



Cohu Reports Third Quarter 2014 Operating Results

October 30, 2014

POWAY, Calif.--(BUSINESS WIRE)--Oct. 30, 2014-- Cohu, Inc. (NASDAQ:COHU) today reported fiscal 2014 third quarter net sales of \$94.4 million and GAAP income of \$6.9 million or \$0.27 per share. Net sales for the first nine months of 2014 were \$237.2 million and GAAP income was \$4.5 million or \$0.17 per share. ⁽¹⁾

The Company also reported non-GAAP results, with third quarter 2014 income of \$10.9 million or \$0.42 per share and income of \$16.3 million or \$0.63 per share for the first nine months of 2014. ⁽¹⁾

GAAP Results⁽¹⁾

<i>(in millions, except per share amounts)</i>	Q3 FY 2014	Q2 FY 2014	Q3 FY 2013	9 Months 2014	9 Months 2013
Net sales	\$ 94.4	\$ 77.9	\$ 56.0	\$ 237.2	\$ 170.4
Income (loss)	\$ 6.9	\$ 0.9	\$ (11.1)	\$ 4.5	\$ (27.7)
Income (loss) per share	\$0.27	\$0.04	\$(0.44)	\$0.17	\$(1.12)

Non-GAAP Results⁽¹⁾

<i>(in millions, except per share amounts)</i>	Q3 FY 2014	Q2 FY 2014	Q3 FY 2013	9 Months 2014	9 Months 2013
Income (loss)	\$ 10.9	\$ 4.9	\$ (7.1)	\$ 16.3	\$ (16.9)
Income (loss) per share	\$0.42	\$0.19	\$(0.29)	\$0.63	\$(0.68)

(1) On June 6, 2014 the Company announced the completion of the sale of substantially all the assets of its video camera segment, Cohu Electronics and, as a result, the operating results of Cohu Electronics have been presented as discontinued operations and all prior period amounts have been reclassified accordingly. All amounts presented are from continuing operations.

Sales of semiconductor equipment accounted for 97% of fiscal 2014 third quarter sales and microwave communications equipment contributed 3%.

Orders were \$86.7 million for the third quarter of 2014 and \$98.5 million for the second quarter of 2014. Semiconductor equipment orders were \$82.6 million in the third quarter of 2014 compared to \$95.4 million in the second quarter of 2014. Backlog was \$110.9 million at September 27, 2014 compared to \$118.7 million at June 28, 2014. Cohu expects fourth quarter 2014 sales of \$80 million to \$85 million.

James A. Donahue, Chairman, President and Chief Executive Officer stated, "This was an outstanding quarter for Cohu. Sales increased 69% compared to the same period last year and 21% sequentially. Non-GAAP operating income of \$13.8 million is a 144% increase over the second quarter and compares to a loss in the same period last year."

Donahue concluded, "In our Semiconductor Equipment Group, sales were the highest ever and non-GAAP operating income was the highest since Q2 2000. These strong results reflect significant progress in achieving our operating model, driven by sales synergies, market share gains, favorable product mix and excellent execution in the transition of manufacturing to Asia."

Cohu's Board of Directors approved a quarterly cash dividend of \$0.06 per share payable on January 2, 2015 to shareholders of record on November 21, 2014. Cohu has paid consecutive quarterly cash dividends since 1977.

Use of Non-GAAP Financial Information:

Included within this press release are non-GAAP financial measures that supplement the Company's Condensed Consolidated

Statements of Operations prepared under generally accepted accounting principles (GAAP). These non-GAAP financial measures adjust the Company's actual results prepared under GAAP to exclude charges and the related income tax effect for share-based compensation, the amortization of acquired intangible assets, manufacturing transition costs, employee severance costs, other acquisition costs and the purchase accounting inventory step-up included in cost of goods sold. Reconciliations of GAAP to non-GAAP amounts for the periods presented herein are provided in schedules accompanying this release and should be considered together with the Condensed Consolidated Statements of Operations.

These non-GAAP measures are not meant as a substitute for GAAP, but are included solely for informational and comparative purposes. The Company's management believes that this information can assist investors in evaluating the Company's operational trends, financial performance, and cash generating capacity. Management believes these non-GAAP measures allow investors to evaluate Cohu's financial performance using some of the same measures as management. However, the non-GAAP financial measures should not be regarded as a replacement for (or superior to) corresponding, similarly captioned, GAAP measures.

