CHINA PHARMA HOLDINGS, INC.
Form 10-Q/A
December 28, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended March 31, 2015

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from ____________ to ____________

Commission File Number 001-34471

CHINA PHARMA HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Nevada	73-1564807
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

Second Floor, No. 17, Jinpan Road
Haikou, Hainan Province, China 570216
(Address of principal executive offices) (Zip Code)

+86- 898-6681-1730 (China)
(Issuer's telephone number, including area code)

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 x No o

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 x No o

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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. (Check One):

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 43,579,557 shares of Common Stock, $.001 par value, were outstanding as of May 5, 2015.

EXPLANATORY NOTE

This Amendment No. 1 to the Quarterly Report on Form 10-Q (the "Amended 10-Q") of China Pharma Holdings, Inc. (the "Company") amends the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2015, filed with the Securities and Exchange Commission (the "SEC") on May 11, 2015 (the "Original 10-Q"). The Amended 10-Q is being filed to amend the Original 10-Q as follows:

1. The Company had not properly evaluated whether collectability of revenue was reasonably assured for sales to customers with significantly aged receivable balances and, therefore, whether the revenue had been appropriately recognized. As a result of the process review of revenue recognition, the Company determined that collectability of revenue was not reasonably assured for certain sales transactions and consequently it deferred revenue on these transactions. Additionally, the Company previously had not properly evaluated the reasonableness of the allowance for doubtful accounts. As a result of the process review of calculating the allowance for doubtful accounts, the Company has changed its estimate of allowance for doubtful accounts. Consequently, the Balance Sheet as of March 31, 2015 and the Statement of Operations and Comprehensive Loss, Statement of Cash Flows and Statement of Stockholders Equity for the three months ended March 31, 2015 have been restated.

2. To amend the reportable figures affected by the restatements discussed above and add the words "as restated", as applicable, to column headings of certain financial tables contained in Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

3. To amend and restate, in its entirety, Item 4. "Controls and Procedures," due to the errors in accounting that led to the restatement, the management concluded that the Company's disclosure controls and procedures were not effective at March 31, 2015.

Except as set forth above, the Amended 10-Q is identical to the Original 10-Q. The Amended 10-Q does not reflect events occurring after the filing of the Original 10-Q and no attempt has been made in the Amended 10-Q to modify or update other disclosures as presented in the Original 10-Q. Accordingly, this Amended 10-Q should be read in conjunction with the Company's filings with the SEC subsequent to the filing of the Original 10-Q. Additionally, the Company has attached to the Amended 10-Q updated certifications executed as of the date of the Amended 10-Q by the Company's Chief Executive Officer and interim Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes Oxley Act of 2002. These updated certifications are attached as Exhibits 31.1, 31.2 and 32.1 to the Amended 10-Q.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying unaudited condensed consolidated balance sheets, statements of operations and comprehensive income, and statements of cash flows and the related notes thereto, have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by U.S. GAAP for complete financial statements. The financial statements reflect all adjustments, consisting only of normal, recurring adjustments, which are, in the opinion of management, necessary for a fair presentation for the interim periods.

The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K/A for the year ended December 31, 2014.

The results of operations for the three-month period ended March 31, 2015 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

CHINA PHARMA HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2015 As restated (Note 1)	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$5,268,856	$5,295,790
Banker's acceptances	120,766	458,233
Trade accounts receivable, less allowance for doubtful accounts of $47,767,489 and $44,357,451, respectively	11,677,829	13,853,744
Other receivables, less allowance for doubtful accounts of $67,988 and $60,325, respectively	250,248	272,199
Advances to suppliers	8,082,226	7,889,009
Inventory, less allowance for obsolescence of $7,169,389 and $6,934,044, respectively	15,348,939	15,321,856
Prepaid expenses	231,637	404,370
Total Current Assets	40,980,501	43,495,201
Advances for purchases of intangible assets	42,594,188	42,390,186
Property and equipment, net of accumulated depreciation of $7,530,897 and $6,640,718, respectively	33,234,025	33,881,878
Intangible assets, net of accumulated amortization of $4,299,549 and $4,186,273, respectively	1,226,411	1,317,221
TOTAL ASSETS	$118,035,125	$121,084,486
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	$3,232,670	$2,550,816
Accrued expenses	260,796	269,870
Other payables	1,425,437	1,401,470
Advances from customers	1,844,518	2,078,866
Other payables - related parties	1,354,567	1,354,567
Current portion of construction loan facility	1,636,902	1,629,062
Short-term notes payable	4,910,707	4,887,187
Total Current Liabilities	14,665,597	14,171,838
Non-current Liabilities:		
Construction loan facility	11,458,317	11,403,438
Deferred revenue	3,179,390	3,164,163
Long-term deferred tax liability	273,291	252,707
Total Liabilities	29,576,595	28,992,146
Stockholders' Equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, $0.001 par value; 95,000,000 shares authorized;		

