and government sponsored enterprise securities, money market funds and other investment grade securities. Such amounts are recorded at fair value. Investments that we have classified as short-term, by security type, are as follows (*in thousands*):

	September 25, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
Corporate debt securities (2)	\$ 17,436	\$ 53	\$ 4	\$ 17,485
Municipal securities	12,585	6	—	12,591
U.S. Treasury securities	13,282	28	—	13,310
Government-sponsored enterprise securities	13,588	15	2	13,601
Certificates of deposit	1,000	—	—	1,000
Asset-backed securities	449	4	—	453
	<u>\$ 58,340</u>	<u>\$ 106</u>	<u>\$ 6</u>	<u>\$ 58,440</u>

  

	December 26, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
Corporate debt securities (2)	\$ 24,055	\$ 102	\$ 7	\$ 24,150
Municipal securities	9,045	15	8	9,052
U.S. Treasury securities	5,492	12	—	5,504
Government-sponsored enterprise securities	4,262	13	—	4,275
Bank certificates of deposit	1,500	—	—	1,500
Asset-backed securities	2,147	31	—	2,178
	<u>\$ 46,501</u>	<u>\$ 173</u>	<u>\$ 15</u>	<u>\$ 46,659</u>

- (1) As of September 25, 2010, and December 26, 2009, the cost and fair value of investments with loss positions was \$7.3 million and \$4.1 million, respectively. We evaluated the nature of these investments, credit worthiness of the issuer and the duration of these impairments to determine if an other-than-temporary decline in fair value had occurred and concluded that these losses were temporary.
- (2) Corporate debt securities include investments in financial, insurance, and corporate institutions. No single issuer represents a significant portion of the total corporate debt securities portfolio.

**Cohu, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**September 25, 2010**

Contractual maturities of short-term investments at September 25, 2010 and December 26, 2009, were as follows (*in thousands*):

	September 25, 2010		December 26, 2009	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 34,093	\$ 34,157	\$ 29,809	\$ 29,887
Due after one year through two years	23,798	23,830	14,545	14,594
Asset-backed securities not due at a single maturity date	449	453	2,147	2,178
	<u>\$ 58,340</u>	<u>\$ 58,440</u>	<u>\$ 46,501</u>	<u>\$ 46,659</u>

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

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 September 25, 2010 using:			Total estimated fair value
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Cash	\$ 21,723	\$ —	\$ —	\$ 21,723
U.S. Treasury securities	13,310	—	—	13,310
Corporate debt securities	—	18,185	—	18,185
Municipal securities	—	13,891	—	13,891
Government-sponsored enterprise securities	—	13,601	—	13,601
Money market funds	—	9,122	—	9,122
Bank certificates of deposit	—	1,000	—	1,000
Asset-backed securities	—	453	—	453
	<u>\$ 35,033</u>	<u>\$ 56,252</u>	<u>\$ —</u>	<u>\$ 91,285</u>

**Cohu, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**September 25, 2010**

	Fair value measurements at December 26, 2009 using:			Total estimated fair value
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Cash	\$ 12,371	\$ —	\$ —	\$ 12,371
U.S. Treasury securities	5,504	—	—	5,504
Money market funds	—	22,751	—	22,751
Corporate debt securities	—	26,525	—	26,525
Municipal securities	—	9,052	—	9,052
Government-sponsored enterprise securities	—	4,275	—	4,275
Bank certificates of deposit	—	2,250	—	2,250
Asset-backed securities	—	2,178	—	2,178
	<u>\$ 17,875</u>	<u>\$ 67,031</u>	<u>\$ —</u>	<u>\$ 84,906</u>

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. These investments are included in Level 2 and primarily comprise our money market funds and our portfolio of corporate debt securities, bank certificates of deposit, government-sponsored enterprise, municipal securities and asset-backed securities.