Forward Looking Statements:

Certain matters discussed in this release, including statements regarding the transition of manufacturing to Asia, expectations of business and market conditions, orders, sales, revenues and operating results are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected or forecasted. Such risks and uncertainties include, but are not limited to, risks associated with acquisitions, inventory, goodwill and other intangible asset write-downs; our ability to convert new products under development into production on a timely basis, support product development and meet customer delivery and acceptance requirements for next generation equipment; our reliance on third-party contract manufacturers; failure to obtain customer acceptance resulting in the inability to recognize revenue and accounts receivable collection problems; customer orders may be canceled or delayed; the concentration of our revenues from a limited number of customers; intense competition in the semiconductor test handler industry; our reliance on patents and intellectual property; compliance with U.S. export regulations; and the cyclical and unpredictable nature of capital expenditures by semiconductor manufacturers. These and other risks and uncertainties are discussed more fully in Cohu's filings with the Securities and Exchange Commission, including the most recently filed Form 10-K and Form 10-Q. Cohu assumes no obligation to update the information in this release.

About Cohu:

Cohu is a leading supplier of semiconductor test and inspection handlers, micro-electro mechanical system (MEMS) test modules, test contactors and thermal sub-systems used by global semiconductor manufacturers and test subcontractors as well as a supplier of mobile microwave communications equipment.

Cohu will be conducting their conference call on Thursday, October 30, 2014 at 1:30 p.m. Pacific Time/4:30 p.m. Eastern Time. The call will be webcast at www.cohu.com. Replays of the call can be accessed at www.cohu.com.

For press releases and other information of interest to investors, please visit Cohu's website at www.cohu.com.

COHU, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share amounts)

	Three Months Ended ⁽¹⁾		Nine Months Ended ⁽¹⁾	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net sales	\$ 94,441	\$ 55,977	\$ 237,155	\$ 170,438
Cost and expenses:				
Cost of sales	61,265	43,293	156,295	124,298
Research and development	9,679	11,136	30,419	35,201
Selling, general and administrative	14,089	13,966	43,412	41,389
	<u>85,033</u>	<u>68,395</u>	<u>230,126</u>	<u>200,888</u>
Income (loss) from operations	9,408	(12,418)	7,029	(30,450)
Interest and other, net	6	16	25	42
Income (loss) from continuing operations before taxes	9,414	(12,402)	7,054	(30,408)
Income tax provision (benefit)	2,493	(1,289)	2,556	(2,726)
Income (loss) from continuing operations	<u>6,921</u>	<u>(11,113)</u>	<u>4,498</u>	<u>(27,682)</u>

Discontinued operations:

Income from operations of discontinued video camera segment before income taxes ⁽²⁾	-	458	3,891	1,116
Income tax provision (benefit)	(598)	165	55	402
Income from discontinued operations	598	293	3,836	714
Net income (loss)	\$ 7,519	\$ (10,820)	\$ 8,334	\$ (26,968)

Income (loss) per share:

Basic:

Income (loss) from continuing operations	\$ 0.28	\$ (0.44)	\$ 0.18	\$ (1.12)
Income from discontinued operations	0.02	0.01	0.15	0.03
Net income (loss)	\$ 0.30	\$ (0.43)	\$ 0.33	\$ (1.09)

Diluted:

Income (loss) from continuing operations	\$ 0.27	\$ (0.44)	\$ 0.17	\$ (1.12)
Income from discontinued operations	0.02	0.01	0.15	0.03
Net income (loss)	\$ 0.29	\$ (0.43)	\$ 0.32	\$ (1.09)

Weighted average shares used in computing income (loss) per share: ⁽³⁾

Basic	25,481	24,929	25,309	24,801
Diluted	26,174	24,929	25,698	24,801

(1) The three- and nine-month periods ended September 27, 2014 and September 28, 2013 were comprised of 13 weeks and 39 weeks, respectively. On June 6, 2014 the Company announced the completion of the sale of substantially all the assets of its video camera segment, Cohu Electronics and, as a result, the operating results of Cohu Electronics have been presented as discontinued operations and all prior period amounts have been reclassified accordingly.

(2) Includes a gain on sale of our video camera segment of \$4.1 million for the nine months ended September 27, 2014.