43,579,557 shares and 43,579,557 shares outstanding, respectively	43,580	43,580
Additional paid-in capital	23,590,204	23,590,204
Retained earnings	44,628,941	48,698,231
Accumulated other comprehensive income	20,195,805	19,760,325
Total Stockholders' Equity	88,458,530	92,092,340
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$118,035,125	$121,084,486

The accompanying notes are an integral part of these condensed consolidated financial statements.

CHINA PHARMA HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS
(Unaudited)

	For the Three Months Ended March 31,	
	2015 As restated (Note 1)	2014
Revenue	$5,694,930	$7,105,515
Cost of revenue	4,434,706	4,445,129
Inventory obsolescence	201,097	-
Gross profit	1,059,127	2,660,386
Operating expenses:		
Selling expenses	988,953	820,405
General and administrative expenses	472,429	423,927
Research and development expenses	160,828	444,407
Bad debt expense	3,200,003	3,308,129
Total operating expenses	4,822,213	4,996,868
Loss from operations	(3,763,086)	(2,336,482)
Other income (expense):		
Interest income	26,855	21,783
Interest expense	(313,775)	(56,447)
Net other expense	(286,920)	(34,664)
Loss before income taxes	(4,050,006)	(2,371,146)
Income tax expense	(19,284)	(19,347)
Net loss	(4,069,290)	(2,390,493)
Other comprehensive income - foreign currency translation adjustment	435,480	(1,114,984)
Comprehensive loss	$(3,633,810)	$(3,505,477)
Loss per share:		
Basic	$(0.09)	$(0.05)
Diluted	$(0.09)	$(0.05)

The accompanying notes are an integral part of these condensed consolidated financial statements.

CHINA PHARMA HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended March 31, 2015 As restated (Note 1)	2014
Cash Flows from Operating Activities:		
Net loss	$ (4,069,290)	$(2,390,493)
Depreciation and amortization	951,212	298,955
Bad debt expense	3,200,003	3,308,129
Inventory obsolencence reserve	201,097	
Deferred income taxes	19,284	19,347
Changes in assets and liabilities:		
Trade accounts and other receivables	(1,408,092)	(1,502,564)
Advances to suppliers	(154,575)	(29,253)
Inventory	396,521	482,976
Trade accounts payable	917,765	2,504,292
Accrued taxes payable	18,019	321,134
Other payables and accrued expenses	(4,813)	(24,759)
Advances from customers	(243,289)	(66,326)
Prepaid expenses	173,919	(430,479)
Net Cash Provided by Operating Activities	(2,239)	2,490,959
Cash Flows from Investing Activities:		
Purchases of property and equipment and	-	-
construction in process	(47,106)	(3,753,668)
Net Cash Used in Investing Activities	(47,106)	(3,753,668)
Cash Flows from Financing Activity:		
Proceeds from construction term loan	-	607,733
Net Cash Provided by Financing Activity	-	607,733
Effect of Exchange Rate Changes on Cash	22,411	(46,204)
Net (Decrease) Increase in Cash and Cash Equivalents	(26,934)	(701,180)
Cash and Cash Equivalents at Beginning of Period	5,295,790	5,993,139
Cash and Cash Equivalents at End of Period	$ 5,268,856	$5,291,959
Supplemental Cash Flow Information:		
Cash paid for interest	$ 310,390	$276,215
Cash paid for income taxes	-	-
Supplemental Noncash Investing and Financing Activities:		
Accounts payable for purchases of property and equipment	$ -	$1,382
Accounts receivable collected with banker's acceptances	464,075	644,740
Inventory purchased with banker's acceptances	551,167	915,495