#### 4. Employee Stock Benefit Plans

##### Employee Stock Purchase Plan

The Cohu, Inc. 1997 Employee Stock Purchase Plan (“the Plan”) provides for the issuance of a maximum of 1,400,000 shares of our common stock. Under the Plan, eligible employees may purchase shares of common stock through payroll deductions. The price paid for the common stock is equal to 85% of the fair market value of our common stock on specified dates. At September 25, 2010, there were 306,498 shares available for issuance under the Plan.

##### 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 at prices not less than 100% of the fair market value at the date of grant. Options generally vest and become exercisable after one year or in four annual increments beginning one year after the grant date and expire five to ten years from the grant date. At September 25, 2010, 1,809,007 shares were available for future equity grants under the 2005 Equity Plan. We have historically issued new shares of our common stock upon share option exercise.

At September 25, 2010, we had 3,000,194 stock options outstanding. These options had a weighted-average exercise price of \$12.82 per share, an aggregate intrinsic value of approximately \$6.3 million and the weighted average remaining contractual term was approximately 5.9 years.

At September 25, 2010, we had 1,866,297 stock options outstanding that were exercisable. These options had a weighted-average exercise price of \$15.25 per share, an aggregate intrinsic value of \$1.4 million and the weighted average remaining contractual term was approximately 4.4 years.

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**Restricted Stock Units**

We issue restricted stock units to certain employees 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.

At September 25, 2010, we had 114,182 restricted stock units outstanding with an aggregate intrinsic value of approximately \$1.5 million and the weighted average remaining vesting period was approximately 0.7 years.

**5. Comprehensive Income (Loss)**

Comprehensive income (loss) represents all non-owner changes in stockholders' equity and consists of, on an after-tax basis where applicable, the following (*in thousands*):

	Three Months Ended		Nine Months Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
Net income (loss)	\$ 7,611	\$ (71)	\$ 15,216	\$ (28,938)
Foreign currency translation adjustment	6,615	3,765	(5,162)	3,050
Adjustments related to postretirement benefits	9	—	37	—
Change in unrealized gain/loss on investments	26	8	(35)	417
Comprehensive income (loss)	<u>\$ 14,261</u>	<u>\$ 3,702</u>	<u>\$ 10,056</u>	<u>\$ (25,471)</u>

Our accumulated other comprehensive income balance totaled approximately \$3.5 million and \$8.7 million at September 25, 2010, and December 26, 2009, respectively, and was attributed to, net of income taxes where applicable, foreign currency adjustments resulting from the translation of certain accounts into U.S. dollars where the functional currency is the Euro, unrealized losses and gains on investments and adjustments related to postretirement benefits.

**6. Income Taxes**

The income tax provision included in the condensed consolidated statements of operations for the three and nine months ended September 25, 2010 and September 26, 2009, is based on the estimated annual effective tax rate for the entire year. These estimated effective tax rates are subject to adjustment in subsequent quarterly periods as our estimates of pretax income or loss for the year change. The effective tax rate for the three and nine months ended September 25, 2010, was 14.6% and 22.4%, respectively, and differs from the U.S. federal statutory rate primarily due to a reduction in our deferred tax asset valuation allowance, foreign income taxed at lower rates, state taxes and interest on unrecognized tax benefits.

In the quarter ended June 27, 2009, we recorded an increase in our valuation allowance on domestic deferred tax assets, with a corresponding charge to our income tax provision, of approximately \$19.6 million as we were unable to conclude that it was more likely than not that such assets would be realized. Our deferred tax asset valuation allowance at September 25, 2010 was approximately \$25.2 million on gross deferred tax assets of approximately \$30.9 million. The remaining \$5.7 million of gross deferred tax assets for which a valuation allowance was not recorded are realizable through future reversals of existing taxable temporary differences.

During the second quarter of fiscal 2010 the Internal Revenue Service commenced a routine examination of our 2009 U.S. income tax return. This examination is substantially complete and is expected to be finalized without any material adjustments. There was no material change to our unrecognized tax benefits and interest accrued related to unrecognized tax benefits during the nine months ended September 25, 2010.