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

COHU, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands) (Unaudited)

	September 27, 2014 ⁽¹⁾	December 28, 2013 ⁽¹⁾
Assets:		
Current assets:		
Cash and investments	\$ 61,733	\$ 52,868
Accounts receivable	86,545	58,164
Inventories	60,140	55,409
Other current assets	13,473	14,135
Current assets of discontinued operations	-	6,272
Total current assets	221,891	186,848
Property, plant & equipment, net	33,361	35,796
Goodwill	67,865	71,313
Intangible assets, net	36,472	45,315
Other assets	5,783	5,720

Noncurrent assets of discontinued operations	-	431
Total assets	<u>\$ 365,372</u>	<u>\$ 345,423</u>

Liabilities & Stockholders' Equity:

Current liabilities:

Deferred profit	\$ 11,240	\$ 6,066
Other current liabilities	70,037	53,198
Current liabilities of discontinued operations	-	1,747
Total current liabilities	<u>81,277</u>	<u>61,011</u>
Other noncurrent liabilities	29,764	31,252
Stockholders' equity	254,331	253,160
Total liabilities & stockholders' equity	<u>\$ 365,372</u>	<u>\$ 345,423</u>

(1) On June 6, 2014 the Company announced the completion of the sale of substantially all the assets of its video camera segment, Cohu Electronics and, as a result, the assets and liabilities of Cohu Electronics have been presented as discontinued operations and all prior period amounts have been reclassified accordingly.

COHU, INC.

Supplemental Reconciliation of GAAP Results to Non-GAAP Financial Measures (Unaudited)

(in thousands, except per share amounts)

	Three Months Ended		
	September 27, 2014	June 28, 2014	September 28, 2013
Income (loss) from operations - GAAP basis ^(a)	\$ 9,408	\$ 1,045	\$ (12,418)
Non-GAAP adjustments:			
Share-based compensation included in ^(b) :			
Cost of goods sold	85	190	50
Research and development	455	455	350
Selling, general and administrative	1,082	1,042	761
	<u>1,622</u>	<u>1,687</u>	<u>1,161</u>
Amortization of intangible assets included in ^(c) :			
Cost of goods sold	1,605	1,642	1,872
Selling, general and administrative	421	432	708
	<u>2,026</u>	<u>2,074</u>	<u>2,580</u>
Manufacturing transition and severance costs included in ^(d) :			
Cost of goods sold	103	194	158
Research and development	195	206	165
Selling, general and administrative	423	449	618
	<u>721</u>	<u>849</u>	<u>941</u>
Inventory step-up included in cost of goods sold ^(e)	-	-	32
Income (loss) from operations - non-GAAP basis ^(f)	<u>\$ 13,777</u>	<u>\$ 5,655</u>	<u>\$ (7,704)</u>
Income (loss) from continuing operations - GAAP basis	\$ 6,921	\$ 931	\$ (11,113)
Non-GAAP adjustments (as scheduled above)	4,369	4,610	4,714
Tax effect of non-GAAP adjustments ^(g)	(342)	(683)	(739)
Income (loss) from continuing operations - non-GAAP basis	<u>\$ 10,948</u>	<u>\$ 4,858</u>	<u>\$ (7,138)</u>
GAAP income (loss) from continuing operations per share - diluted	\$ 0.27	\$ 0.04	\$ (0.44)

Non-GAAP income (loss) from continuing operations per share - diluted ^(h) \$ 0.42 \$ 0.19 \$ (0.29)

Management believes the presentation of these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provides meaningful supplemental information regarding the Company's operating performance. Our management uses these non-GAAP financial measures in assessing the Company's operating results, as well as when planning, forecasting and analyzing future periods and these non-GAAP measures allow investors to evaluate the Company's financial performance using some of the same measures as management. Management views share-based compensation as an expense that is unrelated to the Company's operational performance as it does not require cash payments and can vary in amount from period to period and the elimination of amortization charges provides better comparability of pre and post-acquisition operating results and to results of businesses utilizing internally developed intangible assets. Manufacturing transition costs relate principally to employee severance expenses incurred as a result of moving certain manufacturing activities to Asia as part of our cost reduction efforts and employee severance are costs incurred in conjunction with the termination of certain employees to streamline our operations and reduce costs. Management has excluded these costs primarily because they are not reflective of the ongoing operating results and they are not used to assess ongoing operational performance. Other acquisition costs and inventory step-up have been excluded by management as they are unrelated to the core operating activities of the Company and the frequency and variability in the nature of the charges can vary significantly from period to period. Excluding this data provides investors with a basis to compare Cohu's performance against the performance of other companies without this variability. However, the non-GAAP financial measures should not be regarded as a replacement for corresponding, similarly captioned, GAAP measures. The presentation of non-GAAP financial measures above may not be comparable to similarly titled measures reported by other companies and investors should be careful when comparing our non-GAAP financial measures to those of other companies.