The accompanying notes are an integral part of these condensed consolidated financial statements.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – RESTATEMENT

Restatement of March 31, 2015 Consolidated Financial Statements – The Company had not properly evaluated whether collectability of revenue was reasonably assured for sales to customers with significantly aged receivable balances and, therefore, whether the revenue had been appropriately recognized. As a result of the process review of revenue recognition, the Company determined that collectability of revenue was not reasonably assured for certain sales transactions and consequently it deferred revenue on these transactions.

Additionally, the Company previously had not properly evaluated the reasonableness of the allowance for doubtful accounts. As a result of the process review of estimating the allowance for doubtful accounts, the Company has changed its estimate of allowance for doubtful accounts.

As a result of revisions to the Company's reporting processes related to the above referenced items, the Company has adjusted its consolidated financial statements as of March 31, 2015 and for the three months then ended. The adjustments were as follows:

Balance Sheet Amounts	As Previously Reported	Restatement	As restated
March 31, 2015			
Accounts receivable, net of allowance	$18,806,377	$(7,128,548)	$11,677,829
Total current assets	48,109,049	(7,128,548)	40,980,501
Total assets	125,163,673	(7,128,548)	118,035,125
Deferred revenue	-	3,179,390	3,179,390
Total liabilities	26,397,205	(3,179,390)	29,576,595
Retained earnings	54,874,958	10,246,017	44,628,941
Accumulated other comprehensive income - foreign currency translation adjustment	20,257,726	61,921	20,195,805
Total stockholders' equity	98,766,468	10,307,938	88,458,530
Total liabilities and stockholders' equity	$125,163,673	$7,128,548	$118,035,125

Statement of Operations and Comprehensive Income Amounts	As Previously Reported	Restatement	As restated
For the three months ended March 31, 2015			
Bad debt expense	7,104,656	(3,904,653)	3,200,003
Total operating expenses	8,726,866	(3,904,653)	4,822,213
Loss from operations	(7,667,739)	3,904,653	(3,763,086)
Loss before income taxes	(7,954,659)	3,904,653	(4,050,006)
Net loss	(7,973,943)	3,904,653	(4,069,290)
Other comprehensive income - foreign currency translation adjustment	486,566	(51,086)	435,480
Basic and diluted loss per share	$(0.18)	0.09	$(0.09)

Statement of Cash Flows Amounts	As Previously Reported	Restatement	As restated

For the three months ended March 31, 2015			
Net loss	$(7,973,943)	3,904,653	$(4,069,290)
Bad debt expense	7,104,656	(3,904,653)	3,200,003

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NOTE 2 - BASIS OF PRESENTATION

Organization and Nature of Operations – China Pharma Holdings, Inc., a Nevada corporation, owns 100% of Onny Investment Limited (“Onny”), a British Virgin Islands corporation, which owns 100% of Hainan Helpson Medical & Biotechnology Co., Ltd (“Helpson”), a company organized under the laws of the People's Republic of China (the “PRC”). China Pharma Holdings, Inc. and its subsidiaries are referred to herein as the “Company”.

On December 31, 2012, China Pharma Holdings, Inc consummated a reincorporation merger for the purpose of changing its state of incorporation from Delaware to Nevada pursuant to the terms and conditions of an Agreement and Plan of Merger dated December 27, 2012. The reincorporation merger was approved by stockholders holding the majority of the Company’s outstanding shares of common stock on December 21, 2012.