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**7. 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 three segments are: semiconductor equipment, microwave communications and video cameras.

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		Nine Months Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
<i>Net sales by segment:</i>				
Semiconductor equipment	\$ 75,369	\$ 31,845	\$ 196,965	\$ 81,181
Microwave communications	6,301	8,561	16,350	25,932
Video cameras	4,396	3,656	12,450	11,955
Total consolidated net sales and net sales for reportable segments	<u>\$ 86,066</u>	<u>\$ 44,062</u>	<u>\$ 225,765</u>	<u>\$ 119,068</u>
<i>Segment profit (loss):</i>				
Semiconductor equipment	\$ 9,654	\$ (1,244)	\$ 22,746	\$ (16,033)
Microwave communications	122	1,467	(674)	4,411
Video cameras	132	99	209	262
Profit (loss) for reportable segments	9,908	322	22,281	(11,360)
<i>Other unallocated amounts:</i>				
Corporate expenses	(1,127)	(1,120)	(3,102)	(3,153)
Interest and other, net	127	302	439	1,128
Income (loss) before income taxes	<u>\$ 8,908</u>	<u>\$ (496)</u>	<u>\$ 19,618</u>	<u>\$ (13,385)</u>
<i>Total assets by segment (in thousands):</i>				
Semiconductor equipment			September 25, 2010	December 26, 2009
			\$ 254,314	\$ 216,818
Microwave communications			21,537	20,937
Video cameras			10,054	10,082
Total assets for reportable segments			285,905	247,837
Corporate, principally cash and investments and deferred taxes			77,579	82,281
Total consolidated assets			<u>\$ 363,484</u>	<u>\$ 330,118</u>

A small number of customers historically have been responsible for a significant portion of our consolidated net sales. During the third quarter and first nine months of fiscal 2010, three customers of the semiconductor equipment segment each represented more than 10% of consolidated net sales and, combined, they accounted for 57% and 52% of our total consolidated net sales, respectively. During the third quarter and first nine months of fiscal 2009, two customers of the semiconductor equipment segment each represented more than 10% of consolidated net sales and, combined, they accounted for 24% and 35% of our total consolidated net sales, respectively.

**8. 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. Although the outcome of such legal proceedings, claims and examinations cannot be predicted with certainty, we do not believe any such matters exist at this time that will have a material adverse effect on our financial position or results of operations.

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**9. 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		Nine Months Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
Balance at beginning of period	\$ 4,279	\$ 3,777	\$ 3,747	\$ 4,924
Warranty expense accruals	1,562	846	4,210	2,562
Warranty payments	(1,093)	(925)	(3,209)	(3,788)
Balance at end of period	<u>\$ 4,748</u>	<u>\$ 3,698</u>	<u>\$ 4,748</u>	<u>\$ 3,698</u>

From time-to-time, during the ordinary course of business, we provide standby letters of credit for certain contingent liabilities under contractual arrangements, including customer contracts. As of September 25, 2010, the maximum potential amount of future payments that Cohu could be required to make under these standby letters of credit was approximately \$0.7 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 2009 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 and burn-in related equipment, and thermal sub-systems for the global semiconductor industry through our wholly-owned subsidiaries, Delta Design, Inc. and Rasco GmbH. This 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. Our other businesses produce mobile microwave communications equipment (Broadcast Microwave Services, Inc.) and video cameras and accessories (Cohu Electronics Division).

Operating results for the third quarter of fiscal 2010, in our semiconductor equipment business, were better than expected and benefitted from continued high rates of equipment utilization in customers' test facilities. Our orders had increased sequentially since the first quarter of fiscal 2009 and were at their highest level in the second quarter of fiscal 2010. According to Semiconductor Equipment and Materials International (SEMI), orders for test and assembly equipment declined during August and September. We saw indications of reduced near term demand from some customers during the third quarter of fiscal 2010 and, as a result, orders for our semiconductor equipment decreased. Gross margin in the third quarter of fiscal 2010 was better than expected as a result of favorable product mix within our semiconductor equipment sales.