- (a) 10.0%, 1.3% and (22.2)% of net sales, respectively.
- (b) To eliminate compensation expense for employee stock options, stock units and our employee stock purchase plan.
- (c) To eliminate the amortization of acquired intangible assets.
- (d) To eliminate manufacturing transition and employee severance costs.
- (e) To eliminate the inventory step-up costs incurred related to the acquisition of Ismecca.
- (f) 14.6%, 7.3% and (13.8)% of net sales, respectively.
- (g) To adjust the provision for income taxes related to the adjustments described above based on applicable tax rates.
- (h) Computed using number of GAAP diluted shares outstanding for each period presented.

COHU, INC.

Supplemental Reconciliation of GAAP Results to Non-GAAP Financial Measures (Unaudited)

(in thousands, except per share amounts)

	Nine Months Ended	
	September 27, 2014	September 28, 2013
	<u> </u>	<u> </u>
Income (loss) from operations - GAAP basis ^(a)	\$ 7,029	\$ (30,450)
Non-GAAP adjustments:		
Share-based compensation included in ^(b) :		
Cost of goods sold	350	250
Research and development	1,400	1,220
Selling, general and administrative	<u>3,040</u>	<u>2,402</u>
	4,790	3,872
Amortization of intangible assets included in ^(c) :		
Cost of goods sold	4,892	4,735
Selling, general and administrative	<u>1,283</u>	<u>1,242</u>
	6,175	5,977
Manufacturing transition and severance costs included in ^(d) :		
Cost of goods sold	297	158
Research and development	401	165
Selling, general and administrative	<u>1,718</u>	<u>1,075</u>
	2,416	1,398
Other acquisition costs included in selling, general and administrative ^(e)	-	385

Inventory step-up included in costs of goods sold ^(f)	-	980
Income (loss) from operations - non-GAAP basis ^(g)	<u>\$ 20,410</u>	<u>\$ (17,838)</u>
Income (loss) from continuing operations - GAAP basis	\$ 4,498	\$ (27,682)
Non-GAAP adjustments (as scheduled above)	13,381	12,612
Tax effect of non-GAAP adjustments ^(h)	<u>(1,579)</u>	<u>(1,841)</u>
Income (loss) from continuing operations - non-GAAP basis	<u>\$ 16,300</u>	<u>\$ (16,911)</u>
GAAP income (loss) from continuing operations per share - diluted	\$ 0.17	\$ (1.12)
Non-GAAP income (loss) from continuing operations per share - diluted ⁽ⁱ⁾	\$ 0.63	\$ (0.68)

Management believes the presentation of these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provides meaningful supplemental information regarding the Company's operating performance. Our management uses these non-GAAP financial measures in assessing the Company's operating results, as well as when planning, forecasting and analyzing future periods and these non-GAAP measures allow investors to evaluate the Company's financial performance using some of the same measures as management. Management views share-based compensation as an expense that is unrelated to the Company's operational performance as it does not require cash payments and can vary in amount from period to period and the elimination of amortization charges provides better comparability of pre and post-acquisition operating results and to results of businesses utilizing internally developed intangible assets. Manufacturing transition costs relate principally to employee severance expenses incurred as a result of moving certain manufacturing activities to Asia as part of our cost reduction efforts and employee severance are costs incurred in conjunction with the termination of certain employees to streamline our operations and reduce costs. Management has excluded these costs primarily because they are not reflective of the ongoing operating results and they are not used to assess ongoing operational performance. Other acquisition costs and inventory step-up have been excluded by management as they are unrelated to the core operating activities of the Company and the frequency and variability in the nature of the charges can vary significantly from period to period. Excluding this data provides investors with a basis to compare Cohu's performance against the performance of other companies without this variability. However, the non-GAAP financial measures should not be regarded as a replacement for corresponding, similarly captioned, GAAP measures. The presentation of non-GAAP financial measures above may not be comparable to similarly titled measures reported by other companies and investors should be careful when comparing our non-GAAP financial measures to those of other companies.

- (a) 3.0% and (17.9)% of net sales, respectively.
- (b) To eliminate compensation expense for employee stock options, stock units and our employee stock purchase plan.
- (c) To eliminate the amortization of acquired intangible assets.
- (d) To eliminate manufacturing transition and employee severance costs.
- (e) To eliminate professional fees and other direct incremental expenses incurred related to the acquisition of Ismecca.
- (f) To eliminate the inventory step-up costs incurred related to the acquisition of Ismecca.
- (g) 8.6% and (10.5)% of net sales, respectively.
- (h) To adjust the provision for income taxes related to the adjustments described above based on applicable tax rates.
- (i) Computed using number of GAAP diluted shares outstanding for each period presented.



Source: Cohu, Inc.

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