The Foreign Investment Industrial Catalogue (the “Catalogue”) jointly issued by China’s Ministry of Commerce and the National Development and Reform Commission (the latest version is the 2015 version, effective April 10, 2015) classified various industries/businesses into three different categories: (i) encouraged for foreign investment; (ii) restricted to foreign investment; and (iii) prohibited from foreign investment. For any industry/business not covered by any of these three categories, they will be deemed industries/businesses permitted for foreign investment. A typical foreign investment ownership restriction in the pharmaceutical industry is that a foreign investment enterprise (the “FIE”) shall not have the whole or majority of its equity interests owned by a foreign owner if the FIE establishes more than 30 branch stores and distributes a variety of brands in those franchise stores, which is not the case for the Company’s business.

Helpson manufactures and markets generic and branded pharmaceutical products as well as biochemical products primarily to hospitals and private retailers located throughout the PRC. The Company believes Helpson’s business is not subject to any ownership restrictions prescribed under the Catalogue. Onny acquired 100% of the ownership in Helpson on May 25, 2005 by entering into an Equity Transfer Agreement with Helpson’s three former shareholders. The transaction was approved by the Commercial Bureau of Hainan Province on June 12, 2005 and Helpson received the Certificate of Approval for Establishing of Enterprises with Foreign Investment in the PRC on the same day and its business license evidencing its WFOE (Wholly Foreign Owned Enterprise) status on June 21, 2005.

The Company has acquired and continues to acquire well-accepted medical formulas to add to its diverse portfolio of Western and Chinese medicines.

Consolidation and Basis of Presentation – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and are expressed in United States dollars. The accompanying consolidated financial statements include the accounts and operations of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Helpson’s functional currency is the Chinese Renminbi. Helpson’s revenue and expenses are translated into United States dollars at the average exchange rate for the period. Assets and liabilities are translated at the exchange rate as of the end of the reporting period. Gains or losses from translating Helpson’s financial statements are included in accumulated other comprehensive income, which is a component of stockholders’ equity. Gains and losses arising from transactions denominated in a currency other than the functional currency of the entity that is a party to the transaction are included in the results of operations.

Condensed Financial Statements – The accompanying unaudited condensed consolidated financial statements were prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (the “Commission”). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Management of the Company ("Management") believes the following disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Commission on March 30, 2015.

These unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of Management, are necessary to present fairly the consolidated financial position and results of operations of the Company for the periods presented. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

Accounting Estimates - The preparation of financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Basic and Diluted Loss per Common Share - Basic loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted loss per share is calculated to give effect to any potentially issuable dilutive common shares. There were no potentially dilutive common shares outstanding for all periods presented.

The following table is a presentation of the numerators and denominators used in the calculation of basic and diluted (loss) earnings per share:

	For the Three Months Ended March 31,	
	2015 (As restated)	2014
Net loss	$(4,069,290)	$(2,390,493)
Basic weighted-average common shares outstanding	43,579,557	43,579,557
Effect of dilutive securities:		
Warrants	-	-
Options	-	-
Diluted weighted-average common shares outstanding	43,579,557	43,579,557
Basic loss per share	$(0.09)	$(0.05)
Diluted loss per share	$(0.09)	$(0.05)

NOTE 3 – INVENTORY

Inventory consisted of the following:

	March 31, 2015	December 31, 2014
Raw materials	$ 18,779,245	$ 18,819,570
Work in process	-	-
Finished goods	3,739,083	3,436,330
	22,518,328	22,255,900
Obsolescence reserve	(7,169,389)	(6,934,044)
Total Inventory	$ 15,348,939	$ 15,321,856

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	March 31, 2015	December 31, 2014
Permit of land use	$ 461,063	$ 458,853
Building	11,333,987	11,279,704
Plant, machinery and equipment	28,541,198	28,358,694
Motor vehicle	151,702	150,976
Office equipment	271,096	268,521
Construction in progress	5,876	5,848
Total	40,764,922	40,522,596
Less: accumulated depreciation	(7,530,897)	(6,640,718)
Property and Equipment, net	$ 33,234,025	$ 33,881,878

A reconciliation of total interest cost incurred to interest expense as recognized in the consolidated statement of operations is as follows:

	For the Three Months Ended March 31,			
	2015	5,719	$ 5,155	$ 4,602
Warranty expense accruals	1,633	690	3,960	2,857
Warranty payments	(1,252)	(1,401)	(4,152)	(4,284)
Warranty liability assumed				1,833
Balance at end of period	$ 4,963	$ 5,008	$ 4,963	$ 5,008

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

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Cohu, Inc.