Inventory exposure is common in the semiconductor equipment industry due to the narrow customer base, the custom nature of the products we provide, and the shortened product life cycles that are caused by rapid changes in semiconductor manufacturing technology. Our operating results in the last three years have been impacted by charges to cost of sales related to excess, obsolete and lower of cost or market inventory issues. These charges totaled approximately \$15.2 million during the three-year period ended December 26, 2009 and were primarily the result of decreases or frequent changes in customer forecasts and, to a lesser extent, changes in our sales product mix.

Our non-semiconductor equipment businesses comprised approximately 22% of our consolidated revenues during the last three years (13% for the nine-month period ended September 25, 2010). Our microwave communications 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. During 2009 our microwave communications business achieved record operating income as a result of higher sales volume and improved gross margins realized primarily through product redesign programs initiated in 2008 to reduce the cost of certain systems. Operating results for the first nine months of fiscal 2010 are below plan due to the deferral of revenue associated with a large customer order that was shipped during the second and third quarters of fiscal 2010 and is currently awaiting acceptance. We expect BMS' results to improve in the fourth quarter of fiscal 2010.



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Our video camera segment develops, manufactures and sells a wide selection of video cameras and related products, specializing in video solutions for security, surveillance and traffic monitoring. Customers for these products are distributed among security, surveillance, traffic control/management, scientific imaging and machine vision. During the third quarter of fiscal 2010 sales and operating income for our video camera operation were lower than plan due mainly to customer order delays. We expect the operating results of this segment to improve as we introduce our new Internet Protocol ("IP") cameras for the traffic and high end security and surveillance markets.

Our management team uses several performance metrics to manage our businesses. These metrics mainly focus on near-term forecasts due to the short-term nature of our backlog and include: (i) orders and backlog for the most recently completed quarter and the forecast for the next quarter, (ii) inventory levels and related excess exposures typically based on the forecast for the next twelve months, (iii) gross margin and other operating expense trends, (iv) cash flow, (v) industry data and trends noted in various publicly available sources, and (vi) competitive factors and information. Due to the short-term nature of our order backlog that historically has represented about three months of business and the inherent volatility of the semiconductor equipment business, our past performance is frequently not indicative of future near term operating results or cash flows.

**Application of Critical Accounting Estimates and Policies**

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

**Accounts Receivable:** We maintain an allowance for bad debts 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.

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

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

**Income Taxes:** We estimate our liability for income taxes based on the various jurisdictions where we conduct business. This requires us to estimate our (i) current taxes; (ii) temporary differences that result from differing treatment of certain items for tax and accounting purposes and (iii) unrecognized tax benefits. Temporary differences result in deferred tax assets and liabilities that are reflected in the consolidated balance sheet. The deferred tax assets are reduced by a valuation allowance if, based upon all available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Establishing, reducing or increasing a valuation allowance in an accounting period generally results in an increase or decrease in tax expense in the statement of operations. We must make significant judgments to determine the provision for income taxes, deferred tax assets and liabilities, unrecognized tax benefits and any valuation allowance to be recorded against deferred tax assets. Our gross deferred tax asset balance as of September 25, 2010 was approximately \$30.9 million, with a valuation allowance of approximately \$25.2 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 goodwill impairment test as of October 1 of each year, and are currently in the process of completing our analysis for fiscal 2010.

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.

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**Recent Accounting Pronouncements**

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

**RESULTS OF OPERATIONS**

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

	Three Months Ended		Nine Months Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	(65.1)	(63.2)	(65.7)	(69.8)
Gross margin	34.9	36.8	34.3	30.2
Research and development	(10.2)	(18.8)	(11.7)	(20.2)
Selling, general and administrative	(14.5)	(19.8)	(14.1)	(22.2)
Income (loss) from operations	<u>10.2%</u>	<u>(1.8)%</u>	<u>8.5%</u>	<u>(12.2)%</u>

**Third Quarter of Fiscal 2010 Compared to Third Quarter of Fiscal 2009****Net Sales**

Our consolidated net sales increased 95.3% to \$86.1 million in 2010, compared to net sales of \$44.1 million in 2009. Sales of semiconductor equipment in the third quarter of fiscal 2010 were \$75.4 million, and increased \$43.5 million or 136.7% from 2009 and represented 87.6% of consolidated net sales in 2010 versus 72.3% in 2009. During fiscal 2010 semiconductor sales have improved significantly as a result of continued high rates of equipment utilization on customer test floors that require investment in additional capacity, capacity additions on new test floors, market share gains and the sales synergies of our broad product line.

Sales of mobile microwave communications equipment in the third quarter of fiscal 2010 were \$6.3 million, representing 7.3% of consolidated net sales in 2010, and decreased \$2.3 million or 26.4% when compared to 2009. The decrease in sales of our microwave communications business during the third quarter of fiscal 2010 was a result of the deferral of revenue associated with a large customer order that was shipped during the third quarter of fiscal 2010 and is awaiting customer acceptance.

Sales of video cameras represented 5.1% of consolidated net sales and were \$4.4 million in the third quarter of fiscal 2010 compared to \$3.7 million in fiscal 2009.

**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, decreased to 34.9% in 2010 from 36.8% in 2009 due to product mix. Gross margin in the third quarter of fiscal 2010 was better than expected as a result of favorable product mix within our semiconductor equipment sales.

Our gross margin is impacted by charges to cost of sales related to excess, obsolete and lower of cost or market inventory issues. We compute the majority of our excess and obsolete inventory reserve requirements using a one-year inventory usage forecast. During the third quarter of fiscal 2010, we recorded charges to cost of sales of approximately \$0.7 million for excess and obsolete inventory. During the third quarter of fiscal 2009, we recorded net charges to cost of sales of approximately \$0.6 million, for excess and obsolete inventory. While we believe our reserves for excess and obsolete inventory and lower of cost or market concerns are adequate to cover known exposures at September 25, 2010, 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. Conversely, if our actual inventory usage is greater than our forecasted usage, our gross margin in future periods may be favorably impacted.

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***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 as a percentage of net sales decreased to 10.2% in 2010, compared to 18.8% in 2009 as a result of the increase in business volume. R&D expense increased in absolute dollars to \$8.8 million in 2010 from \$8.3 million in 2009 due in part to reinstating employee pay cuts that were in effect during 2009 and increased labor and material costs related to product development within our semiconductor equipment and video camera segments.

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

SG&A expense consists primarily of salaries and related costs of employees engaged in these activities, commission expense for independent sales representatives, product promotion and costs of professional services. SG&A expense as a percentage of net sales decreased to 14.5% in 2010, from 19.8% in 2009 as a result of the increase in business volume. SG&A expense increased in absolute dollars to \$12.5 million in 2010 from \$8.7 million in 2009 due primarily to variable selling expenses as a result of increased sales within our semiconductor equipment and video camera segments and reinstating employee pay cuts that were in effect through 2009.

***Interest and other, net***

Interest and other, net was approximately \$0.1 million and \$0.3 million in the third quarter of fiscal 2010 and 2009, respectively. Our interest income was lower in 2010 due to lower short-term interest rates.

***Income Taxes***

The income tax provision included in the condensed consolidated statements of operations for the three months ended September 25, 2010 and September 26, 2009, is based on the estimated annual effective tax rate for the entire year. These estimated effective tax rates are subject to adjustment in subsequent quarterly periods as our estimates of pretax income or loss for the year change. The effective tax rate for the three months ended September 25, 2010, was 14.6% and differs from the U.S. federal statutory rate primarily due to a reduction in our deferred tax asset valuation allowance, foreign income taxed at lower rates, state taxes and interest on unrecognized tax benefits.