Management s Discussion and Analysis of Financial Condition and Results of Operations

September 27, 2014

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

OVERVIEW

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

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

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

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Cohu, Inc.

Management s Discussion and Analysis of Financial Condition and Results of Operations

September 27, 2014

Application of Critical Accounting Estimates and Policies

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

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

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

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

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

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

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

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

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

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

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

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

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Goodwill, Purchased Intangible Assets and Other Long-lived Assets: We evaluate goodwill for impairment annually and when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimated the fair values of our reporting units primarily using the income approach valuation methodology that includes the discounted cash flow method, taking into consideration the market approach and certain market multiples as a validation of the values derived using the discounted cash flow methodology. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on customer forecasts, industry trade organization data and general economic conditions. We conduct our annual impairment test as of October 1st of each year.

Long-lived assets, other than goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or any other significant adverse change that would indicate that the carrying amount of an asset or group of assets may not be recoverable. For long-lived assets, impairment losses are only recorded if the asset s carrying amount is not recoverable through its undiscounted, probability-weighted future cash flows. We measure the impairment loss based on the difference between the carrying amount and estimated fair value.

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

Share-based Compensation: Share-based compensation expense related to stock options is recorded based on the fair value of the award on its grant date which we estimate using the Black-Scholes valuation model. Share-based compensation expense related to restricted stock unit awards is calculated based on the market price of our common stock on the grant date, reduced by the present value of dividends expected to be paid on our common stock prior to vesting of the restricted stock unit.

Recent Accounting Pronouncements

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

RESULTS OF OPERATIONS

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

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

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

Third Quarter of Fiscal 2014 Compared to Third Quarter of Fiscal 2013

Net Sales

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

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

Gross Margin

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

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

Research and Development Expense (R&D Expense)

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

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

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

Income Taxes

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

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

Income from Continuing Operations and Net Income

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

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

Net Sales

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

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

Gross Margin

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

R&D Expense

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

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

SG&A Expense

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

Income Taxes

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

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

Income from Continuing Operations and Net Income

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

Liquidity

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

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

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Cash Flows

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

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

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

Capital Resources

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

Contractual Obligations and Off-Balance Sheet Arrangements

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

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

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Investment and Interest Rate Risk.

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

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

Foreign Currency Exchange Risk.

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

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

Item 4. Controls and Procedures.

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

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

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

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

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Part II OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

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

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

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

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

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

- diversion of management s attention from other operational matters;

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

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

- failure to commercialize purchased technology; and

- the impairment of acquired intangible assets and goodwill that could result in significant charges to operating results in future periods.

We may be required to finance future acquisitions and investments through a combination of borrowings, proceeds from equity or debt offerings and the use of cash, cash equivalents and short-term investments.

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

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

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

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

- costs and difficulties in staffing and managing international operations;
- unexpected changes in regulatory requirements;
- difficulties in enforcing contractual and intellectual property rights;
- longer payment cycles;
- local political and economic conditions;
- potentially adverse tax consequences, including restrictions on repatriating earnings and the threat of double taxation ; and
- fluctuations in currency exchange rates, which can affect demand and increase our costs.

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

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

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

- significant operating expenditures;
- disruptions to our domestic and international supply chains;
- inability to fill customer orders accurately and on a timely basis, or at all;
- inability to process payments to suppliers, vendors and associates accurately and in a timely manner;
- disruptions to or the ineffectiveness of our internal control environment;
- inability to fulfill our SEC or other governmental reporting requirements in a timely or accurate manner;
- inability to fulfill federal, state and local tax filing requirements in a timely or accurate manner; and
- increased demands on management and staff time to the detriment of other corporate initiatives.

The semiconductor industry we serve is highly volatile and unpredictable.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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