In the quarter ended June 27, 2009, we recorded an increase in our valuation allowance on domestic deferred tax assets, with a corresponding charge to our income tax provision, of approximately \$19.6 million as we were unable to conclude that it was more likely than not that such assets would be realized. Our deferred tax asset valuation allowance at September 25, 2010 was approximately \$25.2 million on gross deferred tax assets of approximately \$30.9 million. The remaining \$5.7 million of gross deferred tax assets for which a valuation allowance was not recorded are realizable through future reversals of existing taxable temporary differences.

In June, 2010 the Internal Revenue Service completed a routine examination of our 2006 to 2008 U.S. income tax returns without any material adjustments. During the second quarter of fiscal 2010 the Internal Revenue Service commenced a routine examination of our 2009 U.S. income tax return. This examination is substantially complete and is expected to be finalized without any material adjustments. There was no material change to our unrecognized tax benefits and interest accrued related to unrecognized tax benefits during the three months ended September 25, 2010.

As a result of the factors set forth above, our net income was \$7.6 million in 2010, compared to a net loss of \$71,000 in 2009.

**First Nine Months of Fiscal 2010 Compared to First Nine Months of Fiscal 2009**

***Net Sales***

Our consolidated net sales increased 89.6% to \$225.8 million in 2010, compared to net sales of \$119.1 million in 2009. Sales of semiconductor equipment in the first nine months of fiscal 2010 were \$197.0 million, and increased \$115.8 million or 142.6% from 2009 and represented 87.2% of consolidated net sales in 2010 versus 68.2% in 2009.

Sales of mobile microwave communications equipment in the first nine months of fiscal 2010 were \$16.4 million, representing 7.2% of consolidated net sales in 2010, and decreased \$9.6 million or 37.0% when compared to 2009. The decrease in sales of our microwave communications business during the first nine months of fiscal 2010 was primarily attributable to the deferral of revenue associated with a large customer order that was shipped during the second and third quarters of fiscal 2010 that is awaiting customer acceptance, and decreased product shipments to unmanned air vehicle program contractors.

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Sales of video cameras in the first nine months of fiscal 2010 were \$12.5 million, representing 5.6% of consolidated net sales, and increased \$0.5 million or 4.1% when compared to the same period of fiscal 2009.

**Gross Margin**

Our gross margin, as a percentage of net sales, increased to 34.3% in 2010 from 30.2% in 2009. While higher than 2009, due to the leverage generated by increased business volume and lower charges for excess and obsolete inventory, our gross margin in 2010 was impacted by higher costs due to the unforecasted production of our new test handlers in our Poway plant to meet customer delivery requirements and other new product start-up costs.

During the first nine months of fiscal 2010, we recorded charges to cost of sales of approximately \$0.9 million for excess and obsolete inventory and offsetting these charges our gross margin was favorably impacted by \$0.4 million as a result of the sale of certain inventory which had been previously reserved. Fiscal 2009 gross margin was impacted by (i) the substantial decrease in the sales volume of our semiconductor equipment segment due to weak business conditions and (ii) charges to cost of sales of approximately \$4.2 million for excess and obsolete inventory.

**R&D Expense**

R&D expense as a percentage of net sales decreased to 11.7% in 2010, compared to 20.2% in 2009 as a result of the increase in business volume. R&D expense increased in absolute dollars to \$26.5 million in 2010 from \$24.0 million in 2009 due in part to reinstating employee pay cuts that were in effect during 2009 and increased material costs related to product development within both our semiconductor equipment and video camera segments.

**SG&A Expense**

SG&A expense as a percentage of net sales decreased to 14.1% in 2010, from 22.2% in 2009 as a result of the increase in business volume. SG&A expense increased in absolute dollars to \$31.9 million in 2010 from \$26.4 million in 2009 due primarily to variable selling expenses as a result of increased sales within our semiconductor equipment and video camera segments and reinstating employee pay cuts that were in effect through 2009.

**Interest and other, net**

Interest and other, net was approximately \$0.4 million and \$1.1 million in the first nine months of fiscal 2010 and 2009, respectively. Our interest income was lower in 2010 due to lower short-term interest rates.

**Income Taxes**

The income tax provision included in the condensed consolidated statements of operations for the nine months ended September 25, 2010 and September 26, 2009, is based on the estimated annual effective tax rate for the entire year. These estimated effective tax rates are subject to adjustment in subsequent quarterly periods as our estimates of pretax income or loss for the year change. The effective tax rate for the nine months ended September 25, 2010, was 22.4% and differs from the U.S. federal statutory rate primarily due to a reduction in our deferred tax asset valuation allowance, foreign income taxed at lower rates, state taxes and interest on unrecognized tax benefits. The income tax provision for the nine months ended September 26, 2009 includes the impact of the \$19.6 million valuation allowance on deferred tax assets recorded in the second quarter of 2009.

There was no material change to our unrecognized tax benefits and interest accrued related to unrecognized tax benefits during the nine months ended September 25, 2010.

As a result of the factors set forth above, our net income was \$15.2 million in 2010, compared to a net loss of \$28.9 million in 2009.

**Cohu, Inc.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**September 25, 2010**

**LIQUIDITY AND CAPITAL RESOURCES**

Our 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.

**Liquidity**

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

<i>(in thousands)</i>	September 25, 2010	December 26, 2009	Increase	Percentage Change
Cash, cash equivalents and short-term investments	\$ 91,285	\$ 84,906	\$ 6,379	7.5%
Working capital	159,299	139,597	19,702	14.1%

**Cash Flows**

**Operating Activities:** Operating cash flows consist of net income (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 nine months of fiscal 2010 totaled \$11.1 million. Cash provided by operating activities was impacted by changes in current assets and liabilities and included increases in: accounts receivable of \$23.8 million; inventories of \$15.5 million; accounts payable of \$5.2 million; deferred profit of \$8.3 million and income tax payable of \$7.2 million. The increases in accounts receivable and inventories were driven primarily by our semiconductor equipment operations and resulted from increased business volume and inventory purchases made to support production requirements. Accounts payable increased due to higher business volume and the timing of cash payments primarily within our semiconductor equipment operations and the increase in deferred profit was primarily due to the deferral of revenue related to certain semiconductor test handlers and microwave communication equipment in accordance with our revenue recognition policy. The increase in income taxes payable is a result of increased profitability and the timing of tax payments.

**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 nine months of fiscal 2010 totaled \$14.9 million and was primarily the result of \$42.9 million in cash used for purchases of short-term investments, offset by \$31.2 million in net proceeds from sales and maturities of short-term investments. We invest our excess cash, in an attempt to seek the highest available return while preserving capital, in short-term investments since excess cash is only temporarily available and may be required for a business-related purpose. Other expenditures in the first nine months of fiscal 2010 included purchases of property, plant and equipment of \$3.4 million. The purchases of property, plant and equipment were primarily made to support activities in our semiconductor equipment and microwave communications equipment businesses and consisted primarily of equipment used in engineering, manufacturing and related functions.

**Financing Activities:** Cash flows from financing activities consist primarily of net proceeds from the issuance of common stock under our stock option and employee stock purchase plans and cash used to pay dividends to our stockholders. We issue stock options and maintain an employee stock purchase plan as components of our overall employee compensation. In the first nine months of fiscal 2010, we generated \$2.9 million issuing common stock under our employee stock plans and we paid dividends totaling \$4.2 million, or \$0.18 per common share. Future quarterly dividends are subject to our cash liquidity, capital availability and periodic determinations by our Board of Directors that cash dividends are in the best interests of our stockholders.

**Cohu, Inc.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**September 25, 2010**

**Capital Resources**

We have a secured letter of credit facility (the "Secured Facility") under which Bank of America, N.A., has agreed to administer the issuance of letters of credit on behalf of Cohu and our subsidiaries. The Secured Facility requires us to maintain deposits of cash or other approved investments, which serve as collateral, in amounts that approximate our outstanding letters of credit. As of September 25, 2010, we had approximately \$0.7 million of standby letters of credit outstanding.

We expect that we will continue to make capital expenditures to support our business and we anticipate that present working capital will be sufficient to meet our operating requirements for at least the next twelve months.

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

**Contractual Obligations:** Our significant contractual obligations consist of operating leases that have not changed materially from those disclosed in our Annual Report on Form 10-K for the year ended December 26, 2009.

**Purchase Commitments:** From time to time, we enter into commitments with our vendors 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 September 25, 2010, the maximum potential amount of future payments that we could be required to make under these standby letters of credit was approximately \$0.7 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.

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

**Investment and Interest Rate Risk.**

At September 25, 2010, our investment portfolio included short-term, fixed-income investment securities with a fair value of approximately \$58.4 million. These securities are subject to interest rate risk and will likely decline in value if interest rates increase. Our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. As we classify our short-term securities as available-for-sale, no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary. Due to the relatively short duration of our investment portfolio, an immediate ten percent change in interest rates would have no material impact on our financial condition or results of operations.

We evaluate our investments periodically for possible other-than-temporary impairment by reviewing factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and our ability and intent to hold the investment for a period of time sufficient for anticipated recovery of market value. As of September 25, 2010, we evaluated our investments with loss positions and determined that these losses were temporary.

**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. 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 these hypothetical market movements would have no material impact on our consolidated financial position, results of operations or cash flows.

**Cohu, Inc.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**September 25, 2010**

**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.



**Part II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

The information set forth above under Note 8 contained in the “Notes to Unaudited Condensed Consolidated Financial Statements” on Page 13 of this Form 10-Q is incorporated herein by reference.

**Item 1A. Risk Factors.**

The most significant risk factors applicable to Cohu are described in Part I, Item 1A (Risk Factors) of Cohu’s Annual Report on Form 10-K for the fiscal year ended December 26, 2009 (our “2009 Form 10-K”). There have been no material changes to the risk factors previously disclosed in our 2009 Form 10-K.

**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. (Removed and Reserved).**

**Item 5. Other Information.**

None.

## Table of Contents

### **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 from the Cohu, Inc. Form S-8 filed with the Securities and Exchange Commission on June 30, 2000, Exhibit 4.1(a)
- 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 from the Cohu, Inc. Report on Form 8-K filed with the Securities and Exchange Commission on November 13, 2006, Exhibit 99.1
- 31.1 Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

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

COHU, INC.  
(Registrant)

Date: November 1, 2010

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

Date: November 1, 2010

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

**EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Description</u>
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COHU, INC.  
SARBANES-OXLEY ACT SECTION 302(a)  
CERTIFICATION

I, James A. Donahue, certify that:

1. I have reviewed this Form 10-Q of Cohu, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2010

/s/ James A. Donahue

James A. Donahue

Chairman, President & Chief Executive Officer

COHU, INC.  
SARBANES-OXLEY ACT SECTION 302(a)  
CERTIFICATION

I, Jeffrey D. Jones, certify that:

1. I have reviewed this Form 10-Q of Cohu, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2010

/s/ Jeffrey D. Jones

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Jeffrey D. Jones

Vice President Finance & Chief Financial Officer

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)

In connection with the accompanying Quarterly Report of Cohu, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended September 25, 2010 (the "Report"), I, James A. Donahue, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2010

/s/ James A. Donahue

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James A. Donahue,  
Chairman, President & Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)

In connection with the accompanying Quarterly Report of Cohu, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended September 25, 2010 (the "Report"), I, Jeffrey D. Jones, Vice President Finance & Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2010

/s/ Jeffrey D. Jones

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Jeffrey D. Jones,

Vice President Finance & Chief Financial Officer